Small Business Retirement Plans

For small business, SEPs and SIMPLE IRAs are two of the most popular retirement plan options. A solo (or one-person) 401(k) plan is another good option when the business employs only the owner (or owner and spouse). Plans such as defined benefit and profit-sharing plans are also available, but less common for small businesses due to the complexities of operating such plans.

SEP. A simplified employee pension (SEP) plan is a written arrangement that allows an employer to make contributions to IRAs established by or on behalf of each qualifying employee.

SIMPLE IRA. A savings incentive match plan for employees (SIMPLE) is a written salary reduction arrangement under which an eligible employee may elect to have the employer contribute part of each paycheck to an IRA (referred to as a SIMPLE IRA). An employer that establishes a SIMPLE IRA must make either matching or nonelective contributions.

Solo (or one-person) 401(k). A 401(k) plan for self-employed individuals and small businesses with no employees other than the owner (and spouse). It allows the proprietor or owner to make larger contributions than may be available with other plans.

Tax Credit for Start-Up Expenses

- A nonrefundable credit of up to $500 per year is available for the administrative and retirement-education expenses of adopting a new qualified defined-benefit or defined-contribution plan, or a SIMPLE IRA or SEP.
- The credit applies to 50% of the first $1,000 of qualified expenses for each of the first three years of the plan.
- A small employer is one that did not employ, in the preceding year, more than 100 employees with compensation of at least $5,000. Additionally, the plan must cover at least one nonhighly compensated employee.

Caution: A plan established by a sole proprietor with no employees does not qualify for the credit since it would not cover any nonhighly compensated employees.

Comparing Small Business Retirement Plans (2015)

	SEP	***SIMPLE IRA***	***Solo (One-Person) 401(k)***
Available to	Generally, any business.	Small employers with 100 or fewer employees earning at least $5,000 in previous year.	Any sole proprietorship or business employing only the owner (and spouse).
Deadline to establish	Due date, including extensions, of employer's tax return for year the plan is established.	Generally, October 1 of the year to which the plan first applies.	By the end of the year to which the plan first applies (generally December 31).
Employee age and service requirements	Age 21 or older. Any service in last three out of five years and compensation of at least $600.[1]	All employees earning at least $5,000 in any two prior years and expected to earn at least $5,000.	Age 21 or older and at least one year of service.[1]
Employee contributions allowed	No.	Yes, lesser of 100% of compensation or $12,500 ($15,500, if age 50 or older at year-end).	Yes, lesser of 100% of compensation or $18,000 ($24,000, if age 50 or older at year-end).
Annual employer contribution	Discretionary.	Must make either matching or nonelective contributions.	Discretionary.
Maximum employer contribution to employee account	Lesser of $53,000 or 25%[2] of compensation (up to $265,000).	Either (1) matching contribution up to 3% of compensation or (2) nonelective contribution equal to 2% of compensation (up to	Lesser of $53,000 or 25%[2] of compensation (up to $265,000).[3]

		$265,000).	
Vesting	100% immediate vesting.	100% immediate vesting.	*Employee contributions:* 100% immediate vesting. *Employer contributions:* Can vest over time (but no more than six years).
Roth contributions allowed	No.	No.	Yes, if plan allows.[4]

[1] Employers can choose less restrictive requirements.

[2] For self-employed person, 20% of net self-employment income.

[3] Employee contributions plus employer contributions cannot exceed $53,000 ($59,000, if age 50 or older at year-end).

[4] Plan may include designated Roth accounts to which employees can elect to make after-tax contributions (which count toward total allowable contributions).