

There's still time for small business owners to set up a SEP retirement plan for *last* year

If you own a business and don't have a tax-advantaged retirement plan, it's not too late to establish one and reduce your 2018 tax bill. A Simplified Employee Pension (SEP) can still be set up for 2018, and you can make contributions to it that you can deduct on your 2018 income tax return.

Contribution deadlines

A SEP can be set up as late as the due date (including extensions) of your income tax return for the tax year for which the SEP is to first apply. That means you can establish a SEP for 2018 in 2019 as long as you do it before your 2018 return filing deadline. You have until the same deadline to make 2018 contributions and still claim a potentially substantial deduction on your 2018 return.

Generally, other types of retirement plans would have to have been established by December 31, 2018, in order for 2018 contributions to be made (though many of these plans do allow 2018 contributions to be made in 2019).

Discretionary contributions

With a SEP, you can decide how much to contribute each year. You aren't obligated to make any certain minimum contributions annually.

But, if your business has employees other than you:

1. Contributions must be made for *all* eligible employees using the same percentage of compensation as for yourself, and
2. Employee accounts must be immediately 100% vested.

The contributions go into SEP-IRAs established for each eligible employee.

For 2018, the maximum contribution that can be made to a SEP-IRA is 25% of compensation (or 20% of self-employed income net of the self-employment tax deduction), subject to a contribution cap of \$55,000. (The 2019 cap is \$56,000.)

Next steps

To set up a SEP, you just need to complete and sign the very simple Form 5305-SEP ("Simplified Employee Pension — Individual Retirement Accounts Contribution Agreement"). You don't need to file Form 5305-SEP with the IRS, but you should keep it as part of your permanent tax records. A copy of Form 5305-SEP must be given to each employee covered by the SEP, along with a disclosure statement.

Although there are rules and limits that apply to SEPs beyond what we've discussed here, SEPs generally are much simpler to administer than other retirement plans. Contact us with any questions you have about SEPs and to discuss whether it makes sense for you to set one up for 2018 (or 2019). **Call us at (714) 462-5290** © 2019