

Practice Tips-SEP Plan Establishment

Summary	Self-employed individuals have an opportunity to establish and fund a Simplified Employee Pension (SEP) plan until the business' tax return due date, plus extensions.
Client Profile	<ul style="list-style-type: none">- Self-employed individual with no retirement plan- Desires a plan for 2005 with minimal fees and reporting requirements- Funding each year must be discretionary
Apply the Rules	The deadline for establishing and funding a SEP plan is the employer's tax return due date (including extensions). The maximum contribution to a SEP plan is the lesser of 25 percent of compensation or \$42,000 for 2005 (\$44,000 for 2006).
Ask key question	What is the deadline for a self-employed individual to establish a SEP plan for 2005?
Example	Bob's landscaping business had a profitable year and he would like to start a retirement plan. He read an article in the local newspaper about a SEP plan. The article mentioned that SEP plans have relatively low maintenance fees, few reporting requirements, and discretionary contributions. Bob could establish and make a contribution to a SEP plan for 2005 as long as the transactions are completed prior his 2005 business tax return due date (including extensions). Bob operates his unincorporated business on a calendar year basis. Consequently, Bob would be able to establish and fund a SEP plan for 2005 up to April 15, 2006, or later if he has a tax filing extension.

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