

## Practice Tips- SEP and IRA Contributions

Summary	An owner-employee can make the maximum SEP plan contribution of \$44,000 if he/she has 2006 earned income at a level of \$176,000 or higher. The individual may also make a Traditional IRA contribution as well. Note, however, at that income level, the IRA contribution would be nondeductible.
Client Profile	Small business owner looking to contribute the maximum contribution to a Simplified Employee Pension (SEP) plan, and make a maximum contribution to an IRA in the same year.
Apply the Rules	Maximum 2006 SEP Plan Contribution: The lesser of 25 percent of compensation or \$44,000  Maximum 2006 IRA Contribution: \$4,000, plus \$1,000 catch up (if age 50 or older)  Maximum 2006 SEP Plan Compensation: \$220,000
Ask Key Question	What is the maximum SEP and IRA contribution that can be made?
Example	Iver, age 53, owns his own electrician business. He is the sole employee. Iver will earn \$250,000* in 2006 from his electrical business.  <i>*Note: Special rules apply to the calculation of earned income for self-employed individuals. The calculation is beyond the scope of this example.</i>  Results: Iver can make a SEP plan contribution to his Traditional IRA of \$44,000 (the lesser of 25 percent of \$220,000 (\$55,000) or \$44,000). Additionally, Iver can make a contribution to the same Traditional IRA of \$ 5,000 (\$4,000, plus a \$1,000 catch-up contribution because Iver is over age 50).  <i>Note: Because of his income level and active participation status in a plan, the Traditional IRA contribution would be nondeductible.</i>