SEP vs. SIMPLE IRAs

	SEP IRA (SIMPLIFIED EMPLOYEE PENSION)	**SIMPLE IRA** (SAVINGS INCENTIVE MATCH PLAN FOR EMPLOYEES)
Consider If	Employers can make tax-deductible IRA contributions for themselves and their employees, offering a valuable tax-deferred benefit.	You are a company with a workplace of 100 or less employees and will fund the bulk of their retirement.
Features	Easy, low-cost administration. No IRS reporting. Employer contribution required. The employee is always 100% vested. Optional employee contributions.	Easy, low-cost administration. No IRS reporting. Employer contribution is required. The employee is always 100% vested. Optional employee contributions.
Eligibility	Eligible entities: sole proprietors, partnerships, small businesses (incorporated and unincorporated), Sub S corporations, and individuals with self-employment income (even if they have another employer's retirement plan).	Eligible if: Employer does not have any other qualified plan.
	Employer must contribute to eligible employee accounts in any year that the plan is funded.	Typically cover employees who receive at least $5,000 in compensation from the employer in any two preceding years and are expected to receive $5,000 or more in compensation during the current calendar year.
Tax Benefits	Employer: Contributions are 100% tax-deductible within IRS limits. Contributions go to the employer's SEP and each eligible employee's individual SEP account, with tax-deferred growth on investment earnings.	Employer: Contributions are tax-deductible. Employee: All contributions are pre-tax, and earnings grow tax-deferred.
Early Withdrawals	Withdrawals before age 59½ are allowed, but may incur a 10% penalty in addition to standard income taxes.	Withdrawals before age 59½ during the first two years of participation may face a 25% penalty in addition to standard income taxes. After the first two years a 10% penalty may apply. (Some exceptions may apply.)
Contribution Limits	Employer: Annual contributions to an employee's SEP cannot exceed the lesser of 25% of compensation or $70,000 for 2025. The employer has flexibility in determining the contribution amount and frequency. For 2025, the maximum compensation allowed is $350,000.	Employer: Option 1: Matching contribution up to 3% of employee's compensation. The employer may choose a lower match, but it must be at least 1% and used for a maximum of 2 out of 5 years. Employees must be notified of the lower match before the 60-day election period for the calendar year. Option 2: 2% non-elective contribution for each eligible employee. Regardless of the employee's contribution, the employer must contribute 2% of their compensation. The eligible compensation limit is determined by the IRS ($350,000 in 2025). Employees must be notified before the 60-day election period for the calendar year if this option is chosen.
	Employee: All contributions are funded by the employer. Catch up contributions are not permitted.	Employee: $16,500 limit for 2025. Catch up contribution of $3,500 are allowed if age 50 or older.
Contribution Deadlines	Employers must contribute before the tax return deadline, with extensions, to qualify for deductions.	Employers must contribute before the tax return deadline, with extensions, to qualify for deductions. Employee elective deferral contributions must be made within 30 days after the month they were withheld. New accounts should be set up by Oct. 1 for the desired tax year.