SEP Vs. SIMPLE IRAs

	SEP IRA	SIMPLE IRA
Consider If	You are an employer who wishes to make a tax deductible contribution into an IRA for yourself and on behalf of your employees as a substantial tax-free fringe benefit.	You are a company with a workplace of 100 or less employees and will fund the bulk of their retirement.
Features	Easy to administer, low-cost. No IRS reporting required. No annual funding required.	Easy to administer, low-cost. No IRS reporting required. Largely funded by employee contributions, but limited employer contribution required. Employee is always 100% vested in (or, has ownership of) all SIMPLE IRA money. Employees may elect to contribute.
Eligibility	Eligible business entities include sole proprietors, partnerships, and incorporated and unincorporated small businesses. This also includes Sub S corporations and individuals with self-employment income, even if they are covered by another employer's retirement plan such as a 401(k), 403(b) or 457 plan.	Employer does not maintain any other qualified plan.
	Employer must contribute to eligible employee accounts in any year that the plan is funded.	SIMPLE IRA plans must meet certain compensation tests. Generally, they must cover each employee who has at least $5,000 in compensation from the employer during any two preceding years and who is reasonably expected to receive at least $5,000 in compensation during the current calendar year.
		Employers have the option to make eligibility less restrictive to include more of their employees in the plan.
Tax Benefits	**Employer:**	**Employer:**
	Within IRS limits, contributions into a SEP IRA are generally 100% tax deductible to the employer. SEP IRA contributions are made by the employer into their own SEP as well as to the individual SEP account of each eligible employee. Investment earnings grow tax deferred.	Contributions made by an employer are tax deductible. **Employee:** All contributions are made on a pre-tax basis and earnings accumulate tax-deferred.
Early Withdrawals	Withdrawals prior to age 59½ are permitted, but may be subject to a 10% penalty plus ordinary income taxes.	25% penalty tax on withdrawals taken prior to age 59½, in addition to ordinary income taxes, if taken within the first two years of participating in a SIMPLE IRA. Thereafter a 10% penalty may apply for withdrawals prior to age 59½, in addition to ordinary income taxes. Exceptions may apply.
Contribution Limits	**Employer:**	**Employer:**
	Annual contributions an employer makes to an employee's SEP-IRA cannot exceed the lesser of:	Option 1: Matching contribution up to 3% of employee's compensation. An employer may choose to make a matching contribution less than 3%, but it must be at least 1% and for no more than 2 out of 5 years. The employer must notify the employees of the lower match within a reasonable period before the 60-day election period for the calendar year.
	25% of compensation, or	Option 2: 2% nonelective contribution for each eligible employee. Under the "nonelective" contribution formula, even if an eligible employee doesn't contribute to his or her SIMPLE IRA, that employee must still receive an employer contribution to his or her SIMPLE IRA equal to 2% of his or her compensation (The eligible compensation limit determined by the IRS is $260,000 in 2014 and $265,000 in 2015.) If the employer chooses this 2% contribution formula, it must notify the employees within a reasonable period before the 60-day election period for the calendar year.
	$52,000 for 2014 and $53,000 for 2015 (subject to annual cost-of-living adjustments for later years).	**Employee:**
	Employer has flexibility to determine the annual contribution amount and frequency.	$12,000 limit for 2014 and $12,500 for 2015 ($14,500 for 2014, if over age 50 by Dec. 31; $15,500 for 2015 if over age 50 by Dec. 31).
	The limits in the preceding sentence apply in the aggregate to contributions an employer makes for its employees to all defined contribution plans, which includes SEPs. Only up to $260,000 in 2014 and $265,000 for 2015.	
	Most SEPs require that allocations to all employees' SEP-IRAs be proportional to their salary/wages. A self-employed owner's contribution is based on net profit minus one-half self-employment tax minus the contribution for him or herself.	
	Employee:	
	All contributions for a SEP IRA are funded by the employer.	
Contribution Deadlines	Contributions must be made by the employer's tax filing deadline, including valid extensions, for the employer to deduct contributions for that tax year.	Employer contributions must be made by the employer's tax return filing deadline, including valid extensions, for employer to receive current deduction.
		Employer must make employee elective-deferral contributions within 30 calendar days after the last day of the month that they were withheld.
		New SIMPLE IRA accounts must generally be established by Oct. 1 to be effective for that particular tax year.
Additional Resources:	Publication 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)	Publication 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)
		Publication 4334, SIMPLE IRA Plans for Small Businesses (PDF)