2026 · SHOULD I ESTABLISH A SEP IRA OR A SIMPLE IRA PLAN FOR MY SMALL BUSINESS?

fpPATHFINDER

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Do you have more than 100 employees who earned $5,000 or more (each) last year?

- No → Do you want to allow employee contributions?
- Yes → Consider a SEP IRA. You are not eligible to adopt a SIMPLE IRA plan.

Do you want to allow employee contributions?

- Yes → Consider a SIMPLE IRA, which allows employee deferrals up to the lesser of 100% of their salary or $17,000 ($21,000 if age 50 or older), in addition to employer contributions. Employees may be able to contribute an additional 10% (including catch-ups) if you meet the eligibility requirements (e.g., fewer than 26 employees or are willing to increase non-elective or matching contributions if you have 26+ employees, etc.).
- No → Consider a SEP IRA, which allows for employer contributions only.

Are you willing and able to make regular annual contributions to employees' accounts?

- Yes → Consider a SIMPLE IRA, which requires an employer to either make nonelective contributions of 2% of an employee's salary (subject to caps), or to match employee deferrals up to 3% of such employee's salary (or 1% in 2 of the prior 5 years). Employers with 26+ employees are required to increase their non-elective or matching contributions (to 3% and 4% respectively) if they want to offer an additional 10% contribution limit increase (including catch-ups) for their employees.
- No → Consider a SEP IRA, which does not require an employer to make any minimum annual contributions. However, any contributions must be made equally to eligible employees.

Employers may also make additional uniform nonelective contributions to all eligible employees (i.e., the lesser of $5,000 or 10% of employee's compensation).

Do you want to maximize the potential total annual funding of accounts?

- Yes → Consider a SEP IRA, which allows for employer contributions up to the lesser of 25% of an employee's salary or $72,000 per year (subject to salary caps).
- No → Do you want to minimize the number of plan participants?

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- Yes → Have your employees tended to be seasonal, part-time and/or short-term?
- No → Is it possible that withdrawals might be needed within the first 2 years of participation in the plan?

Have your employees tended to be seasonal, part-time and/or short-term?

- No → Consider a SIMPLE IRA, which must be offered to only those employees who have compensation of at least $5,000 in either of the prior 2 years, and are expected to earn at least $5,000 from your business this year.
- Yes → Consider a SEP IRA, which must be offered to only those employees who are age 21 or older, have worked for you in 3 of the last 5 years, and earn at least $800 from your business this year.

Is it possible that withdrawals might be needed within the first 2 years of participation in the plan?

- Yes → Consider a SEP IRA, because withdrawals within the first 2 years from a SIMPLE IRA are subject to an early withdrawal penalty of 25% (instead of 10% for a SEP IRA) when taken before age 59.5 (unless an exception applies).
- No → Note that neither a SEP IRA nor a SIMPLE IRA plan allows loans. Contributions are 100% vested, and do not affect your contribution limit for Roth or traditional IRAs (but may affect deductibility of the latter).

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