

Employer's guide to establishing a SEP-IRA



SEP-IRA—A retirement plan designed for small business owners

Are you looking for ways to potentially reduce your tax burden while providing retirement benefits for yourself and your employees? As a small business owner or professional, there is an opportunity for you to reduce your tax bill right up to your tax filing deadline. It's called a Simplified Employee Pension Plan (SEP-IRA) and it offers many valuable benefits.

What is a SEP-IRA?

A SEP-IRA is a type of retirement program for a business or self-employed individual to easily establish and maintain. With a SEP-IRA, each employee sets up an IRA into which the employer makes contributions. Under a SEP, an employer contributes directly to the employee's IRA and receives a tax deduction for the contribution. In effect, the employer's gross business income is reduced. The maximum contribution that can be made to a SEP by the employer is the lesser of 25%¹ of compensation or \$66,000 for 2023 (indexed periodically for inflation) for each eligible employee.

A SEP-IRA can provide your business with a retirement plan that is not subject to the complex disclosure, funding and reporting requirements of a qualified profit sharing or pension plan. In addition, it is easy to establish and maintain and does not require filing an annual Form 5500 with the Department of Labor (DOL).

Employers who may want to consider a SEP-IRA include businesses, companies with a cyclical profit history and individuals with income from their own businesses (even if covered by an employer-sponsored plan). A SEP-IRA could be a simple, low-cost alternative to a profit sharing plan. (For a SEP-IRA and Profit Sharing comparison, see chart on page 5.)

Key features of a SEP-IRA

- **Easy to establish:** You and your eligible employees each set up an IRA into which you make contributions.
- **Simple to maintain:** Once you make contributions into each participant's SEP-IRA account, there are no recordkeeping or DOL filing requirements (i.e., no Form 5500).
- **Low cost:** Typically the only administrative costs involved are an annual maintenance fee for each participant's IRA and cost for your business' accountant to determine employee eligibility and employer contribution amounts.
- **Tax benefits:** Contributions generally are fully tax-deductible as a business expense and, like all retirement plans, the earnings grow tax deferred, allowing for larger retirement accumulations.
- **Significant contributions:** The maximum annual contribution is the lesser of 25%¹ of compensation or \$66,000 for 2023 (indexed periodically for inflation) for each eligible employee.
- **Contribution flexibility:** Generally, you may vary the percent of contribution from 0% to 25%¹ each year, but you are usually required to make an equal percentage contribution for each eligible employee.
- **Eligibility requirements reward long-term employees:** Maximum employee eligibility requirements for a SEP-IRA are three years of service out of the past five years (part-time employees included) and 21 years of age.
- **Reduced fiduciary responsibility for the employer:** Participants establish their own IRAs and direct investments without employer involvement. This reduces the employer's responsibility for investment losses.

¹ The maximum annual contribution is 20% for owners of an unincorporated business.

Why it's important for you and your employees to save for retirement

Americans are living longer and could spend 30 years or more in retirement. Most people don't realize how much money they will need to save for their retirement. To prepare for retirement, it is important to start saving and investing today.

Who can establish a SEP-IRA?

- Sole proprietors
- Partnerships
- Corporations
- S Corporations
- Non-profit organizations
- Individuals who have sideline income (i.e., director's fees, consulting income, etc.)

Saving for retirement makes sense for both your future lifestyle and your current tax bill. As an incentive for people to save for retirement, the government offers certain tax benefits, enabling you to work toward two financial goals at the same time: accumulating wealth for the future and minimizing your current income tax liability.

At UBS, we understand that as a small business owner or professional, you need to plan and invest carefully to provide sufficient retirement income for yourself and your employees at minimum cost to your business. With a SEP-IRA, you and your employees can enjoy tax advantages, including tax-deductible contributions and tax-deferred growth on earnings within the plan.²

A retirement plan can help you attract and retain valuable employees in addition to providing tax advantages.

The simplicity of a SEP-IRA

A SEP-IRA requires no initial or annual filings with the IRS or DOL. Also, you can vary the contribution for your employees from 0% to 25%³ of compensation each year. You are, however, generally required to make an equal percentage contribution for each eligible employee.

All of these contributions are generally fully tax-deductible and, like all retirement plans, the earnings grow on a tax-deferred basis allowing for larger retirement accumulations. In addition, since participants set up a traditional individual retirement account, they direct their own investments.

A SEP-IRA example

Mary Taylor is the president of ABC Inc., a growing company with three employees, including Mary. Her employees earn \$30,000 and \$50,000, respectively. Mary's salary is \$150,000. She wants a retirement plan that would be easy to establish and maintain, and would give her the freedom to change contribution amounts each year. ABC Inc. establishes a SEP-IRA that permits the employer to make annual contributions for each eligible employee of up to the lesser of 25% of compensation or \$66,000 for 2023. This year, Mary decides that ABC Inc. should contribute 25% of compensation. All of the employees, including Mary, meet the age and service requirements and are therefore, eligible for contributions.

ABC Inc. will be able to **reduce its taxable business income by the \$57,500 in contributions** that will be made on behalf of Mary and her employees (\$37,500 for Mary and \$7,500 and \$12,500, respectively, for the employees).

² Although your account grows on a tax-deferred basis, in limited circumstances the underlying investments (generally restricted to certain limited partnerships and alternative investments) may generate unrelated business taxable income ("UBTI"). The IRA may owe tax on UBTI over \$1,000.

³ The maximum annual contribution is 20% for owners of an unincorporated business.

ABC Corporation

	Annual Salary	Annual Contributions
Employee #1 (Mary)	\$150,000	\$37,500
Employee #2	\$30,000	\$7,500
Employee #3	\$50,000	\$12,500
Total		\$57,500

In future years, ABC Inc. can decide whether a contribution will be made for eligible employees and what percentage of compensation will be contributed.

The advantages of a UBS Financial Services Inc. self-directed SEP-IRA

The SEP-IRA allows individuals to make their own annual IRA contribution to the account in addition to the employer's contribution. Some of the advantages of a UBS self-directed SEP-IRA are:

- **Investment flexibility:** The UBS SEP-IRA allows participants to manage their SEP-IRA assets as they would any personal retirement portfolio. They can diversify their investments to meet their individual needs, taking into account current market conditions. Contributions can be invested into a wide range of investments.
- **Earnings on cash balances:** Uninvested cash in your UBS SEP IRA automatically sweeps each business day.
- **Government reporting:** As an approved IRA custodian, UBS Financial Services Inc. will provide the Internal Revenue Service (IRS) with all the necessary contribution, distribution and year-end asset valuation reporting annually.
- **Consolidated statement:** All SEP-IRA plan participants receive an enhanced consolidated statement that lists all of the account's positions and monthly activity, including a breakdown of contributions, transfers, rollovers and distributions.

SEP-IRA versus profit sharing plan: plan comparison chart

	SEP-IRA	Profit sharing
Tax benefits	Contributions are tax deductible. Earnings grow tax deferred.	Same Same
Establishment deadline	By the tax filing deadline plus extensions for the employer's fiscal year.	By the tax filing deadline plus extensions for the employer's fiscal year.
Employer contribution deadline	By tax filing deadline plus extensions.	Same
Maximum employer contribution	Maximum annual contribution of 25% of compensation up to \$66,000 for 2023 per plan participant (indexed periodically for inflation) ⁴	Maximum annual contribution is 100% of compensation up to \$66,000 for 2023 per plan participant, (indexed periodically for inflation). Employer's deduction for contributions it makes to plan is limited to 25% of total covered payroll. ⁵
Annual employer contribution requirements	Amounts may vary each year; employer is not required to contribute every year.	Amounts may vary each year, but must be "recurring and substantial."
Vesting requirements	Immediate vesting upon entry into the plan.	If the eligibility requirement is greater than 1 year of service, a participant must be 100% vested upon entry into the plan. If the eligibility requirement is 1 year or less, a vesting schedule may be used.
Eligibility requirement for participants	3 years of service out of the last 5 years, 21 years of age and earnings of at least \$750 for 2023 annually (indexed periodically for inflation). Employer can choose to be less restrictive.	2 years of service at 1,000 hours a year (with full and immediate vesting) and 21 years of age. Employer can choose to be less restrictive.
Part-time employees	Must earn at least \$750 per year in 2023 (indexed periodically for inflation) to be eligible.	Generally, must work 1,000 hours per year to be eligible.
Reporting/Administration: To eligible employees	Copy of Plan Document, Disclosure Notice and Annual Statement of Employer Contributions.	Summary Plan Description and Summary Annual Reports
To Department of Labor	None	Form 5500 Series Summary Plan Description upon request
Loans available	No	Yes. If the plan permits loans, employees can borrow up to 50% of their vested interest in the plan, up to \$50,000.
Tax treatment of plan distributions	Generally, a distribution is taxed as ordinary income.	A distribution generally is taxed as ordinary income to the extent it exceeds the participant's basis. However, the taxable portion of a lump sum distribution may be eligible for special tax treatment.

⁴ The maximum annual contribution is 20% for owners of an unincorporated business.

⁵ For the self-employed, the limit on contributions is generally 20% of net earnings from self-employment. This is based on 25% of compensation after the plan contribution is deducted from net earnings from self-employment.

UBS makes it easy to establish a SEP-IRA

If you decide to establish your SEP-IRA at UBS, we can provide you with IRS-approved prototype documents. We can also arrange to establish an IRA for each participant in the SEP-IRA plan.

Follow these instructions to establish a SEP-IRA:

- **Step 1:** Complete the *Prototype Simplified Employee Pension Plan Adoption Agreement and Employer Application*. Copies of the Adoption Agreement should be made and distributed to each of your eligible employees. You should keep the original. Also, give a copy to your Financial Advisor.
- **Step 2:** Each eligible employee must open a SEP-IRA before contribution can be accepted. You and your employees can contact your Financial Advisor for assistance with account opening.

Note: A SEP-IRA cannot be established unless a Traditional IRA Application is completed by the employee and the SEP Prototype Adoption Agreement is completed by the employer.
- **Step 3:** Give each employee (at the time the employee becomes eligible to participate in the SEP) a copy of the *signed Prototype Simplified Employee Pension Plan Adoption Agreement*, the *Prototype Simplified Employee Pension Plan* document and the other information contained in the UBS SEP-IRA Plan establishment booklet. Also, each year for which a contribution is made to the SEP, a notice must be given to each participating employee advising the employee of the amount of the employer's contribution. This notice must be given to the participant by either January 31 of the year following the contribution or 30 days following the contribution, whichever is later.

If you decide to establish your SEP-IRA plan at UBS, we can provide you with IRS-approved prototype documents.

When you are ready to make contributions, just send a check to your Financial Advisor with a list of the amounts to be allocated to each participant's SEP-IRA account, if applicable.

Special notice about SEP-IRAs

- **100% Immediate Vesting:** All contributions made to the SEP-IRA on behalf of your eligible employees are 100% vested upon deposit. This means that employees can immediately withdraw all money deposited on their behalf (**subject to federal income tax and, if applicable, state income tax and penalties for early distributions**).
- **Eligible employees:** All employees who meet the eligibility requirements must be included in the SEP-IRA. You cannot exclude part-time or seasonal employees from participating if they meet the eligibility requirements.
- **No loans:** The Internal Revenue Code prohibits loans from IRA accounts. Because SEP contributions are made to an IRA account for each participant, loans are not available through SEP-IRAs.

Call your financial advisor today

A UBS SEP-IRA can be a good way to help you and your employees accumulate assets for retirement. Let us help you put you and your employees on the road to pursuing financial security at retirement. Call your Financial Advisor to set up a SEP-IRA today.

Purpose of this document

This is marketing material intended to help you understand services and investments we offer. It should be used solely for the purposes of discussion with your UBS Financial Advisor and your independent consideration. UBS does not intend this to be fiduciary or best interest investment advice or a recommendation that you take a particular course of action.

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If you would like more details about any of the information provided, or personalized recommendations or advice, please contact your UBS Financial Advisor.

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Conflicts of interest

UBS Financial Services Inc. is in the business of establishing and maintaining investment accounts (including retirement accounts) and we will receive compensation from you in connection with investments that you make, as well as additional compensation from third parties whose investments we distribute. This presents a conflict of interest when we recommend that you move your assets to UBS from another financial institution or employer retirement plan, and also when we make investment recommendations for assets you hold at, or purchase through, UBS. For more information on how we are compensated by clients and third parties, conflicts of interest and investments available at UBS please refer to the 'Your relationship with UBS' booklet provided at ubs.com/relationshipwithubs, or ask your UBS Financial Advisor for a copy.

Important additional information applicable to retirement plan assets (including assets eligible for potential rollover, distribution or conversion)

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With respect to plan assets eligible to be rolled over or distributed, you should review the IRA Rollover Guide UBS provides at ubs.com/irainformation which outlines the many factors you should consider (including the management of fees and costs of your retirement plan investments) before making a decision to roll out of a retirement plan. Your UBS Financial Advisor will provide a copy upon request.

No tax or legal advice

UBS Financial Services Inc., its affiliates and its employees do not provide tax or legal advice. You should consult with your personal tax and/or legal advisors regarding your particular situation.

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2022-889007
Exp.: 12/31/2023, IS2207432

