

SIMPLE IRAs: A Retirement Plan for Your Businesses

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Tags: Investing | Retirement | Tax Benefits | Employer-Sponsored Plan

Introduction to the SIMPLE IRA

The Savings Incentive Match Plan for Employees (SIMPLE) IRA is an employer-sponsored, defined-contribution investment account designed for self-employed individuals or small business owners. This account type is easy to set up and operate, with less reporting requirements than other retirement plans, and allows employees to contribute alongside their employer to fund their future retirement. The tax-deferred nature of investments in this account type makes it an effective investment vehicle for retirement.

Why Should I Consider a SIMPLE IRA for My Business?

There are many reasons you should consider a SIMPLE IRA retirement plan for your business. Depending on the profile of your business, the SIMPLE IRA rules may be the most beneficial to you and your employees.

Tax-Deferred Growth for Employee Portfolios

Like other retirement account types, the SIMPLE IRA allows assets invested in the account to grow on a **tax-deferred** basis. This means account owners won't incur any tax liability until withdrawing the assets in retirement, at which point the withdrawals are taxed as ordinary income. The impact of **tax-deferred** growth is massive in the long-term.

Tax Deductibility of Contributions for Your Business and Employees

Contributions to SIMPLE IRAs are **tax deductible** for both the business and the employee. Employer contributions are tax deductible for the business, while employee contributions are tax deductible to the employee.

Reduced Administrative Burden on the Business

Retirement plans that utilize SIMPLE IRAs are simple to set up and avoid mandatory annual compliance testing and filings required by other retirement plan types, like a 401(k) plan. While businesses are required to provide certain notifications to employees regarding a SIMPLE IRA plan, overall requirements and filings are typically less burdensome than other plans.

Who Can Own a SIMPLE IRA?

Only employees of employers that offer a SIMPLE IRA retirement plan can own a SIMPLE IRA account. Employees of companies without a SIMPLE IRA plan in place cannot create and contribute to their own SIMPLE IRAs (although other retirement account options do exist).

Employers have the ability to set criteria upon which employee eligibility is determined. Those criteria may only include the following: minimum expected compensation during the calendar year (up to \$5,000) and minimum compensation earned during any two years before the current calendar year (up to \$5,000). Employer requirements are optional but must be applied uniformly across all employees; there can be no favorable treatment toward certain employees, including owners of the business.

One more stipulation to note: eligibility cannot rely on employment status at the end of the year. Employees who leave a business mid-year but are otherwise eligible for SIMPLE IRA contributions must be included in contributions for that year.

What Types of Businesses Can Establish a SIMPLE IRA Plan?

Only businesses with 100 or fewer employees can establish a SIMPLE IRA plan. Businesses with more than 100 employees must consider other retirement plan types.

What are the Rules for SIMPLE IRA Contributions?

Employers and employees, alike, can contribute to a SIMPLE IRA.

Employees have the option to contribute as much of their earnings as they would like to their SIMPLE IRA, up to the annual limit. Contributions are typically made through payroll deductions every pay period, but if the plan allows it, employees can make a lump sum contribution.

Employers can choose to make either matching, dollar-for-dollar contributions up to 3% of employee compensation or a non-elective flat contribution of 2% of compensation. If the former is chosen, the employer will only contribute if the employee contributes. Employer contributions must be deposited by the federal income tax return due date for your business, including any extensions.

While all employees need to be provided with the same terms, the employer can switch between matching and non-elective contributions from one year to the next. Additionally, businesses can reduce the matching contribution down to a minimum of 1% as long as employees are notified ahead of time and the reduction isn't in effect for more than two years out of the 5-year period that ends with the year for which the election is effective.

All contributions to a SIMPLE IRA are immediately vested to the employee, meaning that once the money is deposited into a SIMPLE IRA account, it belongs to the employee. This includes employer contributions.

How Much Can Be Contributed to a SIMPLE IRA?

In 2025, the maximum contribution an employee can make to a SIMPLE IRA is \$16,500. Those who are at least 50 years old are eligible for a bonus contribution amount of \$3,500, and those who are between 60 and 63 years old can contribute a bonus amount of \$5,250. These "catch-up" contribution amounts increase the total contribution limit. These dollar limit amounts are occasionally revised to adjust for cost of living and inflation.

Employer contributions are added on top of employee contributions, and usually equate to 2-3% of that employee's total compensation (not contribution amount) for the year.

How Can My Business Deduct Contributions to SIMPLE IRA Accounts?

The deadline for taking a tax deduction on SIMPLE IRA contributions is the federal income tax return due date for your business, including any extensions. The tax document on which contributions can be deducted depends on how your business is legally organized.

What are the Withdrawal Rules of a SIMPLE IRA?

The withdrawal rules of a SIMPLE IRA are similar to that of a Traditional IRA that, when not followed, could result in a substantial penalty. Starting at age 59½, you may take distributions from your SIMPLE IRA at any time and in any amount without incurring a penalty. These distributions are included in your taxable income for the year in which you take them. One key difference from a Traditional IRA is that there is a 25% penalty for withdrawals made within two years of opening a SIMPLE IRA.

Those who withdraw funds before age 59½ are subject to penalty in an amount of 10% of the distribution, unless the distribution qualifies for an exception. The most common exceptions include distributions related to first-time homebuyers (up to \$10,000), birth or adoption expenses (up to \$5,000 per child), emergency personal expenses (up to \$1,000 per year), higher education expenses, federally declared disasters (up to \$22,000), certain unreimbursed medical expenses, and death or disability of the IRA owner.

SIMPLE IRA account owners must also abide by **required minimum distribution (RMD)** rules. Starting at age 73, account owners are required to withdraw a certain amount from their account each year to avoid a penalty (up to 25% of the value) on the missed RMD. The amount of the RMD is calculated based on life expectancy and account balance.

Can Account Owners Borrow Against the Balance of Their SIMPLE IRA?

No. Assets held in SIMPLE IRA accounts cannot be used as collateral for loans.

What Types of Assets Can Be Invested in with a SIMPLE IRA?

A SIMPLE IRA allows its account owner to invest the same exact way as a Traditional IRA, which includes a fairly broad spectrum of assets. Stocks, exchange-traded funds (ETFs), mutual funds, bonds, money market funds, and certificates of deposit (CDs) are all permitted assets in a SIMPLE IRA. Examples of investments that are prohibited in a SIMPLE IRA include life insurance, artwork and collectibles, S Corp stock, and real estate for personal use, among others.

What Other Forms of Retirement Plans Exist for Businesses Like Mine?

There are many other forms of retirement plans that may be a fit for your business, including:

- 401(k) / Roth 401(k) – A tax-deferred retirement plan commonly offered to the employees of large, private employers.
- Solo 401(k) / Roth Solo 401(k) – A 401(k) for self-employed individuals that allows for higher contribution limits.
- Safe Harbor 401(k) – A 401(k) that avoids the regulation requirements and expenses of Traditional 401(k)s and specifies that all employer contributions are immediately vested.
- SIMPLE 401(k) – A 401(k) plan with more flexibility and less administrative burden for self-employed individuals or small business owners.
- SEP IRA – An IRA with special perks for self-employed individuals or small business owners.
- Payroll Deduction IRA – The easiest retirement plan to establish with the least financial and legal requirements for the sponsoring business.

How Can I Start a SIMPLE IRA Retirement Plan for my Business?

To get started with a SIMPLE IRA retirement plan for your business, reach out to us at **FreeMind Financial Advisory** and we would be happy to provide a **free strategy session** personalized for your business. We can help determine if a SIMPLE IRA is the best retirement plan for your business, and if it is, we can assist in setting up accounts and onboarding employees.

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