



There's still time to set up a SEP and reduce your 2025 taxes

If you own a business or are self-employed and haven't already set up a tax-advantaged retirement plan, consider establishing one before you file your 2025 tax return. If you choose a Simplified Employee Pension (SEP), you'll be able make deductible 2025 contributions to it, saving you taxes. Not only is the SEP deadline favorable, but SEPs are easy to set up and the contribution limits are generous. If you have employees, you'll generally have to include them in the SEP and make contributions on their behalf, which are also deductible.

Deadlines in 2026 for 2025

A SEP can be established as late as the due date (including extensions) of the business's income tax return for the tax year for which the SEP is to first apply. For example:

- A calendar-year partnership or S corporation has until March 16, 2026, to establish a SEP for 2025 (September 15, 2026, if the return is extended).
- A calendar-year sole proprietor or C corporation has until April 15, 2026 (October 15, 2026, if the return is extended) because of their later filing deadlines.

The deadlines for limited liability companies (LLCs) depend on the tax treatment the LLC has elected. The business has until these same deadlines to make 2025 contributions and still claim a deduction on its 2025 return.

Simple setup

A SEP is established by completing and signing the very simple Form 5305-SEP, "Simplified Employee Pension — Individual Retirement Accounts Contribution Agreement." Form 5305-SEP isn't filed with the IRS, but it should be maintained as part of the business's permanent tax records. A copy of Form 5305-SEP must be given to each employee covered by the SEP, along with a disclosure statement.

You'll then make deductible contributions to your SEP account, called a "SEP-IRA," and, if you have employees, to each eligible employee's SEP-IRA. Employee accounts are immediately 100% vested. Your contributions on behalf of employees will be excluded from their taxable income. When SEP distributions are taken, likely in retirement, they'll be taxable.

Discretionary, potentially large contributions

Contributions to SEPs are discretionary. You, as the business owner, can decide what amount of contribution to make each year. But be aware that, if your business has employees other than yourself, contributions must be made for all eligible employees using the same percentage of compensation as for yourself.

For 2025, the maximum contribution that can be made to a SEP is 25% of compensation (or approximately 20% of net self-employed income) of up to \$350,000, subject to a contribution cap of \$70,000. (The 2026 limits are \$360,000 and \$72,000, respectively.)

Right for you?

While SEPs are much simpler than most other tax-advantaged retirement plans, they're subject to additional rules and limits beyond what's discussed here. To learn more, contact us. We can help you determine whether a SEP is right for you and, if so, assist you with setting it up — and maximizing your 2025 tax savings.