As with any tax procedure, there are certain actions that must be taken in order for any business, including a one person business, to establish a Simplified Employee Pension Plan (SEP). If not properly established, the expected tax benefits will not be realized.

What must be done by the business? First, there must be written plan agreement. Most businesses will choose to complete and execute the IRA model Form 5305-SEP, Simplified Employee Pension–Individual Retirement Accounts contribution Agreement.

A business may set up its SEP for a year (e.g. 2014) as late as the due date including extensions for the tax year. So, a business may establish a SEP for 2014 on October 15, 2015, if it has an extension for its 2014 tax return.

The maximum contribution for 2014 is the lesser of: 25% of a person's qualifying compensation or $52,000.

The business must provide certain information to each employee, if any. If no employees, then this information is not furnished. If there are employees, in general, they will be furnished a copy of the Form 5305-SEP and its instructions.

What must be done by each individual?

Each eligible employee, including the individual who is the sole proprietor or sole shareholder, must establish a SEP-IRA. A SEP-IRA is a standard traditional IRA to which a SEP contribution has been or will be made. The tax laws do not require a person who has an existing traditional IRA to set up a new SEP-IRA. Some financial institutions choose for administrative reasons to require a separate IRA, but the tax laws do not require it. If any employee would fail to have a SEP-IRA so the business did not make a SEP contribution for such employee, there would be no SEP and the expected tax benefits would not apply for the sponsoring business and other employees.

In summary, establishing a SEP is easy as long as the two steps above are completed for a one person business and the three steps are completed for a business with employees.