Definitions
SEP — SEP is the acronym for Simplified Employee Pension plan. In order to have a SEP, two requirements must be met. First, an employer must sign a SEP plan document which may be: (1) the IRS model Form 5305-SEP; (2) a SEP prototype; or (3) a SEP plan as written specifically for that employer by an attorney. The employer maybe a gigantic corporation or a self employed person. Second, all eligible employees must establish (*or have established for them*) a SEP-IRA.

SEP-IRA —A SEP-IRA is a standard, traditional IRA established with a financial institution to which an employer has made a SEP-IRA contribution. The IRA custodian is required to report SEP-IRA contributions in box 8 on Form 5498. In all other respects, the standard, traditional IRA rules will apply to administering SEP-IRAs. Contributions to SEP-IRAs are always owned by the employee, once the funds have been contributed to the employee's SEP-IRA.

Discussion
SEP plans may be established and funded by the normal tax deadline, plus extensions. A person may come into your institution in July of 2015, and make a SEP contribution of $52,000, for tax year 2014. If an individual has the proper extension(s) a SEP contribution may be made as late as October 15 of 2015, for tax year 2014.

The Contribution Rules Applying to SEPs are Very Favorable

1. The maximum contribution for 2014 is the lesser of $52,000, or 25% of a person's compensation. The limit for 2015 is $53,000.
2. The age 70½ eligibility rule that applies to traditional IRAs does not apply to SEP-IRAs. A farmer, age 74 and still farming and has net income, may still make contributions to their SEP-IRA. A corporation (*and any other employer*) is required to make a contribution for any employee age 70½ or older, as long as the employee has met the eligibility requirements. The age discrimination laws prohibit an employer from not making such contributions. An employee may not waive the contribution.
3. All contributions made to a SEP-IRA by an employer are employer contributions, and are reported in box8 of Form 5498. However, an individual is permitted to make his or her annual traditional IRA contribution to the same IRA to which a SEP contribution is made. Annual contributions are reported in box 1 on Form 5498. Such annual contributions mayor may not be deductible.
4. An employer is not required to make SEP IRA contributions each year. Contributions are also discretionary as to amount.
5. The contributions that an employer makes for its employees are deductible by the business entity on its tax return. A corporation will claim the deduction on Form 1120. A partnership will claim the deduction on Form 1065, and partners will be informed of their respective shares on Schedule K-1. A sole proprietor may deduct SEP contributions on his or her Schedule C for Form 1040.
6. Contributions by the employer to a person's SEP-IRA are not taxed for income tax purposes, withholding purposes, social security income tax purposes, Medicare tax purposes, or federal unemployment income tax purposes.
7. There are special contribution rules for self-employed individuals. A self-employed individual does "deduct" his or her contribution amount to a SEP-IRA on Form 1040. That is, the amount contributed to the SEP-IRA is not excluded from income, as occurs for corporate employers. Since the maximum contribution is the lesser of 25% of compensation, or $51,000 for 2013, one must calculate the "compensation" for a self-employed individual. Compensation for a self-employed person is his or her net earnings from self-employment, as decreased by (1) the amount contributed to their SEP-IRA, and (2) 50% of his or her self-employment tax (*the IRS has a special chart and formula to be used for this calculation*).
8. An employer is required to provide each employee with an annual statement indicating the amount contributed to the employee's SEP-IRA for the year. A self-employed person is not required to prepare a statement for himself.