

Owner-only 401(k) vs. SEP IRA



Wealth Management

	Owner-only 401(k)	SEP IRA
Target market	Small business owners who have no full-time employees other than their spouse	Small business owners who may or may not have employees
Employee eligibility	<ul style="list-style-type: none"> • Age 21 or older • One year of service (1,000 hours in a 12-month period) 	<ul style="list-style-type: none"> • Age 21 or older • Worked three out of five preceding years • Earned at least \$600 in year of eligibility
Maximum employer contribution	2024: 25% of gross eligible payroll* up to \$69,000 2025: 25% of gross eligible payroll* up to \$70,000	2024: 25% of gross eligible payroll* up to \$69,000 2025: 25% of gross eligible payroll* up to \$70,000
Maximum salary deferral, employee contribution	100% of compensation; limited to \$23,000 in 2024 and \$23,500 in 2025	Not allowed
Catch-up contributions for participants age 50 or older	\$7,500 in 2024 and 2025	Not allowed
Loans	The lesser of 50% of vested account balance or \$50,000	Not allowed
Nondiscrimination testing	Not applicable	Not applicable
IRS Form 5500-EZ	Not required until plan assets exceed \$250,000	Not applicable
Third-party administrator	May be required to: <ul style="list-style-type: none"> • Prepare annual 5500-EZ Form • Monitor and report distributions • Provide loan administration • Track contributions and monitors limits 	May be required to: <ul style="list-style-type: none"> • Calculate contribution amounts • Determine eligibility
Deadline for plan establishment	Corporate entities have until the last day of the plan year (December 31 for calendar year plans) to establish and include salary deferral contributions. The Secure 2.0 Act modified this rule for certain entity types. Beginning with the 2023 plan year, sole proprietors and owners of single-member LLCs can establish and include salary deferral contributions up until their tax-filing deadline—not including extensions—for the prior year.	Business owner's tax-filing deadline (usually April 15 for sole proprietors); extensions do apply

*Compensation for a self-employed individual (sole proprietor or partner) is that person's earned income. The starting point to determine the individual's earned income is the net profit amount from the Schedule C (or Schedule K-1 for a partnership).
Earned income = net profit – ½ of self employment tax contribution.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

=RBC Wealth Management does not provide tax or legal advice. All decisions regarding the tax or legal implications of your investments should be made in consultation with your independent tax or legal advisor. No information, including but not limited to written materials, provided by RBC WM should be construed as legal, accounting or tax advice