

# Owner-only 401(k) vs. SEP IRA



Wealth Management

|  | Owner-only 401(k)  | SEP IRA   |
|--|--|---|
| <b>Target market</b>   | Small business owners who have no full-time employees other than their spouse  | Small business owners who may or may not have employees   |
| <b>Employee eligibility</b>                                    | <ul style="list-style-type: none"> <li>• Age 21 or older</li> <li>• One year of service (1,000 hours in a 12-month period)</li> </ul>  | <ul style="list-style-type: none"> <li>• Age 21 or older</li> <li>• Worked three out of five preceding years</li> <li>• Earned at least \$600 in year of eligibility</li> </ul> |
| <b>Maximum employer contribution</b>                           | 2023: 25% of gross eligible payroll* up to \$66,000<br>2024: 25% of gross eligible payroll* up to \$69,000   | 2023: 25% of gross eligible payroll* up to \$66,000<br>2024: 25% of gross eligible payroll* up to \$69,000  |
| <b>Maximum salary deferral, employee contribution</b>          | 100% of compensation; limited to \$22,500 in 2023 and \$23,000 in 2024   | Not allowed   |
| <b>Catch-up contributions for participants age 50 or older</b> | \$7,500 in 2023 and 2024   | Not allowed   |
| <b>Loans</b>   | The lesser of 50% of vested account balance or \$50,000  | Not allowed   |
| <b>Nondiscrimination testing</b>                               | Not applicable   | Not applicable  |
| <b>IRS Form 5500-EZ</b>  | Not required until plan assets exceed \$250,000  | Not applicable  |
| <b>Third party administrator</b>                               | May be required to: <ul style="list-style-type: none"> <li>• Prepare annual 5500-EZ Form</li> <li>• Monitor and report distributions</li> <li>• Provide loan administration</li> <li>• Track contributions and monitors limits</li> </ul>  | May be required to: <ul style="list-style-type: none"> <li>• Calculate contribution amounts</li> <li>• Determine eligibility</li> </ul>   |
| <b>Deadline for plan establishment</b>                         | 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.

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