PACIFIC LIFE

# TAX-PLANNING REFERENCE SHEET

## for Small-Business and Individual Clients

Many tax advisors are contacted by their small-business clients to determine which employer-sponsored plan may provide tax efficiency.

- SEP-IRA
- SIMPLE IRA
- Individual(k)

On the other hand, their individual clients also may need assistance to determine eligibility, contribution amounts, and distributions for a traditional IRA or a Roth IRA.

This reference sheet provides information, insight, and examples that can help both your small-business and individual clients.

## SEP-IRA

A SEP-IRA may be appropriate for employers with or without employees. A SEP-IRA does not require a third-party administrator, so administrative costs are low, and the employer can potentially make a significant contribution. Because most plans require the employer to contribute the same percentage of compensation to all eligible employees, a SEP-IRA may not be desirable for employers with employees other than themselves.

| | 2025 |
|---|---|
| **Contribution Limits: Employer** | Lesser of 25% of compensation or $70,000 |
| **Compensation Cap** | $350,000 |
| **Contribution Due Dates: Employer** | Tax-return due date (including extensions) |
| **Plan Establishment Deadline** | Tax-return due date (including extensions) |

### Example

Jack and Jill, spouses, are owners of their corporation, and they have no employees. Jack is age 52 and has $150,000 in W-2 compensation. Jill is age 48 and has $50,000 in W-2 compensation. The goal is to contribute as much as possible to a retirement plan without incurring administrative costs. The owners establish a SEP-IRA plan in 2025 and make the following contributions:

| | Employee Deferral | Age 50+ Catch-Up | Employer Contribution | Total |
|---|---|---|---|---|
| **Jack** | N/A | N/A | $37,500 | $37,500 |
| **Jill** | N/A | N/A | $12,500 | $12,500 |

## SIMPLE IRA

A SIMPLE IRA may be appropriate for small-business owners with 100 employees or fewer. In many cases, small-business owners want to establish a retirement plan for their employees, but they are looking for low administrative costs and would prefer a smaller employer contribution percentage. A SIMPLE IRA does not require a third-party administrator; it is funded primarily by employee salary deferrals, and it requires only a modest employer contribution.

| | | 2025 |
|---|---|---|
| **Contribution Limits** | Employee Salary Deferral | Lesser of 100% of compensation or $16,500 (plus age 50 or older catch-up of $3,500. For individuals who attain age 60, 61, 62, or 63 in 2025 the catch-up is $5,250.) Employers with 25 or fewer employees may increase the deferral limit and catch-up contributions at age 50 by 10%. Employers with 26–100 employees are permitted to provide higher deferral limits but only if the employer provides either: 4% match or 3% non-elective contribution. |
| | Employer | Dollar-for-dollar up to 3% of compensation **or** 2% non-elective to all eligible employees.<br>Employers may make additional, uniform contributions to each employee that may not exceed the lesser of: up to 10% of compensation or $5,100 (indexed). |
| **Compensation Cap** | | $350,000 (2% non-elective method only). |
| **Contribution Due Dates** | | According to IRS rules, an employer must make salary-reduction contributions to the financial institution maintaining an employee's SIMPLE IRA no later than the close of the 30-day period following the last day of the month in which amounts would otherwise have been payable to the employee in cash. |
| | Employee Salary Deferral | The Department of Labor requires plans with fewer than 100 participants to deposit salary-reduction contributions no later than the seventh business day following withholding by the employer. |
| | Employer | Tax-return due date (including extensions). |
| **Plan Establishment Deadline** | | January 1 through October 1. |

### Example

An employee at ABC Printing Company, Inc. is eligible to participate in a SIMPLE IRA plan. The 54-year-old employee earns $45,000 in W-2 wages in 2025 and wants to contribute the maximum amount. The following contributions can be made to the SIMPLE IRA account:

| | |
|---|---|
| Employee salary-deferral contribution: | $16,500 |
| Employee salary-deferral catch-up contribution: | + $3,500 |
| **Total salary deferral:** | **$20,000** |
| Employer 3% match ($45,000 x 3%): | + $1,350 |
| **Total contributions to SIMPLE IRA:** | **$21,350** |

## Traditional and Roth IRAs

| | | Traditional IRA | Roth IRA |
|---|---|---|---|
| **Contribution Eligibility** | | • Earned compensation | • Earned compensation<br>• Based on taxpayer's modified adjusted gross income (MAGI) and filing status |
| **Deduction Eligibility** | | Depends on filing status, MAGI, and active participant status | No tax deduction because it's funded with after-tax dollars |
| **Contribution Limits** (Aggregate Annual Contribution of Traditional IRA plus Roth IRA) | | | |
| 2025 | | $7,000 | |
| Age 50 and Older Catch-Up | | $1,000 | |
| **Required Minimum Distributions (RMDs)** | | | |
| When | | No later than April 1 of the year following the year of attainment of age 73 | No required minimum distributions (RMDs) for Roth IRA holder |
| Calculation | Deferred Annuity | (December 31 of prior year value plus actuarial present value of additional benefits, if applicable) ÷ life expectancy factor | |
| | Other Investment Vehicles | (December 31 of prior year value) ÷ life expectancy factor | |
| Penalty | | 25% excise tax on amount not taken[1] | |

[1]The 25% penalty may be reduced to 10% if corrected in a timely manner.

**Example** (Aggregation of traditional IRA and Roth IRA contributions)

A 40-year-old client is eligible to make a deductible traditional IRA contribution and a Roth IRA contribution. The client contributes $3,500 to his traditional IRA and $3,500 to a Roth IRA. For 2025, the total aggregate limit of $7,000 has been met with contributions to two types of IRAs.

## Individual(k)

An individual(k) is a 401(k) plan that may provide business owners a greater tax benefit than a SIMPLE IRA or a SEP-IRA. Other benefits include high contribution limits and loan features. Individual(k) plans are available to "owner-only" businesses, which means that it is generally available to employee-owners and their spouses, including sole proprietors and partners in a partnership.

| | | 2025 |
|---|---|---|
| **Contribution Limits** | Employee Salary Deferral | Lesser of 100% of compensation or $23,500 (plus age 50 and older catch-up of $7,500. For individuals who attain age 60, 61, 62, or 63 in 2025, the catch-up is $11,250.) |
| | Employer—Profit Sharing | Lesser of 25% of compensation or $70,000 |
| | Total Cannot Exceed | $70,000 plus applicable catch-up amount<br>(For age 50 and older: $77,500 [$70,000 limit plus $7,500 catch-up];<br>For ages 60 - 63: $81,250 [$70,000 limit plus $11,250 catch-up]) |
| **Compensation Cap** | | $350,000 |
| **Contribution Due Dates** | Employee Salary Deferral | Earliest date employer is able to segregate amounts from its general assets, but in no event later than the 15th day of the month following the month of deferral |
| | Employer | Tax-return due date (including extensions) |
| **Plan Establishment Deadline** | | Tax-return due date (including extensions). |

### Example

Jack and Jill, spouses, are owners of their corporation, and they have no employees. Jack is age 52 and has $150,000 in W-2 compensation. Jill is age 48 and has $50,000 in W-2 compensation. The owners establish an individual(k) plan in 2025 and make the following contributions:

| | Employee Deferral | Age 50+ Catch-Up | Employer Contribution | Total |
|---|---|---|---|---|
| **Jack** | $23,500 | $7,500 | $37,500 | $68,500 |
| **Jill** | $23,500 | N/A | $12,500 | $36,000 |

For more information about small-business tax planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.

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