

CURRICULUM:

Accounting and Auditing

LEVEL:

Basic

DESIGNED FOR:

CPAs in public practice

OBJECTIVES:

To compare and contrast retirement plans commonly considered by small businesses

KEY TOPICS:

Selection framework; SEP IRA; SIMPLE IRA; Solo/Individual 401(k); Standard 401(k); Defined Benefit/Cash Balance Plan

PREREQUISITES:

None

ADVANCED PREPARATION:

None

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Small Business Retirement Plans:

A Decision Framework for CPAs and Advisors

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CPAs occupy a unique vantage point: whether advising clients or running their own practices, they have direct access to the income, cash flow and workforce data that

drive retirement plan selection. That visibility makes CPAs well positioned to identify the most appropriate plan, reduce taxes, and build protected wealth for owners and employees alike.

With multiple plan options, each with different contribution structures, requirements and deadlines, understanding the key differences is essential. The SECURE 2.0 Act expanded options and introduced new Roth features, with provisions phasing in through 2026. The framework below focuses on plans commonly considered by small businesses and can help narrow the choices quickly. It is not a comprehensive guide to every available option.

CHOOSING THE RIGHT PLAN: A QUICK FRAMEWORK

Small business retirement plans fall into two categories. **IRA-based plans** (SEP and SIMPLE IRAs) offer simplicity and minimal IRS filings. **Qualified plans** (401(k) and defined benefit/

cash balance plans) offer higher contribution ceilings and greater flexibility at the cost of increased complexity. Table 1 compares the five most common plan types.

For plan selection, several questions will help narrow the plan focus:

- What is the entity type and how is the owner compensated?
- Are there common-law employees to cover and is headcount stable?
- Is the priority maximum owner savings, employee retention or both?
- Can the business commit to a fixed annual contribution or should contributions remain discretionary?
- Are there related entities that could trigger controlled group, affiliated service group or attribution rules that potentially require coverage of employees across multiple businesses? (Note, these rules are complex and fact-specific; a detailed discussion is beyond the scope of this article, but practitioners should flag related-entity structures early in the planning process.)
- Is a sale or succession expected within the next 3–5 years?



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IRA-based plans (SEP and SIMPLE IRAs) offer simplicity and minimal IRS filings. **Qualified plans** (401(k) and defined benefit/cash balance plans) offer higher contribution ceilings and greater flexibility at the cost of increased complexity.

SEP IRA

SIMPLE IRA

Solo/Individual 401(k)

Standard 401(k) Plan

Defined Benefit/Cash Balance Plan

SECURE 2.0 expanded tax credits that can offset the cost of establishing a new plan. Eligible small employers (generally ≤50 employees) may claim a credit covering 100% of administrative startup costs, up to \$5,000 per year for three years, plus an additional credit for employer contributions made during that period. These credits can materially reduce the cost barrier for employers considering a qualified plan for the first time.

SEP IRA

Overview and Ideal Application. A Simplified Employee Pension (SEP) IRA, available since 1978, allows employers to make tax-deductible contributions to employees' individual retirement accounts. SEP IRAs are popular with small businesses wanting low administrative burden and flexible employer-only contributions.

2026 Contribution Framework.

Employer contributions range from 0% to 25% of each eligible employee's compensation, up to a maximum of \$72,000 per participant (the Section 415(c) limit). While contributions are discretionary and can be changed from year to year, the selected contribution percentage must be

applied uniformly. The compensation cap is \$360,000. Because employee deferrals are not allowed, there are no catch-up contributions. Under SECURE 2.0, employers may now offer a Roth option. This requires an affirmative election before contributions are made. Employer Roth contributions are taxable to the employee in the year made and reporting is typically coordinated with the custodian (often with Form 1099-R).

Eligibility. An employer's most restrictive eligibility requirements cannot be more stringent than the following for eligible employees: minimum age of 21, employee must have performed services for the employer in at least three of the last five years and received at least \$800 in compensation from the employer during the year. Employers may set less restrictive criteria but cannot impose stricter rules. Once the above eligibility requirements are met, the employee must be included in the employer's contributions for that year.

Administration and Deadlines. The employer completes IRS Form 5305-SEP and distributes it to employees. Using that form, each participant opens their own SEP IRA account at their selected custodian, to then be funded with employer contributions (typically via check or electronic transfer). No annual IRS filings are required. A SEP IRA may be established and funded as late as the employer's tax filing deadline, including extensions.

Practitioner Considerations. Ensure the plan is established and contributions are made by the employer's filing deadline. If the Roth feature is offered, confirm the employee's affirmative election is documented and coordinate with the custodian to ensure Roth employer contributions are reported correctly as taxable income (generally via Form 1099-R rather than the employee's W-2). Because only the employer contributes, clients wanting both employer and employee contributions should consider a SIMPLE IRA or 401(k).

SIMPLE IRA

Overview and Ideal Application. Created in 1996 to give small businesses (≤100 employees) a low-cost alternative to 401(k) plans, a Savings Incentive Match Plan for Employees (SIMPLE) IRA allows both employee salary deferrals and employer contributions with minimal administrative requirements.

Eligibility. Generally, employees who earned at least \$5,000 in any two prior years and are expected to earn at least \$5,000 in the current year must be eligible to participate, though employers can choose to impose less restrictive eligibility requirements.

2026 Contribution Framework.

Employee deferrals may be pre-tax or Roth, if the plan offers a Roth option. The standard deferral limit is \$17,000 for 2026; applicable SIMPLE plans (employers with ≤25 employees or 26–100 employees making *enhanced* contributions, see below) allow up to \$18,100. Catch-up contributions for ages 50–59 and 64+ are \$4,000 (standard) or \$3,850 (applicable plans). The “super catch-up” for ages 60–63 is \$5,250 regardless of plan type.

The employer is *required* to contribute under one of two formulas:

- Dollar-for-dollar match of employee deferrals up to 3% of compensation (reducible to 1% for up to 2 of every 5 years) or
- 2% nonelective contribution to all eligible employees regardless of whether they defer.

Employers of 26–100 employees may elect enhanced matching (up to 4%) or nonelective (3%) contributions under SECURE 2.0. Whatever percentage the employer selects applies uniformly to all eligible employees. SECURE 2.0 also permits an additional nonelective contribution of up to 10% of compensation (max \$5,300) per eligible employee.

Additionally, employers may now offer a Roth option for employer contributions. Employer Roth contributions are taxable to the employee in the year made and reporting is typically coordinated with the custodian (often Form 1099-R).

Administration and Deadlines. An adoption agreement (Form 5305-SIMPLE for employers using a designated financial institution, Form 5304-SIMPLE for employers not using a DFI) and employee notification are required. Who is responsible for account setup depends on whether a DFI is used.

No Form 5500 filing is required for the plan, but end-of-year annual notices are required to be sent to employees covering the upcoming year’s contribution approach and salary reduction election options along

Table 1. Plan Comparison at a Glance – 2026

Feature	SEP IRA	SIMPLE IRA	Solo 401(k)	Standard 401(k)	DB / Cash Balance
Best Fit	Small business, contribution flexibility, low admin preference	Small business (≤100 employees), employee deferrals desired	Owner-only business (+ spouse); larger contributions desired	Businesses with employees wanting flexibility in employer contributions	High-income owners of businesses with stable cash flow seeking max deductible contributions
Who Contributes	Employer only	Employee + Employer	Employee + Employer	Employee + Employer	Employer only
2026 Max Contribution	\$72,000 (employer)	\$17,000–\$18,100 (employee) + employer match/ nonelective contribution	\$72,000–\$83,250 (combined including catch-ups)	\$72,000–\$83,250 (combined including catch-ups)	Actuarially determined; can exceed \$100K+
Roth Option	Yes	Yes	Yes	Yes	No
Admin Burden	Low	Low	Low–Moderate	Moderate–High	High
Key Deadlines to Establish Plan	Tax filing deadline (w/ext.)	Oct. 1 establishment	Dec. 31 for S-Corp, filing deadline for individuals/SMLLCs (not including extensions)	Last day of tax year	Last day of tax year



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with a plan summary. The plan must generally be established by October 1 of the year for which it will be effective (for employers that have not previously maintained a SIMPLE IRA).

Employee deferrals must be deposited promptly after withholding (generally within 30 days after the end of the month in which the amounts would otherwise have been payable); employer contributions are generally due by the tax return due date, including extensions.

Practitioner Considerations. The employer's matching obligation is not optional; failure to contribute is a compliance violation. Existing SIMPLE IRA balances can be converted to a Roth IRA after a two-year participation waiting period (a taxable event). Given SECURE 2.0's tiered deferral and catch-up limits, confirm the correct limits based on employer size and contribution elections.

SOLO/INDIVIDUAL 401(K)

Overview and Ideal Application. Available since 2002, the Solo 401(k) is designed for owner-only businesses (including the owner's spouse) with no other eligible employees. It combines larger 401(k) deferral limits with employer contributions with single-participant simplicity. The combined contribution potential – deferral plus employer contribution – makes this plan especially attractive compared to a SEP for younger, high-earning owners.

2026 Contribution Framework.

Employee deferrals up to \$24,500 (Traditional or Roth); catch-up of \$8,000 (ages 50–59 and 64+) or \$11,250 (ages 60–63). Employer contributions of up to 25% of W-2 compensation or 20% of net self-employment income (after the SE tax deduction). Combined employee and employer contribution cap: \$72,000 (under age 50), \$80,000 (ages 50–59 and 64+) or \$83,250 (ages 60–63).

Administration and Deadlines. The plan is established using an adoption agreement, typically a pre-approved prototype document provided at no cost by the custodian, who also handles account setup. Generally, the plan must be adopted by December 31 of the tax year; however, sole proprietors and single-member LLCs may establish a new plan and make retroactive first-year employee elective deferrals up to the tax return due date, without extensions. (S-Corp owners must still adopt by December 31.)

For ongoing years, S-Corp owners make employee deferrals through payroll withholding during the year, while sole proprietors and single-member LLCs must execute a written deferral election by December 31 and may deposit the elected amount by the tax filing deadline, including extensions.

Employer contributions are due by the employer's tax return due date, including extensions. Form 5500-EZ is required annually once plan assets exceed \$250,000.

No nondiscrimination testing or annual participant notices are required.

Practitioner Considerations. This plan is ideal for owner-only businesses. If the business hires common-law employees who become eligible, the plan must be converted to a standard 401(k) or frozen. Do not confuse the plan establishment deadlines with the contribution funding deadlines noted above.

Beginning in 2026, participants with prior-year FICA wages above \$150,000 generally must make catch-up contributions as Roth. This rule applies only to participants with prior-year FICA wages, exempting sole proprietors and single-member LLCs with Solo 401(k) plans, but applying to S-Corp owners above that threshold.

STANDARD 401(K) PLAN

Overview and Ideal Application. A standard 401(k) is a defined contribution plan allowing both employee deferrals and discretionary employer contributions. It is well suited for businesses with employees that want to offer a meaningful, flexible retirement benefit with flexibility in employer contribution design. Employers can further customize the plan by opting into additional features such as after-tax (non-Roth) contributions, in-plan Roth conversions, participant loans, and a self-directed brokerage (expanded investment option), among others. Some of these optional provisions also exist with the Solo 401(k), though on a more limited basis.

2026 Contribution Framework.

Employee deferrals up to \$24,500 (Traditional or Roth); catch-up of \$8,000 (ages 50–59 and 64+) or \$11,250 (ages 60–63). Beginning in 2026, participants with prior-year FICA wages above \$150,000 generally must make catch-up contributions as Roth. Employer contributions may include matching, discretionary profit sharing (up to 25% of W-2 compensation) or both. Section 415(c) annual additions limit: \$72,000 (employee + employer combined; catch-ups excluded). Compensation cap: \$360,000.

Administration and Deadlines. Third Party Administrator (TPA) fees, recordkeeping, annual nondiscrimination testing (ADP/ACP), and Form 5500 filings make 401(k) plans administratively more burdensome

and costly. The plan must be adopted by the last day of the employer's tax year. Employer contributions can be funded through the tax filing deadline (including extensions), but employee deferrals must be deposited as soon as administratively feasible after payroll, generally within a few business days for small plans.

Practitioner Considerations. If the plan does not offer Roth deferrals, high income participants may be unable to make catch-up contributions. The most common pitfall is failing ADP/ACP nondiscrimination testing when highly compensated employees defer significantly more than rank-and-file, forcing excess contribution refunds and unexpected taxable income. Two plan design solutions address this issue:

- **Safe Harbor 401(k)** – The employer commits to a minimum contribution, typically a matching formula (e.g., 100% on the first 3% deferred plus 50% on the next 2%) or a 3% nonelective contribution, in exchange for exemption from ADP/ACP testing; safe harbor contributions are typically 100% immediately vested.
- **New Comparability / Cross-Tested Profit Sharing** – This allocation method allows higher profit-sharing rates for owners or key employees (often 15–25% of compensation) while providing a smaller, compliant allocation to others. It pairs well with a Safe Harbor 401(k) – the safe harbor handles deferral-side testing while new comparability maximizes employer contribution flexibility.

DEFINED BENEFIT/CASH BALANCE PLAN Overview and Ideal Application.

A defined benefit (DB) plan promises a specified retirement benefit, traditionally a monthly annuity. The cash balance plan, a popular hybrid, maintains the DB legal structure but expresses benefits as a hypothetical account balance growing through “pay credits” and “interest

credits.” Unlike the defined contribution plans above, contributions are actuarially determined annually and can be substantially higher, particularly for older participants.

Cash balance plans have become a go-to strategy for high-income, owner-centric practices (medical, legal and CPA firms) where the principal is typically 45+ and looking to exceed 401(k) limits significantly. Layered on top of a Safe Harbor 401(k) with profit sharing, total annual tax-deferred contributions can reach \$150,000–\$350,000+ depending on the age of employees and plan design.

2026 Contribution Framework.

Employer-funded only, though often paired with a 401(k) for employee deferrals. Contributions are actuarially determined annually. Maximum annual benefit at retirement: \$290,000/year (Section 415(b)). Contribution amounts are reverse-engineered from this limit. Compensation cap: \$360,000.

Administration and Key Deadlines.

An enrolled actuary is required for annual calculations and certification, plus TPA fees and Form 5500 filing, making DB and Cash Balance plan set up and administration complex and costly. This can be justified when the owner's tax savings substantially outweigh the cost. The plan must be adopted by the last day of the employer's tax year with contributions subject to minimum funding requirements (often including quarterly funding). Contribution timing should be confirmed with the actuary/TPA.

Practitioner Considerations. The biggest risk to utilizing these plans is contribution volatility and the ongoing funding obligation. Unlike a profit-sharing plan where employer contributions can be reduced to zero in a lean year, a DB plan carries a minimum required contribution each year. Poor investment returns or interest rate changes can increase required contributions unexpectedly. Clients need sufficient income stability to sustain the multi-year commitment. Upfront plan design with the actuary is critical.

FROM PLAN SELECTION TO COMPLIANCE

While plan selection can seem complicated, the decision narrows quickly once entity structure, owner demographics, income levels and employee composition are understood. IRA-based plans offer simplicity while qualified plans offer scale. The right plan balances meaningful tax savings with a sustainable administrative and financial commitment.

After selection, meeting deadlines for establishment, contribution and employee notification is essential. CPAs who coordinate early with financial advisors and third-party administrators – and ask the right questions upfront – can avoid common compliance missteps and position the retirement plan as both a wealth-building and retention tool.

Editor's Note: Please go to *Today's CPA* online at tx.cpa for the Small Business Retirement Plan Reference Guide and the works cited in this article.

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