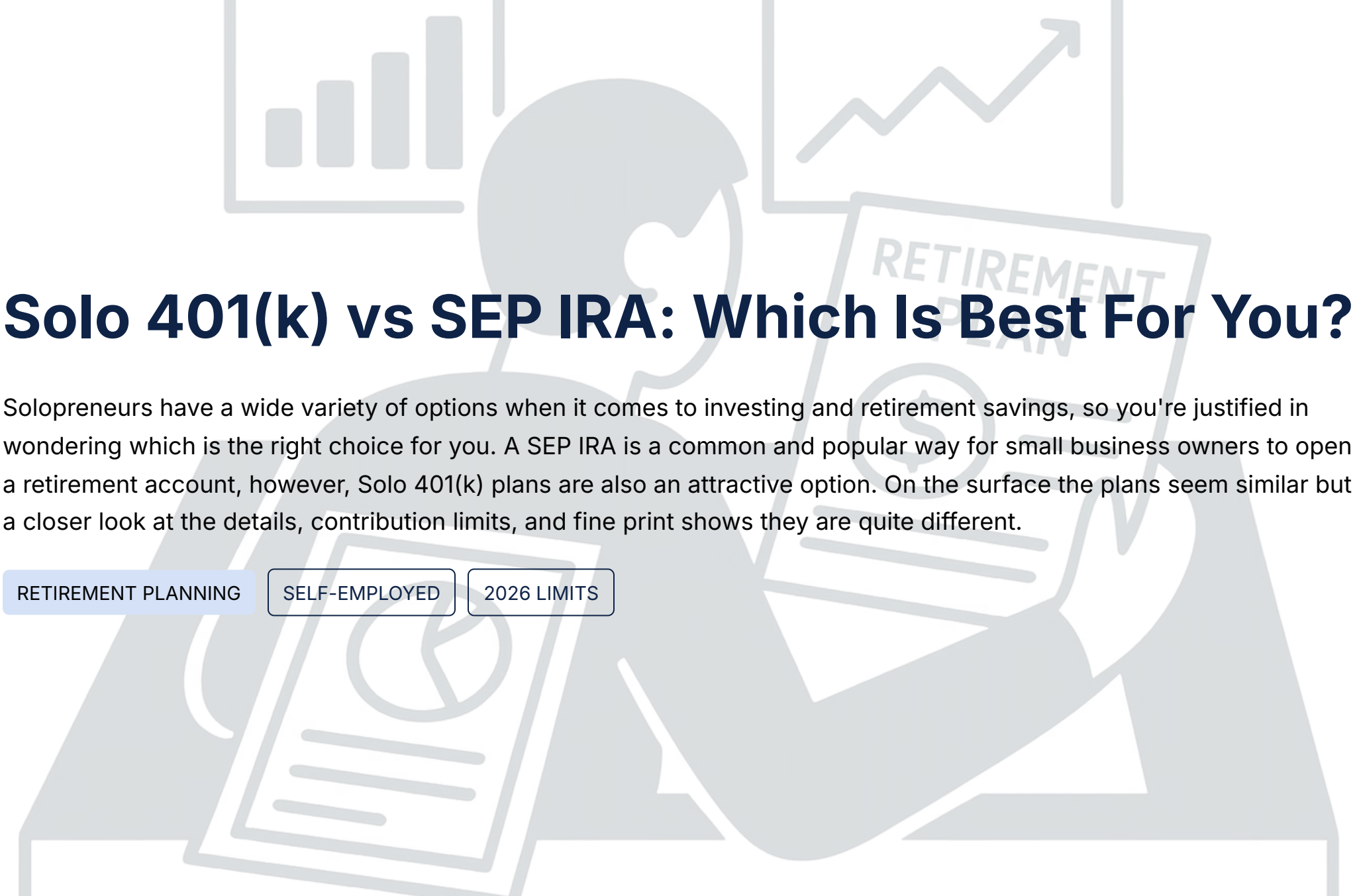


Solo 401(k) vs SEP IRA: Which Is Best For You?

Solopreneurs have a wide variety of options when it comes to investing and retirement savings, so you're justified in wondering which is the right choice for you. A SEP IRA is a common and popular way for small business owners to open a retirement account, however, Solo 401(k) plans are also an attractive option. On the surface the plans seem similar but a closer look at the details, contribution limits, and fine print shows they are quite different.

RETIREMENT PLANNING | SELF-EMPLOYED | 2026 LIMITS

What Is a Solo 401(k)?

A Solo 401(k) is a retirement plan geared specifically toward the unique needs of self-employed individuals and micro-business owners. One of its most appealing features is that it permits an enrollee to wear two contributor's hats: one as an **employee** and another as an **employer**. Under the right circumstances, even the spouse of a participant can contribute.

As an Employee of Your Business

- Contribute up to **$24,500** ($32,500 if age 50+; $35,750 if age 60–63)
- Contributions can be **pre-tax, Roth, or a mix** of the two
- Also called "elective deferral" or "employee deferral"
- Limit is based on all deferrals across all plans combined

As an Employer (of Yourself)

- Contribute up to **25%** of compensation if incorporated (~20% if not)
- Contributions are pre-tax (or Roth if your plan allows)
- Combined employee + employer cap: **$72,000** for 2026
- Age 50+ cap: **$80,000** | Age 60–63 cap: **$83,250**

$72,000

2026 Base Limit

Combined employee + employer contribution cap

$80,000

Age 50+ Limit

Catch-up contributions available for those 50 and older

$83,250

Age 60–63 Limit

Enhanced catch-up for participants aged 60 through 63

25%

Employer Share

Max employer profit-sharing contribution for incorporated businesses

Example: Angela is an S-Corp owner earning $100,000 in W-2 income (under age 50, no employees). She contributes $25,000 (25% profit-sharing) + $24,500 (max deferral) + $22,500 (after-tax) = **$72,000 total**. Note: the after-tax contribution is not tax-deductible.

What Is a SEP IRA?

SEP IRAs are popular for a reason — they have been around for decades and are one of the simplest ways a business owner can invest and save for retirement. SEP stands for **Simplified Employee Pension Plan**, and contributions are made to a Traditional IRA under an employer-sponsored plan.

Contribution Limit

Contribute up to **25%** of business revenue (20% for sole proprietorships), capped at **$72,000** as of 2026, similar to the profit-sharing contribution in a Solo 401(k).

No Employee Deferrals

Unlike a Solo 401(k), **employee deferral contributions are NOT available** under a SEP plan. You are limited to the employer-side contribution only.

IRA Contributions Still Allowed

An annual IRA contribution can still be made above and beyond the SEP contribution, giving you an additional savings avenue.

Investment Flexibility

Through the SEP IRA, you can choose what to invest in whether that be individual stocks, mutual funds, or ETFs.

Example: Angela is an S-Corp owner earning $100,000 in W-2 income (under age 50, no employees). Under a SEP plan, the maximum contribution she can make for herself is **$25,000** compared to $72,000 possible under a Solo 401(k).

Solo 401(k) vs SEP IRA: Key Differences

On the surface these plans sound similar — they are both retirement plans for self-employed individuals. However, when comparing them side by side there are key differences to be aware of.

Feature	SEP IRA	Solo 401(k)
Employer Contribution	✅ Yes	✅ Yes
Employee Contribution	❌ No	✅ Yes
Catch-Up Contribution	❌ No	✅ Yes
Loan Provision	❌ No	✅ Yes
Roth Contribution	✅ Yes (SECURE Act 2.0)	✅ Yes
Setup Deadline	On or before tax return due date	On or before tax return due date
Plan Administration	Minimal upkeep	Requires reporting & record-keeping

Advantages of Each Plan

Solo 401(k) Advantages

Higher Contribution Limits

Contribute as both employee and employer, dramatically increasing your savings potential and tax reduction opportunities.

Loan Access

Solo 401(k) plans support loans, giving you quick access to capital for business or personal use.

Roth Flexibility

Employee deferrals can be pre-tax, Roth, or a combination — giving you tax diversification in retirement.

SEP IRA Advantages

Simplicity

SEP IRAs are one of the simplest plans to set up as a small business owner, with minimal ongoing upkeep required.

Scales With Your Business

Unlike a Solo 401(k), a SEP IRA is not restricted to solopreneurs. You can continue contributing as you add full-time employees.

No Record-Keeping Burden

No annual reporting requirements, making it ideal for business owners who want a hands-off retirement solution.

Which Should You Choose?

Yes, an individual **can** set up and contribute to both a SEP IRA and a Solo 401(k) in the same calendar year. The IRS confirmed this in **IRS Publication 560**, however, you cannot open a Solo 401(k) if you used the 5305-SEP plan document to establish your SEP. To maintain both plans in the same year, your SEP must be established using a prototype document.

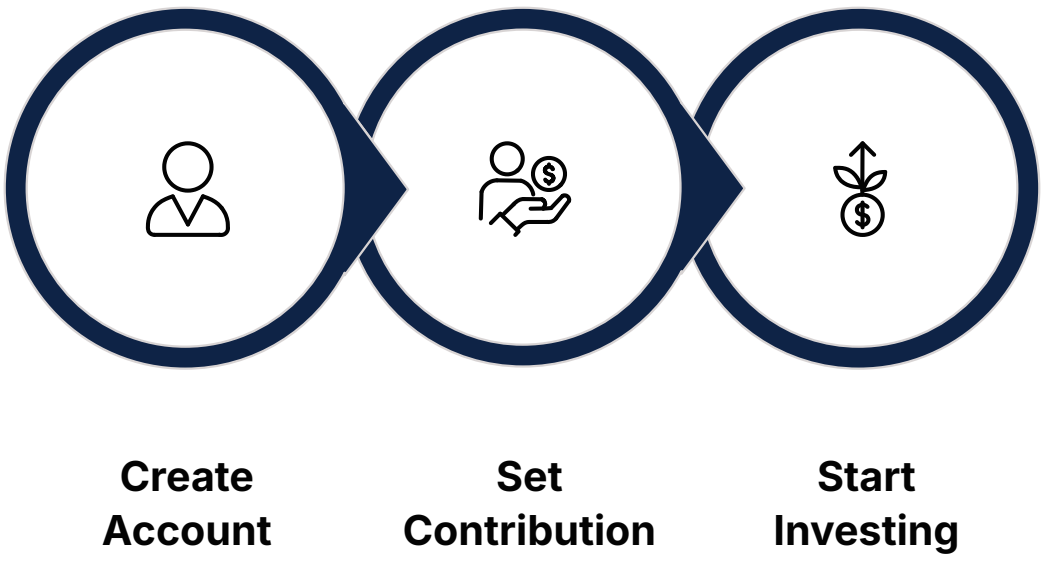
Choose a Solo 401(k) If...

- You are a solopreneur with **no plans to hire** full-time employees
- You want **higher contribution limits** and maximum tax savings
- You want access to a **loan provision** for business or personal needs
- You want **Roth flexibility** in your contributions

Choose a SEP IRA If...

- You want the **simplest plan possible** with minimal administration
- You plan to **hire full-time employees** as your business grows
- You prefer a plan that **scales with your business** without restructuring
- You want a **low-maintenance** retirement savings vehicle

Ready to get started? Opening a Solo 401(k) is easy! You can create an account in minutes on the **SEPira(k)** platform to unlock serious retirement savings — while letting the platform handle the record-keeping and compliance that makes managing a Solo 401(k) a breeze.



Most solopreneurs can complete the entire onboarding process in just a few minutes and the platform's robust record-keeping tools ensure your plan stays compliant year after year. Contact us today at sepirak.com/contact and we will connect you with a partner!