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GUIDE

Retirement Plan Options for Small Business Owners

9 min read · Retirement Planning

If you're self-employed or run a small business, you have retirement plan options that most W-2 employees don't — and the right one can shelter a meaningful chunk of income from tax each year. Here's how the three most common options compare.

The three main options

	SEP-IRA	Solo 401(k)	SIMPLE IRA
Best for	Solo owners who want simplicity	Solo owners who want to save the most	Small businesses with a few employees
Who can contribute	Employer only	Employee + employer	Employee + required employer match/contribution
2026 contribution limit	Lesser of 25% of comp or **$72,000**	Up to **$24,500** employee + employer share, combined max **$72,000**	**$17,000** employee deferral
Catch-up (age 50+)	N/A	+$8,000 (+$11,250 age 60–63)	+$4,000 (+$5,250 age 60–63)
Employer contribution required?	No, but must be same % for all eligible employees	No (employee side optional; employer side discretionary)	Yes — 3% match or 2% flat for all eligible employees
Setup complexity	Very low — one form, no annual filing	Moderate — annual Form 5500-EZ once assets exceed $250K	Low, but ongoing employer obligation

Loan availability	No	Often yes, up to plan limits	No
Deadline to open	By tax filing deadline (with extension)	**By December 31** for the employee deferral portion	October 1 of the plan year (new plans)

SEP-IRA: the simplest option

A SEP-IRA is entirely funded by the business — there's no employee deferral. You contribute a percentage of compensation, and if you have employees, you must contribute that same percentage for every eligible employee — which is why SEPs work best for solo owners or very small teams.

Good fit if: You're a solo owner, want minimal paperwork, and don't need to squeeze out the absolute maximum contribution at a given income level.

Solo 401(k): the highest contribution ceiling

A Solo 401(k) lets you contribute as both "employee" and "employer" — an employee deferral up to $24,500 in 2026, plus an employer profit-sharing contribution up to 25% of compensation, capped at a combined $72,000 (before catch-up). Because the employee deferral doesn't depend on your compensation level the way the employer piece does, a Solo 401(k) often lets you contribute more than a SEP-IRA at moderate income levels.

Good fit if: You're a solo owner (or you and a spouse), and you want to maximize tax-deferred savings — especially at income levels where a SEP's percentage cap would limit you.

Trade-off: More setup. The plan must be established by December 31 to make employee deferrals for that year — a hard deadline, unlike a SEP-IRA. Once assets exceed $250,000, you'll need to file a short annual Form 5500-EZ.

SIMPLE IRA: built for a small team

A SIMPLE IRA works differently — employees can defer their own salary (up to $17,000 in 2026), and as the employer you're required to either match employee contributions up to 3% of compensation or contribute a flat 2% for every eligible employee, whether they contribute or not.

Good fit if: You have a small number of employees and want to offer a retirement benefit without the cost and complexity of a full 401(k) plan.

Trade-off: Lower contribution limits than a SEP-IRA or Solo 401(k), and the employer contribution is mandatory, not discretionary — you're on the hook for it even in a lean year.

A quick way to think about which fits you

- **Just you, want it simple:** SEP-IRA
- **Just you (or you + spouse), want to save the maximum:** Solo 401(k)
- **You have employees you want to offer a benefit to, without high cost:** SIMPLE IRA
- **Employees and want to save significantly more than a SIMPLE allows:** Worth a conversation about a full 401(k)

> **One thing that trips people up every year:** The Solo 401(k) employee deferral deadline is **December 31** — not your tax filing deadline. If you wait until March to decide, it's too late for that tax year. A SEP-IRA can be opened and funded as late as your filing deadline (including extensions), making it a better fallback for late-year tax planning.

Which plan makes sense depends on your income, whether you have employees, and how much you're trying to shelter in a given year — this is exactly the kind of thing worth running by us before you open an account, not after.
