

FREE GUIDE · RETIREMENT FOR BUSINESS OWNERS

Solo 401(k) vs. SEP IRA

The two best retirement plans for owners with no employees — 2026 limits, deadlines, and how to choose.

Both plans let you deduct tens of thousands of dollars while paying your future self instead of the IRS.

The right one depends on your income, whether you have employees, and how much you want to put away.

Here's the comparison, with 2026 numbers.

Side by side (2026)

	Solo 401(k)	SEP IRA
Who it's for	Owner (+ spouse), no other employees	Any size business — but you must contribute the same % for eligible employees
2026 max contribution	Up to \$72,000 — \$24,500 employee deferral + ~20–25% of earnings as employer	Up to \$72,000 — but employer % only (~20–25% of earnings)
Catch-up (age 50+)	+\$8,000 (+\$11,250 at ages 60–63)	None
Max at lower income?	Yes — the deferral stacks on top of the % piece	No — % of earnings only, so max requires ~\$290K+ of earnings
Roth option	Yes (deferrals can be Roth)	Yes, at some custodians — newer and less common
Setup deadline	Generally Dec 31, 2026 for 2026 deferrals; employer piece can follow by the filing deadline	Tax filing deadline + extensions — can open in 2027 for 2026
Paperwork	Slightly more — plan document; Form 5500-EZ once assets top \$250K	Nearly none

A brand-new solo 401(k) for a sole proprietor can sometimes be opened as late as the filing deadline — ask us.

The 60-second decision

☐ **Income under ~\$100K and want the biggest deduction? Solo 401(k)**

Example: \$60,000 of net self-employment earnings supports roughly \$11,000 employer + \$24,500 deferral in a solo 401(k) — versus only ~\$11,000 total in a SEP.

☐ **Age 50 or older? Solo 401(k) — the SEP has no catch-up**

☐ **It's already January and you want a 2026 deduction? SEP IRA**

The SEP's open-until-you-file deadline makes it the best "reach back" plan.

☐ **You have (or are about to hire) employees? Talk to us first**

Both plans change shape with employees. A SEP means contributing the same percentage for the crew as for yourself; a standard 401(k) or SIMPLE may fit better.

☐ **Very high income? Ask about stacking**

Solo 401(k) + defined benefit plans can push deductions well past \$100K for owners with big, steady profits.

FINE PRINT THAT MATTERS

Contributions must come from earned business income, and the employer percentage is calculated on net earnings after certain adjustments — the real math is worth a professional pass before you fund.

RUN YOUR NUMBERS

Tell us your expected 2026 profit and we'll show you the exact contribution each plan allows — and the tax bill each one produces. westfinancialservicesllc.com