The Solo 401(k)

A retirement savings vehicle designed for the smallest businesses.

Provided by Michael S Wallman

Do you work for yourself? Then take a look at the solo 401(k), which marries a traditional employee retirement savings account to a small business profit-sharing plan. To have a solo 401(k), you must either be the lone worker at your business, or its only full-time employee.[1]

Imagine nearly tripling your retirement savings potential. With a solo 401(k), you have a chance to ramp up your retirement savings and reduce your tax bill at the same time. Here are the details:

**As an employee,* you can defer up to $19,000 of your compensation into a solo 401(k). The yearly limit is $25,000 if you are 50 or older, for catch-up contributions are allowed for these plans. (Your annual employee contribution cannot surpass your earned income or salary.)[1,2]

**As an employer,* you can have your business make a tax-deductible, profit-sharing contribution of up to 25% of your compensation as defined by the plan. If your business isn't incorporated, the annual employer contribution limit is 20% of your net earnings rather than 25%. If you are a self-employed individual, you must calculate the maximum amount of elective deferrals and non-elective contributions you can make using the methods in Internal Revenue Service Publication 560.[1,2]

*Total employer + employee contributions to a solo 401(k) are capped at $56,000 for 2019.[1]

*The annual employer contributions you make are tax-deductible, up to I.R.S. limits.[3]

Are you married? If your spouse earns income from your business, then he or she can also make an employee contribution to the plan in 2019, and you can make another profit-sharing contribution on your spouse's behalf.[3]

You can "go Roth" with your solo 401(k). The annual employee contribution limits for a Roth solo 401(k) are the same as those for any 401(k): $19,000 for individuals under 50, and $25,000 for individuals 50 or older. Only employee contributions can be Roth contributions.[4]

Are plan loans allowed? Sometimes. Certain plan providers do permit them, though standard federal taxes and tax penalties apply if the loan is not paid back within five years. Some also allow hardship withdrawals from these plans (that is, withdrawals taken prior to age 59½).[3,4]

The administration duties for a solo 401(k) plan are relatively light. There are no compliance testing requirements, and you will only need to file an annual Form 5500 with the I.R.S. when the assets in your solo 401(k) exceed $250,000.[3]

On the whole, solo 401(k)s give SBOs increased retirement savings potential. If that is what you need, then take a good look at this option. These plans are relatively easy to create, and you are free to have one whether your business is a sole proprietorship, S corporation, C corporation, limited liability company (LLC), or limited partnership. Certain independent contractors have the freedom to create solo 401(k)s as well.[5]

Michael S Wallman may be reached at 407.470.8889/305.720.6739 or www.wallmanfinancial.com mwallman@wallmanfinancial.com

Citations.

1 - irs.gov/retirement-plans/one-participant-401k-plans [6/18/19]
2 - forbes.com/sites/davidrae/2019/05/08/individual-401k [5/8/19]
3 - tdameritrade.com/retirement-planning/small-business/individual-401k.page [9/19/19]
4 - investor.vanguard.com/small-business-retirement-plans/individual-solo-401k [9/19/19]
5 - businessnewsdaily.com/15129-self-employed-401k.html [6/17/19]