

Solo 401(k): One of the Best Retirement Plans for Small Business Owners

A Solo 401(k), also known as a one-participant 401(k) plan, solo-k, or uni-k, is an ideal retirement plan for small business owners who have no employees, or only their spouse as an employee. This plan offers the same benefits and follows the same rules as a traditional 401(k), but it is designed specifically for self-employed individuals and small business owners.

What is a Solo 401(k)?

A Solo 401(k) is a retirement savings plan tailored for a self-employed business owner with no employees, or for those who work as independent contractors or freelancers. This type of 401(k) allows the business owner to contribute both as an employer and an employee, which significantly increases the amount they can save for retirement.

Who Can Contribute?

To be eligible to contribute to a Solo 401(k), you must be a self-employed individual or a small business owner with no employees other than your spouse. This plan is also suitable for gig workers who participate in an employer's 401(k) and have a side business.

Maximum Contribution

The maximum amount a self-employed individual can contribute to a Solo 401(k) for 2024, not including catch-up contributions for those aged 50 and over, is \$69,000. If you are 50 or older, you can add an extra \$6,500 per year in "catch-up" contributions, bringing the total to \$75,500. However, your contribution limit is determined by your self-employment income.

Contribution Deadline

Contributions to a Solo 401(k) must be made by the tax filing deadline (including extensions) of the employer's return.

How to Open a Solo 401(k)

Opening a Solo 401(k) is straightforward and can be done through most online brokers. To set up the plan, you will need a valid Employer Identification Number (EIN). Once the plan balance reaches \$250,000 or more, you must file an annual report using Form 5500-SF with the IRS at the end of each year.

Calculating Contribution Limits

Business owners can make contributions to their Solo 401(k) both as an employee and an employer. Here's how:

- **Elective Deferrals:** As an employee, you can contribute up to 100% of your compensation (earned income for self-employed individuals) up to the annual contribution limit of \$23,000 for 2024.
- **Employer Nonelective Contributions:** As an employer, you can contribute up to 25% of compensation as defined by the plan, or for self-employed individuals, up to 25% of net earnings.

When calculating the limit for nonelective contributions, compensation is defined as net earnings from self-employment after deducting both one-half of your self-employment tax and contributions for yourself. The limit on compensation that can be used to factor your contribution is \$345,000 in 2024.

Advantages of a Solo 401(k) for Small Business Owners

- **Higher Contribution Limits:** A Solo 401(k) allows higher contribution limits compared to other retirement plans available to small business owners.
- **Tax Benefits:** Contributions reduce taxable income, and investments grow tax-deferred until retirement.

- **Flexible Investment Options:** Solo 401(k) plans offer a wide range of investment choices, similar to traditional 401(k) plans.
- **Loan Option:** Participants can take loans from their Solo 401(k) under certain conditions.

Why Choose a Solo 401(k)?

A Solo 401(k) is one of the best retirement plans for small business owners due to its high contribution limits and tax benefits. It offers a simple yet effective way to save for retirement while taking advantage of significant tax savings. If you're a small business owner looking for a retirement plan provider, contact Asset Guidance Group, LLC, a registered investment advisor, to discuss setting up a Solo 401(k) to secure your financial future.

Sources:

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