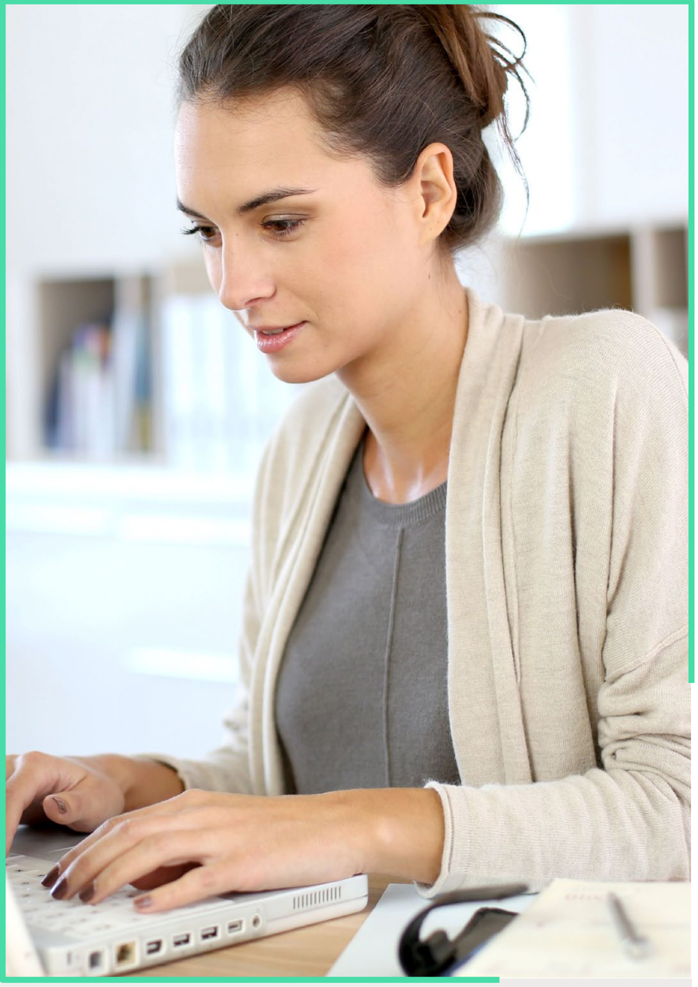

Understanding Solo 401(k)

Empowering the Self-Employed

Solo 401(k) plans, also known as individual 401(k) plans, offer a powerful retirement saving tool for self-employed professionals and small business owners with no employees other than a spouse. This unique retirement account allows you to wear dual hats: that of an employer and an employee, maximizing your retirement contributions and tax advantages.

Employee Contributions

As an employee, you can defer a portion of your income into your Solo 401(k), reducing your current taxable income. For 2024, the deferral limit is set at $23,000, with an additional catch-up contribution of $7,500 for those aged 50 and above. These contributions are not subject to income tax at the time of deferral, although they are still liable for FICA and FUTA taxes.

Employer Contributions

On the employer side, you can contribute up to 25% of your compensation, further enhancing your retirement savings. The combined contribution limit for 2024 caps at $69,000 plus catch-up (if catch-up eligible), or $76,500. These contributions grow tax-deferred until withdrawal, which is typically taxed as ordinary income.

For self-employed individuals, employer contributions are calculated as 25% of net self-employment income, which is defined as gross income less the contribution and one-half the self-employment tax.

**For both Employee and Employer Contributions, please note ROTH options also exist, and these limits update every calendar year. **

Flexibility and Loan Provisions

The Solo 401(k) plan stands out for its flexibility in contributions, allowing you to adjust yearly based on your business's profitability. Moreover, some plans offer loan provisions, providing financial flexibility in times of need. However, it's essential to be aware of the coordination with other retirement plans to ensure compliance with overall contribution limits.

Solo 401(k) plans provide self-employed individuals with a robust retirement saving option, combining high contribution limits and tax advantages by allowing them to contribute both as employer and employee.

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Nondiscrimination Tests

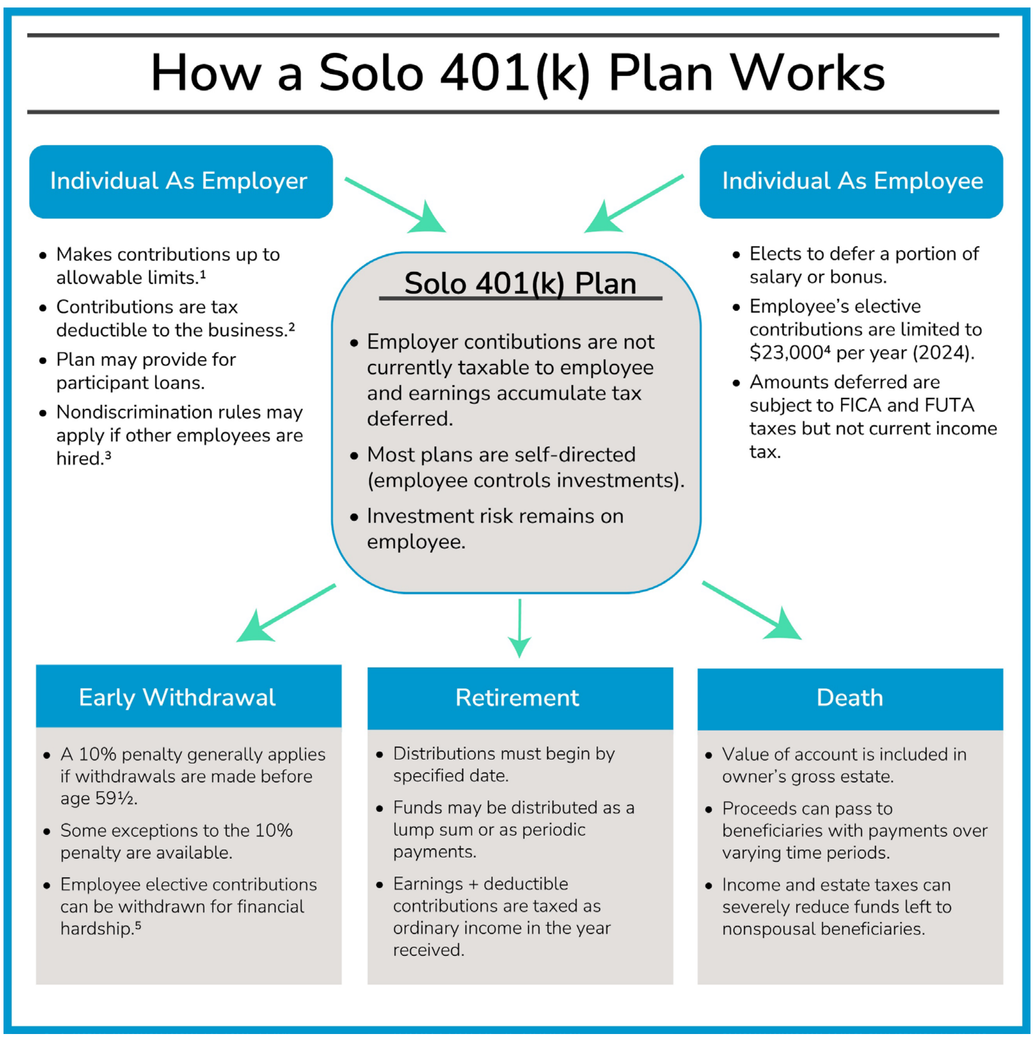
Additionally, all 401(k) plans must meet prescribed nondiscrimination tests. Plans where only the business owner or the business owner and their spouse are the only employees effectively avoid this issue. Just one additional eligible employee can trigger these nondiscrimination requirements, increasing administrative complexity and cost.

Professional Guidance

Setting up and managing a Solo 401(k) can be complex, involving intricate tax laws and regulations. Professional guidance from a financial advisor or tax professional is highly recommended to navigate these waters effectively, ensuring you maximize your retirement savings while adhering to legal requirements.

Conclusion

The Solo 401(k) plan is an excellent retirement saving vehicle for the self-employed, offering significant tax advantages and contribution limits. With careful planning and professional advice, it can be a cornerstone of your retirement strategy, providing financial security in your golden years.



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