

SOLO 401(k) PLAN

GOVERNMENT RULES

Solo 401(k) Plans - For Entrepreneurs and Sole Proprietors

In response to tax changes that became effective in 2002, many banks, trust companies, and brokerage firms have set up arrangements known as Solo 401(k) Plans that enable sole proprietorships, partnerships, and single person corporations to set up and contribute to an arrangement that offers the same benefits as a conventional 401 (k) plan offered by larger companies.

For certain Individuals, depending on income, the Solo 401(k) Plans can allow contributions of twice as much or more than other retirement plans, including profit sharing plans, money purchase pension plans, Simplified Employee Pension plans and Savings Incentive Match Plans for Employees plans.

As with Traditional and Roth IRAs, clients can use funds from their Solo 401(k) Plans to invest in any of the various investment vehicles offered by their bank, trust company, or brokerage firm and permitted by law.

Eligibility

Solo 401(k) Plans are only available to small business entities such as sole proprietorship, partnerships, and single person corporations. The business entity must have **no additional employees** other than the spouse of the proprietor, or in the case of a partnership, the only employees are self-employed partners and their spouses. A Solo 401(k) Plan must be **the only arrangement** maintained by the business and the business cannot be considered part of a controlled group under federal tax law.

Contribution Limits

Two components comprise the maximum Solo 401(k) Plan contribution:

1. Employee Salary Deferral
2. Employer Profit Sharing

For 2009 each owner working in the business is able to contribute up to lesser of 100% of compensation or \$16,500. After 2009, this \$16,500 will be indexed to inflation and adjusted by the Treasury Department. In addition, the separate profit sharing contribution, if any, that can be made to a Solo 401(k) Plan arrangement is limited to 25% of the employee's compensation up to the annual compensation cap (if the business is a corporation) or 20% of the employee's self-employment income (if a sole proprietorship or partnership). The annual compensation cap in 2009 is \$245,000 and then subject to annual cost-of-living adjustment for later years. There is a total contribution limit applicable to both sources of \$49,000 in 2009 and then subject to annual cost-of-living adjustments for later years.

In addition to the contribution limits stated above, an employee 50 years of age or older may also make an additional "catch-up" contribution amount for 2008 of \$5,500 which will be indexed for inflation and increase in \$500 increments starting in 2009. Therefore, if the employee is 50 years of age or older, the total contribution limit for 2009 will be \$54,500.

Also remember that spouses are eligible to open their own Solo 401(k) Plan account provided they have separate income and are covered in the plan.

Deadlines

The deadline for establishing a Solo 401(k) Plan, and to make an employee salary deferral election, is the last day of your business's tax year. The deadline for funding the profit sharing portion of your Individual(k) plan is your business tax return due date, including extensions.

Rollovers

You are allowed to rollover or transfer your Traditional IRA, SEP, Qualified Plans or Keoghs (Profit Sharing, Money Purchase Pension, Defined Benefit), 401(k), 403(b) and governmental 457 plans into a Solo 401(k) Plan. SIMPLE IRAs are eligible for rollover after the two-year holding period is met.

Easy to Set Up and Administer

Because the Solo 401(k) Plan is designed specifically for businesses that either have no employees or only have employees that may be excluded from coverage testing, it is less complex, less burdensome to administer, and less costly to maintain. The Revzon Consulting Group provides full administration for Solo 401(k) plans.

Consult your attorney, accountant or tax/investment advisor to see if a Solo 401(k) Plan could work for you.

