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# Think Abo[ut] [G]oing Solo In Your 401(k)

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Solo could be the way to go

Self-employed individu[als are el]igible to adopt a 401(k) qualified [plan just] like they would have at any large [company] or business with employee[s. The in]dividual 401(k) plan, also known [as a "sol]o 401(k)," is an attractive retireme[nt saving]s vehicle to consider.



Traditionally, most financial planners have been advising self-employed individuals or small business owners to establish IRAs as part of their retirement planning strategy. Although IRAs do provide some degree of retirement planning benefits, the amount of money that one can contribute to an IRA is significantly lower than the amount that can be contributed to a solo 401(k) Plan. As a result, many self-employed individuals and small business owners are missing out on a great opportunity to build-up and increase their retirement savings.

## Going Back To Jimmy Carter

In 1978, Congress amended the Internal Revenue Code by adding section 401(k), whereby employees are not taxed on income they choose to receive as deferred compensation rather than direct compensation. The law went into effect on January 1, 1980. It was not until November 10, 1981 that the Internal Revenue Service ("IRS") formally described the rules for these plans.

The solo 401(k) plan is not a new type of plan. The solo 401(k) is a traditional 401(k) plan covering only one employee. The plans have the same rules and requirements as any other 401(k) plan. The surging interest in these plans is a result of the EGTRRA tax law change that became effective in 2002. The law changed how salary deferral contributions are treated when calculating the maximum deduction limits for contributions to a 401(k) plan. This change created an opportunity for some people to put away additional



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A solo 401(k) plan is well suited for businesses that either do not employ any employees or employee certain employees that may be excluded from coverage. A solo 401K plan is perfect for any sole proprietor, consultant, or independent contractor.

To be eligible to benefit from the solo 401(k) plan, investor must meet just two eligibility requirements:

(i) The presence of self-employment activity.

(ii) The absence of full-time employees.

The Presence of Self Employment Activity

Self-employment activity generally includes ownership and operation of a sole proprietorship, Limited Liability Company (LLC), C Corporation, S Corporation, and Limited Partnership where the business intends to generate revenue for profit and make significant contributions to the plan.

Generate Revenue for Profit

There are no established thresholds for how much profit the business must be generated, how much money must be contributed to the plan, or how soon profits and contributions must happen. It is generally believed that the IRS will consider you eligible if the business being conducted is a legitimate business that is run with the intention of generating profits. The self-employment activity can be part time, and it can be ancillary to full time employment elsewhere. A person can even participate in an employer's 401(k) plan in tandem with their own solo 401(k) Plan.

The Absence of Full-Time Employees

Unlike a regular 401(k) plan, a solo 401(k) plan can be implemented only by self-employed individuals or small business owners who have no other full-time employees (an exception applies if your full-time employee is your spouse). The business owner and their spouse are technically considered "owner-employees" rather than "employees".

Types of Solo 401(k) Plans

In general, most financial institutions offer solo 401(k) plans as a retirement investment vehicle. However, in most cases, the financial institution sponsoring the solo 401(k) plan documents will limit the individual investment options to stocks and mutual funds and will also exclude many of the attractive solo 401(k) plan options, such as the loan feature and the Roth contribution component.



For individuals looking to buy real estate, precious metals, or make other non-traditional investments, or seeking to secure a loan from their solo 401(k), an alternative option exists. There are a number of companies, many can be found online, that sponsor "Checkbook Control" solo 401(k) plans. The solo 401(k) plan with "Checkbook Control" allows the solo 401(k) plan such as real estate, gold, private business stock, commodities, foreign currency, options, and much more. In addition, the solo 401(k) Plan account can be opened at any local bank, such as Chase or Wells Fargo and even at many financial institutions, such as Fidelity.

Advantages of a Solo 401(k) Plan

The solo 401(k) plan is unique and so popular because it is designed explicitly for small, owner only business. There are many features of the solo 401(k) plan that make it so appealing and popular among self-employed business owners.

**High Contribution Limits**: While an IRA only allows a $5,000 contribution limit (with a $1,000 additional "catch up" contribution for those over age 50), a plan participant of a solo 401(k) plan can make annual contributions up to $49,000 annually with an additional $5,500 catch up contribution for those over age 50 ($54,500) for 2011.

**Loan Feature:** While an IRA offers no participant loan feature, the solo 401(k) plan allows plan participants to borrow up to $50,000 or 50% of their account value (whichever is less) for any purpose. The loan has to be paid back over a five-year period at least quarterly at a minimum prime interest rate (you have the option of selecting a higher interest rate)

"**Checkbook Control**": A solo 401(k) plan allows you to eliminate the expense and delays associated with an IRA custodian, enabling you to act quickly when the right investment opportunity presents itself. Making a solo 401(k) plan investment is as simple as writing a check.

**Roth Type Contributions**: With IRAs, those who earn high incomes are disallowed from contributing to a Roth IRA or, in most years, converting their IRA to a Roth IRA. The solo 401(k) plan contains a built in Roth sub-account which can be contributed to without any income restrictions.

**Cost Effective Administrati**on**:** In general, the solo 401(k) plan is easy to operate. There is generally no annual filing requirement unless your solo 401(k) plan exceeds $250,000 in assets, in which case you will need to file a short information return with the IRS (Form 5500-EZ).

**Exemption from UDFI**: When an IRA buys real estate that is leveraged with mortgage financing, it creates Unrelated Debt Financed Income ("UDFI") – a type of Unrelated Business Taxable Income – on which taxes must be paid pursuant to Internal Revenue Code Section 514. A solo 401(k) plan is generally exempt from UDFI.

The solo 401(k) plan is unique and so popular because it is designed explicitly for small, owner only business. Accordingly, it offers self-employed individuals and small business owners with no third-party employees significantly greater retirement benefits than an IRA or even a SEP IRA. Thus, any self-employed individual or small business owner considering a retirement plan should look into the solo 401(k) plan.

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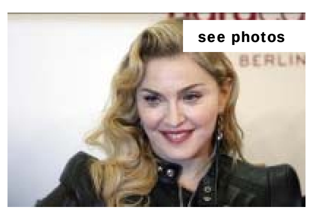


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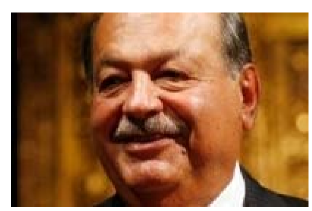

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