

BenefitsPro

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, click the "Reprints" link at the top of any article.

Solo 401(k)s winning favor

Solo 401(k) plans are the retirement vehicle of choice for the self-employed, according to a survey of financial professionals by the IRA Financial Group.

More than 80 percent of those questioned said they considered the solo 401(k) a better retirement savings plan, the survey of 50 accountants, CPAs and tax professionals, reported. That's a huge change from five years ago, when the majority recommended that their clients invest in SEP-IRAs.

"It has taken time, but CPAs and tax professionals throughout the United States are starting to embrace the significant benefits of the solo 401(k) plan vs. the SEP IRA for self-employed individuals from a retirement, tax, and investment perspective," Adam Bergman, a tax attorney with IRA Financial Group, said in a statement.

One advantage of the solo 401(k) plan – a traditional IRA designed for a business owner with no employees except perhaps a spouse – is that higher contributions can be made because it contains both employee deferral and profit-sharing options. A Sep-IRA is only a profit-sharing plan.

For 2013, the IRS allows those under 50 to make a deferral of \$17,500 to a solo 401(k), either before tax or after. On the profit-sharing side, contributions of up to 25 percent are allowed (20 percent for a single proprietorship LLC). The maximum contribution from deferrals and profit sharing is \$51,000 in 2013. For those over 50, the maximum is \$56,500.

For SEP-IRA the maximum contribution is \$51,000, but it can only come from profit sharing. Employee deferrals are not allowed.

Another advantage to the solo IRA is the availability of loans. Participants can borrow up to \$50,000 or half the value of their accounts.

"The loan feature is a popular feature that many CPAs and accountants mentioned as a reason why the solo 401(k) plan is a better plan than the SEP IRA for the self-employed, Bergman said.

