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What Is a Solo 401(k) Self-Employed Retirement Plan?

A solo 401(k) is an individual 401(k) designed for a business owner with no employees. In fact, IRS rules say you can't contribute to a solo 401(k) if you have full-time employees, though you can use the plan to cover both you and your spouse.



Eligibility Rules

No age or income restrictions, but must be a business owner with no employees.

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Tax position on contributions

- ? Traditional Solo 401(k): Contributions are made pre-tax, reducing taxable income for the year.
- ? Roth Solo 401(k): Contributions are made with aftertax dollars. No reduction of taxable income



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Solo 401(k) contribution limits

The total solo 401(k) contribution limit is up to \$58,000 in 2021 and \$61,000 in 2022. There is a catch-up contribution of an extra \$6,500 for those 50 or older.

To understand solo 401(k) contribution rules, you want to think of yourself as two people: an employer (of yourself) and an employee (yes, also of yourself). Within that overall \$58,000 contribution limit in 2021 and \$61,000 in 2022, your contributions are subject to additional limits in each role:

As the employee, you can contribute up to \$19,500 in 2021 and \$20,500 in 2022, or 100% of compensation, whichever is less. Those 50 or older get to contribute an additional \$6,500 here.

As the employer, you can make an additional profit-sharing contribution of up to 25% of your compensation or <u>net self-employment income</u>, which is your net profit less half your selfemployment tax and the plan contribution you made for yourself. The limit no compensation that can be used to factor your contribution is \$290,000 in 2021 and \$305,000 in 2022.

Is Solo 401(k) tax deductible?

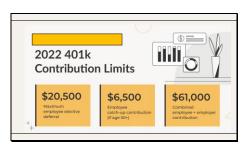
The nice thing about a Solo 401(k) is you get to pick your tax advantage: You can opt for the traditional 401(k), under which <u>contributions reduce your income</u> in the year they are made. In that case, distributions in retirement will be taxed as ordinary income.

The alternative is the Roth Solo 401(k), which <u>offers no initial tax break</u> but allows you to take distributions in retirement tax-free. In general, a Roth is a better option if you expect your income to be higher in retirement.

Because of these tax perks, the IRS has pretty strict rules about when you can tap the money you put into either type of account: With few exceptions, you'll pay taxes and penalties on any distributions before age 59 ½.



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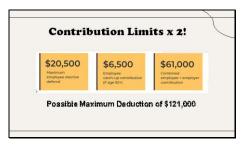
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Covering your spouse under your Solo 401(k)



The IRS allows one <u>exception</u> to the noemployees rule on the solo 401(k): your spouse, if he or she earns income from your business.

That could effectively **double** the amount you can contribute as a family, depending on your income. Your spouse would make elective deferrals as your employee, up to the \$20,500 employee contribution limit (plus the 50-and-older catch-up provision, if applicable). As the employer, you can then make the plan's profit-sharing contribution for your spouse, of up to 25% of compensation.



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Required Minimum Distribution RMD

You'll be required to take minimum distributions (RMD) from a Roth 401(k) once you turn age 72.

However, you might be able to avoid RMDs if you can move the money from a Roth 401(k) into a Roth IRA, which isn't subject to required minimum distributions.



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You can open a Solo 401(k) at most online brokers, though you'll need an Employer Identification Number. The broker will provide a "plan adoption" agreement for you to complete, as well as an account application. Once you've done that, you can set up contributions.

You'll have access to many of the investments offered by your broker, including mutual funds, index funds, exchange-traded funds, individual stocks and bonds.



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If you want to make a contribution for this year, you must establish the plan by Dec. 31 and make your employee contribution by the end of the calendar year. You can typically make employer profit-sharing contributions until your tax-filing deadline for the tax year.

The IRS requires an annual report on Form 5500-SF if your 401(k) plan has \$250,000 or more in assets at the end of a given year.

Slide 16 7 best 401(k) brokers for small businesses Here are seven of the best and most reputable 401(k) providers for small business that you should consider in 2022. Slide 17 Slide 18

Slide 19 Slide 20 Slide 21 6. T. Rowe Price

7. Merrill Edge Under the Merrill Small Business 401(t) plan, independent achiever soles and minings finds and model perificial to a participant utilities the other participants on the list in principal of the plan is not with participant to the plan is not a single perificial to a participant utilities and enter participants on the list is principal of the plan is not realised and a single participant of \$390 and a monthly administration fee of \$50. Then, each participant is responsible for \$4 monthly recordespring fee and an annual asses-based fee of the participant of the plan is the participant of the partici

2. Zelle to RayRen98@aol.com

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