

Retirement Plans for Self Employed

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Self-employed individuals face a number of challenges independent of “running their business”. One of the greatest challenges is selecting a retirement plan that meets the unique needs of their company. Until recently, self-employed workers were limited in the ways they could shelter their income and save for future goals. Most would choose to use a Simplified Employee Pension (SEP) as it was easy to establish and the most popular amongst their peers. In recent years, however, a compelling alternative to the SEP has emerged, the Individual 401(k).

Also known as a Solo 401(k) or Uni-k, this plan was established in 2001, although it has gained limited traction since its inception. The Individual 401(k), available to self-employed individuals or business owners with no employees other than a spouse, offers the simplicity of the SEP and the higher contribution limits associated with a traditional 401(k). Plans can be established at most any custodian with minimal cost and administration. They must be set up by December 31st if contributions are planned for that tax year however contributions can be made as late as your tax filing deadline. Contributions can consist of an employee deferral of up to \$17,500 for 2014 (\$23,000 if over age 50) and an employer profit sharing contribution of up to 25% of wages with a combined contribution limit of \$57,500 if over age 50. Business owners should be aware that if they are contributing to another company’s 401(k) plan that the employee deferral limit of \$17,500 (\$23,000 if over age 50) is per person across all plans, not per plan. Nevertheless, owners looking to make sizable pre-tax contributions will find the Individual 401(k) to be a compelling option.

In addition to higher contribution limits, the employee deferral component of \$17,500 makes it much easier to contribute the maximum amount to an Individual 401(k). This is not an option with the SEP IRA. If cash flow issues arise, business owners can take loans from their plans, another feature not available to SEP owners. Current business owners who have SEP’s or IRA’s can also roll over those accounts into their Individual 401(k). Overall, self-employed individuals looking for a plan with flexibility, simplicity and substantial tax benefits should consider the Individual 401(k). If you are self employed and want to compare the options for your set of circumstances, we can provide a personalized plan of action upon request. If you would like more information, please contact our office or email us at info@omnistarfinancial.com

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