

## Individual 401(k) Plans

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Individual 401(k) plans may offer a retirement plan solution for your “owner only” business. Plans are designed for the owners<sup>1</sup> of incorporated and unincorporated businesses, such as sole proprietorships, partnerships, corporations or non-profit organizations.<sup>2</sup>

An Individual 401(k) plan affords an owner-only business a multitude of benefits that may provide greater flexibility than other qualified and IRA based retirement plans, including:

- **Low Administration Cost** - With owner-only coverage, the Individual 401(k) automatically passes virtually all of the non-discrimination and minimum coverage tests resulting in lower plan administration costs. However, if an additional non-owner employee is hired, the plan is no longer considered an Individual 401(k), and testing requirements apply.
- **Flexible Funding** - Offers the flexibility to vary salary deferral and/or profit sharing contributions annually.<sup>3</sup>
- **Immediate Vesting** - All contributions are immediately 100% vested.
- **Loan and Distribution Provisions** - Loans, in-service and hardship withdrawals are available.
- **Reporting Requirements** - IRS Form 5500EZ is required once plan assets reach \$250,000 or more. IRS Form 1099 reporting is required for distributions.<sup>4</sup>
- **Plan Consolidations** - Rollovers and transfers are allowed into the Individual 401(k) from 401(k), Profit Sharing, Money Purchase Pension, 403(b), Governmental 457(b), and IRAs (Rollover, Traditional, SEP, and SIMPLE – after two years).
- **Higher Contribution Limits** - Owners can maximize retirement plan contributions by combining a 25% profit sharing contribution with a \$19,000 (up from \$18,500 in 2018) salary deferral contribution up to a total annual contribution of \$56,000 (up from \$55,000 in 2018).<sup>3</sup> The charts below illustrate how an “owner only” business can take advantage of a 401(k) plan now as compared to other retirement plans.

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## Individual 401(k) Plans, *continued*

<b>Compensation (Self Employed)<sup>5</sup></b>	<b>Individual 401(k)</b>	<b>SIMPLE IRA</b>	<b>SEP-IRA or Profit Sharing Plan</b>
\$185,000	\$56,000	\$18,550	\$37,000
\$100,000	\$39,000	\$16,000	\$20,000
\$50,000	\$29,000	\$14,500	\$10,000

<b>Compensation (W-2 Income)</b>	<b>Individual 401(k)</b>	<b>SIMPLE IRA</b>	<b>SEP-IRA or Profit Sharing Plan</b>
\$185,000	\$56,000	\$18,550	\$46,250
\$100,000	\$44,000	\$16,000	\$25,000
\$50,000	\$31,500	\$14,500	\$12,500

<sup>1</sup> "Owners" may also include spouses and other immediate family members who are employed by their business. The Internal Revenue Code defines immediate family members as: spouse, parents, children and grandchildren.

<sup>2</sup> Non-profit organizations affiliated with a state or local government are not eligible.

<sup>3</sup> The 2019 maximum tax-deductible profit sharing contribution is 25% of compensation, up to \$56,000; compensation is capped at \$280,000. Salary deferral contribution limit is the lesser of 100% of compensation or \$19,000. If the owner is age 50 or older, "catch-up" contributions of \$6,000 to a 401(k) plan are allowed for a total of \$62,000. SIMPLE IRAs allow for a deferral of \$13,000 per year, as well as a \$3,000 "catch-up" contribution if age 50 or older.

<sup>4</sup> IRS Form 5500EZ and IRS Form 1099 can be prepared and filed by the employer's tax advisor. Baird does not provide plan testing, reporting, administration, contribution calculation or loan amortization.

<sup>5</sup> Net business profits minus one-half of self-employment tax is used in calculating the contribution limit. Please see a tax advisor to compute your contribution.