

Benefits of Solo 401k

A [Solo 401k](#) plan is perfect for sole proprietors, small businesses owners and independent contractors. A Solo 401k Plan can be adopted by any business with no employees other than the owner(s). The business can be established as a sole proprietorship, LLC, corporation, or partnership.

Solo 401(k)

A Solo 401k plan offers the same advantages as a Self-Directed IRA LLC (also known as [Checkbook IRA](#)), but without having to hire a custodian or create an LLC.

The Solo 401k plan is unique and so popular because it is designed explicitly for small, owner only business. It's a tax efficient and cost effective plan that offers all the benefits of a Self Directed IRA plan, and includes additional benefits. There are many features of the Solo 401k Plan that make it so appealing and popular among self-employed business owners.

Checkbook Control without Custodian Fees:

In a Solo 401k Plan, you can serve as trustee of the Plan, which gives you "[checkbook control](#)" over the Plan's assets. Making an investment with a Solo 401k Plan is as easy as writing a check. Another significant benefit of the Solo 401k is that it does not require the participant to hire a bank or trust company to serve as trustee. This flexibility allows the participant to serve in the trustee role. This means that all assets of the 401k trust are under the sole authority of the Solo 401k participant. A Solo 401k 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. And because trust account for Solo 401k Plan may be opened at any local bank, you won't be required to pay custodian fees for the account as you would in the case of an IRA.

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), the Solo 401k annual contribution limits are significantly higher (up to \$55,500). Also, if your spouse generates compensation from the business, he or she can make contributions to the Plan.

Under the 2012 new 401k contribution rules, a plan participant under the age of 50 can make a maximum employee deferral contribution in the amount of \$17,000. That amount can be made in pre-tax or after-tax (Roth) dollars. On the profit sharing side, the business can make a 25% (20% in the case of a sole proprietorship or single member LLC) profit sharing contribution up to a combined maximum, including the employee deferral, of \$50,000.

For plan participants over the age of 50, an individual can make a maximum employee deferral contribution in the amount of \$22,500. That amount can be made in pre-tax or after-tax (Roth) dollars. On the profit sharing side, the business can make a 25% (20% in the case of a sole proprietorship or single member LLC) profit sharing contribution up to a combined maximum, including the employee deferral, of \$55,500.

While you have the option to shelter large portion of your income, contributions to a solo 401k plan are completely discretionary. You always have the option to try to contribute as much as legally possible, but you always have the option of reducing or even suspending plan contributions if necessary. In other words, you have the ability to make contributions to your Solo 401k Plan, but are not required to do so.

Virtually Limitless Investment Options:

With a Solo 401k Plan, you will be able to invest in almost any type of investment opportunity that you discover, including: real estate (residential rentals, commercial, tax deeds, tax liens, foreclosures, raw land etc.), private businesses, precious metals and hard money lending as well as stock and mutual funds. Your only limit is your imagination. The income and gains from these investments will flow back into your Solo 401k Plan tax-free. Making an investment with your Solo 401k Plan is as simple as writing a check. As trustee of the Solo 401K Plan, you will have total control over your retirement assets to make real estate and other investments tax-free and without custodian approval.

Roth Sub-Account:

With IRAs, those who earn high incomes are disallowed from contributing to a Roth IRA. The Solo 401k plan contains a built in Roth Sub-Account which can be contributed to without any income restrictions. With a Roth Solo 401k Sub-Account, you can make Roth type contributions while having the ability to make significantly greater contributions than with an IRA.

Loan Feature:

While an IRA offers no participant loan feature, the Solo 401k allows participants to borrow up to \$50,000 or 50% of their account value (whichever is less) for any purpose at a low interest rate (the lowest interest rate is Prime which is 3.25% as of January 1, 2012). This offers a Solo 401(k) Plan participant the ability to access up to \$50,000 for use for any purpose, including paying personal debt or funding a business.

Exempt 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 (also known as "UBTI") on which taxes must be paid. The UBTI tax is approximately 35%. Whereas, with a Solo 401k plan, you can use leverage without

being subject to the UDFI rules and UBTI tax. This exemption provides significant tax advantages for using a Solo 401k Plan versus an IRA to purchase leveraged real estate.

Consolidation of Multiple Accounts:

A solo 401k plan can accept rollovers of funds from another retirement savings vehicle, such as an Traditional IRA, SEP IRA, or a previous employer's 401k, 457 or 403B. Thus, you can directly rollover your IRA or qualified plan funds to your new Solo 401k Plan. Please note: only Roth IRA funds cannot be rolled into a Solo 401k Plan.

Cost Effective Administration:

Generally, Solo 401k plans are easy to operate. There is no annual filing requirement unless your solo 401k plan exceeds \$250,000 in assets, in which case you will need to file a short information return with the IRS (Form 5500-EZ).

For more information about Self-Directed Solo 401k plan, its features and benefits please visit www.SenseFinancial.com or call (949) 228-9393.