Are you a 1099 Contractor or a Solo Business Owner?

Intro to the Solo 401(k)

Hands down, the Solo 401(k) is my favorite retirement account for 1099 Contractors & Solo Business Owners.

People associate 401(k) plans with large corporations. But did you know that as a self-employed person you can have your own 401(k) plan? Often, it's referred to as a Solo k or Individual 401(k).

Being self-employed is rewarding. However, there is additional complexity around every corner, including choosing a retirement plan. I am willing to bet that the Solo 401(k) is the right plan to optimize your savings strategy while helping you minimize your lifetime tax bill. Let me dive into everything you need to know about the Solo 401(k).

Who qualifies?

A Solo 401(k) is built for small business owners, entrepreneurs, side hustlers, freelancers, independent consultants, etc. Basically, anyone with self-employment income… except business owners who have full time W-2 employees other than their spouse or business partners. 1099 employees typically don't count as full-time employees.

What are the contribution limits?

The high contribution limits are what make the Solo 401k so valuable. You can supercharge your retirement, optimize your tax strategy, and move large sums of cash into tax-advantaged accounts.

In 2023, you can save a total of $66,000 in your Solo 401k, plus an additional $7,500 if your age 50 and older. Your contributions are made of employer contributions (which come from you) and employee contributions (also you).

As an employee, you can contribute up to $22,500 in 2023. You also have the additional $7,500 catch-up if you're age 50 or older.

As an employer, you can make contributions up to $38,500 from the business.

How do I determine how much I can contribute?

To determine how much you can contribute, you'll need to calculate the employee and employer contributions.

You also need to consider your business entity when figuring the computation. S Corps have different calculations than sole proprietors, partnerships, and single member LLC's.

As an employee, you can contribute 100% of your compensation or net business profit up to $22,500 ($30,000 age 50+).

- For S-Corps this is 100% of W-2 Wages
- For Sole Props, Partnerships, and Single Member LLC's this is 100% of Self Employment Compensation

As an employer, your contribution depends on your business entity.

- For S-Corps this is 25% of your W-2 Earnings
- For Sole Props, Partnerships, and Single Member LLC's, this is 20% of Self Employment Compensation

You can contribute just as an employee, and not as an employer. The contributions are flexible.

Because of how Solo 401(k) contributions are calculated, it becomes much easier to make large contributions than a SEP IRA. For a SEP IRA, you can contribute 20% from the employer side and $0 from the employee side.

When do I have to establish my Solo 401(k)?

In 2023, you can establish your Solo 401(k) all the way up until you file your business return, including extensions.

When is the contribution deadline?

Again, it depends on your business entity.

Fore sole proprietorships, 1099 employees, and LLCs taxed as a sole proprietorship, the deadline to make contributions is personal tax filing day. Which is typically April 15th of the following year (including extensions).

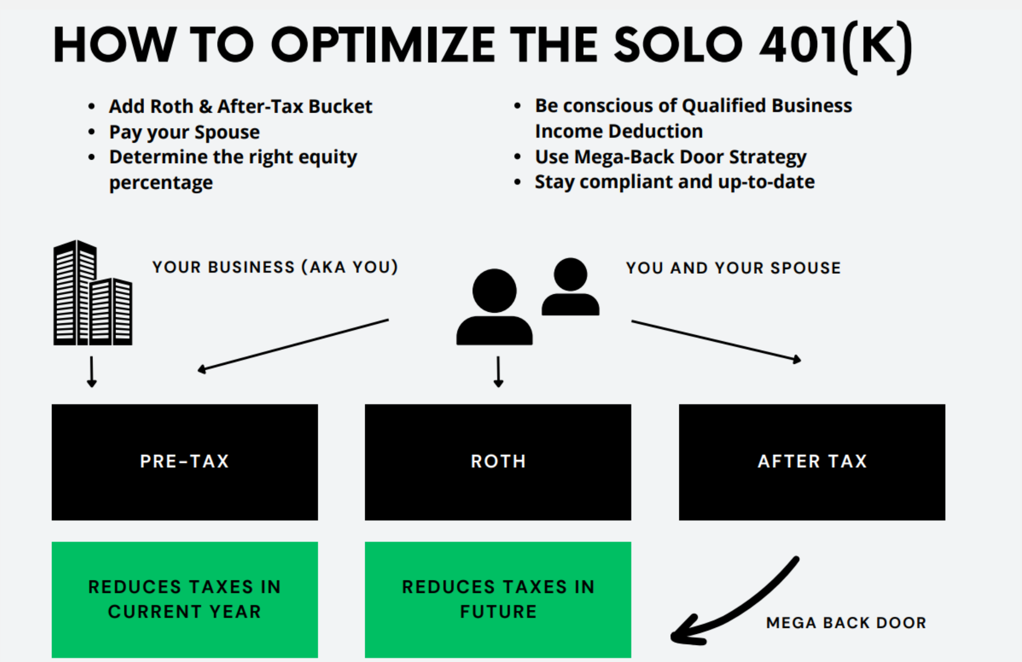
For Partnerships and S Corps, the deadline to make contributions is business tax filing day. Which is typically March 15th of the following year (including extensions).

If you are an S Corp, you'll want to let your payroll company know how much you're contributing before December 31st so that they can adjust your records.

What are the benefits of a Solo 401(k)? How do I optimize my Solo 401(k)?

For high-performing self-employed businesses, side hustlers, and 1099 contractors, a solo 401k is a tool to help you reach financial freedom and get more out of your business.

- **Huge contribution limits.** As discussed, the contribution limits are much higher than other retirement plans such as traditional IRAs or even SEP IRAs. A SEP IRA is another popular choice for self-employed individuals but does not allow for employee contributions. Depending on income, this can limit the maximum SEP contribution allowed.
- **Spousal contributions.** If your spouse earns compensation from your business, this can double the total contribution limit.
- **Lower taxes due & boost cash flow.** Pre-tax contributions reduce taxable income. In addition, the ability to make large contributions can reduce taxes in the current year.
- **Make Roth contributions & the Roth mega back door.** When setting up a Solo 401k, you can elect to allow for Roth contributions & after-tax contributions. The Roth option is a great way to diversify pre-tax investments and navigate tax brackets. Furthermore, it's an alternative if you're over the income phaseouts to make direct Roth IRA contributions.
- **Take loans from the plan.** You can set up a Solo 401k to allow for loans. While loans are generally not recommended, they offer flexibility for a self-employed person. In addition, the sense of security that you access a loan in a cash flow pinch.



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