Tax Deferred Retirement Savings

Small Business Owners Have Options

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It's a win-win-win. If you are self-employed, a sole proprietor or run a small business, you can build retirement savings while reducing your tax burden and building onto your investment portfolio. There are a number of IRS-approved retirement plans designed for high-earning, self-employed individuals that provide that trio of advantages, two of which are the SEP IRA and Solo 401k.

Flexibility is one of the characteristics that make a SEP IRA an excellent option for sole proprietors and small business owners. The plan is highly discretionary, allowing you to contribute up to 25 percent of your W-2 income if you are an S corporation, or 20 percent if you are self-employed. If you have other employees, you do need to make contributions on their behalf, but only if they meet three requirements: they are 21 or older, have worked for you for at least three of the past five tax years and have been paid at least $600 compensation in the contribution year.

The plan is also flexible in that it doesn't have to be established during the year you're taking the deduction. For example, you can establish the plan and make your contribution for your 2018 tax year up to your tax filing extension due date in 2019, September 15, 2019 if you file a separate business tax return and October 15, 2019 if you file a Schedule C on your personal tax return. SEP IRAs are available for any type of business but they are particularly advantageous for sole proprietors and high-earning small business owners.

The Solo 401k is a great retirement savings option for business owners who want to maximize tax-deferred contributions. You can defer income, up to $18,500 per tax year (the amount is adjusted for cost of living each year.), and another $6,000 if you are over age 50 as a "catch-up" contribution, plus carve out profit sharing dollars to stow away in your Solo 401k. The profit sharing portion is discretionary, up to 25 percent of your total wages. The total contributions cannot exceed $55,000, or $61,000 including the catch-up contribution. For example, a sole proprietor over 50 earning $100,000 in wages could set aside $49,500 tax deferred. Determine your tax savings by multiplying the deferred amount by your effective tax rate. Unlike the SEP IRA, a Solo 401k must be established during the tax year you want to receive the deduction.

Both plans allow for distributions without penalty after age 59-and-a-half, and require minimum distributions after 70-and-a-half.

The SEP IRA and Solo 401k allow high earners to set aside more tax-deferred dollars for their retirement while reducing their tax liability. Properly invested in a well-designed diversified portfolio, they are excellent vehicles for building retirement savings.

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CJ transitioned to HBKS in July 2015. As a member of the financial services team, CJ works closely with team members Dean Piccirillo, Kerri Goldsmith, Keith Veres and Charlotte Dearborn servicing client relationships and providing asset management and technical expertise to the team through his CPA experience. He also helps clients to reach their financial goals through personalized financial planning, investing and risk management services.

CJ graduated from Youngstown State University, earning his Bachelor of Science degree in Accounting and Business Administration. He is a member of American Institute of Certified Public Accountants (AICPA) and the Florida Institute of CPA's (FICPA). He is also a Certified Financial Planner™.

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