



Individual 401(k) Plans

Individual 401(k) plans may offer a retirement plan solution for your “owner only” business. Plans are designed for the owners¹ of incorporated and unincorporated businesses, such as sole proprietorships, partnerships, corporations or non-profit organizations.²

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.³
- *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.⁴
- *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 \$17,500 salary deferral contribution up to a total annual contribution of \$52,000.⁵ The charts below illustrate how an “owner only” business can take advantage of a 401(k) plan now as compared to other retirement plans.

Compensation (Self Employed) ⁵	Individual 401(k)	SIMPLE IRA	SEP-IRA or Profit Sharing Plan
\$172,500	\$52,000	\$17,175	\$34,500
\$100,000	\$37,500	\$15,000	\$20,000
\$50,000	\$27,500	\$13,500	\$10,000

Compensation (W-2 Income)	Individual 401(k)	SIMPLE IRA	SEP-IRA or Profit Sharing Plan
\$172,500	\$52,000	\$17,175	\$43,125
\$100,000	\$42,500	\$15,000	\$25,000
\$50,000	\$30,000	\$13,500	\$12,500

1 “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.

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

3 The 2014 maximum tax-deductible profit sharing contribution is 25% of compensation, up to \$52,000; compensation is capped at \$260,000. Salary deferral contribution limit is the lesser of 100% of compensation or \$17,500. If the owner is age 50 or older, “catch-up” contributions of \$5,500 to a 401(k) plan are allowed for a total of \$57,500. SIMPLE IRAs allow a \$2,500 “catch-up” contribution if age 50 or older.

4 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.

5 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.