



Retirement Planning for Owner-Only Businesses

With the ever-changing landscape of taxes, it is growing increasingly difficult to understand how legislation affects clients and could possibly impact their financial future. As a leader in the financial services industry for the past 30 years, we get it. That's why HD Vest Financial Services® is constantly seeking ways to share the latest knowledge we acquire with you. We've created the Taxes & Investments: Timely and Timeless Strategies Series to share timely information and provide our Advisors and their clients with practical information and ideas they can build on.

Sole proprietor businesses establish retirement plans for many different reasons. Some do so to get the maximum tax benefits for themselves or their families. Others establish a retirement plan to set aside as much money as possible for retirement. Still others establish a plan to potentially avoid alternative minimum tax, the new 3.8% net investment tax, or even reduce their expected family contribution for college planning. All of these are valid reasons to establish a retirement plan, so how do they work?

In most cases, the money you put into a qualified retirement plan can reduce your taxable income for the current year, and the tax on any investment growth is deferred until the year you withdraw the money¹. These plans work by allowing the owners to invest in an account and choose investment options. Within this category of plans, there are many variations, each one appropriate for different kinds of businesses in different circumstances.

Common Owner-Only Retirement Plans

The chart below explains a few of the most common sole proprietor retirement plan options.

Employer-Sponsored Defined Contribution Plans ¹		
Plan	Benefits	Considerations
<p>SEP IRA- An employer-sponsored and employer- contributed IRA plan, meaning that contributions are made by the employer, rather than the employee, and invested in the employee-owned IRA. A SEP-IRA allows the business to contribute and deduct up to 25% of compensation (but no more than \$53,000 per employee for 2015.)</p>	<ul style="list-style-type: none"> - Easy to set up - Great for small businesses - Does not require ongoing contributions 	<ul style="list-style-type: none"> - Contribution formula, or percentage of salary, must be allocated equally to all eligible employees. - Employee salary deferrals are not allowed.
<p>SIMPLE IRA- An IRA-based plan where employees may choose to make salary reduction contributions and the employer makes matching or non-elective contributions. Eligible employees may contribute up to \$12,000 in 2015 (\$15,500 if age 50 or older in 2015), with no percentage limit. Generally, the employer must make dollar for- dollar matching contributions on the first 3% the employee contributed or a 2% non-elective contribution of each eligible employee's compensation.</p>	<ul style="list-style-type: none"> - Simple to set up - No salary deferral limitations for key employees and owner's deferral options. - Employer's match or contribution to employees may vary from year to year. 	<ul style="list-style-type: none"> - May only be established by employers with no more than 100 employees who earned \$5,000 or more compensation during the preceding calendar year. -An employer match of less than 3% may only be offered for 2 of 5 years.

Employer-Sponsored Defined Contribution Plans¹

Plan	Benefits	Considerations
<p>Solo 401k- The Solo-401k is designed for businesses without any eligible common law employees. It is ideal for the partnership or sole proprietor only employing family members, or the corporation with only highly compensated employees or owners are eligible to participate.</p> <p>Employers can contribute up to 25% of eligible compensation up to \$53,000 for 2015 annually or \$59,000 for individuals age 50 or older for 2015. Salary deferrals can be 100% of compensation limited to \$18,000 annually, or \$24,000 for individuals over 50.</p>	<ul style="list-style-type: none"> -Generally allows for greater tax advantages to the business and owner than a SEP or SIMPLE IRA plan. -Allows for loans 	<ul style="list-style-type: none"> - Generally not suitable for businesses that may experience employee growth in the future. - Potentially requires a third party administrator and the filing of the IRS Form 5500. - Requires ongoing contributions.

How Much Can Be Contributed to Each Plan?

The following charts provide a comparison of the allowed deferral/contribution amounts for the different types of plans suitable for a one person corporation. The rules will vary if the employer is a sole proprietor or partnership. Also, verify the definition of compensation within the plan document. The following examples assume a definition of compensation that includes salary deferrals. The illustrations show the contributions for an owner who is receiving W-2 income and is over age 50.

\$40,000 Salary	SIMPLE IRA with 3% Match ³	Solo 401(k) with 25% Profit Sharing ⁴	25% SEP or Profit Sharing ²
Salary Deferral:	\$12,500	\$18,000	\$0
Employer Contribution:	\$1,200	\$10,000	\$10,000
Catch-up for age 50+:	\$3,000	\$6,000	\$0
Total:	\$16,700	\$34,000	\$10,000
Percentage of Compensation:	41.75%	85%	25%

\$100,000 Salary	SIMPLE IRA with 3% Match ³	Solo 401(k) with 25% Profit Sharing ⁴	25% SEP or Profit Sharing ²
Salary Deferral:	\$12,500	\$18,000	\$0
Employer Contribution:	\$3,000	\$25,000	\$25,000
Catch-up for age 50+:	\$3,000	\$6,000	\$0
Total:	\$18,500	\$49,000	\$25,000
Percentage of Compensation:	18.5%	49%	25%

How Much Can Be Contributed to Each Plan?... Continued

\$250,000 Salary	SIMPLE IRA with 3% Match ³	Solo 401(k) with 25% Profit Sharing ⁴	25% SEP or Profit Sharing ²
Salary Deferral:	\$12,500	\$18,000	\$0
Employer Contribution:	\$7,500	\$35,000*	\$53,000*
Catch-up for age 50+:	\$3,000	\$6,000	\$0
Total:	\$23,000	\$59,000	\$53,000
Percentage of Compensation:	9.2%	23.6%	21.2%

*Maximum limit under the plan and reflects 2015 limits

Retirement plans are a great way to take advantage of many tax benefits. Each business is unique and has unique planning considerations. Contact your HD Vest Advisor to help you determine your retirement plan needs and to help you establish the most appropriate plan for your circumstances.

- Sources:
1. Choosing a Retirement Solution for Your Small Business (Publication 3998)- <http://www.irs.gov/pub/irs-pdf/p3998.pdf>
 2. SEP Retirement Plans for Small Businesses (Publication 4333)- <http://www.irs.gov/pub/irs-pdf/p4333.pdf>
 3. SIMPLE IRA Plans for Small Businesses (Publication 4334)- <http://www.irs.gov/pub/irs-pdf/p4334.pdf>
 4. 401(k) Plans for Small Businesses (Publication 4222)- <http://www.irs.gov/pub/irs-pdf/p4222.pdf>