

## **Maximize Your Retirement Plan Contribution**

Along with making money with their business, most small business owners also try to minimize income taxes and grow their wealth. Qualified retirement plans present an excellent opportunity to accomplish these last two objectives. While the rules for retirement plans can be confusing and you may want to consult qualified tax and investment advisors, here are some guidelines that can prepare you for those conversations.

### **Single employee businesses**

This article focuses on the opportunities for sole proprietors and companies that employ only the owner (and a spouse). Individuals such as real estate brokers, consultants, outside board members, sole professional practitioners and other self-employed individuals can have a great deal of flexibility in choosing a plan that best fits their goals. Businesses that have other employees must cover those employees in most cases and should seek guidance for a more detailed explanation of the options.

### **SEP-IRA**

The SEP-IRA is probably the easiest plan to have.

The plan can be established and funded any time up to the due date or extended due date of your tax return.

The employer can contribute up to 25% of your W-2 or self-employment income to a maximum of \$50,000 for 2012.

Contributions are deducted from the employer's current taxable income.

### **SIMPLE-IRA**

These plans are relatively easy to have and are generally more attractive than SEP-IRAs if your income is less than about \$40,000.

Generally, the plan must be established by October to provide tax deductions for the current year.

For 2012, employees can defer up to \$11,500 of wages into the plan and employers can match the employee contribution up to 3% of the employee's wages. The 2001 Tax Act also provided for an additional \$2,500 "catch-up" contribution for 2012.

The employee's deferral reduces their taxable wages and the employer contributions are deducted from their current taxable income.

### **The One Person 401(k) Plan**

Large companies have been using 401(k) plans for many years. Recent changes have resulted in these attractive plans now being attractive to single employee businesses.

These plans are more complicated than SEP-IRAs and SIMPLE-IRAs, but offer higher contribution limits and more flexibility.

The plan must be established before year-end and contributions must be made by the due date or extended due date of your tax return.

For 2012, employees may defer up to \$17,000 of their wages into the plan. In addition, the employer can contribute up to 25% of the employee's income (maximum income considered is \$250,000 for 2012). There is also an overall limit of \$50,000 for employee

and employer contributions. The 2001 Tax Act also provides for an additional \$5500 “catch-up” contribution for 2012.

401(k) plans also enable employees to borrow from their plan with certain restrictions and repayment schedules.

### 2012 Maximum Deductible Contributions for Incorporated Businesses

W-2 Income	Method and source	\$15,000	\$50,000	\$100,000	\$150,000
<b>SEP-IRA</b>					
	25% of income (employer)	\$3,750	\$12,500	\$25,000	\$37,500
<b>SIMPLE-IRA</b>					
• <b>Under age 50</b>	\$11,500 (employee) plus 3% of income (employer)	\$11,950	\$13,000	\$14,500	\$16,000
• <b>Age 50+</b>	\$11,500 (employee) plus 3% of income (employer) plus \$2,500 catch up (employee)	\$14,450	\$15,500	\$17,000	\$18,500
<b>One Person 401(k)</b>					
• <b>Under age 50</b>	\$17,000 (employee) plus 25% of income (employer)	\$15,000 (limited to income)	\$29,500	\$42,000	\$50,000 (overall limit)
• <b>Age 50+</b>	\$17,000 (employee) plus 25% of income (employer) plus \$5,500 catch up (employee)	\$15,000 (limited to income)	\$35,000	\$47,500	\$55,500 (overall limit plus catch up)

### Summary

Very small business owners and sole proprietors have options and flexibility to reduce taxes and accumulate wealth through the use of qualified retirement plans. Be sure to get the qualified advice you need when making this important decision.