

Owner-only 401(k) profit sharing plans



Wealth
Management

Improved 401(k) options for small business owners

The 401(k) plan has become very popular with small business owners due to changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). Before 2001 you could have saved just as much money for retirement through a SEP IRA or SIMPLE IRA—and these plans weren't burdened with the costly setup and maintenance fees and complex rules associated with a 401(k) plan. Owner-only 401(k) profit sharing plans are advantageous because they potentially allow you to contribute significantly larger amounts of money to the plan compared to a SEP IRA, SIMPLE IRA or most other available retirement plans.

Eligibility

The owner-only 401(k) profit sharing plan is available to any business that employs only owners and their spouses, including C corporations, S corporations, partnerships and sole proprietorships.

Higher contribution limits

- **Employer contributions**—You can contribute up to 25% of your annual income into a 401(k) profit sharing plan, based on a maximum compensation amount of \$280,000 (2019 limit).

- **Salary deferral contributions**—You can defer up to \$19,000 of income into your 401(k) plan in 2019 and thereafter it is indexed for inflation.
- **“Catch-up” contributions**—If you are age 50 or older, you can contribute an extra \$6,000 into your 401(k) plan in 2019. This “catch-up” amount is indexed for inflation.

The sum of your employer contribution and your salary deferral contributions cannot exceed \$56,000 in 2019 (\$62,000 in 2019 for individuals over age 50).

Other key benefits

Apart from providing higher contribution limits, your owner-only 401(k) profit sharing plan offers you some other key benefits:

- **Contribution flexibility**—You decide each year how little or how much you want to contribute to your plan.
- **Lower costs than traditional 401(k)s**—Your plan will likely incur considerably lower fees than a traditional 401(k) plan.
- **Less administrative duties**—Unlike a traditional 401(k) plan, an owner-only profit sharing plan contains no complicated discrimination tests or detailed administrative requirements. When the plan assets are \$250,000 or greater, you are required to file IRS Form 5500-EZ annually, regardless of fluctuations in the balance of the plan.

- **Wide range of investment options**—You can fund your 401(k) plan with virtually any investment you choose: stocks, bonds, mutual funds, CDs, and government securities.
- **Loan option available**—You can take out tax-free and penalty-free loans from your 401(k) plan, which you can repay at a competitive interest rate.
- **Rollovers permitted**—Your 401(k) plan generally can accept rollovers from other retirement plans.

Call your financial advisor

Your financial advisor can help you evaluate your needs to determine which retirement plan may be most appropriate. If an owner-only 401(k) profit sharing plan is right for you, then your financial advisor can help you establish the plan and offer recommendations on investment options.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

RBC Wealth Management, LLC, does not provide tax or legal advice. We will work with your independent tax/legal advisor(s) to help create a plan tailored to your specific needs.

RBC Wealth Management, a division of RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC. © 2018 All rights reserved.

2063 (12/18)