



Owner's Only

401(k)

PENSIONSPECIALIST.NET

1954 HOWELL BRANCH RD., STE. 100 WINTER PARK, FL 32792

Phone: 888-412-4120 | Fax: 321-397-0409 | Email: Bill@PensionSpecialist.Net

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Thinking of Creating an Owner's Only 401(k)?

A one-participant 401(k) plan is sometimes called a:

- Solo 401(k)
- Solo-k
- Uni-k
- One-participant k
- Self Employed 401(k)

The Owner's Only 401(k) plan is not a new type of 401(k) plan. It is a traditional 401(k) plan covering a business owner with no employees, or perhaps the owner and his or her spouse. These plans have the same rules and requirements as any other 401(k) plan.

This type of plan is often beneficial for sole proprietors and independent business owners looking for current income tax deductions while saving for the future. In fact, these are retirement plans similar to those in which one may participate when working at a larger company.

The Owner's Only 401(k) works the same way as a standard 401(k):

- Participants make contributions from their pre-tax earnings.
- The Owner's business may make additional tax-deductible contributions on behalf of the owner.
- And those savings can be invested in a range of vehicles to grow tax-deferred until some future date when withdrawn.

Plan Limits (2026) - Maximum Contribution Comparison

| Earned Income | <u>SEP Plan</u> Max 25% Contribution | <u>SIMPLE Plan with 3% Match</u> | | | <u>Traditional 401(k) Plan</u> | | |
|---------------|--|-----------------------------------|-----------------|--------------|-----------------------------------|--|--------------|
| | | <u>Maximum</u> <u>Deferral</u> | <u>3% Match</u> | <u>Total</u> | <u>Maximum</u> <u>Deferral</u> | <u>Max. 25%</u> <u>Contribution</u> | <u>Total</u> |
| 20,000 | \$ 5,000 | \$ 17,000 | \$ 600 | \$ 17,600 | \$ 20,000 | \$ - | \$ 20,000* |
| 25,000 | 6,250 | \$ 17,000 | 750 | 17,750 | 24,500 | 1,500 | 25,000* |
| 30,000 | 7,500 | \$ 17,000 | 900 | 17,900 | 24,500 | 6,500 | 30,000* |
| 35,000 | 8,750 | \$ 17,000 | 1,050 | 18,050 | 24,500 | 8,750 | 33,250 |
| 40,000 | 10,000 | \$ 17,000 | 1,200 | 18,200 | 24,500 | 10,000 | 34,500 |
| 50,000 | 12,500 | \$ 17,000 | 1,500 | 18,500 | 24,500 | 12,500 | 37,000 |
| 60,000 | 15,000 | \$ 17,000 | 1,800 | 18,800 | 24,500 | 15,000 | 39,500 |
| 75,000 | 18,750 | \$ 17,000 | 2,250 | 19,250 | 24,500 | 18,750 | 43,250 |
| 100,000 | 25,000 | \$ 17,000 | 3,000 | 20,000 | 24,500 | 25,000 | 49,500 |
| 186,000 | 46,500 | \$ 17,000 | 5,580 | 22,580 | 24,500 | 46,500 | 71,000 |
| 200,000 | 50,000 | \$ 17,000 | 6,000 | 23,000 | 24,500 | 47,500 (23.75%) | 72,000 |
| 280,000 | 70,000 | \$ 17,000 | 8,400 | 25,400 | 24,500 | 47,500 (16.96%) | 72,000 |
| 360,000 | 72,000 (20%) | \$ 17,000 | 10,800 | 27,800 | 24,500 | 47,500 (13.19%) | 72,000 |
| 450,000 | 72,000 (16%) | \$ 17,000 | 13,500 | 30,500 | 24,500 | 47,500 (10.55%) | 72,000 |

This calculation ignores social security and medicare taxes.

*One's annual addition cannot exceed 100% of earned income.

Chart: Virtually every level of income creates a larger total income tax deduction with the Owner's Only structure!

Other advantages:

No discrimination testing requirement

As the Owner's Only 401(k) has no employees, one is not limited by employee contribution restrictions. No need for Safe Harbor benefits, Top Heavy considerations, etc.

Consolidating multiple accounts

Most retirement plan assets, including balances in other profit sharing, old money purchase plans, Traditional IRA or SEP IRAs, can be consolidated into the Owner's Only 401(k) Plan.

While most well designed owners-only 401(k) plans allow for rollovers from other retirement plans, Roth IRAs are not eligible for rollover.

Covering your spouse under your Owner's Only 401(k)

The IRS allows one exception to the no-employees rule on the Owner's Only 401(k): your spouse and/or children, presupposing they earn income from your business.

Think about it. Adding family members will allow for increased tax-deductible contributions. Family members can also make elective deferrals as your employee, up to the employee deferral limit of \$24,500 (2026) plus a \$8,000 catch-up provision (2026) if the family member is age 50-59, 64+, for a possible maximum deferral of \$32,500 (\$24,500 + \$8,000), or for those age 60-63, a possible maximum deferral of \$35,750 (\$24,500 + \$11,250).

As the employer, you can make the plan's profit-sharing contribution for participating family members, up to 25% of their compensation.

Keep in mind any W-2 compensation paid to family members is subject to Social Security and Medicare tax.

Frequently Asked Questions (FAQ)

Do contributions have to be made to the plan each year?

No. There is no requirement to contribute to the Owner's Only plan. Your salary deferral and the business contribution may be as little as zero up to the permissible annual contributions.

YOU decide from year-to-year how much, if anything, you wish to contribute (not to exceed the permissible annual limits).

I'm leaving my current employer to go out on my own. Can I take the distribution from my current employer's 401(k) and roll it to my Owner's Only 401(k)?

Yes. Most retirement plan assets, including balances in other profit sharing, old money purchase plans, Traditional IRAs or SEP IRAs, can be consolidated into one's Owner's Only 401(k) Plan.

While most well designed owners-only 401(k) plans allow for rollovers from other retirement plans, Roth IRAs are not eligible for rollover.

Can loan provisions be included in an Owner's Only 401(k)?

Yes. The same loan rules that apply to other qualified plans apply to Owner's Only 401(k) plans.

Are there required IRS reporting requirements with an Owner's Only 401(k)?

Yes, Owner's Only 401(k) plans are required to file IRS form 5500EZ or 5500SF. If the plan qualified to file the 5500EZ, often the form is not filed with the IRS until the total plan assets reach \$250,000.

Can Roth Contributions be made to an Owner's Only 401(k)?

Yes. However, please understand only the portion that is considered a deferral from salary (or from Schedule C income for sole proprietors) can go to the Roth account. The "employer" portion of the contribution will go to a non-Roth account. Therefore, when creating the Roth feature, there are actually two accounts created: one with Roth contributions and the other with any pre-tax contributions from salary deferral or "employer" profit sharing contributions.

Can I make both pre-tax and Roth salary deferrals in the same year?

Yes, you may. All you need to do is designate which part of your elective salary deferrals is to be considered Roth contribution. As stated earlier in this brochure, the Roth deferral will be segregated in a Roth account, all other monies in a non-Roth account within the Owner's Only plan.

Can I convert my existing pre-tax contributions to my Roth account inside my 401(k)?

No.

How are Roth 401(k) distributions treated?

Qualified distributions are tax-free if withdrawn after five years and due to death, disability, or attainment of age 59½.

What if I hire employees in the future that are non-family members?

The 401(k) plan will no longer be considered an "Owner's Only" plan. Owner's Only and the other names mentioned at the beginning of this brochure are only convenient names. It does *not* mean the plan is only for owners and employees don't count!

When and if employees are hired, and they meet eligibility requirements to enter the plan, then discrimination testing will be required, and the 401(k) plan will be treated and administered like any other plan. This includes Top-Heavy considerations, minimum benefit funding, etc.

What is the deadline for creating an Owner's Only 401(k) plan?

It is best to create the Owner's Only plan before the last day of the fiscal year as any salary deferrals must be deferred on or before December 31.

What are the funding contribution deadlines?

Employer contributions must be made by the deadline for filing the business's tax return, including extensions.

| Owner's Only 401(k) Annual Contribution Deadlines Both Employee Deferrals and Employer Profit Sharing Contributions | | |
|--|------------------------------|--|
| Business Structure | Contribution Deadline | Deadline if Business File for Extension |
| Sole Proprietor | April 15 | October 15 |
| Partnership | March 15 | September 15 |
| S-Corporation | March 15 | September 15 |
| C-Corporation | March 15 | September 15 |
| LLC taxed as S-Corporation | March 15 | September 15 |
| LLC taxed as a Partnership | March 15 | September 15 |
| LLC taxed as a Proprietorship | April 15 | October 15 |

TO TAKE THE NEXT STEP...

www.PensionSpecialist.net | Bill@PensionSpecialist.net
Call Bill Black at 888.412.4120