SARSI LLC

Retirement plans for small businesses and self-employed individuals

Anybody with earned income* can contribute to a traditional IRA or depending on income level, to a Roth IRA. However, as a small business owner or a self-employed individual you have several other (Sometimes better) options when it comes to a retirement plan.

The advantages and incentives of setting up a retirement plan for your business, in addition to making it competitive by attracting and retaining talent, are as follows:

- Employer's contributions are deductible from employer's income.
- Employee contributions are not taxed until withdrawal (Except Roth contributions) and contributions grow tax free.
- Contribution limits are quite high, and the business owner and employees can set aside large sums for retirement. Contributions are higher after the age of 50 based on 'catch up rules'.
- Nominal tax credit for small employers for the cost of setting up certain plans equal to 50% of the cost up to a maximum of $500.
- Tax credit for low and moderate-income individuals (including self-employed) for making contributions to retirement plans.
- Possibility of adding a Roth program to a 401 (K) plan allowing participants to make after tax contributions at a higher level than a Roth IRA.

The decision of which plan to set up is usually based on cost, complexity and the desired amount of contribution. Other factors to consider are whether the business has any employees (That are not owners of the business) and whether the employees will be allowed to contribute from their own income.

The tables below list the retirement solutions available for a small business across three kinds of plans: IRA-based plans, defined contribution plans and defined benefit plans

IRA-based plans

	Payroll deduction IRA	**SEP**	**Simple IRA Plan**
Key Advantage	Easy to set up and maintain.	Easy to set up and maintain.	Salary reduction plan with little administrative paperwork.
Employer eligibility	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with 100 or fewer employees that does not currently maintain another retirement plan.

(212) 634 4454 deva@sarsillc.com

Employer's role	Arrange for employees to make contributions. No annual filing required.	Set up the plan. No annual filing requirement.	Set up plan. No annual filing requirement.
Contributors	Employee contributions remitted through payroll deduction.	Employer contributions only.	Employee salary reduction and employer contributions.

Defined Contribution Plans

	Profit Sharing	**Safe harbor 401(K)**	**Automatic enrolment 401 (K)**	**Traditional 401 (K)**
Key Advantage	Permits employer to make large contributions for employees.	Permits high level of salary deferrals by employees without annual nondiscrimination testing.***	Provides high level of participation and permits high level of salary deferrals by employees. Also, safe harbor relief for default investments.	Permits high level of salary deferrals by employees.
Employer eligibility	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with one or more employees.	Any employer with one or more employees.
Employer's role	There is no model form to establish this plan- may need the help of an employee benefit adviser. Must file Form 5500 annually.	There is no model form to establish this plan- may need the help of an employee benefit adviser. A minimum amount of employer contribution is required. Must file Form 5500 annually.	No model form to establish this plan. May need help of an employee benefit adviser. May require annual nondiscrimination testing. Must file form 5500.	No model form to establish this plan. May need help of an employee benefit adviser. Requires annual nondiscrimination testing. Must file form 5500.

(212) 634 4454 deva@sarsillc.com

Contributors	Annual employer contributions are discretionary.	Employee salary reduction and employer contributions.	Employee salary reduction and maybe employer contributions.	Employee salary reduction and maybe employer contributions.

Defined benefit plans

	Defined benefit plans
Key Advantage	Provides a fixed pre-established benefit for all employees.
Employer eligibility	Any employer with one or more employees.
Employer's role	There is no model form to establish this plan- may need the help of an employee benefit adviser. Must file Form 5500 annually. An actuary must determine annual contributions.
Contributors	Primarily funded by employer.

Source: United States Department of Labor

Of the plans listed above three of the more popular plans for businesses and self-employed individuals, are discussed below:

- Simplified Employee Pension Plan (SEP IRA plan)
- Self-Employed 401(k) plan
- Savings Incentive Match Plan for Employees (SIMPLE IRA plan)**

The key differences between the three plans listed above are:

- A SEP IRA is for self-employed people and small-business owners with any number of employees. Contributions are made by the employer only and are tax deductible as a business expense. This is a good option to maximize contributions with minimum paperwork whether the business has employees or not. It also offers flexibility to vary contributions- or skip it altogether- according to the business needs. The caveat is that contributions must be made for all eligible employees which could turn out to be a large amount if there are several employees.

  Employer can contribute up to 25% of employee compensation or up to a maximum of $55,000 in 2018.

  This is the easiest plan to set up and maintain and a great option for sole proprietors.

(212) 634 4454 deva@sarsillc.com

- A Self-Employed 401(k) plan is a tax-deferred retirement plan for self-employed individuals with no employees who are also owners. It offers the most generous contribution limits of the three plans. This plan requires more paperwork than the SEP IRA, but the business owner can contribute even more.

  The business owner can contribute both as an employee (Elective deferral) and as a business owner (Employee non-elective contribution). Elective deferrals for 2018 is up to $ 18,500 or up to $24,500 if over 50 years old. Total contributions cannot exceed $55,000 or $61,000 including the catch up for people over 50 years of age. If spouse is employed by the company, then similar contributions can be made for the spouse as well.

  This is a good option for self-employed individuals with no employees who want to maximize contributions for themselves and their spouse.

- A SIMPLE IRA is for businesses with 100 or fewer employees. Just like a 401 (K) plan, it is funded by tax-deductible employer contributions and pretax employee contributions. Under this plan the obligation of the employer is less but so is the amount the business owner can contribute for herself. This is because the business owner is subject to the same contribution limit as the employees.

  Mandatory business contribution is either: 1) 100% match on the first 3% deferred (match may be reduced to 1% in two out of five years) or 2) a 2% nonelective contribution on behalf of all eligible employees regardless of how much they contribute. No additional business contribution may be made.

  Employee can contribute up to 100% of their compensation through salary deferral, not to exceed $12,500 for 2018. Catch-up contributions of up to $3,000 (2018) available for those who are 50 years or older

  This is a good option for a business with fewer than 100 employees and where employees are also given the opportunity to contribute.

**Earned Income is income for work done for your employer or your own business; different from for example, capital gains which is not earned income.*

***Businesses can also adopt a SIMPLE plan as part of a 401 (K) plan.*

**** Nondiscrimination testing, a requirement of some plans ensues that all eligible employees are included in the plan and that the plan does not discriminate in favor of highly compensated employees.*

.

(212) 634 4454 deva@sarsillc.com