

Q. I am a sole proprietor who is maxing out my IRA. How can I save more for retirement?

Most people don't realize that being self employed can actually help you put away more money for retirement, lowering your taxes today. Lets take a look at a few of the available plans.

SEP-IRA This plan can be put in place for small groups, under 10 people. A SEP IRA allows a contribution of **up to 25%** of compensation up to a maximum of \$44,000 for 2006. Employees do not contribute to a SEP IRA because they are **100% employer funded**. In general, contributions into a SEP IRA are 100% tax deductible to the employer. If contributing 25% to the plan, the owner must also contribute 25% of his/her eligible employee's income to their plans.

Example: If owner is making \$100,000 and his/her eligible employee makes \$20,000, the owner could contribute \$25,000 to his/her plan, but would also have to contribute \$5000 to her employee's plan. If the owner is the only employee, they could save 25% or \$44,000 in one year!

SIMPLE-IRA A Simple IRA is structured so that the **employee and employer can both make contributions**. A SIMPLE IRA allows for an employee contribution of up to \$10,500 per year. This contribution is not based on a percentage of salary and can equal 100% of salary. This plan **does require** employer contributions. While this is the case, the employer has two options. Option 1: The employer can contribute 2% of income per employee regardless of whether the employee is participating in the plan. Option 2: The employer can offer a dollar for dollar match for the first 3% of compensation saved by employees.

Example:

Option 1: If employer makes \$100,000 this year, he/she can contribute \$10,500 plus an additional \$2000 for a total of \$12,500. For his/her employee, making \$20,000/year, he/she would only be required to contribute \$400 for the year.

Option 2: Employer would be able to contribute \$13,500 for him/herself, and would only be required to contribute to his/her employee's plan if his/her employee contributed as well. Assuming the employee put in 3% of his/her salary, the employer would be required to contribute \$600 for that employee.

WorkInvest is a program by RSG Partners Financial & Insurance Services, Inc.

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Uni(k) Plan This plan is for **independent contractors or sole proprietors with no employees**, or with only part time or seasonal employees. The single 401k plan allows an individual to contribute up to \$44,000 per year. The initial \$15,500 is considered the individuals employee contribution, the additional \$28,500 is contributed as a percentage of net profit of the “company”

Example: A small business owner with no employees makes \$100,000/year. He/she contributes \$15,500 to the plan in the form of employee contributions. After deductions, the employer’s net profit is \$30,000. Since the employer is able to contribute 20% of net profit, they are able to contribute an additional \$6,000 for a total of \$21,500 for the year.

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