DAVENPORT
BUILDING WEALTH TOGETHER
1863

Solo(k) Plan

A Solo(k) Plan is a qualified profit sharing plan with a 401(k) feature, and covers only one person/owner. Any business in which there is only one employee/owner or spouse, such as real estate agents, consultants, insurance agents, doctors, independent contractors, etc. is eligible to establish a Solo(k) Plan. IRS reporting is simplified and there is limited administration.

Each business owner and employed spouse may receive a discretionary profit-sharing contribution of up to 25% of compensation (eligible compensation is limited to $345,000 for 2024), and are able to make salary deferral contributions up to $23,000 for 2024. The total contribution limit is $69,000 per person. Persons age 50 or older can also make special “catch-up” contributions of $7,500, which increases the annual limit from $69,000 to $76,500. The business owner may decide how much, if any, to contribute each year.

ROLLOVERS, LIMITATION RULES AND DEADLINE

- Rollovers may be allowed from various retirement accounts including other 401(k) plans, IRAs, SEPs, 403(b) plans, and profit-sharing plans if the plan document allows. The deadline for adopting and contributing to a new Solo(k) is the business’ tax filing deadline plus extensions.
- If a business hires employees after a Solo(k) plan is established, the plan may be subject to the usual fees and testing of a traditional 401(k).
- If a business owner establishing a Solo(k) Plan owns (in whole or part) another business with employees, a Solo(k) may not be appropriate since all employees of any related companies may need to be covered. There are complex coverage rules related to Controlled and Affiliated Service Group ownership arrangements.

SETTING UP A SOLO(K) PLAN

- A plan document is needed to set up a Solo(k) and may require updates depending upon future tax law changes.
- A Form 5500 is required to be filed with the IRS once plan assets exceed $250,000, or in the final year of the plan.
- Any business entity type can sponsor a Solo(k) Plan including Sole Proprietors, S-Corps, C-Corps, Partnerships, etc.

A sample contribution scenario for a one person S Corp Business:

Assumptions: 43 years old, annual income est. $80,000	SEP IRA or Profit Sharing Plan[1]	SIMPLE IRA Plan[2]	Solo(k) Plan
Salary Deferral Contributions	$0	$16,000	$23,000
Business Contributions[1]	$20,000	$2,400	$20,000
Total Maximum Contribution Potential	$20,000	$18,400	$43,000

[1] Assumes 25% of est. $80k annual income
[2] Business contribution is 3% Employer Match to SIMPLE IRA plan

BENEFITS

A Solo(k) Plan provides all of the benefits of traditional business retirement plans:

- Tax-deductible contribution to the business
- Higher contribution limits than some other plans
- Complete funding flexibility
- Loan availability
- Catch-up contribution for individuals age 50 and older
- Flexible distribution options
- Cost-effective administration (if any)
- Asset consolidation

To learn more about Solo(k) Plans, we invite you to contact the Davenport & Company office nearest you and speak with one of our Financial Advisors.

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