

Retirement Planning Opportunities

Solo 401(k) Plans – Higher Contributions Than Ever Before

Deductible Contributions of 100% of Salary Possible*

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) changed the rules for one-person plans. You are now able to design profit sharing/401(k) plans with higher deductible contributions than you could even dream about previously. Contributions of 100% of salaries will be possible in some of these Solo 401(k) Plans.

Higher New Limit for Individual Allocations

The maximum annual allocation (including forfeitures) allowed for any individual in a defined contribution plan has been raised. The 2008 limit is the lesser of 100% of the participant's compensation or \$46,000. Those who are age 50 and older can increase this \$46,000 dollar limit to \$51,000 in 2008 using the catch-up contributions.

Higher Deduction Limit

Additionally, the rule that limits the total plan deduction for a defined contribution plan to 25% of the plan payroll was also changed by EGTRRA. This rule no longer includes elective or catch-up deferrals so a business owner can contribute & deduct 25% of the plan payroll & also make the maximum allowable deferrals as long as the allocation for each individual does not exceed the maximum allocation limit of the lesser of 100% of the participant's salary or \$46,000 (\$51,000 if age 50 or older and making a catch-up contribution).

* not including payroll taxes

Solo 401(k) Plan - Maximum Contribution* – 100% Salary

Age	Salary	Profit Sharing Contribution	Elective Deferral	Catch-Up Contribution	Total
Old Law – Pre EGTRRA					
52	27,333	4,100			4,100
Now – Solo 401(k) Plans					
52	27,333	6,833	15,500	5,000	27,333

*Figures assume the maximum contribution allowed under the applicable provisions of the Internal Revenue Code. Maximum elective deferral in 2008 is \$15,500 with an additional \$5,000 deferral, known as a catch-up contribution, allowed for employees age 50 or older. These figures are indexed for inflation and may increase in the future.

Example – Tax Deduction – 100% of Salary

In the chart above is an example with a deductible contribution of over 100% of compensation. As you can see, in this example, Jeff, the business owner, could only contribute 15% of his compensation or \$4,100 in the old days prior to EGTRRA. Now Jeff can contribute 25% of his salary plus he can also defer the maximum elective deferral (\$15,500 in 2007) and make an additional catch-up contribution of \$5,000 which is a type of deferral allowed to those age 50 or older.

Contributions of 100% of Pay Possible for Those Earning \$51,000 or Less

For one-person plans, contributions of 100% of pay are only possible in 2008 for those making \$27,333 or less. If there are other employees in the plan and the plan demographics are right, then contributions of 100% of pay may be possible for business owners with salaries as high as \$51,000.

Contributions of Over 25% of Pay Possible for Those Earning \$184,000 or Less

Since the maximum annual allocation allowed for any participant in 2008 is \$46,000 (or \$51,000 if the participant is 50 or older and making a catch-up deferral), the contributions for those making \$184,000 or more (\$204,000 for those age 50 and older) will be limited to 25% of their compensation.

Higher Tax Deductions

With these new design opportunities you can design new plans that offer higher tax deductible contributions than anything you've been able to offer in the past. You can also redesign existing plans to meet more of your clients' goals.

Please feel free to call us if you have any clients who might benefit from the new redesign opportunities.

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