

# Self-Directed Solo 401k Deep Dive: Contributions Guide 2020 & 2021 for S-corporations, C-corporations, LLC taxed as S-corp/C-corp, W-2

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# 2021 Solo 401k Contributions



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- ❖ Contribution Limits
- ❖ Scenarios & Examples
- ❖ How to Use Online Calculator
- ❖ Deadline
- ❖ How to Make Contributions
- ❖ How to Report Contributions
- ❖ What is Not a Contribution

# Basic Factors - How Much Can I Contribute?

- The Solo 401k contribution limits are based on the following factors:
  - ✓ Your Self-Employment Income
  - ✓ Your Age
  - ✓ Whether you participate in another retirement plan (e.g., 401k plan through your “day job”)
  - ✓ Type of Contribution (Employee vs. Employer; Pre-Tax, Roth or Voluntary After-Tax)

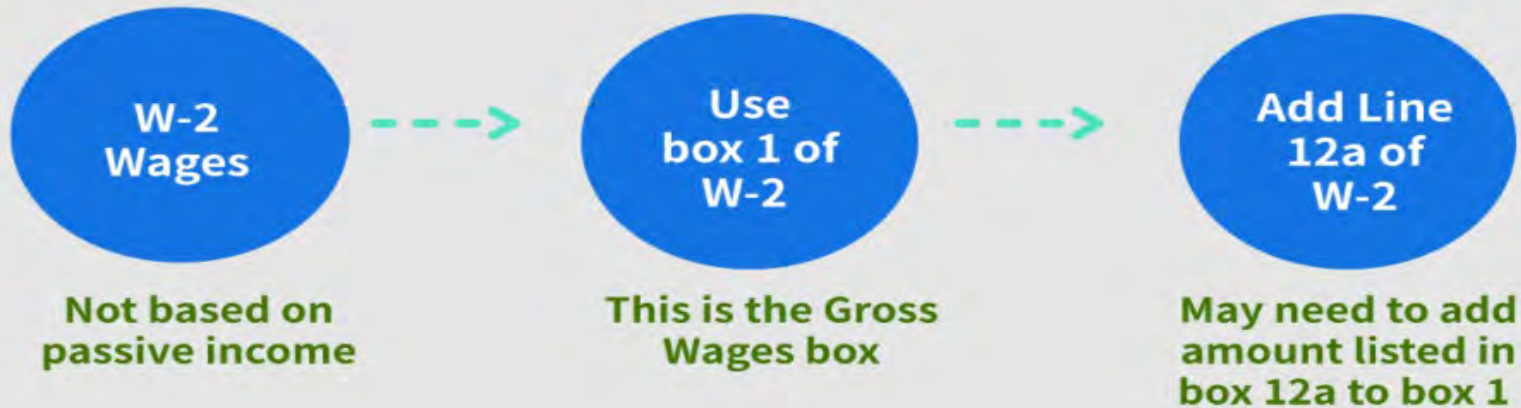
# S-Corporation, C-corporation, LLC taxed as S-corp/C-corp, W-2 : Self-Employment Income

- If your self-employed business is taxed as an S-Corporation, C-corporation, LLC taxed as S-corp/C-corp your ability to make Solo 401k contributions is based on the W-2 wages that you receive from your self-employed business earned income not your day-time job W-2 wages.
  - *Don't consider w-2 wages from other sources (e.g., day job)*
  - *Don't consider K-1 from the S-corporation*



# W-2 Wages From Self-Employed Business

## First Determine Earned Income



# Overall Limit



## Second Determine Contribution Year & Amount

2020

Tax Year  
**2020**

Annual Contribution Limit  
**\$57,000**

Age 50 or Older Catch-up  
**\$6,500**

2021

Tax Year  
**2021**

Annual Contribution Limit  
**\$58,000**

Age 50 or Older Catch-up  
**\$6,500**

# Contribution Types



## Third Determine Contribution Type

### Employee Contribution



- Can be applied as a pretax, Roth or voluntary after-tax.

### Employer Contribution



- Can only be applied as pretax a contribution.
- Not affected by contributions to a day-time job 401(k) plan.

### Roth Contribution



- Falls under the employee contribution category.
- Includes the catch-up amount for those age 50 or older.

### Voluntary After-Tax



- Part of the employee contribution and overall limit category.
- Does not include the catch-up amount for those age 50 or older.



# Pre-Tax (Employee) – How much can I contribute?

## ➤ Employee Contribution (Salary Deferrals)

- ❖ The limit is 100% of your w-2 wages from your self-employed business NOT TO EXCEED/UP TO \$19,500 for 2020 (plus an additional \$6,500 if you are 50 or older)
  - ▶ Need to reduce by any contributions made to another employer plan UNLESS the other plan is a 457 governmental plan in which contributions are not aggregated
  - ▶ For 2021, the elective deferral remains the same at \$19,500, or \$26,000 if age 50 or older.

### Employee Contribution

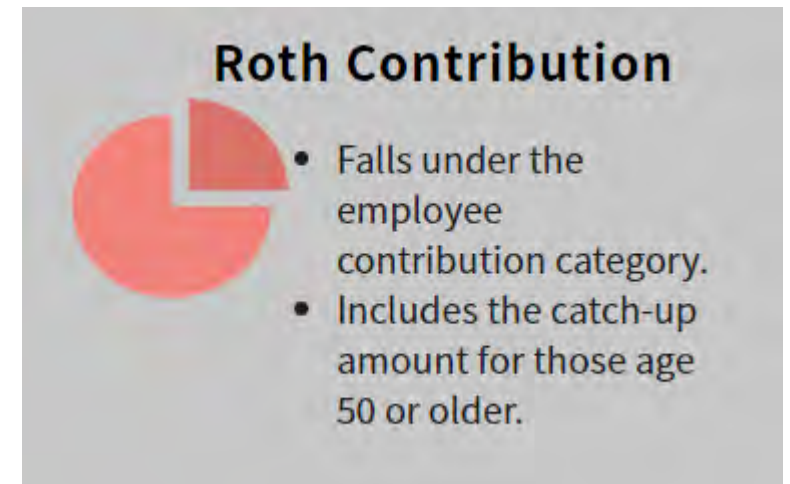


- Can be applied as a pretax, Roth or voluntary after-tax.



# Roth – How much can I contribute?

- **Employee Contribution (Salary Deferrals)**
  - ▶ 100% of the Employee contributions (subject to the limits – see prior slide) can be made as Roth Contribution
  - ▶ Roth contributions must be deposited in a separate sub-account for each participant



# Pre-Tax (Employer) – How much can I contribution?

## ➤ Employer Contribution (Profit-Sharing)

- ❖ The limit is equal to **25% of your w-2** wages.
  - ▶ Use the amount reported in Box 1 of the W-2 plus any pre-tax elective deferrals not in Box 1.
  - ▶ The aggregate contributions can't exceed the overall limit of \$57,000 or \$63,500 if you are 50 or older for 2020 (For 2021, the contribution limit increased to \$58,000 or \$64,500 if age 50 or over).
  - ▶ Not impacted by contributions made to another retirement plan through an unrelated employer (e.g., “day job” 401k plan) UNLESS such contributions were made to a 403b plan

### Employer Contribution

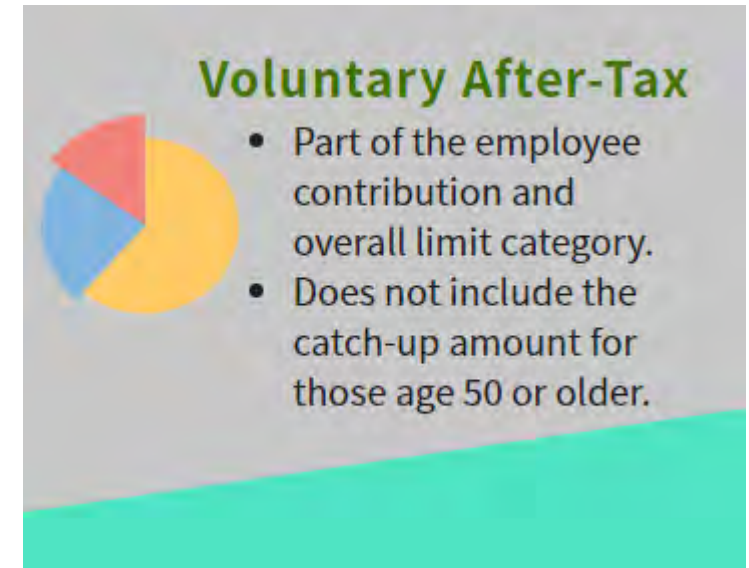


- Can only be applied as pretax a contribution.
- Not affected by contributions to a day-time job 401(k) plan.

# Voluntary After-Tax – How much can I contribute?

## ► Voluntary After-Tax Contributions (Mega Backdoor Roth)

- ❖ The lesser of (i) self-employment compensation & (ii) the overall limit (\$57k for 2020 & \$58k for 2021) REDUCED by any Employer or Employee contributions made to the Solo 401k [IGNORE any catch-up contributions made to the Solo 401k].
  - Note the limit does not go up if you are 50 or older
  - Not impacted by any contributions made to another retirement plan through an unrelated employer (e.g., “day job” 401k plan) UNLESS the other plan is 403b
  - Voluntary after-tax contributions must be deposited in a separate sub-account for each participant





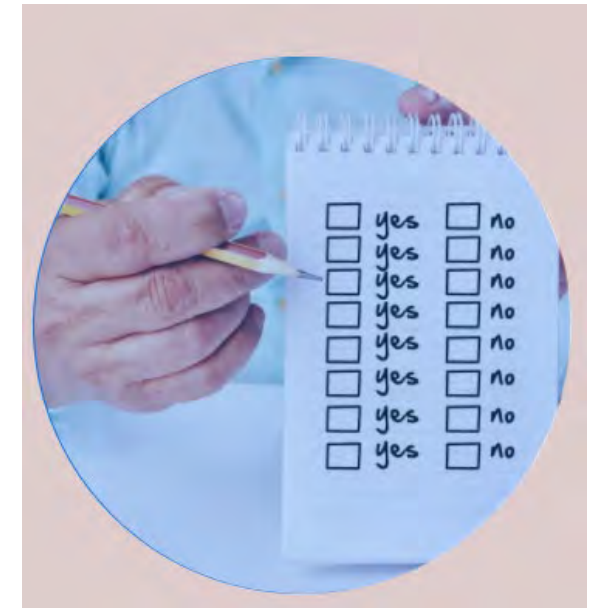
# Contribution Scenarios

- “Base Scenario” Assumptions
  - ❖ Self-employed business taxed as an S-corporation
  - ❖ One Participant
  - ❖ Under 50 years of Age
  - ❖ Does not make contributions to another plan
  - ❖ Goal is to Maximize Pre-tax contributions and then make Roth Solo 401k and/or Voluntary After-Tax Contributions
  - ❖ \$100,000 of w-2 wages from the self-employed business



# Contribution Scenarios

- “Base Scenario” Contribution Limits
  - ❖ Employee (**Pre-tax** or Roth): **\$19,500** [100% of w-2 wages up to \$19,500]
  - ❖ Employer Pre-tax Contributions: **\$25,000** [25% of w-2 wages provided total contributions don't exceed overall limit]
  - ❖ Voluntary After-Tax: **\$12,500 for 2020; \$13,500 for 2021;** [Lesser of Self-employment compensation or the overall limit of \$57,000 for 2020 (\$58,000 for 2021) reduced by any employee or employer contributions made to the Solo 401k]



# Contribution Scenarios

- ***Change “Base Scenario” Assumptions to \$50k***
  - ❖ Self-employed business taxed as an S-Corporation, C-corporation, LLC taxed as S-corp/C-corp
  - ❖ One Participant
  - ❖ Under 50 years of Age
  - ❖ Does not make contributions to another plan
  - ❖ Goal is to Maximize Pre-tax contributions and then make Roth Solo 401k and/or Voluntary After-Tax Contributions
  - ❖ \$50,000 of w-2 wages from the self-employed business

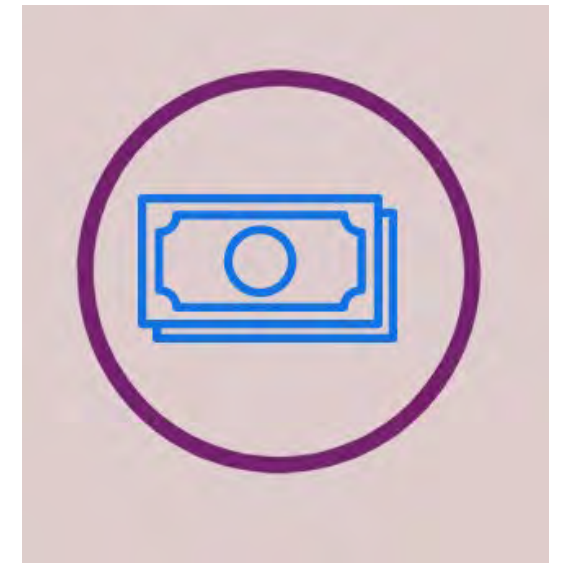




# Contribution Scenarios

## ➤ How do Contribution Limits Change?

- ❖ Employee (Pre-tax or Roth): **\$19,500** [100% of w-2 wages up to \$19,500]
- ❖ Employer Pre-tax Contributions: **\$12,500** [25% of w-2 wages provided total contributions don't exceed overall limit]
- ❖ Voluntary After-Tax: **\$18,000 for 2020; \$18,000 for 2021;** [Lesser of Self-employment compensation or the overall limit of \$57,000 for 2020 (\$58,000 for 2021) reduced by any employee or employer contributions made to the Solo 401k]



# Contribution Scenarios

- ***Change “Base Scenario” Assumptions to Maximize Contributions “Day Job” Plan***
  - ❖ Self-employed business taxed as an S-Corporation, C-corporation, LLC taxed as S-corp/C-corp One Participant
  - ❖ Under 50 years of Age
  - ❖ **Contributes \$19,500 to “Day Job” Plan**
  - ❖ Goal is to Maximize Pre-tax contributions and then make Roth Solo 401k and/or Voluntary After-Tax Contributions
  - ❖ \$100,000 of w-2 wages from the self-employed business



# Contribution Scenarios

## ➤ How do Contribution Limits Change?

- ❖ Employee (Pre-tax or Roth): **\$0** [100% of w-2 wages up to \$19,500 **reduced by any contributions made to another retirement plan unless 457 governmental plan**]
- ❖ Employer Pre-tax Contributions: **\$25,000** [25% of w-2 wages provided total contributions don't exceed overall limit]
- ❖ Voluntary After-Tax: **\$32,000 for 2020; \$33,000 for 2021;** [Lesser of Self-employment compensation or the overall limit of \$57,000 for 2020 (\$58,000 for 2021) reduced by any employee or employer contributions made to the Solo 401k]





# Contribution Scenarios

➤ ***Change “Base Scenario” Assumptions to Goal is Maximize Roth Solo 401k Contributions***

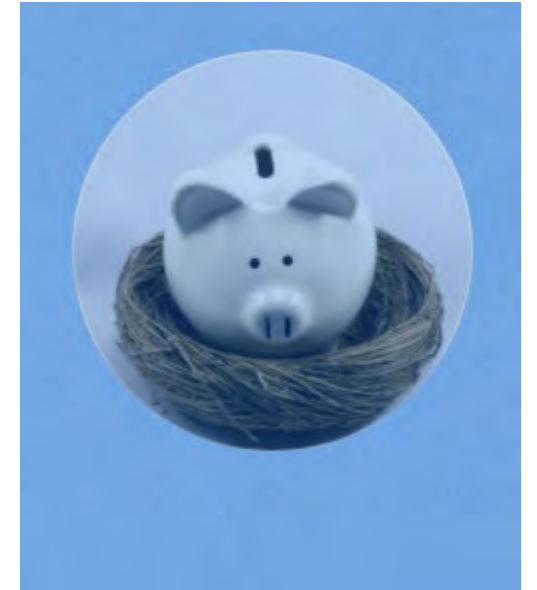
- ❖ Self-employed business taxed as an S-Corporation, C-corporation, LLC taxed as S-corp/C-corp One Participant
- ❖ Under 50 years of Age
- ❖ Does not make contributions to another plan
- ❖ Goal is to Maximize Roth Solo 401k and/or Voluntary After-Tax Contributions
- ❖ \$100,000 of w-2 wages from the self-employed business



# Contribution Scenarios

## ➤ How do Contribution Limits Change?

- ❖ Employee (**Roth**): **\$19,500** [100% of w-2 wages up to \$19,500]
- ❖ Employer Pre-tax Contributions: **\$0** [25% of w-2 wages provided total contributions don't exceed overall limit]
- ❖ Voluntary After-Tax: **\$37,500 for 2020; \$38,500 for 2021**; [Lesser of Self-employment compensation or the overall limit of \$57,000 for 2020 (\$58,000 for 2021) reduced by any employee or employer contributions made to the Solo 401k]



# Contribution Scenarios

## ➤ *Change “Base Scenario” Assumptions to Two (2) Participants*

- ❖ Self-employed business taxed as an S-Corporation, C-corporation, LLC taxed as S-corp/C-corp **Two (2) Participants (e.g., spouses or business partners)**
- ❖ Under 50 years of Age
- ❖ Does not make contributions to another plan
- ❖ Goal is to Maximize Pre-tax contributions and then make Roth Solo 401k and/or Voluntary After-Tax Contributions
- ❖ **\$100,000 of w-2 wages from the self-employed business for each person**



**2 (TWO) Participants**

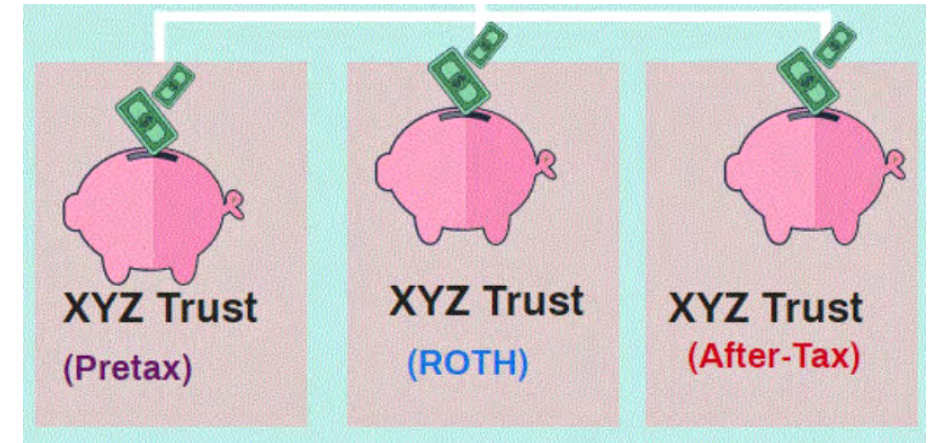
**Solo 401k Plan**



# Contribution Scenarios

## ➤ How do Contribution Limits Change? [Limits for each person]

- ❖ Employee (Pre-tax or Roth): **\$19,500** [100% of w-2 wages up to \$19,500]
- ❖ Employer Pre-tax Contributions: **\$25,000** [25% of w-2 wages provided total contributions don't exceed overall limit]
- ❖ Voluntary After-Tax: **\$12,500 for 2020; \$13,500 for 2021**; [Lesser of Self-employment compensation or the overall limit of \$57,000 for 2020 (\$58,000 for 2021) reduced by any employee or employer contributions made to the Solo 401k]



# Contribution Scenarios

➤ ***Change “Base Scenario” Assumptions to Age 50 or older***

- ❖ Self-employed business taxed as an S-Corporation, C-corporation, LLC taxed as S-corp/C-corp
- ❖ One Participant
- ❖ 50 or older years of Age
- ❖ Does not make contributions to another plan
- ❖ Goal is to Maximize Pre-tax contributions and then make Roth Solo 401k and/or Voluntary After-Tax Contributions
- ❖ \$100,000 of w-2 wages from the self-employed business

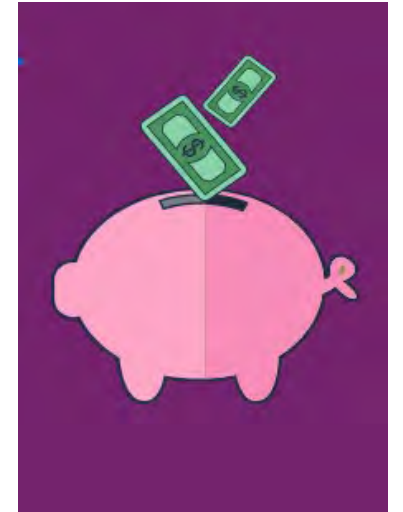


**One Participant  
Solo 401k Plan**

# Contribution Scenarios

## ➤ How do Contribution Limits Change?

- ❖ Employee (Pre-tax or Roth): **\$26,000** [100% of w-2 wages up to \$19,500 **plus \$6,500 Catch-Up Contribution**]
- ❖ Employer Pre-tax Contributions: **\$25,000** [25% of w-2 wages provided total contributions don't exceed overall limit]
- ❖ Voluntary After-Tax: **\$12,500 for 2020; \$13,500 for 2021;** [Lesser of Self-employment compensation or the overall limit of \$57,000 for 2020 (\$58,000 for 2021) reduced by any employee or employer contributions made to the Solo 401k]

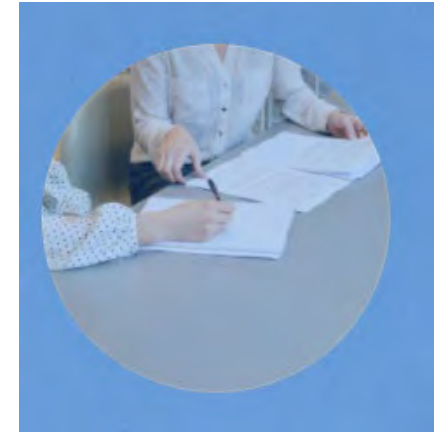




# Contribution Scenarios

➤ ***Change “Base Scenario” Assumptions to (i) Maximize Contributions “Day Job” Plan and (ii) Maximize Roth Solo 401k***

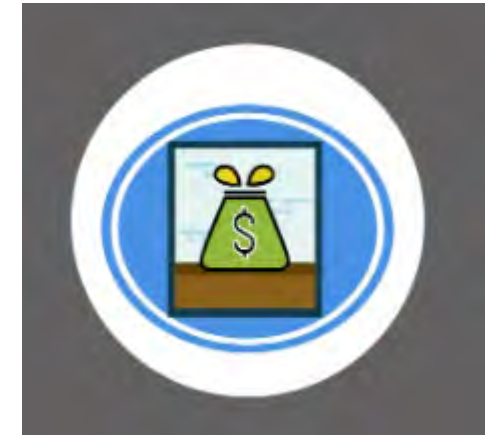
- ❖ Self-employed business taxed as an S-Corporation, C-corporation, LLC taxed as S-corp/C-corp One Participant
- ❖ Under 50 years of Age
- ❖ Contributes \$19,500 to “Day Job” Plan
- ❖ Goal is to Maximize Roth Solo 401k and/or Voluntary After-Tax Contributions
- ❖ \$100,000 of w-2 wages from the self-employed business



# Contribution Scenarios

## ➤ How do Contribution Limits Change?

- ❖ Employee (Pre-tax or Roth): **\$0** [100% of w-2 wages up to \$19,500 **reduced by any contributions made to another retirement plan unless 457 governmental plan**]
- ❖ Employer Pre-tax Contributions: **\$0** [25% of w-2 wages provided total contributions don't exceed overall limit]
- ❖ Voluntary After-Tax: **\$57,000 for 2020; \$58,000 for 2021;** [Lesser of Self-employment compensation or the overall limit of \$57,000 for 2020 (\$58,000 for 2021) reduced by any employee or employer contributions made to the Solo 401k]



# Contribution Scenarios

- ***Change “Base Scenario” Assumptions to (i) Age 50 or older; (ii) Maximize Contributions “Day Job” Plan and (iii) Maximize Roth Solo 401k***
  - ❖ Self-employed business taxed as an S-Corporation, C-corporation, LLC taxed as S-corp/C-corp
  - ❖ One Participant
  - ❖ 50 or older years of Age
  - ❖ Contributes **\$26,500** to “Day Job” Plan
  - ❖ Goal is to Maximize Roth Solo 401k and/or Voluntary After-Tax Contributions
  - ❖ \$100,000 of w-2 wages from the self-employed business





# Contribution Scenarios

## ➤ How do Contribution Limits Change?

- ❖ Employee (Pre-tax or Roth): **\$0** [100% of w-2 wages up to \$19,500 **reduced by any contributions made to another retirement plan unless 457 governmental plan**]
- ❖ Employer Pre-tax Contributions: **\$0** [25% of w-2 wages provided total contributions don't exceed overall limit]
- ❖ Voluntary After-Tax: **\$57,000 for 2020; \$58,000 for 2021;** [Lesser of Self-employment compensation or the overall limit of \$57,000 for 2020 (\$58,000 for 2021) reduced by any employee or employer contributions made to the Solo 401k]



# Contribution Scenarios

➤ ***Change “Base Scenario” Assumptions to (i) Two (2) Participants; (ii) Maximize Contributions “Day Job” Plan and (iii) Maximize Roth Solo 401k***

- ❖ Self-employed business taxed as an S-Corporation, C-corporation, LLC taxed as S-corp/C-corp
- ❖ Two (2) Participants (e.g. spouses or business partners)
- ❖ Under 50 years of Age
- ❖ **Each person** contributes \$19,500 to “Day Job” Plan
- ❖ Goal is to Maximize Roth Solo 401k and/or Voluntary After-Tax Contributions
- ❖ \$100,000 of w-2 wages from the self-employed business **for each person**



# Contribution Scenarios

➤ **How do Contribution Limits Change? [Limits for each person]**

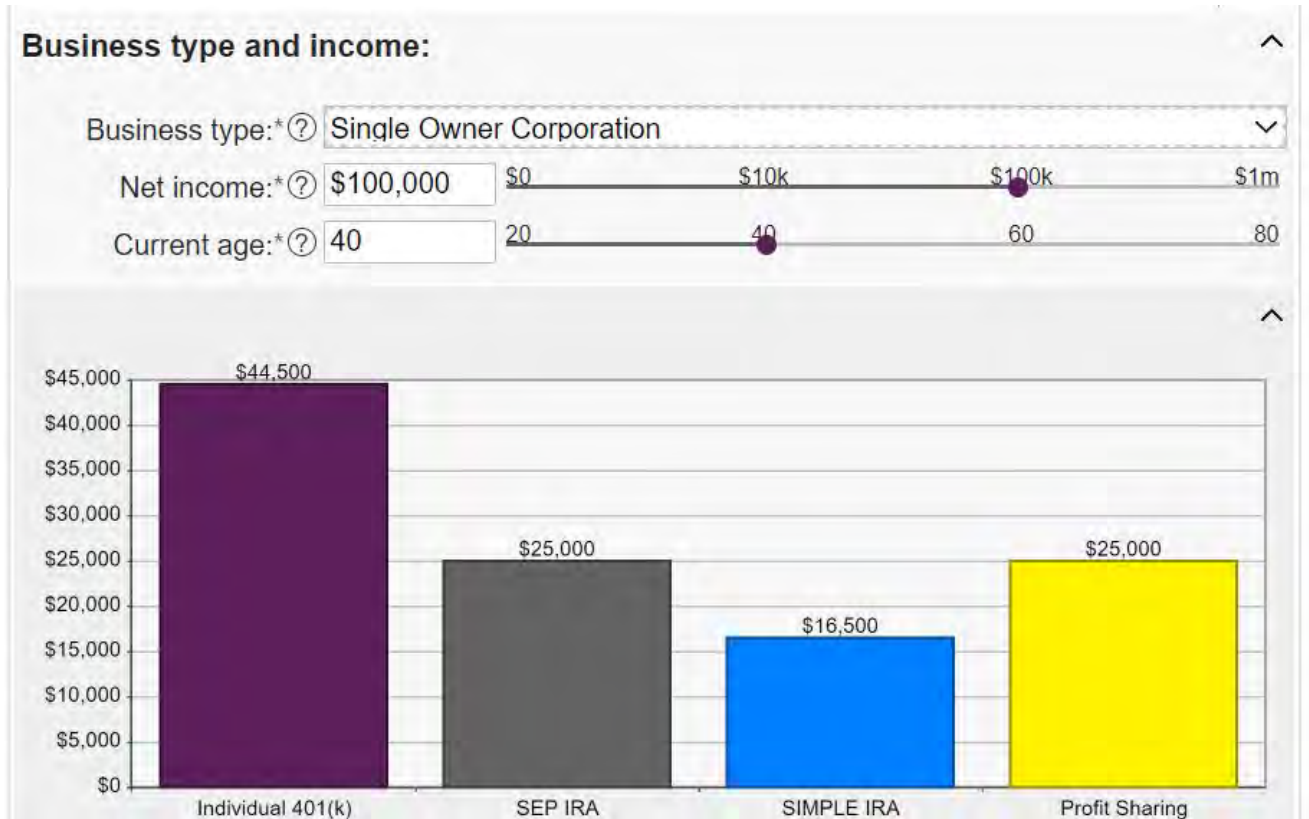
- ❖ Employee (Pre-tax or Roth): **\$0** [100% of w-2 wages up to \$19,500 **reduced by any contributions made to another retirement plan unless 457 governmental plan**]
- ❖ Employer Pre-tax Contributions: **\$0** [25% of w-2 wages provided total contributions don't exceed overall limit]
- ❖ Voluntary After-Tax: **\$57,000 for 2020; \$58,000 for 2021;** [Lesser of Self-employment compensation or the overall limit of \$57,000 for 2020 (\$58,000 for 2021) reduced by any employee or employer contributions made to the Solo 401k]





# How to Use our Online Calculator

- ❖ For a self-employed business taxed as an S-Corporation, C-corporation, LLC taxed as S-corp/C-corp, select “Single Owner Corporation”
- ❖ Enter the w-2 wages (i.e. box 1 of the w-2 plus an pre-tax elective deferrals not included in box 1) for each participant
- ❖ Enter the age of each participant as of the end of the applicable year
  - ❖ Modify if you make contributions to a “day job” plan
  - ❖ Modify for After-Tax Contributions
- ❖ Click “View Report” to see detail
- ❖ Click “Print” to keep a copy



<https://www.mysolo401k.net/learn/online-tools/>

# Make Contributions

## ► Fourth Make Contribution

### CONTRIBUTION STEPS



Check or Wire



Deposit



Report the Contributions

# How do I make contributions?

- To make the contribution, you will make the check payable in the name of the solo 401k and write "Annual Contribution" on the memo section of the check.
- Electronic Transfer is also acceptable.
  - ❖ Check with the financial institution that holds the accounts.
  - ❖ **Note:** Other than Fidelity most brokerage firms don't allow electronic deposit.
- Each participant deposits his/her contributions into separate sub-accounts
- Pre-tax, Roth and after-tax funds must go into separate sub-accounts.
- May transfer funds in one lump sum or series of contributions
- May transfer funds from personal or business account



# When is the deadline to make contributions?

- The deadline to make **ALL** types of contributions is the business tax return deadline (for S-Corporation, C-corporation, LLC taxed as S-corp/C-corp : 3/15 or 9/15 if a timely tax return extension is filed.
- This is clear based on IRS publication 560 which is the IRS publication that deals with retirement plans for Solo 401k plans (see excerpt below of chart on page 3 of IRS Pub 560):

Type of Plan	Last Date for Contribution	Maximum Contribution	Maximum Deduction	When To Set Up Plan
SEP	Due date of employer's return (including extensions).	Smaller of \$55,000 or 25% <sup>1</sup> of participant's compensation. <sup>2</sup>	25% <sup>1</sup> of all participants' compensation. <sup>2</sup>	Any time up to the due date of employer's return (including extensions).
SIMPLE IRA and SIMPLE 401(k)	<b>Salary reduction contributions:</b> 30 days after the end of the month for which the contributions are to be made. <sup>4</sup> <b>Matching or nonelective contributions:</b> Due date of employer's return (including extensions).	<b>Employee contribution:</b> Salary reduction contribution up to \$12,500, \$15,500 if age 50 or over. <b>Employer contribution:</b> Either dollar-for-dollar matching contributions, up to 3% of employee's compensation, <sup>3</sup> or fixed nonelective contributions of 2% of compensation. <sup>2</sup>	Same as maximum contribution.	Any time between January 1 and October 1 of the calendar year. For a new employer coming into existence after October 1, as soon as administratively feasible.
Qualified Plan: Defined Contribution Plan	<b>Elective deferral:</b> Due date of employer's return (including extensions). <sup>4</sup> <b>Employer contribution:</b> Money Purchase Pension Plan or Profit-Sharing: Due date of employer's return (including extensions).	<b>Employee contribution:</b> Elective deferral up to \$18,500, \$24,500 if age 50 or over. <b>Employer contribution:</b> Money Purchase Pension Plan: Smaller of \$55,000 or 100% <sup>1</sup> of participant's compensation. <sup>2</sup> Profit-Sharing: Smaller of \$55,000 or 100% <sup>1</sup> of participant's compensation. <sup>2</sup>	25% <sup>1</sup> of all participants' compensation, <sup>2</sup> plus amount of elective deferrals made.	By the end of the tax year.
Qualified Plan: Defined Benefit Plan	Contributions generally must be paid in quarterly installments, due 15 days after the end of each quarter. See <u>Minimum Funding Requirement</u> in chapter 4.	Amount needed to provide an annual benefit no larger than the smaller of \$220,000 or 100% of the participant's average compensation for his or her highest 3 consecutive calendar years.	Based on actuarial assumptions and computations.	By the end of the tax year.

<sup>1</sup> Net earnings from self-employment must take the contribution into account. See Deduction Limit for Self-Employed Individuals in chapters 2 and 4.  
<sup>2</sup> Compensation is generally limited to \$275,000 in 2018.  
<sup>3</sup> Under a SIMPLE 401(k) plan, compensation is generally limited to \$275,000 in 2018.  
<sup>4</sup> Certain plans subject to Department of Labor (DOL) rules may have an earlier due date for salary reduction contributions and elective deferrals, such as 401(k)

# How do I report contributions?

## ➤ Employee contributions:

- ▶ Pre-tax: Not included in Box 1 and reported in Box 12 (code D) and check “Retirement Plan” field in Box 13
- ▶ Roth: Box 12 of the w-2 (Code AA)
- ▶ Voluntary After-Tax Contributions: May be reported on Box 14 of the w-2 (Optional)

## ➤ Employer Contributions:

- ▶ Line 17 of the Form 1120s (S-corporation tax return)
- ▶ Line 23 of the Form 1120



### Report the Contributions

- Reporting the contribution on your tax return depends on multiple factors including Corporation type (C-corp. vs. S-cop) and contribution type (e.g., pretax, employer, roth or voluntary after-tax).
- For S-Corp., employer profit sharing contributions are reported on Form 1120S, Line 17.
- For C-Corp., employer profit sharing contributions are reported on Form 1120 Line 23.
- For both S-Corp., and C-Corp., employee pretax contributions are reported on Schedule 1, line 15.
- Roth contributions are reported in box 12 of Form W-2 using Code AA.
- Voluntary after-tax contributions may be reported in box 14 of Form W-2.
- Employee pretax contributions are reported in box 12 of Form W-2.

# What about Matching Contributions?

- ❖ Can I also make matching contributions to the Solo 401k?
  - No. Matching contributions only apply to full-time employer 401k plans, not self-employed solo 401k plans (i.e., 401k plans for owner-only businesses).
  - Solo 401k contributions only consist of employee and profit-sharing contributions.
  - Matching is when the employer matches what the employee has contributed.
  - Profit-sharing contributions may be made to the Solo 401k even if no employee contributions are made.





# What is NOT a contribution?

- ❖ The following amounts are not contributions, and therefore, are not subject to the contribution limits
  - Amounts rolled over from an existing retirement account (e.g. former employer plan and/or non-Roth IRA)
  - Earnings from your Solo 401k Investment (e.g. rents collected with respect to real estate owned by your Solo 401k)
  - Amounts converted within the Solo 401k (Funds converted from Pre-tax and/or Voluntary After-Tax to Roth)
  - Repayment of Solo 401k participant loans



# More Questions?

- Please see answers to more frequently asked questions on our website.
  - ❖ See links provided in the YouTube comments.

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