

# Solo 401k Deep Dive: Mega Backdoor Roth for S-corporations & C-Corporations

<https://www.mysolo401k.net/>

1-800-489-7571



**MySolo401kFinancial**  
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# Benefits of Mega Backdoor Roth Solo 401k

- Contribute up to \$57,000 (or \$63,500 if age 50 or older) to a Roth Solo 401k for 2020 (\$58,000 or \$64,500 if age 50 or older for 2021)
- Potential for Tax-free growth in the Roth Solo 401k

# Find a Mega Backdoor Roth Solo 401k

## ➤ Qualify:

- Self-employed with no full-time w-2 employees

## ➤ Solo 401k Provider:

- Offers a plan that allows for voluntary after-tax contributions and in-service distributions (e.g., conversion or rollover)
- Assists with establishing required sub-accounts (Pre-Tax, Roth & Voluntary After-Tax)
- Provides ongoing compliance support (required 1099-R reporting)

# 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: Self-Employment Income

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



# 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.

# 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



# 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
  - ❖ 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
- ❖ 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
  - ❖ 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
  - ❖ 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

# 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
  - ❖ 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



# 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
  - ❖ 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
  - ❖ 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
  - ❖ 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 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.

# When is the deadline to make contributions?

- The deadline to make **ALL** types of contributions is the business tax return deadline (for S-corporations: 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 <a href="#">Minimum Funding Requirement</a> 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)

# How do I Convert After-Tax to Roth?

- Transfer by check or electronic (ACH/Wire)
  - ❖ Contact the financial institution providing the accounts to determine electronic procedure
- Transfer between bank and brokerage
  - ❖ If transferring to Roth Solo 401k sub-account at a Crypto-currency exchange transfer from bank (not brokerage account)
- Transfer to Roth Solo 401k or Roth IRA



# Steps to Convert After-Tax to Roth - Schwab

➤ **Step 1 - Make Contributions:**

- Open Schwab brokerage Voluntary After-Tax sub-account.
- Make voluntary after-tax contribution.

➤ **Step 2 - Convert to Roth:**

- **Option One:** Convert the solo 401k voluntary after-tax funds to the *Roth Solo 401k* (a.k.a. in-plan conversion).
- **Option Two:** Convert the solo 401k voluntary after-tax funds to a *Roth IRA Roth* (at Schwab or another institution).

➤ **Step 3 - Report the Conversion:** Submit applicable online form & we will prepare the 1099-R:

<https://www.mysolo401k.net/learn/forms/>

- ❖ **Voluntary After-Tax to Roth Solo 401k**
- ❖ **After-Tax Solo 401k to ROTH IRA**





# Steps to Convert After-Tax to Roth - Fidelity

➤ **Step 1 - Make Contributions:**

- Open Fidelity brokerage Voluntary After-Tax sub-account.
- Make voluntary after-tax contribution.

➤ **Step 2 - Convert to Roth:**

- **Option One:** Convert the solo 401k voluntary after-tax funds to the *Roth Solo 401k* (a.k.a. in-plan conversion).
- **Option Two:** Convert the solo 401k voluntary after-tax funds to a *Roth IRA Roth* (at Fidelity or another institution).

➤ **Step 3 - Report the Conversion:** Submit applicable online form & we will prepare the 1099-R:

<https://www.mysolo401k.net/learn/forms/>

- ❖ **Voluntary After-Tax to Roth Solo 401k**
- ❖ **After-Tax Solo 401k to ROTH IRA**



# Steps to Convert After-Tax to Roth - TD Ameritrade

➤ **Step 1 - Make Contributions:**

- Open TD Ameritrade brokerage Voluntary After-Tax sub-account.
- Make voluntary after-tax contribution.

➤ **Step 2 - Convert to Roth:**

- **Option One:** Convert the solo 401k voluntary after-tax funds to the *Roth Solo 401k* (a.k.a. in-plan conversion).
- **Option Two:** Convert the solo 401k voluntary after-tax funds to a *Roth IRA Roth* (at TD Ameritrade or another institution).

➤ **Step 3 - Report the Conversion:** Submit applicable online form & we will prepare the 1099-R:

<https://www.mysolo401k.net/learn/forms/>

- ❖ **Voluntary After-Tax to Roth Solo 401k**
- ❖ **After-Tax Solo 401k to ROTH IRA**



## Should I Convert to a Roth IRA or to a Roth Solo 401(k)?

### Roth Type



#### Roth IRA

- A Roth IRA is not an employer plan so distributions can be made anytime.
- Roth IRAs are NOT subject to required minimum distributions (RMDs).
- Participant Loans are not permitted from IRAs

VS

#### Roth Solo 401(k)

- A triggering event applies in order to take distributions (e.g., attainment of age 59 1/2, disability, death, termination of employment, etc.)
- Solo 401(k) plans are subject to RMDs.
- Plan participant loans are permitted.

Should I  
Convert to Roth  
IRA or Roth  
Solo 401(k)?

# No Deadline to Convert

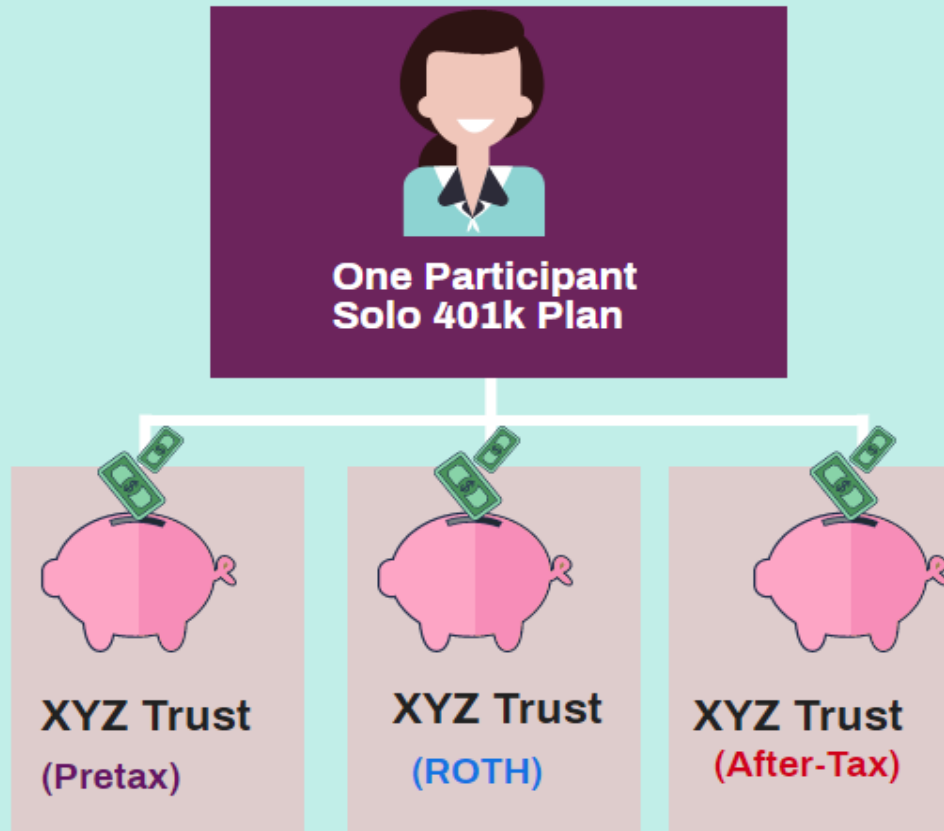
- No deadline to convert voluntary after-tax funds
- Conversion is reportable for the year of the conversion
  - ❖ For example, make voluntary after-tax contributions for 2020 in 2021 (i.e. by March 15, 2021 or September 15, 2021 if you file a timely extension for the 1120-S)
  - ❖ Convert funds in 2021 so the 1099-R will be issued in 2022.

# Tax Reporting

- Amount Converted (including contributions and any gains)
  - Form 1099-R for the year of the conversion.
  - Form 1040 (Amount converted on Line 5a and any gains on Line 5b for 2020 Form 1040).
- Submit applicable online form & we will prepare the 1099-R:  
<https://www.mysolo401k.net/learn/forms/>
  - ❖ **Voluntary After-Tax to Roth Solo 401k**
  - ❖ **After-Tax Solo 401k to ROTH IRA**

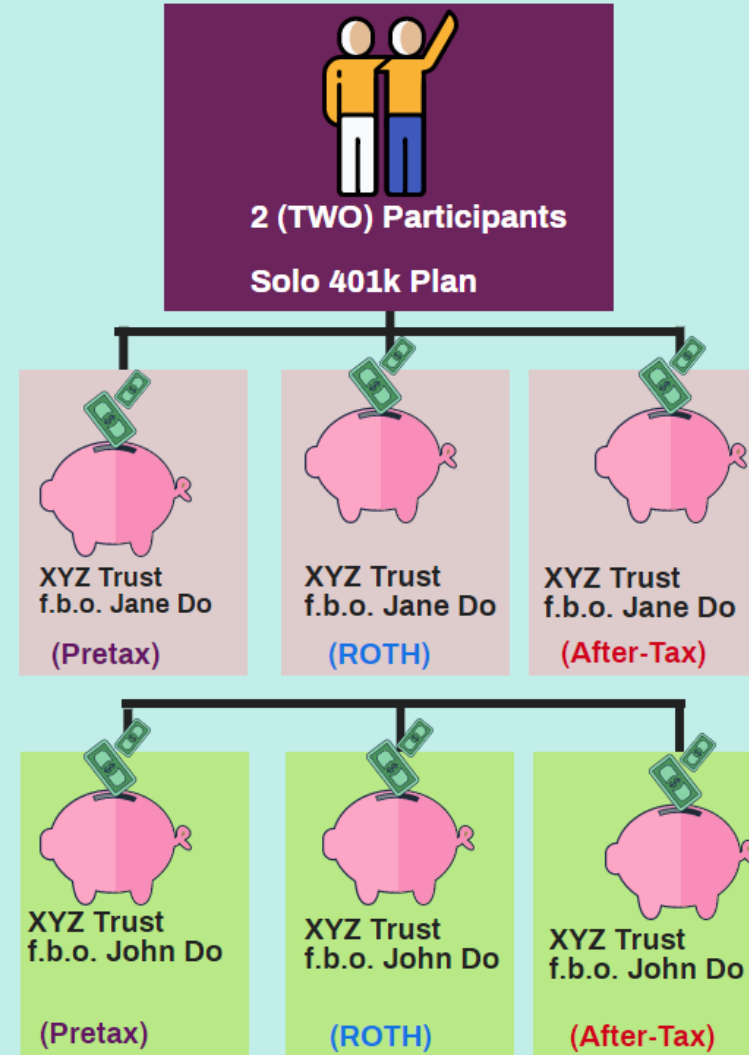
# Example of Account Title

## One Participant 3 Holding Accounts

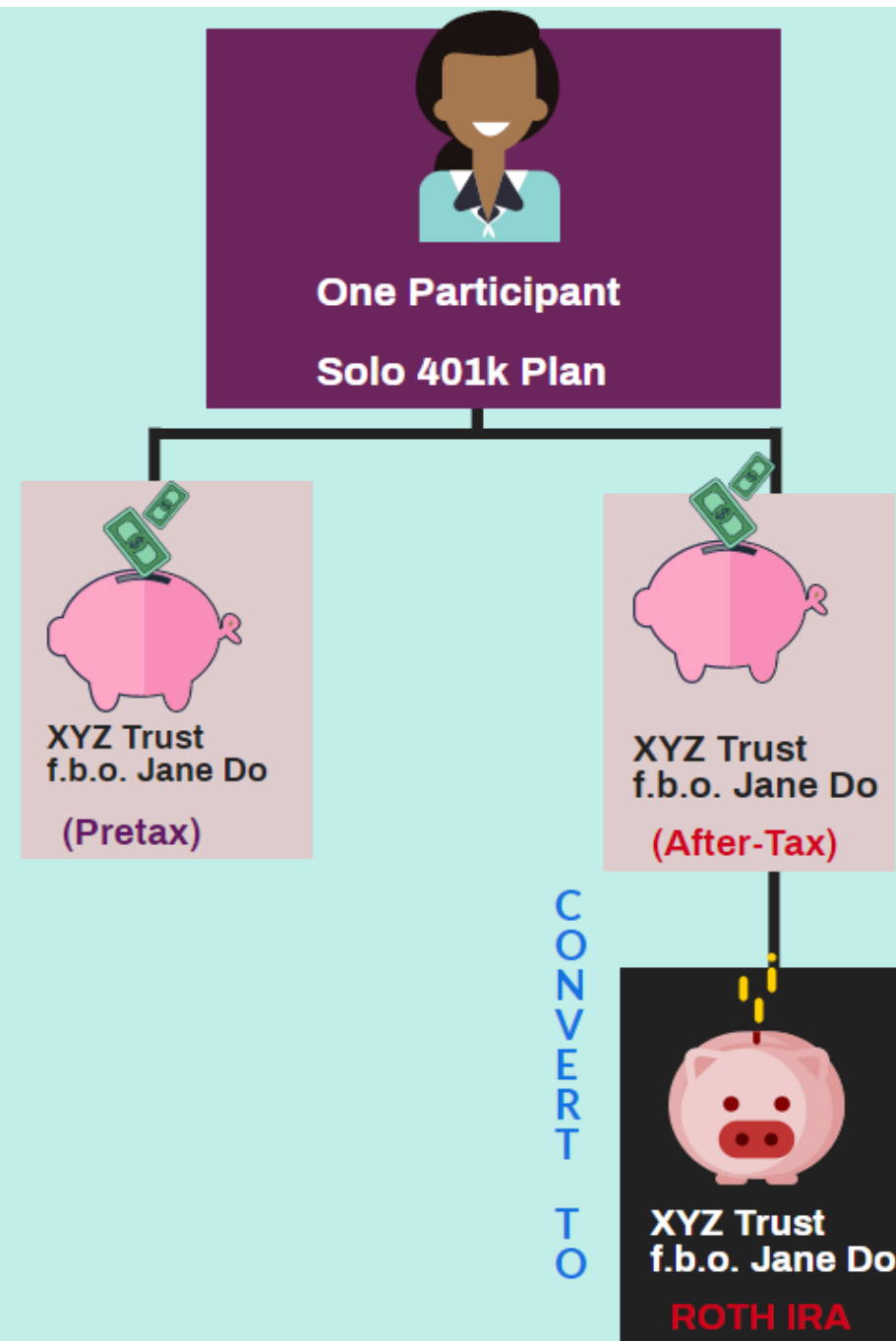




## Example of Account Title Two Participants 6 Holding Accounts



Example of Account Title  
One Participant, 2 holding  
accounts (pretax and  
Voluntary after-tax, and  
convert voluntary after-tax  
to a Roth IRA



# More Questions?

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