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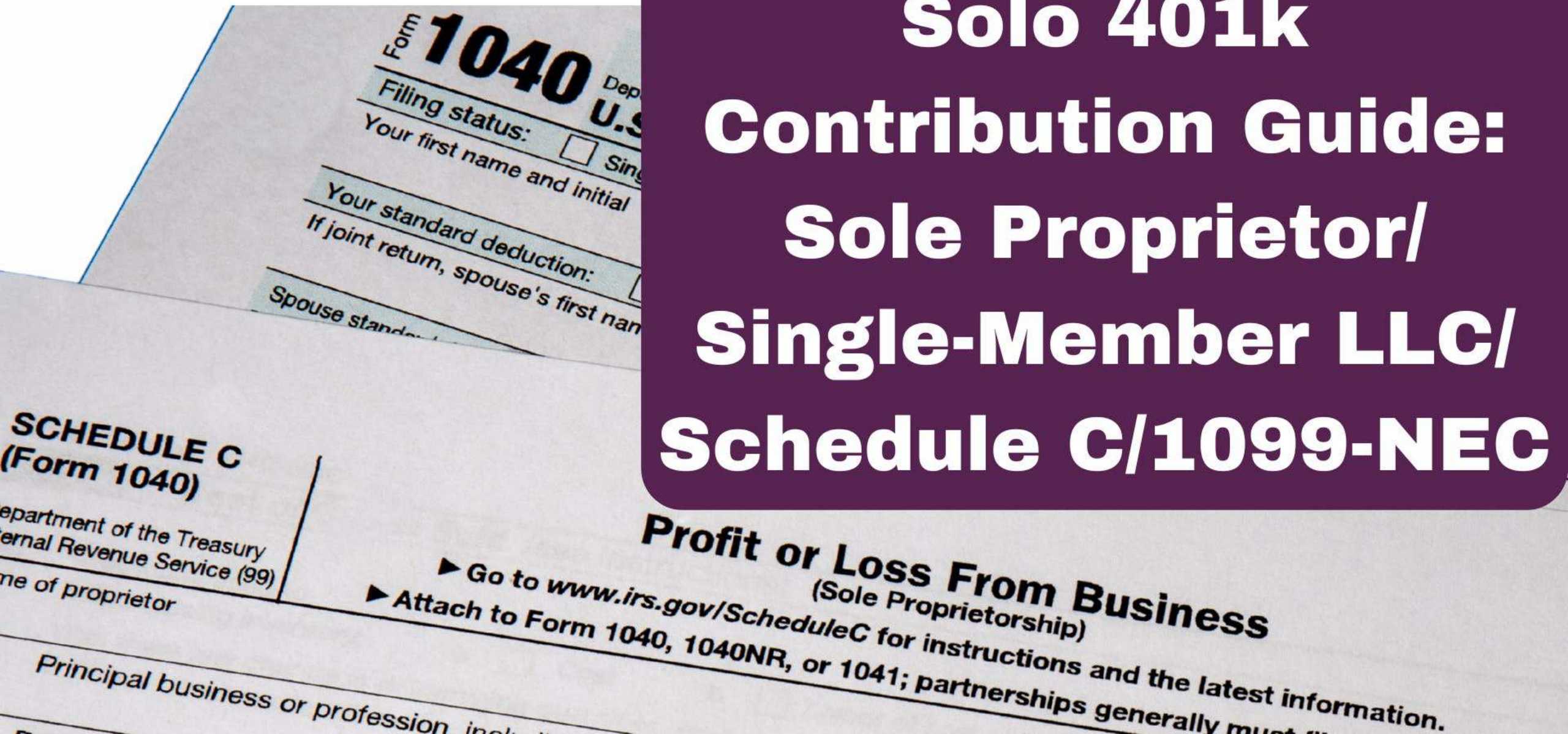
2023/2024 Solo 401k Contribution Guide: Sole Proprietor/ Single-Member LLC/ Schedule C/1099-NEC



Disclosure

- **This presentation is being provided for educational purposes only and should not be construed as tax, legal or investment advice nor as a solicitation.**
- **When making an investment decision, please consult with your tax attorney and financial professional.**

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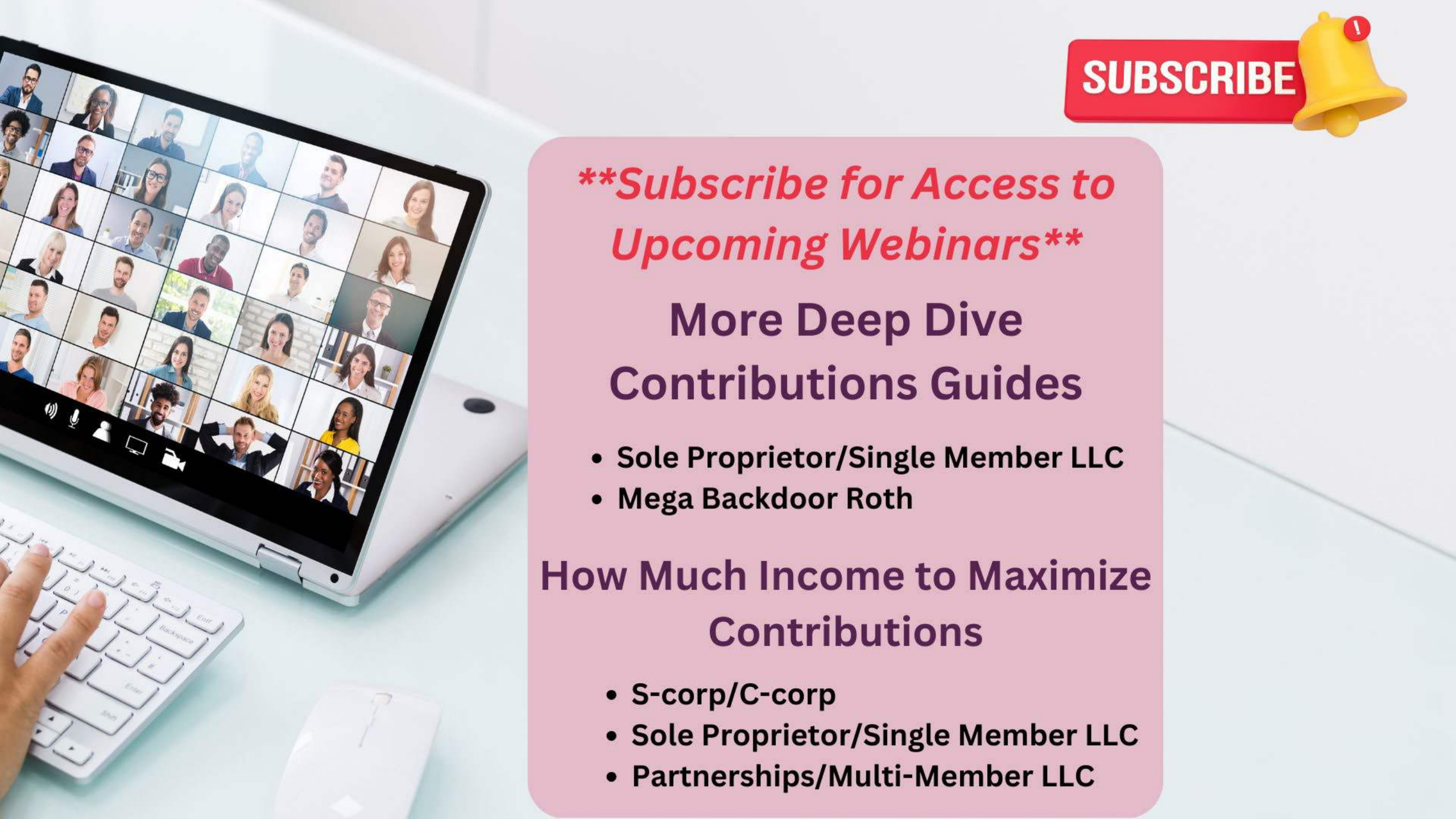

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More Deep Dive Contributions Guides

- Sole Proprietor/Single Member LLC
- Mega Backdoor Roth

How Much Income to Maximize Contributions

- S-corp/C-corp
- Sole Proprietor/Single Member LLC
- Partnerships/Multi-Member LLC

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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
- BONUS: $1500 Solo 401k Tax Credit

Focus of Presentation

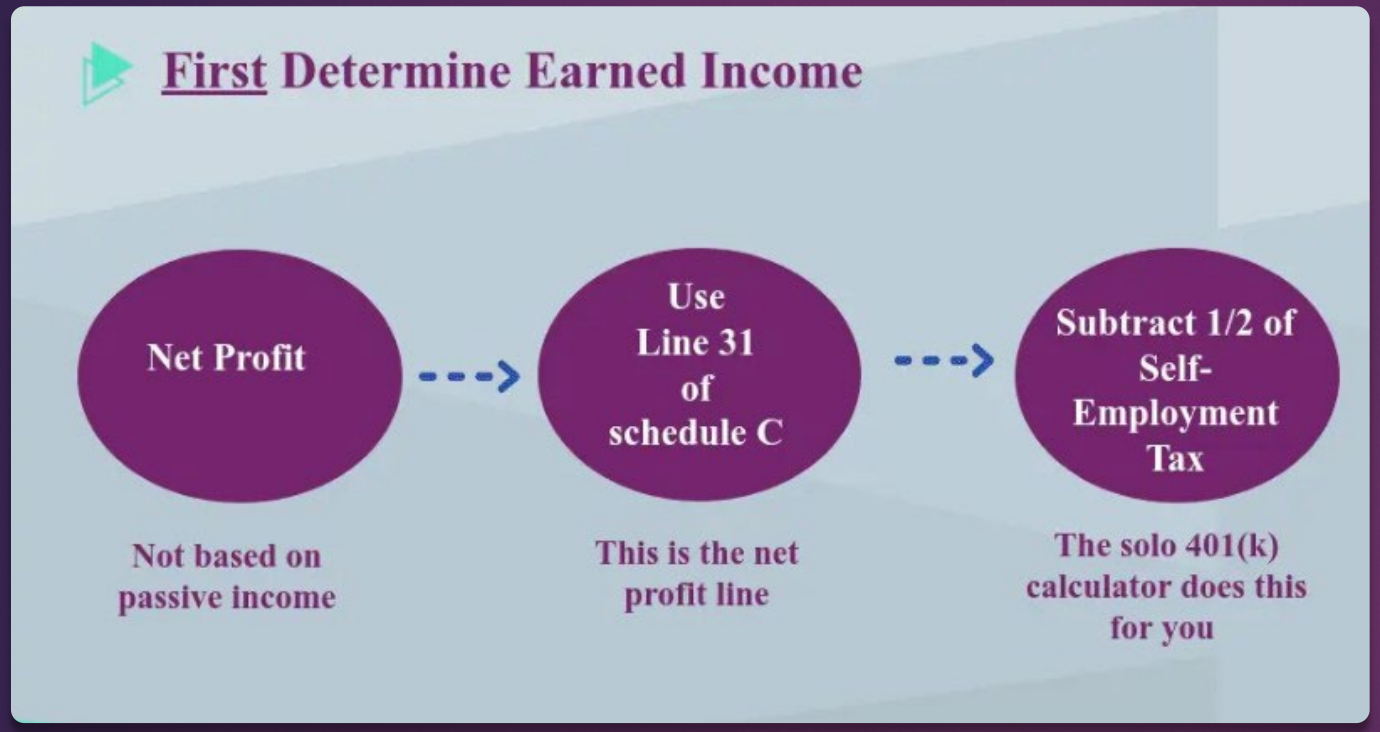
- **Sole Proprietors**
- **Single Member LLCs**
- **Schedule C**
- **1099-MISC/NEC Independent Contractors**

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)

Sole Proprietorship/ Single-member LLC/ 1099 Independent Contractor: Self-Employment Income

- If your self-employed business is taxed as a Sole Proprietorship, Single Member LLC or 1099 Independent Contractor, your ability to make Solo 401k Contributions is based on your net income that you report on Schedule C (after reducing such net income by one-half of the self-employment tax) (i.e. your “self-employment income”)
  - ***Don’t consider w-2 wages from other sources (e.g., day job)***
  - ***Don’t consider investment income (e.g. income reported on Schedule E)***



Step 1 - Calculate Self-Employment Compensation

2023 & 2024 Contribution Limits

For 2023

With a Solo 401(k), depending on your salary and age, you can contribute $66,000 per year or $73,500 for those 50 or older in 2023.

Tax Year	Annual Contribution Limit	Age 50 or Older Catch-up
2023	**$66,000**	**$7,500**

For 2024

For 2024, the contribution limit increased to $69,000 or $76,500 if age 50 or over.

Tax Year	Annual Contribution Limit	Age 50 or Older Catch-up
2024	**$69,000**	**$7,500**

Contribution Types

Employee Contribution

- Can be applied as a pretax, Roth or voluntary after-tax or in combination.
- Roth and pretax contributions are impacted by contributions to a day-time job 401(k) plan.

Employer Contribution

- Can be applied as a pretax contribution.
- Can be applied as a Roth contribution per SECURE 2.0 Act.
- Not affected by contributions to a day-time job 401(k) plan.

Roth Contribution

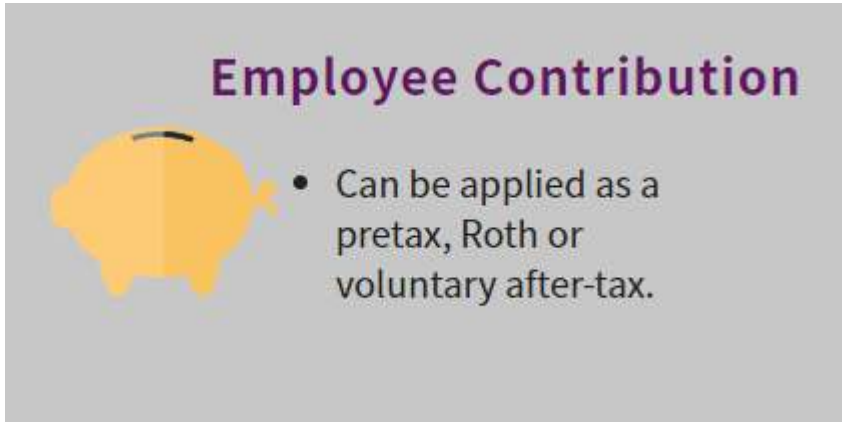
- May be applied as an employee contribution.
- Includes the catch-up amount for those age 50 or older.
- Now also falls under the Employer Profit Sharing (Nonelective) contribution category per SECURE 2.0 Act.

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.
- Not impacted by contributions to day job 401k.

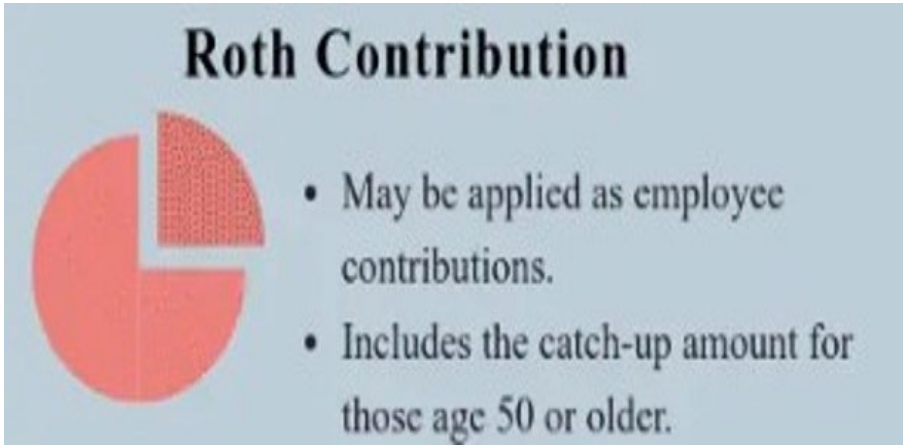
Pre-Tax (Employee) – How much can I contribute?

- **Employee Contribution (Salary Deferrals)**
  - The limit is 100% of your self-employment compensation NOT TO EXCEED/UP TO $22,500 for 2023 (plus an additional $7,500 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 2024, the elective deferral increased to $23,000, or $30,500 if age 50 or older.



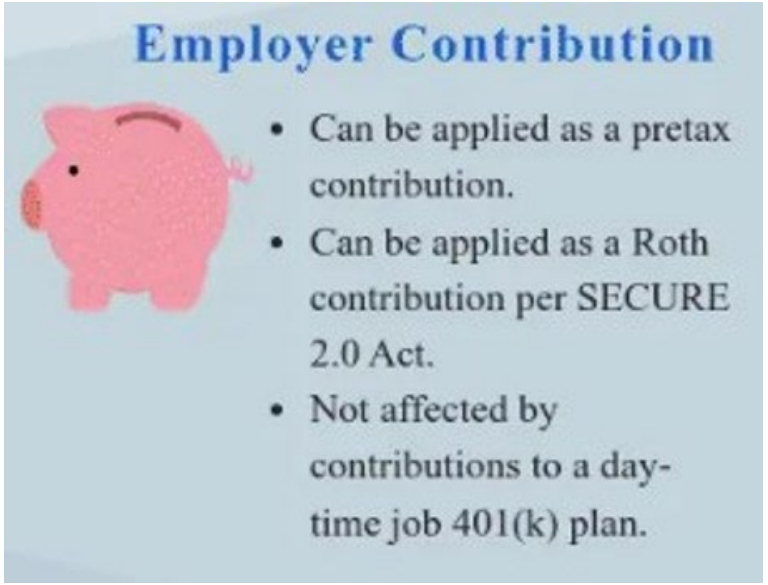
Roth – How much can I contribute?

- **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



Sole Props, LLCs & Independent Contractors: Pre-Tax (Employer) – How much can I contribute?

- **Employer Contribution (Profit-Sharing)**
  - The limit is equal to **20% of your self-employment compensation** (*for sole proprietors, single member LLCs, 1099-MISC/NEC Independent Contractors*).
    - The aggregate contributions can't exceed the overall limit of $66,000 or $73,500 if you are 50 or older for 2023 (For 2024, the contribution limit increased to $69,000 or $76,500 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



Secure Act 2.0:
New Roth Employer (Nonelective) Contributions

- **Secure Act 2.0 allows Employer Contributions to be made as Roth contributions.**
- **For a Solo 401k plan that allows for Mega Backdoor Roth contributions, many choose to simply make Voluntary After-Tax Solo 401k Contributions (Mega Backdoor Roth) and decline to make Employer Contributions:**
  - Voluntary After-tax Solo 401k Contributions can be made at higher percentage of self-employment income (100%) compared to Employer (Nonelective) Contributions made as Roth Solo 401k contributions (20% of self-employment compensation for self-employed business taxed as sole proprietorship).
  - The deadline to establish a Solo 401k plan in order to make both Employer (Nonelective) and Voluntary After-Tax Contributions is the same: the plan must simply be established in time to make contributions by the business tax return deadline including any timely filed extension.
  - Voluntary after-tax contributions may be transferred to a Roth IRA whereas Employer Contributions may not be transferred out of the Solo 401k to a Roth IRA until a “triggering event” has been met (e.g. the attainment of age 59 ½).

Secure Act 2.0: New Roth Employer (Nonelective) Contributions FAQs

QUESTION: Do I need to deposit Employer Solo 401k contributions made as Roth Solo 401k contributions in a separate account?

ANSWER: No. Both Employee and Employer contributions made as Roth Solo 401k contributions may be deposited into the same bank or brokerage for Roth Solo 401k funds.

QUESTION: What is the contribution limit for Employer Solo 401k contributions made as Roth Solo 401k contributions?

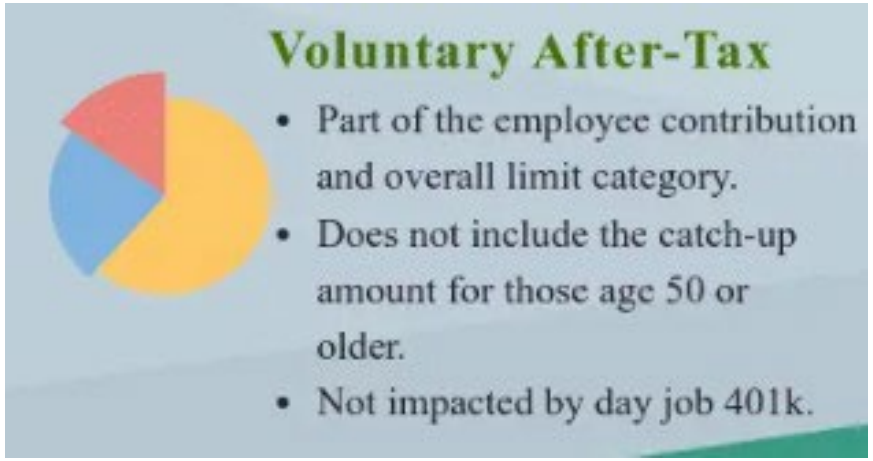
ANSWER: The contribution limit is the same for both Pre-tax and Roth Employer Solo 401k contributions: i.e. 20% of the self-employment compensation subject to the overall limit.

QUESTION: How do I report Employer Solo 401k contributions made as Roth Solo 401k contributions on my personal or business tax return?

ANSWER: Per IRS Notice 2024-2, Roth employer contributions are reported as *tax-deductible* on the employer's tax return (i.e. Form 1040) for the year for which the contributions are made and then reported as *taxable* to the employee for which the contributions are deposited on a Form 1099-R.

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 ($66k for 2023 & $69k for 2024) 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

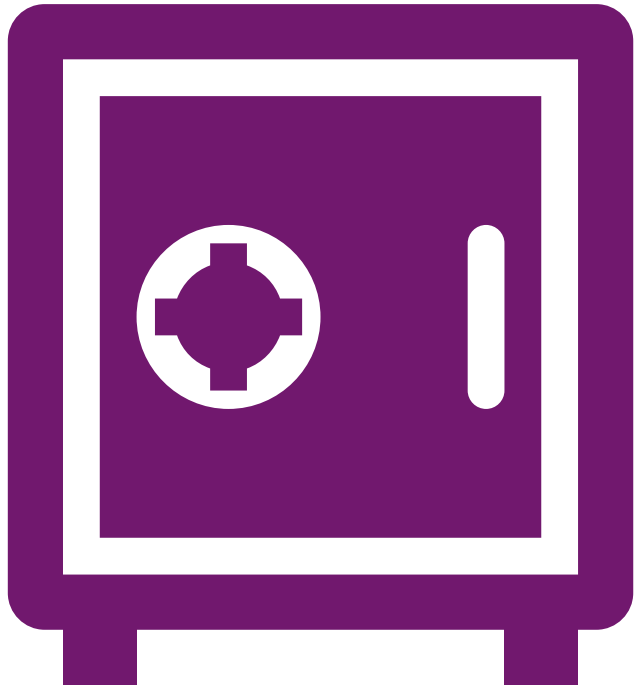
- **"Base Scenario" Assumptions**
  - **Self-employed business taxed as Sole Proprietor, Single Member LLCs, 1099-MISC/NEC Independent Contractor**
  - **One Participant**
  - **Under 50 years of Age**
  - **Does not make contributions to another plan**
  - **Goal is to Maximize Pre-tax contributions and then make Roth Solo 401k and/or Voluntary After-Tax Contributions**
  - **$100,000 of self-employment compensation (i.e. Line 31 of Schedule C less one-half of self-employment tax)**
  - **Note: Assume all Employer Contributions made as Pre-tax because making Employer Contributions as Roth contributions offers no substantive advantage over Mega Backdoor Roth Solo 401k Contributions.**

Contribution Scenarios

- "Base Scenario" Contribution Limits
  - Employee (**Pre-tax** or Roth): **$22,500** for 2023 (**$23,000 for 2024**) [100% of self-employment compensation up to $22,500 for 2023; $23,000 for 2024]
  - Employer Pre-tax Contributions: **$20,000** [20% of self-employment compensation provided total contributions don't exceed overall limit]
  - Voluntary After-Tax: **$23,500 for 2023; $26,000 for 2024** [Lesser of Self-employment compensation or the overall limit of $66,000 for 2023 ($69,000 for 2024) 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 Sole Proprietor, Single Member LLCs, 1099-MISC/NEC Independent Contractor**
  - **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 self-employment compensation (i.e. Line 31 of Schedule C less one-half of self-employment tax)**



Contribution Scenarios

- **How do Contribution Limits Change?**
  - Employee (**Pre-tax** or Roth): **$22,500** for 2023 (**$23,000 for 2024**) [100% of self-employment compensation up to $22,500 for 2023; $23,000 for 2024]
  - Employer Pre-tax Contributions: **$10,000** [20% of self-employment compensation provided total contributions don't exceed overall limit]
  - Voluntary After-Tax: **$17,500 for 2023; $17,000 for 2024** [Lesser of Self-employment compensation or the overall limit of $66,000 for 2023 ($69,000 for 2024) 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 Sole Proprietor, Single Member LLCs, 1099-MISC/NEC Independent Contractor
  - One Participant
  - Under 50 years of Age
  - **Contributes $22,500 for 2023 ($23,000 for 2024) 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 self-employment compensation (i.e. Line 31 of Schedule C less one-half of self-employment tax)

Contribution Scenarios

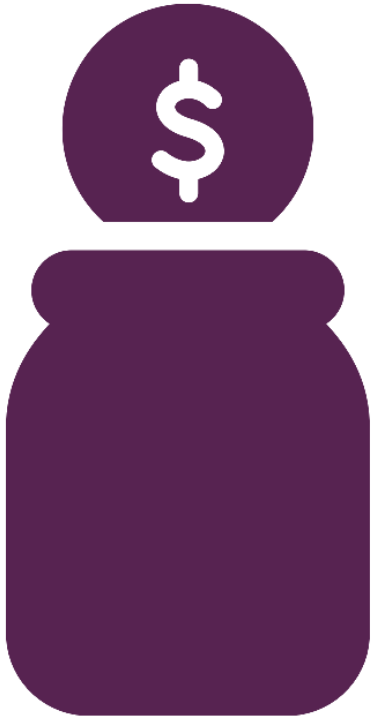
- **How do Contribution Limits Change?**
  - Employee (Pre-tax or Roth): **$0** [100% of self-employment compensation up to $22,500 for 2023; $23,000 for 2024) **reduced by any contributions made to another retirement plan unless 457 governmental plan**]
  - Employer Pre-tax Contributions: **$20,000** [20% of self-employment compensation provided total contributions don't exceed overall limit]
  - Voluntary After-Tax: **$46,000 for 2023; $49,000 for 2024;** [Lesser of Self-employment compensation or the overall limit of $66,000 for 2023 ($69,000 for 2024) 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 Sole Proprietor, Single Member LLCs, 1099-MISC/NEC Independent Contractor
  - 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 self-employment compensation (i.e. Line 31 of Schedule C less one-half of self-employment tax)

Contribution Scenarios

- **How do Contribution Limits Change?**
  - Employee (**Roth**): **$22,500** for 2023 (**$23,000 for 2024**) [100% of self-employment compensation up to $22,500 for 2023; $23,000 for 2024]
  - Employer Pre-tax Contributions: **$0** [20% of self-employment compensation provided total contributions don't exceed overall limit]
  - Voluntary After-Tax: **$43,500 for 2023; $46,000 for 2024;** [Lesser of Self-employment compensation or the overall limit of $66,000 for 2023 ($69,000 for 2024) reduced by any employee or employer contributions made to the Solo 401k]

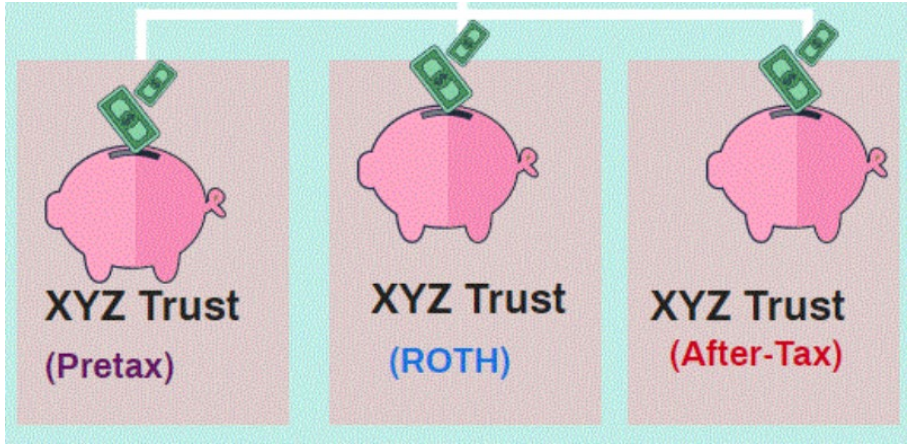


Contribution Scenarios

- Change "Base Scenario" Assumptions to Two (2) Participants
  - Self-employed business taxed as Sole Proprietor, Single Member LLCs, 1099-MISC/NEC Independent Contractor
  - 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 self-employment compensation (i.e. Line 31 of Schedule C less one-half of self-employment tax) for each person

Contribution Scenarios

- **How do Contribution Limits Change? [Limits for each person]**
  - Employee (**Pre-tax** or Roth): **$22,500** for 2023 (**$23,000 for 2024**) [100% of self-employment compensation up to $22,500 for 2023; $23,000 for 2024]
  - Employer Pre-tax Contributions: **$20,000** [20% of self-employment compensation provided total contributions don't exceed overall limit]
  - Voluntary After-Tax: **$23,500 for 2023; $26,000 for 2024** [Lesser of Self-employment compensation or the overall limit of $66,000 for 2023 ($69,000 for 2024) 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 Sole Proprietor, Single Member LLCs, 1099-MISC/NEC Independent Contractor
  - 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 self-employment compensation (i.e. Line 31 of Schedule C less one-half of self-employment tax)

Contribution Scenarios

- **How do Contribution Limits Change?**
  - Employee (**Pre-tax** or Roth): **$22,500** for 2023 (**$23,000 for 2024**) [100% of self-employment compensation up to $22,500 **plus $7,500 Catch-Up Contribution** for 2023; $23,000 **plus $7,500 Catch-Up Contribution** for 2024]
  - Employer Pre-tax Contributions: **$20,000** [20% of self-employment compensation provided total contributions don't exceed overall limit]
  - Voluntary After-Tax: **$23,500 for 2023; $26,000 for 2024** [Lesser of Self-employment compensation or the overall limit of $66,000 for 2023 ($69,000 for 2024) 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 Sole Proprietor, Single Member LLCs, 1099-MISC/NEC Independent Contractor
  - One Participant
  - Under 50 years of Age
  - Contributes $22,500 for 2023 ($23,000 for 2024) to "Day Job" Plan
  - Goal is to Maximize Roth Solo 401k and/or Voluntary After-Tax Contributions
  - $100,000 of self-employment compensation (i.e. Line 31 of Schedule C less one-half of self-employment tax)

Contribution Scenarios

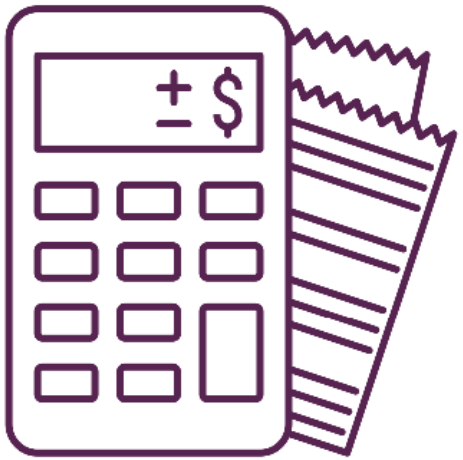
- **How do Contribution Limits Change?**
  - Employee (Pre-tax or Roth): **$0** [100% of self-employment compensation up to $22,500 for 2023; $23,000 for 2024) **reduced by any contributions made to another retirement plan unless 457 governmental plan**]
  - Employer Pre-tax Contributions: **$0** [20% of self-employme compensation provided total contributions don't exceed overall limit]
  - Voluntary After-Tax: **$66,000 for 2023; $69,000 for 2024;** [Lesser of Self-employment compensation or the overall limit of $66,000 for 2023 ($69,000 for 2024) 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 Sole Proprietor, Single Member LLCs, 1099-MISC/NEC Independent Contractor
  - One Participant
  - 50 or older years of Age
  - Contributes $30,000 for 2023 ($30,500 for 2024) to "Day Job" Plan
  - Goal is to Maximize Roth Solo 401k and/or Voluntary After-Tax Contributions
  - $100,000 of self-employment compensation (i.e. Line 31 of Schedule C less one-half of self-employment tax)

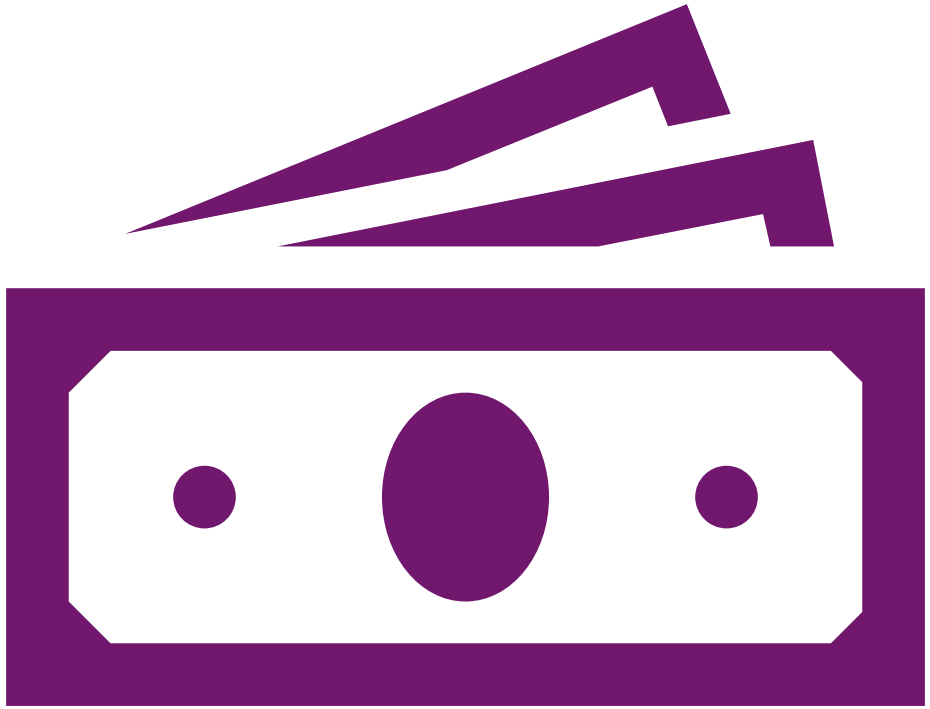
Contribution Scenarios

- **How do Contribution Limits Change?**
  - Employee (Pre-tax or Roth): **$0** [100% of self-employment compensation up to $22,500 for 2023; $23,000 for 2024) **reduced by any contributions made to another retirement plan unless 457 governmental plan**]
  - Employer Pre-tax Contributions: **$0** [20% of self-employment compensation provided total contributions don't exceed overall limit]
  - Voluntary After-Tax: **$66,000 for 2023; $69,000 for 2024;** [Lesser of Self-employment compensation or the overall limit of $66,000 for 2023 ($69,000 for 2024) 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 Sole Proprietor, Single Member LLCs, 1099-MISC/NEC Independent Contractor
  - Two (2) Participants (e.g. spouses or business partners)
  - Under 50 years of Age
  - Each person contributes $22,500 for 2023 ($23,000 for 2024) to "Day Job" Plan
  - Goal is to Maximize Roth Solo 401k and/or Voluntary After-Tax Contributions
  - $100,000 of self-employment compensation (i.e. Line 31 of Schedule C less one-half of self-employment tax) for each person



Contribution Scenarios

- **How do Contribution Limits Change? [Limits for each person]**
  - Employee (Pre-tax or Roth): **$0** [100% of self-employment compensation up to $22,500 for 2023; $23,000 for 2024) **reduced by any contributions made to another retirement plan unless 457 governmental plan**]
  - Employer Pre-tax Contributions: **$0** [20% of self-employment compensation provided total contributions don't exceed overall limit]
  - Voluntary After-Tax: **$66,000 for 2023; $69,000 for 2024;** [Lesser of Self-employment compensation or the overall limit of $66,000 for 2023 ($69,000 for 2024) 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 Sole Proprietor, Single Member LLCs, 1099-MISC/NEC Independent Contractor, select "Sole Proprietorship"
- Enter the net income from Line 31 of Schedule C 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

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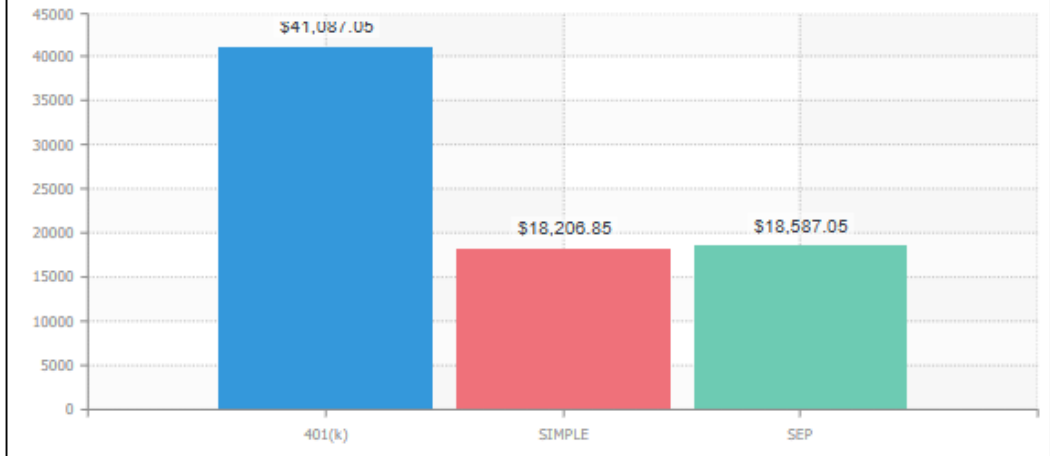
Name	Age	Income	Business Entity
John Smith	35	$100,000.00	Sole Proprietorship

Earned income is compensation for a self-employed individual who is covered under a qualifed plan. Earned income is calculated by subtracting ordinary and necessary trade or business expenses from your total self employment income. You are self employed for this purpose if you are a sole proprietor, an independent contractor, a member of a partnership, or are otherwise in business for yourself.

Net Earning (before qualified plan deduction)	$100,000.00
Calculate 1402(a)(12)Deduction	$92,350.00
Calculate Medicare & FICA (TWB of 160200)	$14,129.55
1/2 of Self-Employment Tax	$7,064.78
Self-Employment Income	$92,935.23

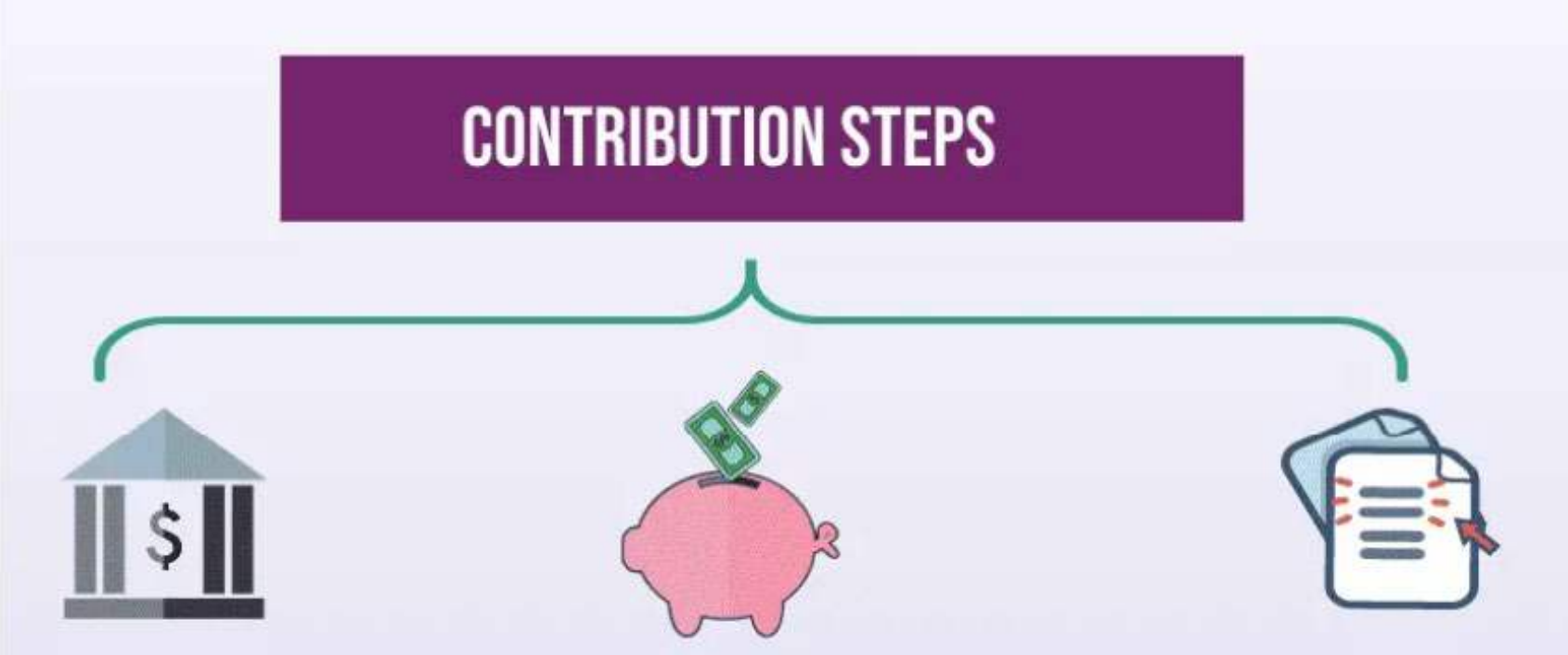
The maximum contribution into an Individual 401k plan is comprised of 2 elements, the profit sharing contribution and the 401(k) deferral. The maximum allowable contribution calculation simply takes the profit sharing contribution and adds the maximum 401(k) contribution amount to it and that is the total allowable contribution.

Maximum Profit Sharing Contribution	$18,587.05
Maximum 401(k) Deferral	$22,500.00
401(k) Catchup	$0.00
Total Contribution	$41,087.05
Maximum SIMPLE IRA Contribution	$18,206.85
Maximum SIMPLE IRA Catchup	$0.00
Total SIMPLE IRA Contribution	$18,206.85
Maximum SEP Contribution	$18,587.05



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

Make 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 from external account that doesn't match name on brokerage account.
- 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 partnership/multi-member LLC taxed as a partnership, etc.: 4/15 or 10/15 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%[1] of participant's compensation.[2]	25%[1] of all participants' compensation.[2]	Any time up to the due date of employer's return (including extensions).
SIMPLE IRA and SIMPLE 401(k)	**Salary reduction contributions:** 30 days after the end of the month for which the contributions are to be made.[4] **Matching or nonelective contributions:** Due date of employer's return (including extensions).	**Employee contribution:** Salary reduction contribution up to $12,500, $15,500 if age 50 or over. **Employer contribution:** *Either* dollar-for-dollar matching contributions, up to 3% of employee's compensation,[3] *or* fixed nonelective contributions of 2% of compensation.[2]	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	**Elective deferral:** Due date of employer's return (including extensions).[4] **Employer contribution:** Money Purchase Pension Plan or Profit-Sharing: Due date of employer's return (including extensions).	**Employee contribution:** Elective deferral up to $18,500, $24,500 if age 50 or over. **Employer contribution:** Money Purchase Pension Plan: Smaller of $55,000 or 100%[1] of participant's compensation.[2] Profit-Sharing: Smaller of $55,000 or 100%[1] of participant's compensation.[2]	25%[1] of all participants' compensation,[2] 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 *Minimum Funding Requirement* 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.

[1] Net earnings from self-employment must take the contribution into account. See *Deduction Limit for Self-Employed Individuals* in chapters 2 and 4.
[2] Compensation is generally limited to $275,000 in 2018.
[3] Under a SIMPLE 401(k) plan, compensation is generally limited to $275,000 in 2018.
[4] 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)

When is the deadline to make contributions?

2023 Solo 401k Setup & Contribution Deadlines: Sole Proprietorship/Single-Member LLC taxed as Sole Proprietor/1099-NEC Independent Contractor		
Setup Deadline	**Contribution Type**	**Contribution Deadline**
December 31, 2023	All Types: • Employee (Pre-tax & Roth) • Employer • Voluntary After-Tax (Mega Backdoor Roth)	April 15, 2024, or October 15, 2024, if timely extension is filed
April 15, 2024	All Types: • Employee (Pre-tax & Roth) • Employer • Voluntary After-Tax (Mega Backdoor Roth)	April 15, 2024
October 15, 2024, if timely extension filed	• Employer • Voluntary After-Tax (Mega Backdoor Roth)	October 15, 2024, if timely extension filed

2023 Solo 401k Contribution Deadlines

2024 Solo 401(k) Annual Contribution Deadlines Both Employee & Employer/Profit Sharing

Entity Type	Contribution Deadline	Contribute by Bus. Ext. Deadline
Sole Proprietorship	April 15, 2025	October 15, 2025
Partnership	March 17, 2025	September 15, 2025
S-Corportation	March 17, 2025	September 15, 2025
C-Corportation	April 15, 2025	October 15, 2025
LLC taxed as S-corp	March 17, 2025	September 15, 2025
LLC taxed as Partnership	March 17, 2025	September 15, 2025
LLC taxed as Sole Proprietorship	April 15, 2025	October 15, 2025

2024 Solo 401k Contribution Deadlines

Sole Props, LLCs & Independent Contractors:

How do I report contributions?

- **Employee Contributions:**
  - **Pre-tax:** Line 16 of Schedule 1 of the 1040
  - **Roth:** n/a
  - **Voluntary After-Tax Contributions:** n/a

- **Pre-tax & Roth Employer Contributions:**
  - Line 16 of Schedule 1 of the 1040
  - Roth Employer Contributions reported as taxable to the employee for the year of deposit via Form 1099-R

Report Contributions

- Report employee & employer pretax contributions on line 16 of Schedule 1-an attachment to Form 1040.
- Roth Employee contributions DO NOT get reported on a tax return.
- Roth Employer Contributions are first reported as **tax-deductible** contributions for the year for which the contributions are made on Line 16 of Schedule 1 of Form 1040 and then reported as **taxable** for the year in which the contributions are deposited by issuing a Form 1099-R and reporting the amount on Line 5a and 5b of Form 1040
- Voluntary after-tax contribution are indirectly reported on Form 1099-R line 5.

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

Solo 401k Now Qualifies for $1500 Tax Credit!

Solo 401k Tax Credit

- **Under the Secure Act, tax credits are available to small businesses that offer a 401k plan.**
- **A solo 401k plan that includes an automatic participation feature is eligible for a $1500 tax credit.**
  - ✓ **$500 per year for three (3) consecutive years**
  - ✓ **New or Existing Plans**
  - ✓ **Not based on actual cost to set up and maintain the Solo 401k**
- **While a solo 401k plan is not eligible for the "startup costs" tax credits since they are only for businesses with non-owner employees, an owner-only business is eligible to claim the automatic participation credit.**

New Solo 401k Tax Credit

https://www.mysolo401k.net/

My Solo 401k Financial™
Grow. Control. Direct.

Convert an existing plan by 12/31/2024 to claim tax credits starting in 2024.

2024

	2024	2025	2026	2027
Convert Existing Plan by 12/31/2024	$500	$500	$500	N/A

2025

	2024	2025	2026	2027
Convert Existing Plan by 12/31/2025	N/A	$500	$500	$500

Existing Solo 401k Tax Credit

Solo 401k Cost with Tax Credit

https://www.mysolo401k.net/

My Solo 401k Financia

Tax Credits are much better because a tax credit is a “dollar-for-dollar” reduction in the tax liability.

$500 Tax Decution Vs.		$500 Tax Credit
Your AGI	$45,000	$45,000
Tax Deduction	-$500	
Taxable Income	$44,500	$45,000
Example Tax Rate	22%	22%
Calculated Tax	$9,790	$9,900
Tax Credit		-$500
Your Tax Bill	$9,790	$9,400

Tax Credit vs. Tax Deduction

Solo 401k Tax Credit: Eligibility

- **What are the eligibility requirements to claim the $500 credit?**
  - ✓ A self-employed person must have a Solo 401k plan like a plan from My Solo 401k Financial with Auto-Contribution feature.

Solo 401k Tax Credit: FAQs

- **What is an Auto-Contribution feature?**
  - ✓ A Solo 401k plan with an auto-contribution feature has a default 3% contribution percentage.
- ***However, you can opt out of the default 3% contribution amount and then decide to make contributions in whichever amount you prefer including simply making no contributions.***
  - ✓ **In other words, you are not required to make annual solo 401k contributions to qualify for the tax credit.**

Solo 401k Tax Credit: FAQs

- **I have an existing Solo 401k plan. Can I add an auto-contribution feature to my existing Solo 401k plan and then claim the credit?**
  - ✓ **An Auto-Contribution may be added to an existing plan and then the credit may be claimed.**

Solo 401k Tax Credit: FAQs

- **How do I claim the credit?**
  - ✓ The credit is claimed by filing Form 8881.

Solo 401k Tax Credit: Examples

- Lindsey is self-employed and has a solo 401k plan.
  - ✓ If she amends her plan to add an auto-contribution feature before 12/31/2024 she may claim a $500 tax credit for 2024 and then additional $500 tax credits for 2025 and 2026 as long as she continues to maintain the solo 401k plan with the auto-contribution feature.
- Brad is solo attorney with no employees working for him.
  - ✓ If he signs up for our Solo 401k by 12/31/2024, he will be able to claim a $500 tax credit for 2024 and then additional $500 tax credits for 2025 and 2026 as long as he continues to maintain the solo 401k plan with the auto-contribution feature.

Solo 401K:
Learn More!

- **business@mysolo401k.net**
- **(800) 489-7571**