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

Solo 401k Loan Rules: The Complete Guide!

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- **Gusto**

Solo 401k Loan Guide

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- Am I Eligible to Open a Solo 401k?
- Solo 401k Loan Rules
- Steps to take a Solo 401k Loan
- Primary Residence Loan
- Multiple Loan Rules
- FAQs

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Solo 401k Eligibility

Who is eligible to set up a Solo 401k?

A SOLO 401K IS FOR AN OWNER-ONLY BUSINESS WITH NO FULL-TIME W-2 EMPLOYEES.

Qualifying/Eligibility

- Self-employed individuals and owner-only businesses.

- Without any full-time W-2 employees (working 1,000 hours +).

- Owners' spouses may also participate if working in the business.

Solo 401k Eligibility Checklist

Top Solo 401k Eligibility Considerations	
Do I need a separate entity (e.g. LLC, S-corporation)?	No
Do I need to report earned self-employment income on my taxes?	Yes
Is there a minimum amount of earned self-employment income?	No
Can my spouse or business partner participate as long as they are also reporting earned self-employment income?	Yes
Can I set up a Solo 401k even if I also have a w-2 job ("day job") as long as I am reporting some earned self-employment income?	Yes
Even if I am participating in my w-2 employer's 401k plan?	Yes
Do I need an EIN for my self-employed business?	No
Can I set up a Solo 401k if there are non-owner full-time w-2 employees working for another business owned by me or my spouse?	No

Solo 401k Loan Rules

Solo 401k Loan Rules

Who may borrow money from his or her Solo 401k plan?

Assuming the Solo 401k plan contains loan provisions that allow for participant loans, as My Solo 401k plan document does, as trustee you are permitted to borrow from your Solo 401k.

Solo 401k Loan Rules

How much can I borrow from my solo 401k?

Each Solo 401k participant may borrow one-half the present value of his/her vested account balance, not to exceed $50,000. *Note:* If the Solo 401k owner had an outstanding Solo 401k loan in the prior 12 months (even if currently paid off), this amount will need to be adjusted accordingly (see Multiple Loan Rules).

<u>Example:</u> Mark would like to take a loan from his Solo 401k plan. Mark has a vested balance of $50,000, the maximum amount that he can borrow from the account is $25,000.

***50% x $50,000 = $25,000**

***Note:* If Mark had a vested balance greater than $100,000, he could only borrow $50,000**

Solo 401k Loan Rules

What are the terms of the loan?

The loan must be payable in equal monthly or quarterly payments of principal and interest with payments over a 5-year term.

Note: The term may be longer if the proceeds are used to purchase one's primary residence

Solo 401k Loan Rules

What is the interest rate?

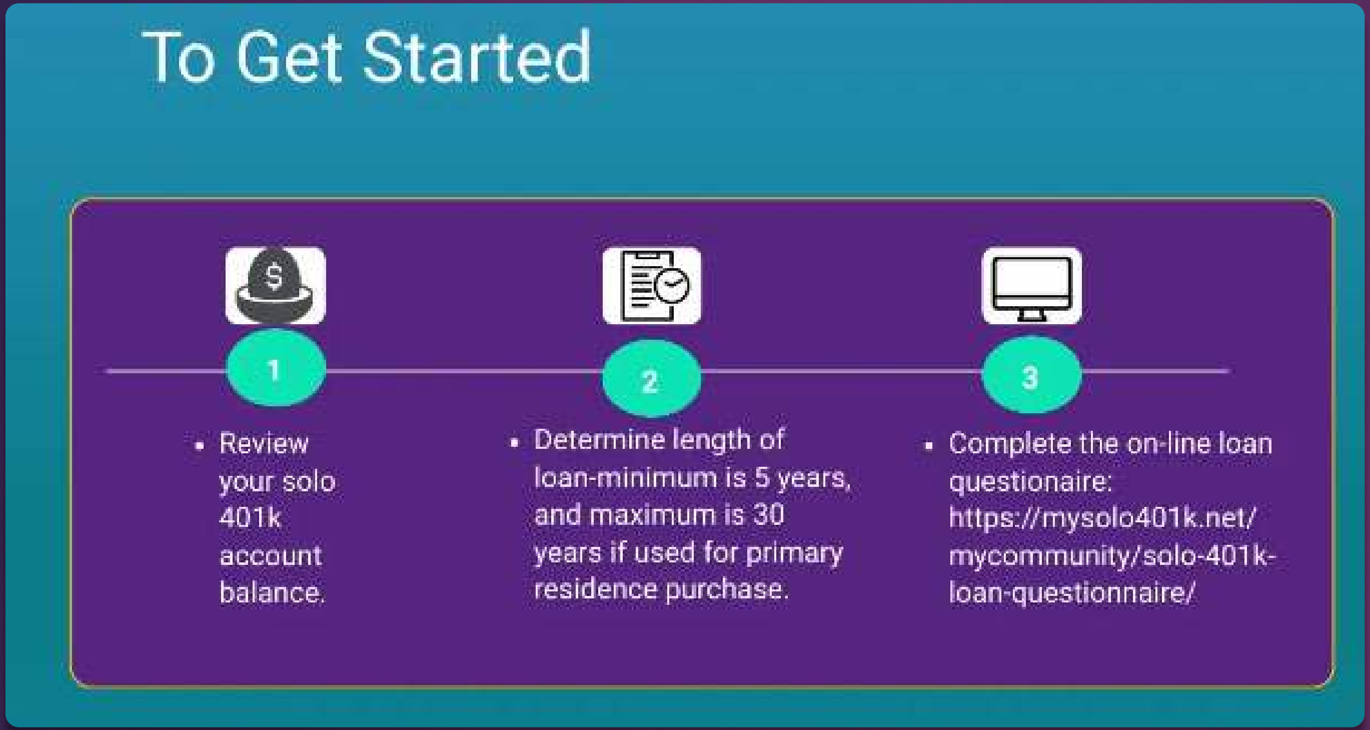
The interest rate is either the Prime Rate plus 1% or a CD rate plus 2%.

Solo 401k Loan Rules

Can the proceeds of the loan be used for any purpose?

Yes the proceeds of the loan may be used for any purpose (e.g. home remodeling, paying of credit card debt, college tuition, etc.)

Steps to take a Solo 401k Loan



Steps to Take a Solo 401k Loan

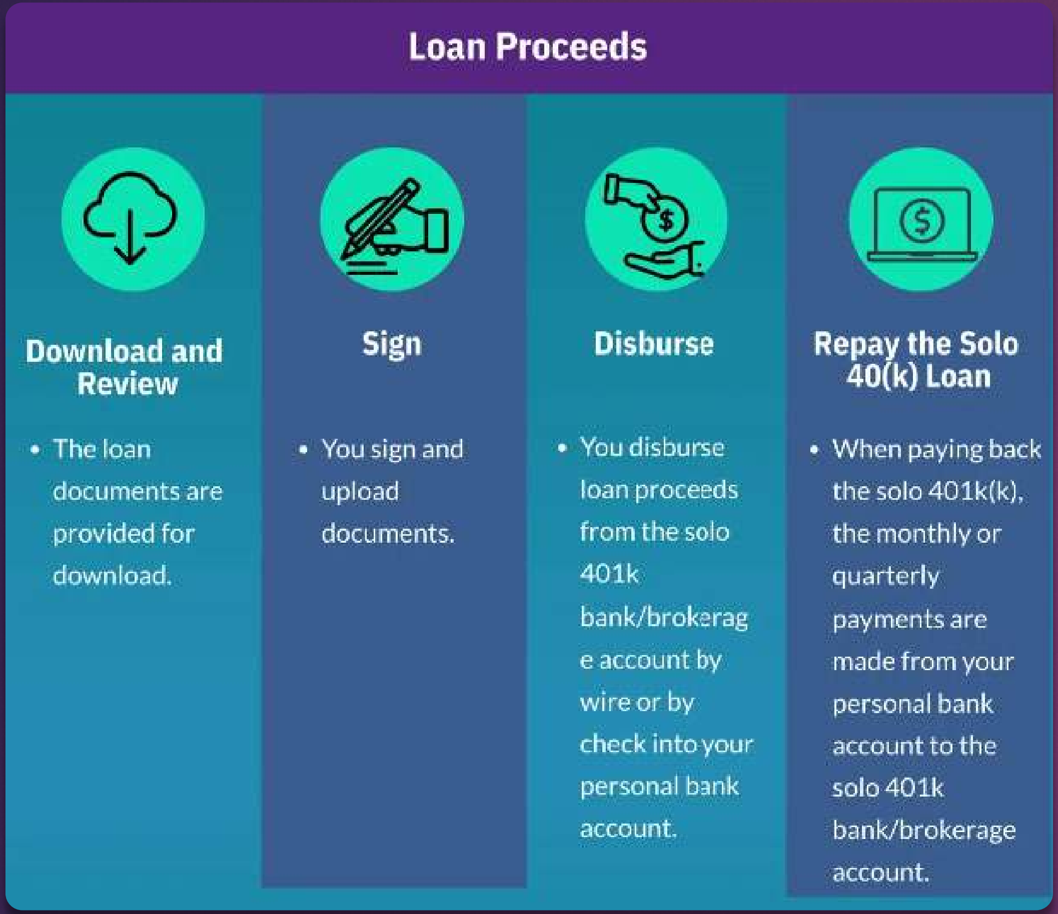
Steps to Take a Solo 401k Loan

Fund Solo 401k Account

Submit Online Form

Loan Documents

Take Solo 401k Loan



Steps to Take a Solo 401k Loan

Primary Residence Loan

Primary Residence Solo 401k Loan

Can the term of my Solo 401k loan be longer than 5 years if I use the proceeds to purchase my primary residence?

Yes when solo 401k plan loan proceeds are used towards the purchase of a primary dwelling for the participant, the loan payback period increases from 5 to 15 or even 30 years.

Multiple Loan Rules

Multiple Solo 401k Loans

If I previously took a Solo 401k loan within the last 12 months, will that impact how much I can take now?

Under the multiple loan rules, the sum of the balances of the outstanding loans (using the highest outstanding balance of each loan over the last 12 months) can't exceed 50% or $50,00 whichever is less.

For example, if the highest outstanding balance of your existing loan over the past 12 months was $25,000, the most you can take as a second loan is $25,000 (i.e. $50,000 less $25,000) even if you previously paid back the existing loan.

Solo 401k Loan FAQs

Do I make Solo 401k Loan payments to myself?

If I take a loan from my solo 401(k) am I paying the interest to myself, correct? Not paying it to someone other institution, right?

When a Solo 401k owner takes a Solo 401k loan, the Solo 401k owner is certainly not paying it to another institution or to us as the Solo 401k plan provider.

Instead, the loan payments are deposited into the Solo 401k account so the Solo 401k owner is paying the loan back to such person's retirement account (i.e. the Solo 401k owner's "future self").

Solo 401k Loan Prepayment Penalty

Is there a Solo 401k loan prepayment penalty?

No, there is no prepayment penalty for a Solo 401k participant loan.

Roth & Pre-Tax Solo 401k Loan

When it says that you can take up to 50% of the account balance as a loan with a max of $50,000, does that mean that 50% of the Roth Solo 401k sub-account or 50% of the total value of the Solo 401k plan?

Assuming that a solo 401k owner/participant didn't have another outstanding Solo 401k loan within the prior 12 months, the full $50,000 Solo 401k loan can be taken from the Roth sub-account.

In calculating the maximum loan that can be taken, one considers the total value of the Solo 401k plan (i.e. the sum of the Solo 401k Pre-tax and Roth Solo 401k sub-accounts).

Once one has determined the maximum loan amount, one may take the full loan from any sub-account (i.e. a full $50,000 loan may be taken from the Roth Solo 401k sub-account).

If the Solo 401k owner/participant elects to borrow from both a pre-tax Solo 401k sub-account and a Roth Solo 401k sub-account, this would have to be structured as two separate loans, one from the pretax Solo 401k sub-account and a second from the Roth Solo 401k sub-account.

Can I Use a Solo 401k Loan to Buy a Business?

Can I take a solo 401k loan to buy my own small business as a side gig?

Yes, as long as you have no full-time W2 employees working for any business owned by you (or a spouse if any).

Can I make a Solo 401k loan to my own self-employed business?

I have some clients that are asking me about the Solo 401K Loan process to lend from your 401K to your business. Can you please let me know the process, cost, and what you need from me to lend the money to my business so that I can deduct the interest?

Unfortunately, the solo 401k rules don't allow for loans to the solo 401k participant's business even by way of a solo 401k participant loan.

In other words, the solo 401k participant loan would be to the solo 401k participant NOT his or her business; as a result, the interest on the Solo 401k participant loan could not be deducted by the participant or his or her business.

While the borrowed funds can be used for any purpose including for your business, the participant loan documents are required to be drafted as a solo 401k participant loan to the solo 401k participant not the business.

Using Solo 401k Loan for Business/Investment

If use the proceeds of my Solo 401k loan to fund my business or a personal investment, is my obligation to pay back the loan contingent on the performance of the investment?

No – the Solo 401k owner must pay back the loan according to the payment schedule regardless of the performance of the subsequent personal investment/use of the Solo 401k loan proceeds.

Solo 401k Loan Reported to Credit Report?

Will a credit check be needed to take a Solo 401k loan? If I default on the loan, will this be reported to the credit bureaus?

No – the fact that one takes a solo 401k loan is not reflected on such person's personal credit.

When a solo 401k owner takes a solo 401k loan, the funds are transferred out of the Solo 401k account to the account of the Solo 401k participant.

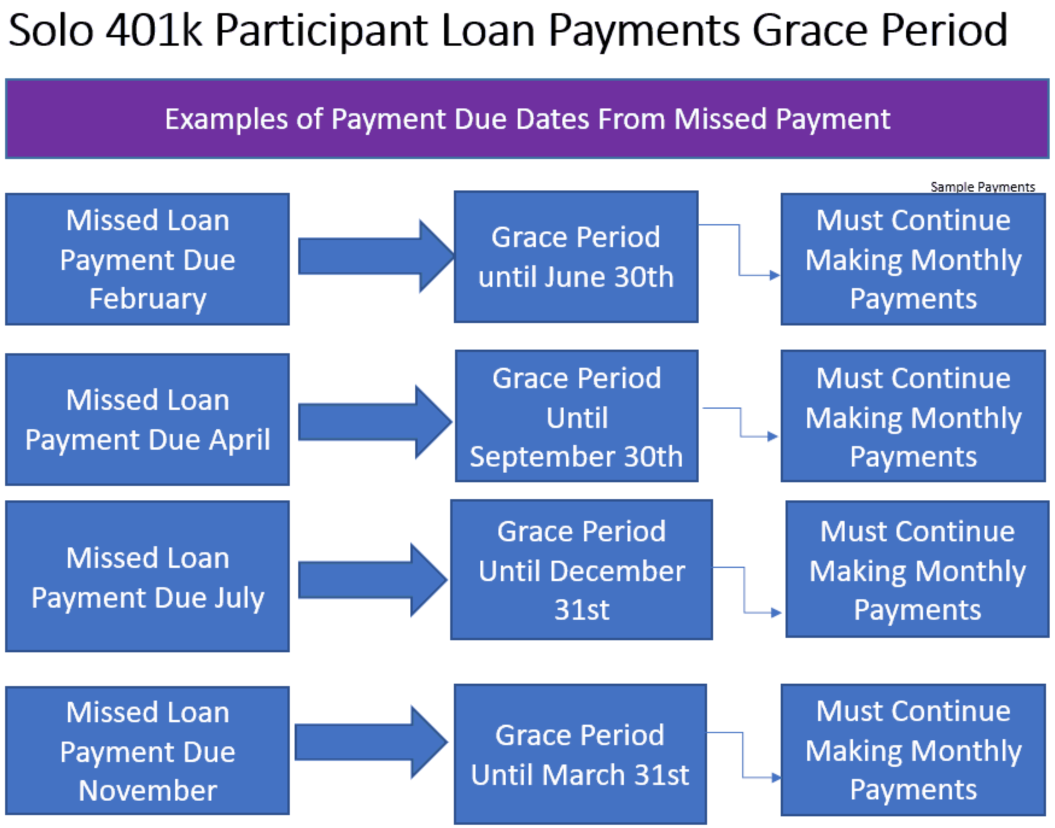
There is no credit check and the repayment of the loan is not reported to the credit bureaus.

Solo 401k Loan Payment Grace Period

What is the solo 401k loan grace period?

The solo 401k participant loan grace period allows for the missed loan payment to be made by the end of the quarter following the quarter of the missed payment.

For example, if the solo 401k participant loan is being paid back on a monthly basis and the monthly scheduled payment was due on July 15 but the payment was missed, the missed payment would need to be made by December 31 (the end of the grace period).



Solo 401k Loan Default

What happens if I don't make the loan payments within the grace period?

If a Solo 401k loan is defaulted, the loan value at the time of default is taxable and reported to the plan participant and to the IRS on IRS Form 1099-R

If I previously defaulted on a 401k loan, can I take another?

If I previously defaulted on a 401k loan, can I take another?

Defaulted loans will impact the ability to borrow more funds from the solo 401k plan.

Essentially, even though the loans that are in default will be treated as distributions, the outstanding solo 401k participant loan balances will be taken into account in processing and in calculating the maximum amount of any subsequent solo 401k participant loan. The unpaid amount of the loan(s) that went into default, including accrued interest is considered outstanding for purposes of determining the maximum dollar amount of any subsequent solo 401k participant loan.

Can I take a Solo 401k loan if I already have a loan from my regular day job 401k?

I have a “day job” 401k and have already taken a 401k loan from that plan. I have a solo 401k for my side business – can I take another loan from my Solo 401k?

Certainly – it is acceptable to take loans from both plans because you are not the owner of the employer that sponsors your “day job” 401k plan.

Restate Solo 401k with Solo 401k Loan

I am restating an existing solo 401k plan to My Solo 401k Financial and there is an outstanding Solo 401k loan. Do I have to pay back that loan as a result of the restatement?

If the existing participant loan is held in another solo 401k, yes it can also be moved to the new solo 401k that we offer when the existing solo 401k is restated/moved to us. You would continue making the loan payments pursuant to the initial participant loan payment schedule.

Former Employer Plan with 401k Loan

I am rolling over a former employer 401k to my solo 401k plan with My Solo 401k Financial and there is an outstanding 401k loan. Can I transfer the 401k loan to my Solo 401k?

While our Solo 401k plan would allow a loan to be transferred from a former employer 401k, most former employers do not allow for the transfer of a 401k participant loan.

Crypto Solo 401k Loan

My Solo 401k is currently invested in Bitcoin. I would like to take the crypto out as a loan to myself and make monthly payments back including interest to myself. Is it possible to loan the BTC directly, without having to liquidate it to cash first?

In short: No.

The 401k loan rules provide that a participant may withdraw cash in the form of US dollars (subject to certain limits, repayment requirements, etc.) and if properly documented as a loan and paid back according to the payment schedule the withdrawal is not subject to taxes or penalties.

These loan rules would not allow one to withdraw a Solo 401k asset as a loan including a digital asset like cryptocurrency which is treated per the IRS as property (not cash).

Therefore, one may not borrow bitcoin held in their Solo 401k plan as a Solo 401k loan.

Solo 401k Loan Payments Tax Deductible?

Can I deduct the interest paid on my solo 401k participant loan on using Form 1098?

Form 1098 does not apply to solo 401k participant loans as interest paid on a solo 401k participant loan is not tax deductible.

Are Solo 401k loan payments included in Solo 401k contributions?

I took a Solo 401k participant loan and I am also making Solo 401k contributions. Are my Solo 401k loan payments included in contributions?

No, loan payments are not included in contributions. Solo 401k annual contributions from self-employment income cannot be used/applied towards payment of solo 401k participant loans. Solo 401k participant loan payments must be made with personal funds, not business funds or solo 401k funds.

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