

Choosing the right retirement plan

Ask yourself three simple questions

Entrepreneurs who want to set up a retirement plan for their business have three options: SIMPLE IRA, SEP IRA, and solo 401(k) plans.

Each of these retirement plans enables business owners to save money for retirement. The earnings on the investments are tax-deferred until retirement, and contributions can be tax deductible.

Each plan has slightly different features, and you'll need to choose one that meets your specific needs.

Consider these three questions when choosing your plan:

1. What is your age? If you're at least age 50, consider a SIMPLE IRA or solo 401(k). Both offer catch-up contributions, allowing you to contribute an additional \$3,000 (SIMPLE) or \$6,000 [401(k)].
2. Do you want to make after-tax Roth contributions? Only solo 401(k) plans can be set up to receive designated Roth contributions that are not limited by income level. This makes solo 401(k) plans a uniquely compelling fit for entrepreneurs who want to save taxes on their retirement contributions. For 2019, entrepreneurs can contribute up to \$19,000 of after-tax elective deferrals to their Roth 401(k), or \$25,000 if age 50 or older.
3. Do you want to catch up on the previous year's contribution? A SEP IRA can be set up retro-actively. Sometimes we have a situation where a sole proprietor or business owner doesn't have a retirement plan, and they want to put some of their earnings towards retirement. The solution is to file an extension and set up a SEP IRA. You have until the extended due date of your tax return to set up and contribute to a SEP IRA to deduct the contributions on that year's tax return. This means that entrepreneurs with a valid extension who set up a SEP account by the October 15 deadline can deduct any contributions on that year's tax return.