

Individual 401(k) Plan

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) has authorized rules that make it advantageous for a business consisting of only owners and their spouses to start a 401(k) Plan.

A Special (k) plan is a 401(k) plan designed specifically for owner-only businesses. For this purpose an "owner-only business" is a business that employs only the owner and his or her immediate family members, or a business that employs the owner and other part-time employees who always work less than 1/2 time.

Karp Capital offers a Special (k) plan product which will allow business owners to transition to a traditional 401(k) (or some other type of plan) if and when common-law employees become eligible to participate. Also, other qualified plans may become more beneficial to the business owner in the future. Karp Capital will advise the plan business owner of other types of plans, which may be suitable, such as defined benefit plans.

- As easy to establish as a SEP/IRA, but with all the advantages of a Qualified Plan
- SEP/IRAs no longer have 401(k) style salary deferral features
- Can be sole proprietor, partnership or corporation
- Contributions are discretionary
- Loans and Life Insurance are available in Special (k) / Not available through SEPs
- Lower compensation limits to achieve a \$50,000 contribution

Through Special(k)

Initial Compensation of \$175,000

- \$17,000 401(k) deferral*
- \$33,000 = max profit sharing contribution
- Total pension = \$50,000
- Taxable = \$125,000
- Loans and life insurance available

If age 50 or over

Initial Compensation of \$175,000

- \$22,500 401(k) deferral*
- \$33,000 = max profit sharing contribution
- Total pension = \$55,500
- Taxable = \$119,500
- Loans and life insurance available

* \$17,000 is the maximum 401(k) deferral for 2012 (the available catch-up is \$5,500)

Through a SEP

Initial Compensation of \$175,000

- NO (k) deferral
- \$35,000 = max SEP contribution
- Total pension = \$35,000
- Taxable = \$140,000
- Loans and life insurance not available

If age 50 or over

Initial Compensation of \$175,000

Same as above

Amount needed to maximize through a SEP

Initial Compensation	\$ 250,000
25% Profit Sharing	\$ 50,000
Initial Taxable	\$ 200,000