



Self-employed? Don't Forget to Fund a Retirement Plan

As a self-employed small business owner, you have numerous responsibilities on your plate that a salaried employee does not encounter. One critical but easily overlooked responsibility is to plan for your post-career financial well-being, by establishing, maintaining and funding your own retirement plan.

Fortunately, the retirement plan opportunities available to self-employed individuals are wide-ranging, and far exceed anything that you may have been offered as an employee. You decide what plan(s) to put in place, you decide how investments are directed, and, best of all, you decide how much of your income to contribute to the plan - growing tax-deferred for many years – often in dollar amounts / percentages of income that far exceed what a traditional salaried employee can invest.

Did you know that you can set up your own “solo” 401(k) plan? It's easy and relatively inexpensive to put in place, tax filing requirements (if any) are not difficult, and there is no pre-selected, limited menu of investment options to restrict you.

Do you prefer to contribute more than a 401(k) plan will permit? Tack on a profit-sharing option, which operates in conjunction with the 401(k) plan and expands what you can do.

Perhaps you'd prefer a plan with less paperwork, no tax filing requirement, and the opportunity to invest even more cash than the 401(k). If so, a SEP (Simplified Employee Pension) plan may be right for you. SEPs are actually IRAs (Individual Retirement Accounts) with higher contribution limits, and function much like the IRA you likely already have in place.

The above plans are known as “defined contribution” plans because the plan participant controls the amount that is invested. You may also be aware of employer-funded, “defined benefit” pension plans, whereby a set amount is regularly paid out to the participant(s) upon retirement.

Defined benefit plans are now uncommon within the private sector, as employers have shifted the burden of retirement plan funding to employees. However, as a self-employed individual, you wear both hats, and defined benefit plans are still very much open to you and in the right setting, could be an attractive option.

If you have the available assets, it is possible to establish such a plan and shelter surprisingly large amounts of taxable income, without forgoing any of the other opportunities we have covered. That is, it's possible to participate in both defined contribution and defined benefit plans simultaneously.

Which plan or plans are right for you? It depends on many things, such as your age, goals, business profitability, resources, and whether you are a one-person business or have employees that may have to be covered by your plan. The important thing is to get started. Contact your Anchin Relationship Partner or Fred Barotz, a Tax Director in Anchin Private Client, to discuss your options and ensure that you have the tools to make the right choices for your situation at 212.840.3456 or info@anchin.com.



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