

The Individual 401(k) Plan

A retirement and tax-advantaged opportunity for self-employed individuals

Individual 401(k) plans provide your owner-only business clients with a powerful way to save for retirement. These plans may permit greater tax-advantaged contributions than other small-business retirement plans.

Who should consider an Individual 401(k) Plan?

Any business that employs only the owner and his or her spouse is eligible. Examples include real estate brokers, consultants, independent contractors, attorneys, accountants, and chiropractors.

An Individual 401(k) plan is not suitable for businesses with employees, or those that may be contemplating adding employees in the near future.

KEY PLAN BENEFITS	
Contribution Limits*	<ul style="list-style-type: none"> • Employees may make salary deferral contributions of up to \$19,500 in 2020, and those aged 50 or older may be able to contribute an additional \$6,500 catch-up contribution. • Employers may be able to make a profit-sharing contribution of up to 25% of eligible compensation, up to a maximum of \$57,000 for 2020 (based on a maximum compensation of \$285,000 for 2020). • Each year, owners can increase or decrease their salary deferral and/or profit-sharing contributions depending on their earnings and the profitability of their business.
Tax Advantages	<ul style="list-style-type: none"> • Contributions are made pretax, and any growth is tax deferred.
Cost Efficiency	<ul style="list-style-type: none"> • Individual 401(k) plans are generally more cost-effective for owner-only businesses than traditional 401(k) plans. • Individual 401(k) plans require less administration and minimal compliance testing.
Consolidation	<ul style="list-style-type: none"> • Rollover contributions are allowed from other plans, such as SEP IRAs, SIMPLE IRAs (after two years), profit-sharing plans, and money purchase plans, offering simplicity and convenience.

*Based on 2020 IRS contribution limits and an individual's compensation and other personal circumstances. The total contribution limit (employer contributions plus employee salary deferrals) is \$57,000 for 2020 (or \$63,500 if the employee is age 50 or older).

Individual 401(k) plan vs. other small-business plans

Individual 401(k) plans may allow small-business owners to contribute more to their retirement plan than other small-employer retirement plans do. See the table below for a simplified, hypothetical comparison.

COMPARISON OF SMALL-BUSINESS PLAN CONTRIBUTIONS*			
COMPENSATION	INDIVIDUAL 401(K) [†]	SEP IRA [‡]	SIMPLE IRA [§]
\$50,000	\$32,000	\$12,500	\$15,000 [§]
\$100,000	\$44,500	\$25,000	\$16,500 [§]
\$150,000	\$57,000 [†]	\$37,500	\$18,000 [§]
\$200,000	\$57,000 [†]	\$50,000	\$19,500 [§]

*This table does not reflect catch-up contributions, which may be available for individuals aged 50 or older. Actual amounts may vary depending on the client's specific earnings and tax situation. Special rules apply when figuring the maximum deductible contribution for self-employed individuals. See IRS Publication 560 for details on determining the maximum deduction.

[†]The IRS annual contribution limit is \$57,000 for 2020.

[‡]SEP IRA amounts are calculated on 25% of compensation (based on a maximum of \$285,000 for 2020). The SEP contribution limit is \$57,000 for 2020. Special rules apply when figuring the maximum deductible contribution for self-employed individuals. See IRS Publication 560 for details on determining the contribution amount.

[§]This example assumes the self-employed individual is contributing the maximum \$13,500 as an employee deferral contribution and an additional 3% employer matching contribution. If a plan allows, participants over age 50 can contribute a catch-up contribution of \$3,000.

Frequently asked questions

Q. Can a plan be established immediately for a business that is started during the year?

A. Yes. Owners can start contributing immediately. The Individual 401(k) plan must be established no later than the last day of the business's tax year.

Q. When must contributions be made in order to take a deduction for a given year?

A. In general, employer contributions must be made by the business's tax-filing deadline, including extensions.

For more information, please contact your Fidelity Representative.



FIDELITY CLEARING & CUSTODY SOLUTIONS

200 Seaport Boulevard
Boston, MA 02210

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