

# 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"> <li>• 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.</li> <li>• 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).</li> <li>• 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.</li> </ul>
Tax Advantages	<ul style="list-style-type: none"> <li>• Contributions are made pretax, and any growth is tax deferred.</li> </ul>
Cost Efficiency	<ul style="list-style-type: none"> <li>• Individual 401(k) plans are generally more cost-effective for owner-only businesses than traditional 401(k) plans.</li> <li>• Individual 401(k) plans require less administration and minimal compliance testing.</li> </ul>
Consolidation	<ul style="list-style-type: none"> <li>• 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.</li> </ul>

\*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) <sup>†</sup>	SEP IRA <sup>‡</sup>	SIMPLE IRA <sup>§</sup>
\$50,000	\$32,000	\$12,500	\$15,000 <sup>§</sup>
\$100,000	\$44,500	\$25,000	\$16,500 <sup>§</sup>
\$150,000	\$57,000 <sup>†</sup>	\$37,500	\$18,000 <sup>§</sup>
\$200,000	\$57,000 <sup>†</sup>	\$50,000	\$19,500 <sup>§</sup>

\*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.

<sup>†</sup>The IRS annual contribution limit is \$57,000 for 2020.

<sup>‡</sup>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.

<sup>§</sup>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

**For investment professional use only. Not for distribution to the public as sales material in any form.**

The content provided herein is general in nature and is for informational purposes only. This information is not individualized and is not intended to serve as the primary or sole basis for your decisions as there may be other factors you should consider. Fidelity Investments does not provide advice of any kind. You should conduct your own due diligence and analysis based on your specific needs.

Information provided in this document is for informational and educational purposes only. To the extent any investment information in this material is deemed to be a recommendation, it is not meant to be impartial investment advice or advice in a fiduciary capacity and is not intended to be used as a primary basis for your or your client's investment decisions. Fidelity, and its representatives may have a conflict of interest in the products or services mentioned in this material because they have a financial interest in them, and receive compensation, directly or indirectly, in connection with the management, distribution, and/or servicing of these products or services, including Fidelity funds, certain third-party funds and products, and certain investment services.

Third-party marks are the property of their respective owners; all other marks are the property of FMR LLC. Third parties referenced herein are independent companies and are not affiliated with Fidelity Investments. Listing them does not suggest a recommendation or endorsement by Fidelity Investments.

Fidelity Clearing & Custody Solutions® provides clearing, custody, or other brokerage services through National Financial Services LLC or Fidelity Brokerage Services LLC, Members NYSE, SIPC.

© 2019 FMR LLC. All rights reserved.

492665.14.0

1.867935.114  
12/20