

401k's FOR SMALL BUSINESS

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I know its June, but for small business owners the April 15th pain is still lingering. One way to help ease the inevitable sting is to utilize the 401(k).

We often encounter many small business owners that carry the misconception that 401(k)'s are only for larger corporations and are unaffordable or they don't have enough employees to be eligible. Fortunately, businesses as small as one person can open up affordable 401(k) plans, that will allow owners to have all those fantastic opportunities to lower their tax basis and build up a nice tax-deferred nest egg for retirement.

53% of small-business owners stated in survey conducted by ING that they don't feel prepared for retirement, with many only utilizing a bank account or IRA as their only nest egg. The 401(k) is a far superior means of accumulating wealth and improving ones tax situation.

The following are five tax-specific benefits that make the 401(k) a smart choice for any small business:

1. Tax credits make it easy to get started: Businesses with fewer than 100 employees, but at least one besides the owner qualify for a \$500 tax credit to offset the administration costs of the plan for each of the first three years.
2. A tax shelter of \$15,500 plus any matching: This is three times greater than what can be expected from a traditional IRA and also allows for a catch-up of an additional \$5,000 for individuals 50 and older. Businesses that choose to match their employee's contributions also gain additional tax-deferred savings on those amounts and can deduct matching from their company's taxes.
3. Self-employed workers can shelter up to \$46,000 annually: The Solo 401(k) is a great option for one-person businesses as it allows participants to: contribute \$15,500 to their plan, and make additional employer contributions that defer up to \$46,000 based on the amount they earn.
4. Profit-sharing that provides flexibility: A 401(k) can make it easier for employers to share their success with employees when they have good years and to a lesser degree or not at all during the lean ones. As an added benefit, profit-sharing is typically tax deductible up to 25% of the amount each business contributes.
5. New Roth 401(k) feature allows for after-tax contributions: New regulations now enable small businesses to make after-tax contributions with no income level restrictions, unlike the popular Roth IRAs that have income limits that restrict eligibility. That in turn means that employees with a Roth 401(k) will have the advantage of tax-free withdrawals including earnings when they use these funds in retirement. Employers can choose to put all, part or none of their personal contributions into their Roth. The caveat here is that any company match you do must be made on a tax-deferred basis and not into your Roth.

The time to start is today! Don't let the deadline hit you. With a stock market that has gotten very cheap very quickly the earlier one starts the better. The reality is that the sooner one starts to save the less one has to save. For more information on all your options and deadlines contact Matthew Markowski at (888) 950-0940.