

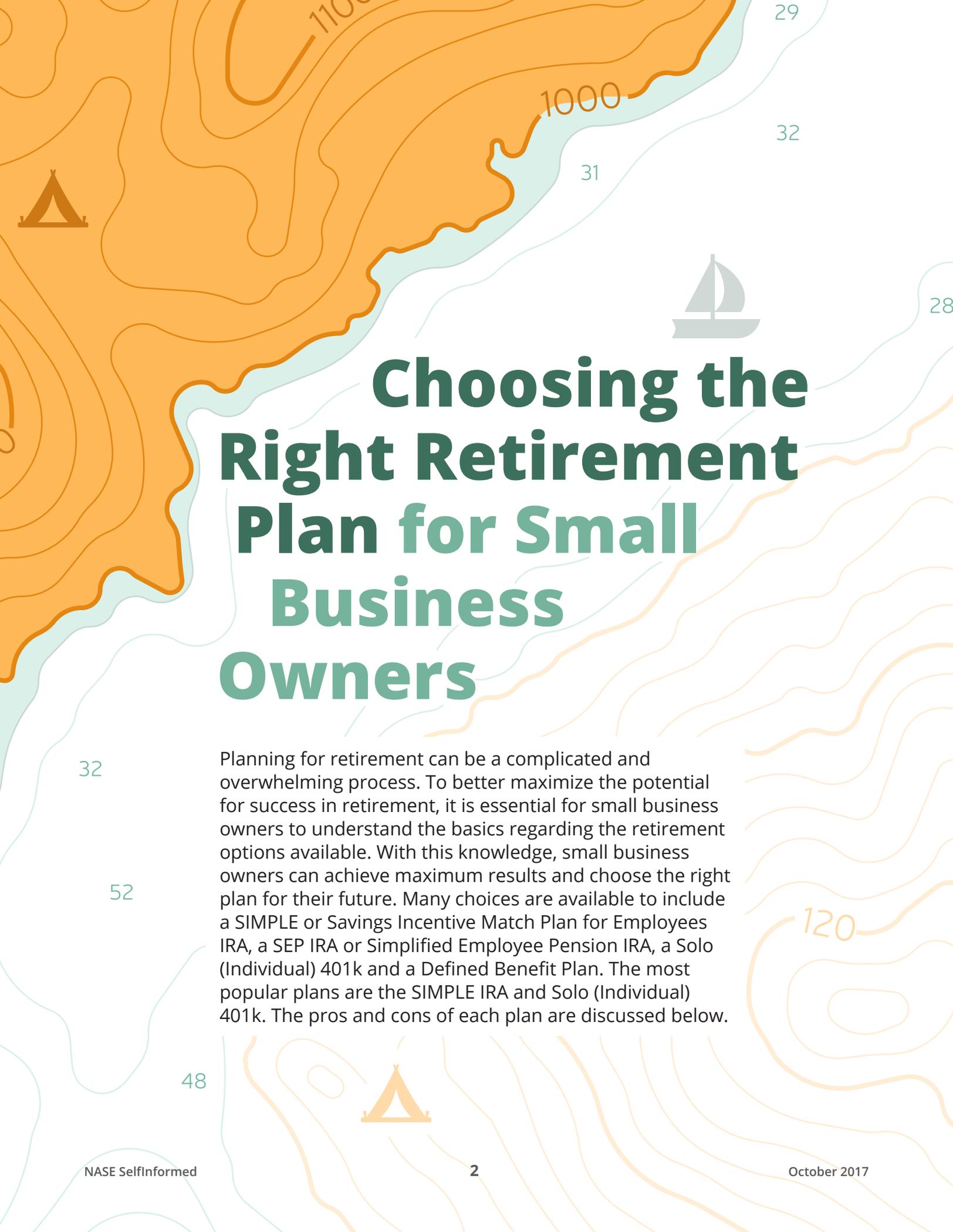
# SelfInformed

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# Choosing the Right Retirement Plan for Small Business Owners

Planning for retirement can be a complicated and overwhelming process. To better maximize the potential for success in retirement, it is essential for small business owners to understand the basics regarding the retirement options available. With this knowledge, small business owners can achieve maximum results and choose the right plan for their future. Many choices are available to include a SIMPLE or Savings Incentive Match Plan for Employees IRA, a SEP IRA or Simplified Employee Pension IRA, a Solo (Individual) 401k and a Defined Benefit Plan. The most popular plans are the SIMPLE IRA and Solo (Individual) 401k. The pros and cons of each plan are discussed below.

## Simple IRA

A savings incentive match plan for employees is commonly known as a Simple IRA. It allows for small businesses to contribute towards the employees' and owners retirement savings. Employees can decide whether to make voluntary salary deductions. In turn, the employer is required to make non-elective or matching contributions. The plan is ideal for employers who have 100 employees or fewer and who earned more than \$5,000.

Pros	Cons
<ul style="list-style-type: none"><li>▪ <b>Easy Setup</b>—Form 5304 SIMPLE, provided by the IRS is the form needed to set-up a SIMPLE IRA. This form will allow employees to choose where and how to invest in the SIMPLE IRA. Employers who wish choose to the financial institution for the plan will complete IRA form 5305-SIMPLE.</li><li>▪ <b>Affordable Setup</b>—It is usually free to setup this type of small business retirement plan. If there is a cost associated with this plan, it can be written off as a business expense for tax purposes.</li><li>▪ <b>Affordable Maintenance</b>—There will be no cost involved with maintenance of the plan since there is no administrator.</li><li>▪ <b>Easy Maintenance</b>—Year-end paperwork for this plan is required, but it is simple and easy to read.</li><li>▪ <b>Higher Limits</b>—This plan allows for contribution limits that are higher than traditional or Roth IRAs. In 2016 and 2017, employees could contribute up to \$12,500. Also, employees over the age of 50 could make a catch-up contribution up to \$3,000.</li><li>▪ <b>Matching Deductibles</b>—Small business owners can use the money they put into these accounts as a tax-deductible business expense.</li><li>▪ <b>Mandatory Contributions</b>—Employer contributions are mandatory regardless of how the business is performing.</li><li>▪ <b>Small Contribution Limits</b>—Very low contributions limits make it difficult to effectively plan and save big for retirement.</li><li>▪ <b>Strict Opening Times</b>—Accounts have to be opened by October 1 of each year to have an impact on taxes for the year.</li></ul>	<ul style="list-style-type: none"><li>▪ <b>Limited to smaller companies</b>—This plan is limited to 100 or fewer employees. The plan will have to be changed if the business grows in the future.</li><li>▪ <b>Contributions count against 401K</b>—For 2016 and 2017, the contribution limit for 401K plans is \$18,000. Overall retirement options will be very limited due to this cap.</li><li>▪ <b>Stiff Penalties</b>—Early withdraw from a SIMPLE IRA can be as high as 25%, as opposed to other retirement accounts which can be as high as 10%. Also, rollovers within the first two years of this type of plan will result in another stiff penalty.</li></ul>

## SEP IRA

A Simplified Employee Pension, also known as a SEP IRA is very simple to establish. It is a type of traditional IRA and is available to small business owners or self-employed individuals. It is available to business owners who may have one or more employees. It is ideal for freelancers and businesses with no more than two employees. Any employees over this amount may cost the business more money. Employees are not allowed to contribute to the plan and employer contributions are tax-deductible.

Pros	Cons
<ul style="list-style-type: none"><li>▪ <b>Easy Setup</b>—Similar to the SIMPLE IRA, the SEP can be easily set-up by completing IRS form 5305.</li><li>▪ <b>Affordable Setup</b>—There are no administrative costs involved in the set-up. Also, small business owners can write-off any set costs as business expenses.</li><li>▪ <b>Easy Maintenance</b>—Administration is simple and is not time-consuming.</li><li>▪ <b>Optional Contributions</b>—Employees do not have to make contributions and there are also no set contribution amounts or percentages.</li><li>▪ <b>Tax Deductible</b>—Contributions by the employee and employer are tax deductible.</li><li>▪ <b>Contributions do not affect other accounts</b>—Unlike the SIMPLE IRA, contributions made to the SEP do not affect other retirement accounts.</li><li>▪ <b>Can be terminated at any time</b>—The plan can be terminated if the business grows in the future.</li><li>▪ <b>Larger contributions</b>—SEP contributions are relatively high. In 2017, the contribution limit is the lesser of 25% of the employee's compensation or \$54,000.</li></ul>	<ul style="list-style-type: none"><li>▪ <b>No employee contributions</b>—Unlike the SIMPLE IRA, employees on this plan do not contribute anything. The small business is responsible for contributing 100%.</li><li>▪ <b>Contributions have to be equal</b>—Contributions for the business owner and employees have to be the same. This can be very costly if the employer wants to keep their own contributions high.</li><li>▪ <b>All employees have to be included</b>—Any eligible employee must be included in the plan. Eventually, it can become an expensive option if the business experiences growth in the future.</li></ul>





## Solo (Individual) 401K

Individual 401k's or solo 401k's are ideal for smaller businesses and individual owners. They are similar to traditional IRA's in a large business and SEP IRA's. Individual 401k's are ideal for sole proprietors with no employees. Retirement funds are contributed pre-tax and continue to grow tax-deferred until withdrawn. A major difference in a solo (individual) 401k is that a business owner can borrow against the plan's savings.

Pros	Cons
<ul style="list-style-type: none"> <li>▪ <b>Increased Contribution Possibilities</b>—If a contributor is married, both the contributor and spouse can contribute up to 20% of their total earnings.</li> <li>▪ <b>Contributions are not set</b>—Annual contributions are not set and are allowed to fluctuate if business profits are not ideal.</li> <li>▪ <b>Tax Deductible</b>—Contributions made to this plan can be deductible as a business expense.</li> <li>▪ <b>Income Shelter</b>—Contributions for the current year can be made all of the way up to April 15th of the next year. This helps tremendously in reducing a tax bill.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Can be complicated</b>—It is not as simple to set-up and maintain as some of the other retirement options.</li> <li>▪ <b>More costly</b>—A plan administrator will be needed. It is more costly to maintain and set-up and administrator fees will have to be paid.</li> <li>▪ <b>Mandatory reporting</b>—Accounts with at least \$250,000, it must be reported on form 550 every year.</li> </ul>



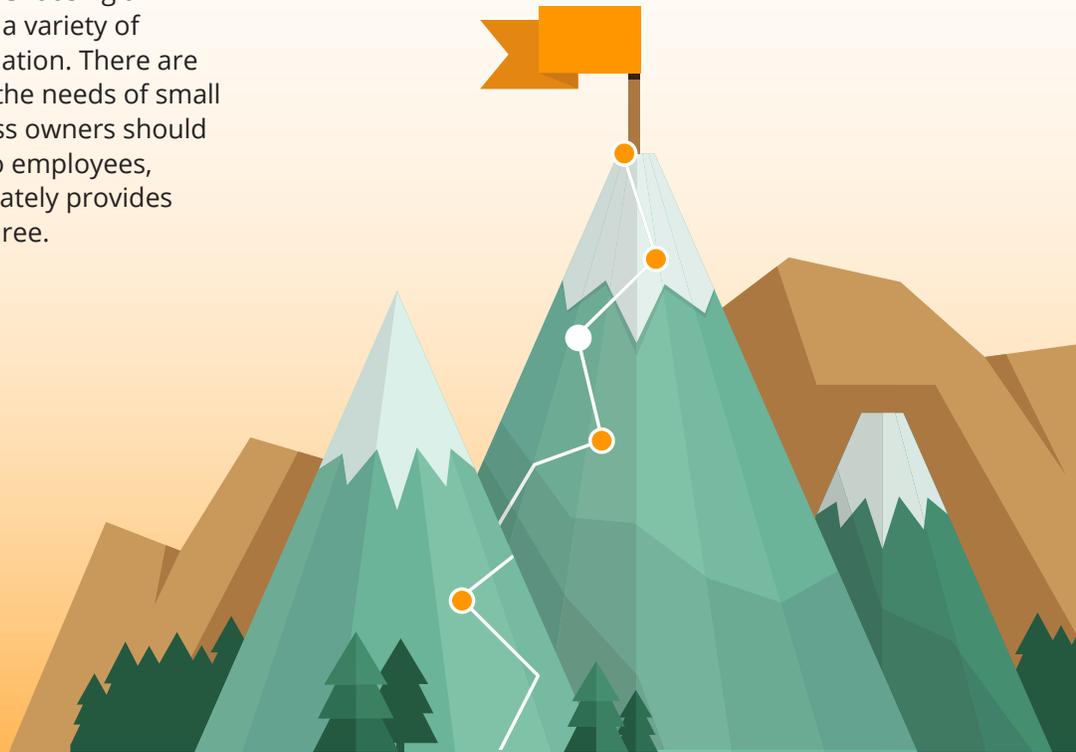
## Defined Benefit Plan

A defined benefit plan for a small business is similar to a pension plan. It helps small business owners mitigate tax liabilities and save for retirement. They provide a fixed, pre-determined benefit for employees when they retire.

Pros	Cons
<ul style="list-style-type: none"> <li>▪ <b>Large contributions</b>—This plan is very costly, but it allows for a large amount of savings for retirement. It is ideal for small business owners who have available funds to save for retirement.</li> <li>▪ <b>Can be combined with other options</b>—It can be combined with other plans such as the individual 401K or the SEP IRA and allows the business owner to save more for retirement.</li> <li>▪ <b>Reduction of tax liability</b>—Business expenses associated with the contributions can be written off and be used to reduce taxes.</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>High costs</b>—An actuary will be needed to determine minimum funding level calculations each year.</li> <li>▪ <b>Minimum funding required</b>—During set-up, small business owners agree to meet minimum funding levels regardless of business performance.</li> <li>▪ <b>Established minimum payouts</b>—During set-up, payout amounts are determined and set-up. Amounts can only be withdrawn during retirement based on a set amount.</li> <li>▪ <b>Not ideal for many employees</b>—These planned are created for the whole business and have to be offered to everyone. Due to this, they can become very costly.</li> </ul>

## Conclusion

Having a basic understanding of retirement planning options will help small business owners to effectively plan for the future. Choosing a retirement plan will be based on a variety of factors that fit each business situation. There are many options available to cover the needs of small business owners. Ideally, business owners should choose a plan that is attractive to employees, reduces tax liabilities, and adequately provides financial peace for the future retiree.



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# Ask the Expert

## Question:

I am attempting to complete my first Schedule C for my new business and I am not sure what is deductible. Do you have a list of deductible expenses that I can use?

## Answer:

There are certainly expenses that are common to all small businesses and those that are common to specific industries. Perhaps the best place to start a list of common expenses is right on that same Schedule C that you are preparing to complete. Part II of the Schedule C is titled "Expenses" and provides a great place to start from advertising to car and truck expenses to insurance and interest expense to travel and wages. The fact that the detailed expense items are listed right on the Schedule C indicates those are indeed common expense categories for small business owners.

Having said that I encourage you to avoid reviewing any specific list of expenses but instead simply look at all of the cash disbursements incurred in connection with your business. Keep in mind that almost all deductible items begin with the spending of money. The general

requirement for a disbursement to be considered a deductible business expense is that the item was an ordinary and necessary expense for doing business in your specific industry. If you spent any money in connection with your business, most likely it will be deductible.

If you have not already done so, consider opening a separate bank account exclusively for your business. All business income will be deposited into that account and all ordinary and necessary business expenses will be paid from that account. At the end of the year, you will have already decided which expenses are business expenses as you pay

the bill. If the service or product is primarily for business, then use the business debit card or a business check to pay the bill.

There are some expenses that don't show up in that business checkbook or as a normal business disbursement so extra care should be taken to avoid missing those key deductions. Among the most commonly missed are the business use of your automobile, the home office deduction, and options you may have for making deductible retirement plan contributions. So make sure to look at all the expenses you incurred in operating your new business but also look outside the lines as well.



As always, don't forget that you are not alone. Bookmark our website at [NASE.org](https://www.nase.org) as well as the IRS website at [IRS.gov](https://www.irs.gov) you will always be able to find the help you need.



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As an NASE member, you are the driving force for what we do. Promoting self-employment and providing as many self-employed people as possible with our wide variety of benefits is something we do every day. But is it something you do? A great way for you to show your support for the NASE is to Like, Join and Follow us on our social media channels to help spread awareness. If you haven't taken the time already, we invite you to do so now with the links to our social media below:





## Additionally, you can show your NASE pride with a Member Badge!

Let clients and other visitors to your website know that you're a proud member of the NASE, and that you stand with the NASE in fighting for issues that are important to the self-employed and small-business community with an NASE Member badge. [Find out more here.](#)





# HOUSE SMALL BUSINESS COMMITTEE INTRODUCES TAX LEGISLATION



The NASE enthusiastically supports new legislation proposed by the leaders of the House Small Business Committee leadership earlier in September. H.R. 3717, *Small Business Owners' Tax Simplification Act of 2017*, legislation was drafted in close consultation with the NASE, and we are incredibly appreciative of the inclusion of many key priorities we advocated for being included in the final legislation.

The bill provides for the following:

1. Moving forward, quarterly payments will align with calendar quarters;
2. 1099-MISC threshold for filing increased to \$1,500;
3. Elimination of transaction threshold for 1099-K;
4. Directs the Secretary of the Treasury to establish uniform standards and procedures for accepting

digital or electronic signatures with respect to the disclosure of taxpayer's returns or return information;

5. Excluding from Self-Employment Income Net Earnings Less Than Amount Required for Social Security Quarters of Coverage.

We applaud the hard work of Chairman Steve Chabot (R-OH) and Ranking Member Nydia Velázquez (D-NY) on this bi-partisan, small business focused legislation. We believe passage of this legislation will alleviate significant burden placed on the self-employed and will provide direct tax relief for millions of small businesses. ■

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