

Advanta | IRA



What Is a Solo 401(k)?

The Solo 401(k) Retirement Plan for the Self-Employed Individual or Sole Proprietor

Do you enjoy freedom and flexibility in your workplace? Do you also like to be in control of your business? If so, you are most likely self-employed, and we understand you completely. Like many of our clients, you thrive in this type of work environment and appreciate the perks that working for yourself offers.

But, there is one significant drawback to being self-employed, you have no access to an employer-sponsored retirement plan like a 401(k). The good news is that you have the ability to start your own personal retirement plan to reap the same rewards that those in corporate America receive. Plus, with Advanta IRA as your administrator, you are self-directing your investments which lets you create a retirement plan that maximizes your annual contributions and gives you the flexibility to invest in a wide variety of assets like real estate, gold and silver.

How can you do this? With a solo 401(k) plan.



What Is a Solo 401(k)?

A solo 401(k) is also known as an individual 401(k), uni-k, and solo-k. It is a powerful investment account that gives owners complete control over their retirement funds and investing decisions to maximize investments for their future. The solo 401(k) is like a traditional 401(k) and is governed by the same rules and restrictions. It is designed specifically for businesses that employ only the owner, their spouse, and partners.

The solo 401(k) is by far the most popular plan for self-employed individuals because it has significantly lower and simple administrative costs with less hassle than a typical 401(k) plan. It can be established by both incorporated and unincorporated businesses, sole proprietorships, partnerships, and corporations.



Benefits of a Solo 401(k)

- ▶ Higher contribution limits with an employer profit-sharing match
- ▶ Ability to make Roth contributions to the plan without income limitations of a typical Roth IRA
- ▶ Flexibility in choosing your own investments
- ▶ Ability to borrow personally from the plan
- ▶ As trustee of the plan, you can have direct checkbook control over the funds
- ▶ No unrelated debt-financed income (UDFI) tax on debt-financed real estate

Can I Participate in a Solo 401(k)?

If you are a sole proprietor or a business owner (or even have a side business apart from your regular job), the short answer is “yes.” Keep in mind, though, that you must make taxable, earned income (see box) in order to participate in a 401(k).



A sole proprietor is a person who owns a business but has not set-up a formal LLC or corporation. The business is not a legal entity and the person who runs the business is solely responsible for its gains and losses. These individuals report income on their personal tax return (Schedule C) either because they do not operate as an entity or they have designated that entity as ‘disregarded.’ The contribution limit calculations are based on their net income on their Schedule C or gross income minus expenses.



Independent business owners who are taxed as an S-Corporation or partnership can also qualify for a solo 401(k) based on their earned income from that entity. Earned income for these entities is typically reported on a Schedule C, W-2, or on a K-1. If you have employees that work part-time (less than 1000 hours per year), you may still be eligible for a solo(k). However, if an employee works more than 1000 hours in a year, you may have to include them in a 401(k) plan that must be overseen by a qualified plan administrator. This plan would no longer be considered a solo(k).



Side business owners who already have a 401(k) through an employer may be able to start a solo 401(k) for their side business as well. If you or your employer are not maximizing your annual contributions to your corporate 401(k) plan, a solo 401(k) plan sponsored by your side business can help fill in the holes. *Contact your tax advisor for details on how this works.*

What Makes the Solo 401(k) so Great?

As an employee, you can contribute up to 100 percent of your earned income, not to exceed the annual contribution limit of \$19,000 for 2019 (\$25,000 if you're 50 or older, thanks to the catch-up contribution allowance).

As the employer (because you are self-employed, you wear both hats!), you can also make an employer matching contribution of up to 25 percent of your compensation. All told, your combined employee and employer contributions cannot exceed \$56,000 per person for 2019 (\$62,000 per person for those 50 years and older). These amounts are typically adjusted upwards by the IRS each tax year.

As with any retirement vehicle, you must have earned income in order to contribute. Your tax advisor is the best source to consult to determine what your eligibility is for contributions. Call Advanta IRA for a reference to an advisor if you do not already have one.

The IRS defines taxable earned income as follows¹:

- ▶ **Wages, salaries, tips, and other taxable employee pay**
- ▶ **Union strike benefits**
- ▶ **Long-term disability benefits received prior to minimum retirement age**
- ▶ **Net earnings from self-employment if:**
 - ▶ **You own or operate a business or a farm**
 - ▶ **You are a minister or member of a religious order (see [Special Rules page for more information](#)²)**
 - ▶ **You are a statutory employee and have income**

¹ IRS.gov, What is Earned Income?
<https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/earned-income>

² IRS.gov, Special EITC Rules
<https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/special-eitc-rules>

Here Is a Real-world Example:

Jim and Susan own their own consulting business (J&S Consulting) and do not have any employees. Jim is 55 years of age and Susan is 48. They have each earned income from their business in the amount of \$100,000 a year. They establish the J&S Consulting 401(k) plan and as employees, they can contribute the following:

	Jim Salary: \$100,000 Age: 55 Over 50 ▲	Susan Salary: \$100,000 Age: 48 Under 50 ▼
Employee Salary Deferral	\$19,000	\$19,000
Catch-up Contribution (50+ only)	\$6,000	N/A
Employer Match (Up to 25% of Compensation)	\$25,000	\$25,000
Contribution to Their Plan	\$50,000	\$44,000

▶ **Employee Salary Deferral:**

- ▶ Jim - \$25,000 (\$19,000 plus the \$6,000 catch-up)
- ▶ Susan - \$19,000

▶ **Employer Matching Contribution:** \$25,000 maximum each (can contribute up to 25 percent of their compensation)

▶ **Total Contributions:** Jim can contribute \$50,000 and Susan contribute \$44,000 to their plan

**Based on 2019 contribution limits

The Power of a Roth 401(k)

You may have heard the phrase that tax-deferred is nice, but tax-free is better.

Traditional Solo 401(k) = Tax-Deferred

With a traditional solo 401(k) plan, your employee contribution into the plan is a tax-deductible contribution—meaning you don't pay taxes until you take the money out at retirement. As your income grows, you lose your ability to contribute to a Roth *IRA* per IRS rules. However, things work a bit differently with a Roth solo 401(k).

Roth Solo 401(k) = Tax-Free

With a Roth solo 401(k), you can designate your employee contribution

as Roth, and have those particular funds grow tax-free! Roth 401(k) contributions are also not subject to the income limitations that contributions for a Roth *IRA* are restricted to. So, you will never earn too much to contribute to a Roth solo 401(k).

You must understand that with a Roth 401(k), the employer profit-sharing contributions are always treated as tax-deferred contributions to the account.

The 401(k) is the only account that allows Roth and non-Roth contributions to be commingled into the same account. To learn more about how this works, please contact Advanta *IRA* for details.



Solo 401(k) Options with Advanta IRA

1. Manage Your Own Plan

Allows you as the trustee of your plan a lot more freedom and flexibility, but you will execute all investment documents and handle all bills and deposits.

2. Full-Service Model

Advanta IRA takes care of all record keeping duties, bills, and deposits.



Features	Manage Your Own Plan	Full-Service Model
IRS approved 401(k) plan documents	Provided by Advanta IRA.	Provided by Advanta IRA.
Required updates to 401(k) plan documents	Advanta IRA will provide required amendments and updates to the plan to keep your plan in compliance with the IRS.	Advanta IRA will provide required amendments and updates to the plan to keep your plan in compliance with the IRS.
Who acts as trustee of your plan?	You will act as trustee for your plan.	You will act as trustee for your plan.
Where is the uninvested cash held?	In the bank account that you choose to set up in the name of your 401(k).	In Advanta IRA's pooled trust account.
How are new investments processed?	You will need to make sure the investment paperwork properly reflects your 401k plan as the owner. You will execute all investment documents as trustee of the plan.	Advanta IRA will review the investment paperwork and will not release funds until the documents are all properly vested in your 401k. You will execute all investment documents as trustee of the plan.
Who performs recordkeeping functions (paying bills, making deposits, etc.)?	As trustee, you will pay your own bills and make deposits from investment income into your 401k bank account.	Advanta IRA will make deposits from investment income into your Advanta IRA account and pay bills at your direction.
Who files appropriate tax forms (1099s, 5500-EZ, etc.) to the IRS?	As trustee of the plan, you are responsible for this reporting.	As trustee of the plan, you are responsible for this reporting.
How do I get checkbook control over my account?	You will use the bank account you open in the name of the 401k plan.	You need to have the 401k plan set-up an LLC or separate entity from the 401k plan.



Frequently Asked Questions

Where do I invest my contributions?

Self-directed solo 401(k) plans allow account owners to choose their own assets instead of having an investment broker make these decisions for them or limit their options. You don't eat the same food at the same restaurant your entire life when there are so many other choices out there, right? Well, self-directed accounts allow you to "eat" other "food" where you want and when you want.

Are solo 401(k)s exempt from UDFI tax?

With IRA accounts, there is a pesky tax called unrelated debt-financed income tax (UDFI). This rears its head whenever an IRA uses non-recourse financing (leverage) to purchase real estate. UDFI affects the annual return on that IRA-owned property.

Good news: This tax does not apply to solo 401(k) plans! While the loan to the plan must be non-recourse, a solo 401(k) plan does NOT pay UDFI tax when the 401(k) purchases real estate using leverage. So, if you qualify for a solo 401(k) and want to buy real estate, opening an account is a no-brainer, especially if you plan to get financing for the purchase.

What types of investments can I make inside my self-directed solo 401(K)?

Great question! Self-directed investors place their hard-earned retirement funds into so many different types of assets that we can't list them all here, but the next page provides several popular options. In fact, the IRS only lists two investments you cannot purchase in a retirement plan: life insurance and collectibles.³

³ IRS.gov, Retirement Plan Investments FAQs
<https://www.irs.gov/retirement-plans/retirement-plan-investments-faqs>

Alternative Investment Options



Real estate: If you are investing in real estate personally, this is an easy one. Even if you aren't, it is simple to get started buying rental properties, rehab projects, and even raw land in your solo 401(k).



Private lending: If you don't want to deal with tenants, termites, and toilets, you can use your solo 401(k) to lend money to other people who are happy to deal with those issues. You loan money from your 401(k) to borrowers who are investors, and they simply pay back your 401(k). Your plan earns income on the interest just like a bank would; the borrower avoids the hassles a traditional bank loan involves.



Private stock: Little known fact: many private companies (from insurance firms to hedge funds to even microbreweries) often raise capital from private investors for their projects. As these companies need investors, your solo 401(k) could hold the shares in that private company and reap the dividends from that investment on a tax-deferred basis.



Precious metals: For some, security in their retirement accounts equals holding certain U.S. minted coins or bullion in their portfolios. The solo 401(k) can purchase these assets from the dealer of your choice. Although you cannot personally hold these assets, you can choose an approved storage facility to store them.



Tax liens: If your plan doesn't have enough cash to buy a piece of real property, you can invest your plan in the tax liens on real estate that are auctioned off by the county you live in. The interest payments on the liens are repaid to your solo 401(k). Options on real estate are a little more advanced strategy but can allow your account to invest into the equity of a piece of real estate held by a third party.



Foreign currency and cryptocurrency: These investments aren't for everyone, but many individuals use their retirement accounts to acquire these unique assets. If you enjoy trading dollars for euros or Bitcoin, then you can do so in your solo 401(k).

About Advanta IRA

Advanta IRA is the first choice of investors who want unparalleled, one-on-one service for their self-directed retirement plans. As a leader in self-directed account administration with over \$1 billion in client assets under management, Advanta IRA delivers expert, professional service—with a personal touch.

What does this mean? *For the lifetime of your account with us, you work with a dedicated account manager.*

This level of service is unmatched in our industry. Your account manager knows not just your name, but is familiar with all of the details of your accounts, your investments. Your account manager provides expert administration of your transactions and ensures compliance with IRS regulations. We handle your account details, so you can focus on finding investments.

What Our Clients Say About Us

“ I have been with Advanta IRA for five years. Not only is their entire staff friendly and helpful, their efficiency is second to none. They have incredible experience and knowledge regarding all of the rules and laws surrounding self-directed accounts. As far as getting deals done, they go above and beyond the call of duty to make sure they happen. Whether it is staying late or arriving early, no matter what the situation calls for they get it done. I highly recommend anyone looking to go the self-directed route stop right here.

Carl - Florida

“ Advanta IRA's employees have helped through every step of the process and what a pleasant experience it has been. They are a customer-centric organization and all my interactions have been pleasant and efficient. I am delighted to have them serve my financial needs.

Shankar - Pennsylvania

The Advanta IRA Advantage

- ▶ **Industry experts:** We have over 15 years of experience and success in our industry. Our staff is comprised of attorneys, CPAs, Certified IRA Services Professionals (CISP) and Self-Directed IRA Professionals (SDIP).
- ▶ **Unparalleled customer service:** Each client has a dedicated account manager to handle all aspects of their account throughout the investing process.
- ▶ **Cutting-edge educational platform:** We provide weekly seminars and webinars, blogs, case studies, and videos to help you maximize your retirement investments.
- ▶ **FDIC protection:** We ensure the safety of your uninvested cash by placing it in FDIC insured institutions.

Knowledge Is Power

- ▶ **Education and events:** We offer weekly, complimentary educational events for clients, investors, and industry professionals. You can attend interactive webinars, seminars, and workshops to learn about self-directed accounts, alternative investment opportunities, new regulations, and much more.
- ▶ **Innovative curriculum for individuals:** Our events feature expert guest speakers and up-to-date information designed to enlighten and empower individuals who want to choose their own investments.
- ▶ **Progressive learning for professionals:** Events include webinars and on-site workshops at your firm to show you how self-directed investing works to help grow your clients' investment portfolios.

For more information, please visit

www.AdvantaIRA.com

Or call us anytime with your questions.
Our consultations are always free.

800.425.0653



Knowledge is power.

Invest in what you know and gain the potential to maximize the returns in your IRA to achieve financial success in retirement.

Control is key.

Choose your own assets to grow income instead of relying on a third party to do so. After all, who is better equipped to make these choices than you?

Diversity is essential.

Protect your hard-earned wealth. There are hundreds of alternative assets you can use to grow income and offset any stock market losses of traditional holdings.

With Advanta IRA as the administrator of your retirement account, you leverage all of the above. Put your own knowledge to work for you and invest in any alternative asset you choose to build and protect your retirement wealth.

How do I get started?

Open an account

Fill out a 401(k) plan application and submit the originals to Advanta IRA. Application documents can be found on our website or you can contact us and we will send you the paperwork.

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Fund the account

Transfer funds from an existing 401(k) or rollover funds from a former employer's plan. If you are eligible, you can also make an annual contribution to your 401(k).

Start investing

Send Advanta IRA a purchase authorization after an investment has been identified.

Once an account is opened, we can immediately begin working with you on the investment paperwork.

Advanta IRA Locations

Serving clients nationwide

Give yourself the freedom to control your investments
and maximize the potential wealth of your IRA.

13191 Starkey Road, Suite 2
Largo, FL 33773
800.425.0653
727.581.9853
866.385.6045 fax

3525 Piedmont Road NE
Building 8, Suite 101
Atlanta, GA 30305
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For more information, please visit
www.AdvantaIRA.com

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