Own a Business? Consider These Retirement Plans

If you own a small business or are self-employed, you've always got plenty to do, but you can't forget about the days when you'll be less busy — that is, when you're retired. How can you prepare for that time of your life?

One key step is establishing a retirement plan for your business or yourself. And thanks to the 2022 SECURE 2.0 Act, you can now receive tax credits for opening and administering a 401(k), SEP-IRA or SIMPLE IRA. These aren't the only plans available for small businesses or sole proprietors, but they are among the most popular. Let's look at each of them:

• **401(k)** – A 401(k) offers several key benefits: First, any earnings growth is tax deferred, and your contributions can be tax deductible. (Taxes are due upon withdrawal, and withdrawals prior to age 59½ may be subject to a 10% penalty.)

If you choose a Roth 401(k), your contributions aren't deductible, but your earnings and withdrawals will be tax free, provided you meet certain conditions. And a 401(k) offers a variety of investment options. If you have workers, you'll need to consider whether to offer matching contributions, which are tax deductible to you, up to the limit of 25% of compensation paid to eligible employees.

But even if you're self-employed, with no employees other than your spouse, you can establish what's known as a "solo" or "owner-only" 401(k). In 2023, you can put in up to $22,500 as an employee, plus a catch-up contribution of $7,500 if you're 50 or older, for a total of $30,000. Plus, you can contribute an additional 25% of earned income as an employer, up to an overall employee and employer maximum of $66,000 (or $73,500 if you're 50 or older).

• **SEP-IRA** – An SEP-IRA may be attractive to you if you're self-employed or if you own a business but have few or no employees. That's because you must contribute an equal percentage of your own compensation to every eligible employee. In 2023, you can contribute up to $66,000 or 25% of your income, whichever is less.

• **SIMPLE IRA** – A SIMPLE IRA is easy to establish and administer. As with an SEP-IRA, earnings in a SIMPLE IRA can grow on a tax-deferred basis. If you have employees, they aren't required to contribute to this plan — but you are. You must match up to 3% of employees' contributions or provide 2% of their annual salaries, although you do have some flexibility. If your business goes through a rough patch, you can temporarily decrease SIMPLE IRA contributions to 1% for up to two years out of the previous five. Your contributions to your employees' accounts are tax deductible, but in in terms of building resources for your own retirement, a SIMPLE IRA may be less appealing because of its contribution limits, which are relatively low compared to a 401(k) or SEP IRA. In 2023, you can put in up to $15,500, or $19,000 if you're 50 or older.

You should consult with your tax advisor to determine which retirement plan is right for you. Your financial advisor can also help you explore your options. And the sooner you put a plan to work, the better.

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