



## CASE OF THE WEEK

### What is the maximum amount that can be contributed for a person over age 50 to an owner-only 401(k) plan?

Our ERISA consultants on the Columbia Management Learning Center Resource Desk regularly receive calls about the ability of a self-employed person to maximize contributions under an owner-only 401(k) plan—sometimes referred to as a solo (k) or individual (k).

Through our relationship with the Columbia Management Learning Center, we routinely guide Columbia Management's financial advisor partners through the IRS and/or Department of Labor rules and regulations that govern plan eligibility and contribution limitations.

A recent call with an advisor with AIG Royal Alliance in Ohio is representative of a common owner-only contribution scenario. The advisor's client is a self-employed person, over age 50, who has an owner-only 401(k) plan. The client reports his income on an IRS Form 1040, Schedule C. He is making salary deferral contributions and profit sharing contributions into the plan. The advisor asked: **What is the maximum amount my client can contribute to his owner-only 401(k) plan for 2010?**

#### Highlights of Recommendations

- Under IRS rules, the maximum employee salary deferral amount allowed for 2010 is \$16,500. However, participants who are age 50 or older can make an additional salary deferral contribution of \$5,500 as a catch-up contribution.
- In general, the maximum deductible contribution a business can make to a 401(k)/profit sharing plan is 25 percent of the total compensation paid to participants. When determining the maximum deductible contribution for a self-employed person with Form 1040, Schedule C income, "compensation" is net business income, adjusted for ½ of his self-employment tax. (Please see a detailed example of the calculation at [www.retirementlc.com/pages/documents/20091230Solo401k.pdf](http://www.retirementlc.com/pages/documents/20091230Solo401k.pdf))
- By law, the maximum amount of income that can be considered for contribution purposes is \$245,000 for 2010.
- The annual additions limit per participant under IRC Sec. 415 is 100 percent of compensation up to \$49,000 (or \$54,500 for those making catch-up contributions).

#### Conclusion

Depending on an individual's income from his or her IRS Form 1040, Schedule C, he could contribute up to a total of \$54,500 into his owner-only 401(k) plan of which \$16,500 would be treated as his employee salary deferral, \$5,500 would be considered his catch-up contribution and the rest (\$32,500) would be attributed to his profit sharing contribution. While the final determination of the actual contribution amount should be made by the client and his tax advisor, financial advisors who can demonstrate their knowledge of plan contribution limits set themselves apart from the average advisor and, thereby, win more plan business—and the Columbia Management Learning Center is standing by to help.