



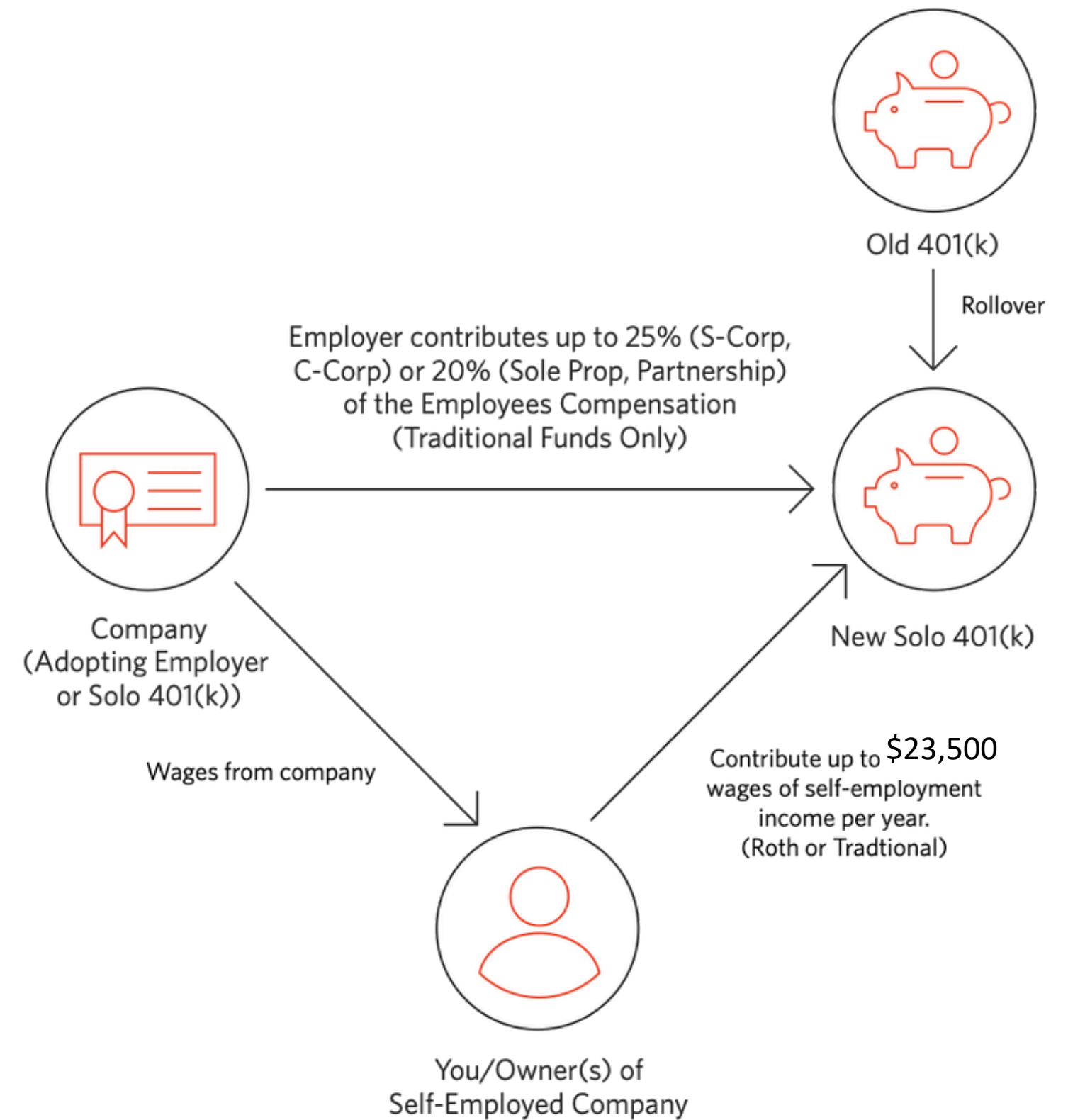
SOLO K TAX CREDIT FOR NEW AND EXISTING PLANS



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Solo 401(k)



Why Are Self-Employed Persons Using These Plans?

- Self-Administer & Self-Trustee With No Third-Party Custodian Required: Total control with bank account control and investment authority in the hands of the account owner.
- Greater Contribution Amounts: You can contribute more in a 401(k) than IRAs and can have Roth account options.
- Loan Options: The account owner can access up to \$50K via loan from their account to themselves personally for business start-up or education expenses (or any other personal expense).
- Leveraged Real Estate Investments: A 401(k)'s real estate investments may be leveraged with debt with no UDFI tax.

What are the Requirements for Setting up a Solo 401(k)?

- The Self-Directed Solo 401(k) is only for business owners whose business has no other full-time employees other than the owner and spouse.
- A client may setup a new business at the same time they set-up the Self-Directed Solo 401(k).
- The business owner/client is the 401(k) plan Trustee.
- Requires IRS approved plan documents – KKOS Lawyers and Directed IRA have pre-approved pan documents that can be self-directed.

What Affects How Much I can Contribute?

- Your Self-Employment Income
- Your Age
- Whether you participate in another retirement plan (401(k) plan through your “day job”)
- Type of Contribution (Employee vs. Employer, Traditional, Roth or After-Tax)

Sole Proprietorship / Single member LLC/ 1099 Independent Contractor: Self Employment Income

- If your self-employed business is taxed as a Sole Proprietorship, Single Member LLC or 1099 Independent Contractor, your ability to make Solo 401k Contributions is based on your net income that you report on Schedule C (after reducing such net income by one half of the self-employment tax).
 - Don't consider W-2 wages from other sources
 - Don't consider investment income (Income reported on Schedule E)

2025 Contribution Limit

- Annual Contribution Limit - **\$70,000**
 - **\$23,500** Employee Contribution
 - **\$46,500** Employer Contribution
- Catch-Up Contribution (Age 50 or Older) - **\$7,500**
- Catch-Up (Age 60,61,62, or 63) - **\$11,250**
(Instead of \$7,500)

2026 Contribution Limit

- Annual Contribution Limit - **\$72,000**
 - **\$24,500** Employee Contribution
 - **\$47,500** Employer Contribution
- Catch-Up Contribution (Age 50 or Older) - **\$8,000**
- Catch-Up (Age 60,61,62, or 63) - **\$11,250**
(Instead of \$8,000)

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Contribution Types

- Employee Contribution
 - Can be applied as a Traditional, Roth or voluntary after-tax or in combination
 - Roth and Traditional contributions are impacted by contributions to a day-time job 401(k) plan
- Employer Contribution
 - Can be applied as a Traditional contribution
 - Can be applied as a Roth contribution (Secure Act 2.0)
 - Not affected by contributions to a day-time job 401(k) plan.

Post-Tax Contributions

- Roth Contribution
 - May be applied as an employee contribution.
 - Includes the catch-up amount for those age 50 or older.
 - Now also falls under the Employer Profit Sharing (Nonelective contribution category (Secure Act 2.0)
- After-Tax Contribution
 - Part of the employee contribution and overall limit category.
 - Does not include the catch-up amount for those age 50 or older.
 - Not impacted by contributions to day job 401(k)

Traditional (Employee) Contribution

- Employee Contribution
 - The limit is 100% of your self-employment compensation NOT TO EXCEED/UP TO \$23,500 for 2025 (or \$31,000 if age 50 or older or \$34,750 if age 60-63).
 - Need to reduce by any contributions made to another employer plan UNLESS the other plan is a 457 governmental plan in which contributions are not aggregated.

Roth Contribution

- Employee Contribution
 - 100% of the Employee contributions (subject to the limits – see prior slide) can be made as Roth Contribution
 - Roth contributions must be deposited in a separate sub-account for each participant

Sole Props, LLCs & Independent Contractors: Traditional (Employer) contribution

- Employer Contribution (Profit-Sharing)
- The limit is equal to 20% of your self-employment compensation (for sole proprietors, single member LLCs, 1099-MISC/NEC Independent Contractors).
 - The aggregate contributions can't exceed the overall limit of \$70,000 or \$77,500 if you are 50 or older for 2025
 - Not impacted by contributions made to another retirement plan through an unrelated employer (e.g., "day job" 401k plan) UNLESS such contributions were made to a 403b plan

Secure Act 2.0: New Roth Employer (Nonelective) Contributions

- Secure Act 2.0 allows Employer Contributions to be made as Roth contributions.
- For a Solo 401k plan that allows for Mega Backdoor Roth contributions, many choose to simply make Voluntary After-Tax Solo 401(k) Contributions (Mega Backdoor Roth) and decline to make Employer Contributions:
 - Voluntary After-tax Solo 401(k) Contributions can be made at higher percentage of self-employment income (100%) compared to Employer (Nonelective) Contributions made as Roth Solo 401k contributions (20% of self-employment compensation for self-employed business taxed as sole proprietorship).
 - The deadline to establish a Solo 401(k) plan in order to make both Employer (Nonelective) and Voluntary After-Tax Contributions is the same: the plan must simply be established in time to make contributions by the business tax return deadline including any timely filed extension.
 - Voluntary after-tax contributions may be transferred to a Roth IRA whereas Employer Contributions may not be transferred out of the Solo 401(k) to a Roth IRA until a “triggering event” has been met (e.g. the attainment of age 59 ½).

After-Tax Contribution

- Voluntary After-Tax Contributions (Mega Backdoor Roth)
- The lesser of (i) self-employment compensation & (ii) the overall limit (\$70k for 2025) REDUCED by any Employer or Employee contributions made to the Solo 401(k) [IGNORE any catch-up contributions made to the Solo 401(k)].
 - Note the limit does not go up if you are 50 or older
 - Not impacted by any contributions made to another retirement plan through an unrelated employer (e.g., “day job” 401(k) plan) UNLESS the other plan is 403b
 - Voluntary after-tax contributions must be deposited in a separate sub-account for each participant

2025 Solo 401(k) Contribution Deadlines

Entity Type	Contribution Deadline	Contribute by Business Extension Deadline
Sole Proprietorship	April 15, 2026	October 15, 2026
Partnership	March 16, 2026	September 15, 2026
S-Corporation	March 16, 2026	September 15, 2026
C-Corporation	April 15, 2026	October 15, 2026
LLC taxed as S-Corp	March 16,2026	September 15, 2026
LLC taxed as Partnership	March 16, 2026	September 15, 2026
LLC taxed as Sole Proprietorship	April 15, 2026	October 15, 2026

What is NOT a contribution?

- The following amounts are not contributions, and therefore, are not subject to the contribution limits
 - Amounts rolled over from an existing retirement account (e.g. former employer plan and/or non-Roth IRA)
 - Earnings from your Solo 401(k) Investment (e.g. rents collected with respect to real estate owned by your Solo 401(k))
 - Amounts converted within the Solo 401(k) (Funds converted from Traditional and/or Voluntary After-Tax to Roth)
 - Repayment of Solo 401(k) participant loans

Solo 401(k)s Now Qualify for \$1500 Tax Credit

- Under the Secure Act, tax credits are available to small businesses that offer a 401(k) plan.
- A Solo 401(k) plan that includes an automatic participation feature is eligible for a \$1500 tax credit.
 - \$500 per year for three (3) consecutive years
 - New or Existing Plans
 - Not based on actual cost to set up and maintain the Solo 401(k)
- While a Solo 401(k) plan is not eligible for the “startup costs” tax credits since they are only for businesses with non-owner employees, an owner-only business is eligible to claim the automatic participation credit

What are the eligibility requirements to claim the credit?

- A self-employed individual must have a Solo 401(k) plan with an Auto-Contribution feature.

What is an Auto-Contribution feature?

- A Solo 401(k) plan with an auto-contribution feature has a minimum default 3% contribution percentage. This will allow the self-employed business to claim a credit of **\$500** per year for up to 3 years for a total of **\$1,500**. The automatic contribution feature works in a new or an existing Solo 401(k) plan.

New Solo 401(k) Tax Credit

2025

	2025	2026	2027	2028
Establish Plan by 12/31/2025	\$500	\$500	\$500	N/A

2026

	2025	2026	2027	2028
Establish Plan by 12/31/2026	N/A	\$500	\$500	\$500

Existing Solo 401(k) Tax Credit

2025

	2025	2026	2027	2028
Convert Existing Plan by 12/31/2025	\$500	\$500	\$500	N/A

2026

	2025	2026	2027	2028
Convert Existing Plan by 12/31/2025	N/A	\$500	\$500	\$500

Form 8881

Form 8881 (Rev. December 2023) Department of the Treasury Internal Revenue Service	Credit for Small Employer Pension Plan Startup Costs, Auto-Enrollment, and Military Spouse Participation	OMB No. 1545-1810
	Attach to your tax return. Go to www.irs.gov/Form8881 for instructions and the latest information.	Attachment Sequence No. 130
Name(s) shown on return		Identifying number
Part I Credit for Small Employer Pension Plan Startup Costs (Including Employer Contributions)		
A Enter the number of qualifying employees. See instructions		
1	Qualified startup costs incurred during the tax year	1
2	Employers with 1-50 employees enter the amount from line 1. Employers with 51-100 employees enter 50% (0.50) of line 1	2
3	Enter the number of employees eligible to participate in the pension plan. See instructions.	
	X \$250	3

- Passes through the K1 for Partnerships and S-Corps
- Sole Prop Form 3800, Part III, line 1dd

Part II Small Employer Auto-Enrollment Credit		
9	Enter \$500 if an auto-enrollment option is provided for retirement savings	9
10	Small employer auto-enrollment credit from partnerships and S corporations	10
11	Add lines 9 and 10. Partnerships and S corporations, report this amount on Schedule K. All others, report this amount on Form 3800, Part III, line 1dd	11

Checklist to Claim

- Notice
- Plan Amendment (Not due until 12/31/2026)
- Form 8881

Directed IRA Existing Clients (Custodial or ACP) –
contact solo401k@directedira.com to get checklist
items


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Solo 401(k)

Account holders at Directed IRA can use Solo 401(k)s to invest in alternative assets such as real estate, private funds, crypto, and more. A self-directed Solo 401(k) gives self-employed business owners unparalleled control over their retirement planning.

-  High contribution limits compared to IRAs
-  Account can be Roth or Traditional
-  Designed for self-employed individuals & small-business owners
-  Invest in alternative assets like real estate, crypto, private funds, and more


Open a Solo 401(k)

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Solo 401(K)

Lindsay Mersino
Executive Director, Client Services




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