

Choosing a Retirement Plan for Your Small Business in 2019

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INDIVIDUAL RETIREMENT ACCOUNTS (IRAs) and 401(k) plans are the iconic retirement savings buzzwords that most working Americans are familiar with. Established by Congress back in the 1970s, these plans allowed individuals and smaller sized employers tax-favored solutions for retirement savings. Today, basic IRAs and 401(k)s have expanded into a wide array of affordable plans that provide a greater degree of flexibility and incentives to save for retirement. Employers of all sizes, even one-person businesses, can select retirement plans that are scalable to their needs and budgets, provide significant tax advantages, and help retain key employees.

Whether starting a new retirement plan or amending a current one, choosing the best plan for your business can be a complex task. Common factors going into this decision include evaluating contribution limits, required employer contributions, tax advantages, anti-discrimination testing, maximizing owner's benefits, fees and other expenses, vesting and participation by employees, ease of administration, and annual tax reporting requirements.

This article provides some basic information on the above factors for the more popular plans in 2019. Your retirement plan choice should be evaluated with your trusted, objective business advisor to determine the best fit for you and your small business.

Traditional 401(k)

Available to employers of any size.

Employee contributions – contributions through base salary deferrals up to \$19,000 per year, plus another \$6,000 catch-up deferral contribution for employees age 50 and older. Before-tax unless the after-tax Roth option is selected.

Important: the Roth option is gaining in popularity, especially among younger employees, due to the tax-free withdrawal benefits. This feature is highly recommended when designing the plan.

Employer contributions – up to 25% of the employee's compensation using an employer match, a defined contribution plan, or both. The maximum employer contribution for 2019 is \$56,000 per employee, minus the base salary deferral made by the employee.

Limiting factors – business owners, their relatives and highly compensated employees are subject to non-discrimination tests, possibly limiting their base deferrals below the maximum.

Typical costs – employer pays the set-up fee, administrative fees are usually scaled to number of participants, and investment advisory fees. All in, averages \$3,000 to \$6,000 per year. Employees pay mutual fund charges. May get

competitive all-inclusive plan pricing, it's worth asking for. More cost-efficient for plans with greater than seven participants.

Tax filing – Form 5500 is required, usually prepared by the plan administrator.

Employer benefit – employer contributions are optional, and vesting over time is allowed, promoting employee retention.

Solo 401(k)

Available to self-employed persons with no employees other than a spouse.

Contributions – similar rules and annual limits as traditional 401(k) plan. Schedule C net income or W-2 wages used as compensation for computation purposes.

Limiting factors – no non-discrimination testing.

Typical costs – usually less than \$1,000 per year, possibly through mutual fund fees only.

Tax filing – Form 5500-EZ required if assets exceed \$250,000, typically prepared by plan administrator.

Employer benefit – allows for full tax deduction of deferral portion of contribution against self-employed net income, and up to 25% for employer contribution portion.

Safe Harbor 401(k) – available to employers of any size. Allows employer to avoid non-discrimination tests by making mandatory contributions to employees.

Contributions – similar rules and annual limits as traditional 401(k) plan, except employer must contribute at least 3% of employee compensation to all eligible employees regardless of deferrals, or 4% for all participating employees.

Limiting factors – no non-discrimination testing on deferrals.

Typical costs – cheaper than traditional 401(k) plan since less testing is required.

Tax filing – same as traditional 401(k) plan.

Employer benefit – allows small business owners, family members and highly-compensated employees to maximize deferrals without discrimination testing limits.

SIMPLE IRA (Savings Incentive Match Plan for Employees)

Similar to 401(k) plans subject to lower contribution limits and fewer requirements. Higher contribution limits compared to IRAs.

Employee contributions – contributions through base salary deferrals up

to \$13,000 per year, plus another \$3,000 catch-up deferral contribution for employees age 50 and older. Pre-tax only as Roth option is not permitted.

Employer contributions – must contribute 2% of compensation for all eligible employees, or 3% for only those who make deferrals. May match up to 100% of employee deferrals. Employer contributions are fully vested, and no non-discrimination testing.

Typical costs – normally no set-up costs, and plan administrators usually charge only mutual fund fees to the participants.

Tax filing – Form 5500 not required.

Employer benefit – lower costs and less maintenance than 401(k). Great low-cost plan for keeping life simple while allowing employees to contribute. Owner wanting higher contribution limits will look at 401(k) plans.

SEP IRA (Simplified Employee Pension)

Funded only by employer, popular with self-employed with few employees.

Employee contributions – none allowed.

Employer contributions – may elect each year within a range of zero to 25% of compensation with a maximum of \$56,000 per employee. Contributions are fully vested immediately. Non-discrimination rules do not apply.

Typical costs – similar to SIMPLE IRAs.

Tax filing – Form 5500 not required.

Employer benefit – similar to SIMPLE IRAs except employees do not contribute.

Traditional IRAs and Roth IRAs are the simplest tax-favored retirement savings plans. These can work for any business owners who want to supplement their business plans, or just invest for themselves and not their employees. The annual contribution limit for 2019 is \$6,000 plus another \$1,000 catch-up contribution allowed for people age 50 and over.

There are many variations of the plans listed above, plus others that are gaining in popularity, such as defined benefit plans with much higher contribution limits. When evaluating what plan is best for your small business, ask about these, as well. You should also plan to hire a local professional or an online service provider for your plan. Your trusted business advisor should provide a referral if one is needed. Your choice of provider can depend on the type of plan you choose.

For additional information on retirement plans for small businesses, consider: nerdwallet.com, FitSmallBusiness.com, bankrate.com, businessnewsdaily.com, goodfinancialcents.com, the U.S. Department of Labor, and the IRS. These are some excellent resources for small business owners. ■



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