

FAQs

What is an i401(k)?

The i401(k) is specifically designed for small, owner-only businesses. It is a cost effective plan that incorporates features of the typical 401(k) and profit sharing plans, but with less complexity. Under many circumstances, the Plan allows significantly greater tax-sheltered contributions than other types of small business retirement plans.

Appealing features of the i401(k):

- Cost-effective administration
- Tax deductible contributions
- Tax deferred growth
- Higher contribution limits
- Roth-type contributions that are after-tax, with potentially tax-free earnings
- Access to loans
- Flexible distribution options
- Retirement savings consolidation through rollovers

Who may adopt an i401(k) plan?

The i401(k) plan is ideal for small business owners with no full-time employees, other than possibly a spouse. You may maintain an i401(k) plan if you receive a salary or wage from either a corporation or an unincorporated business – including sole proprietorships and partnerships.

i401(k) plans are suited for businesses that either do not employ any employees or employ only common-law employees that may be excluded from the plan coverage under federal laws.

The following types of employees generally may be excluded from coverage:

- Employees under the age of 21
- Employees that work less than 1,000 hours annually
- Union Employees
- Nonresident alien employees

What are the contribution limits for an i401(k)?

As a self-employed business owner, each year you are allowed to set aside a discretionary, tax-deductible “profit sharing” contribution of up to 25% of your income. You can choose not to make the contribution in any year, for any reason.

In addition, you are also eligible to make a pretax “salary deferral” contribution of up to \$16,500 for 2011 (\$22,000 if you are age 50 or older).

The maximum aggregate contribution you can make to an i401(k) plan for 2011 is the lesser of \$49,000 (\$54,500 if age 50 or older), or 100% of compensation.

$$\begin{array}{c} \text{Profit sharing contribution } \mathbf{0\%-25\%} \\ \\ + \\ \\ \text{Salary deferral contribution} \\ \mathbf{\$0-\$16,500 (2011)} \\ \\ = \\ \\ \text{Maximum funding} \end{array}$$

What are “Roth 401(k)” deferrals?

An i401(k) plan can include a qualified Roth contribution program, which allows you to designate some or all of your deferrals as Roth after-tax contributions. They grow tax deferred, and may be distributed to you tax free if you meet the following requirements: (1) it must be at least five years after the first year that you made a Roth 401(k) contribution and (2) you must be age 59 ½, deceased or have become disabled.

According to tax laws, you may not rollover any Roth IRA amounts into the i401(k) plan or any other tax-qualified plan.

Can I take a loan from the i401(k) plan?

Under federal law, business owners are permitted to take loans from Individual (k) plans regardless of whether the business is incorporated or unincorporated. Loans, therefore, can be part of the i401(k) plan program. You may take loans of up to \$50,000 or 50% of the vested portion of the i401(k), whichever is less.

Is an i401(k) plan complicated to maintain?

Actually, the Individual 401(k) plan is one of the least complicated retirement plans available today. Administrative costs are low because these plans generally are not subject to costly nondiscrimination test requirements that apply to typical 401(k) plans.

Many business owners sponsoring i401(k) plans won't have to file annual retirement plan information with the government. When your retirement plan assets accumulate to \$250,000, you'll have to file a Form 5500-EZ, which, as its name suggests, is relatively easy to complete. As long as you operate as an owner-only (and spouse) retirement plan,

you'll never have to file that complicated 5500 and accompanying schedules that most other qualified retirement plans have to file.

Do I have to have a custodian or third party trustee?

No, unlike IRAs, you are not required to have a custodian for your i401(k). You may act as your own trustee, or you can appoint a third party trustee to administer the plan. Sunwest Trust does act as a third party trustee for Individual (k) plans, if you would like them to do so, but you do not need a custodian or third party trustee.