

Individual 401(k) plans (aka Solo(k) plans) are designed for small businesses whose only eligible employees are the owner and the owner's spouse.

Advantages of an individual 401(k)



High contribution limits: Both salary deferral and profit-sharing contributions are allowed.

- For 2025, the maximum salary deferral is \$23,500. For 2026, it increases to \$24,500. See the IRS chart for allowed catch-up contributions if age 50 and older.
- A profit-sharing contribution of up to 25% of eligible compensation may also be made.
- The maximum contribution limit (employee and employer amounts combined) is \$70,000 for 2025. For 2026 the limit increases to \$72,000. These amounts do not include the catch-up contributions. See the IRS chart for catch-contributions if age 50 and older.



Tax savings: Contributions are tax-deductible, and earnings are tax deferred.



Flexibility: Salary deferrals and profit-sharing amounts are discretionary — the employer is able to increase, decrease or stop contributions at will.

Other individual 401(k) considerations

- Participants can roll over 401(k), 457(b), 403(b) and pre-tax IRA monies into the individual 401(k).
- Loans are allowed.
- Participants are immediately 100% vested in all contributions.
- No top-heavy or discrimination testing required.
- IRS Form 5500 filing is required if assets exceed \$250,000.
- There are fewer administrative requirements than with a 401(k) for businesses with other eligible employees, lowering cost significantly. Annual administration and tax preparation fees for a full-service individual 401(k) account average around \$500.
- Designated Roth contributions offer tax-free qualified distributions (salary deferrals and employer contributions are included in the participant's taxable income the year that they are earned).

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