RAYMOND JAMES

The owners-only 401(k)

The owners-only 401(k) offers the high contribution limits and flexible investment strategies of a traditional 401(k) to owners-only businesses.

BENEFITS OF ESTABLISHING AN OWNERS-ONLY 401(K)

The owners-only 401(k) plan was made possible by the Economic Growth and Tax Relief Reconciliation Act, which changed the rules regarding 401(k) contribution limits. You can designate up to 25% of your total compensation to a profit sharing plan, plus up to $23,500 to a 401(k) plan, if you earn at least that amount annually. This brings your total contribution level up to a maximum of $70,000, or 100% of your total compensation, whichever is less. If you are 50 or older, you can make an additional "catch-up" contribution of up to $7,500.

In addition to the benefits of traditional 401(k) plans – including tax-deductible contributions, tax-deferred earnings, flexible contribution requirements and a variety of investment options – and the higher funding limits, owners-only 401(k) plans offer:

KEY TAKEAWAYS

Owners-only 401(k) plans are flexible plans with two primary components: profit sharing and salary deferral.

This type of plan is appropriate for individuals who are the sole operators of their businesses.

The 2025 standard limit for salary deferral is $23,500 while the maximum funding limit is $70,000.

CATCH-UP CONTRIBUTIONS

For 2025, those 50 and older can add an additional $7,500 to their 401(k) contributions.*

TAX-FREE LOANS

Although 401(k) plans are designed for retirement savings and can grow faster if the funds are left untouched, the owners-only 401(k) includes a provision that allows you to borrow from your account if you need quick access to funds.

CONSOLIDATION OF MULTIPLE ACCOUNTS

Most retirement plan assets, including funds from profit sharing and money-purchase plans, and both traditional and SEP IRAs, can be transferred into your owners-only 401(k).

SPOUSAL BENEFITS

While this type of plan is specifically for businesses with no employees, you and your spouse can participate if you both are employed by and receive compensation from the business.

NO DISCRIMINATION TESTING REQUIREMENT

Because you don't have employees, you are not limited by employee contribution restrictions and can, therefore, maximize your contribution.

ROTH CONTRIBUTION

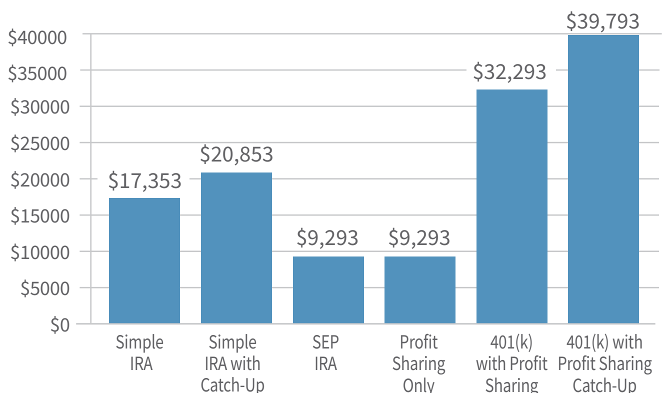
Individuals who cannot make contributions to a Roth IRA because of income limitations can now make Roth contributions inside their 401(k) plans. Simple IRAs do not allow for Roth (after-tax) contributions.

*Under a change made in SECURE 2.0, a higher catch-up contribution limit applies for employees aged 60, 61, 62 and 63 who participate in these plans. For 2025, this higher catch-up contribution limit is $11,250 instead of $7,500.

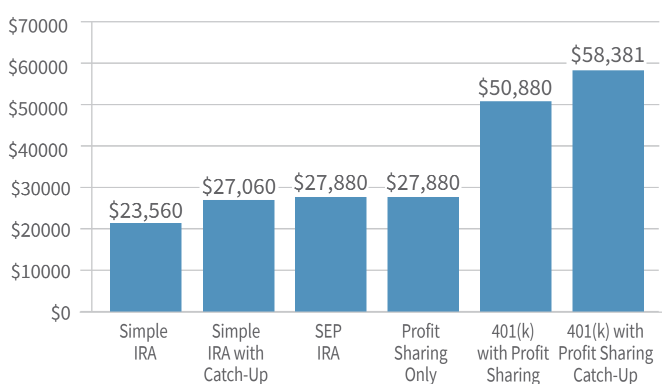
COMPARING RETIREMENT PLANS FOR YOUR BUSINESS

Tom is a 51-year-old consultant with no employees. He operates his business as an S corporation and earns $80,000 annually in W-2 wages. For the 2025 calendar year, Tom can defer up to $23,500 of his salary, plus he can make a $7,500 catch-up contribution for a total salary deferral amount of $31,000. He can also make a 25% profit sharing contribution – $20,000 based on his $80,000 salary. The total contribution Tom can make to his owners-only 401(k) plan for 2025 is $51,000. Had he sponsored a profit sharing plan or a SEP IRA instead, he could have contributed a maximum of only $20,000.

This chart compares how much a self-employed person with a gross income of $50,000 can contribute to various defined contributions retirement plans for 2025. In the example shown, gross income has been reported on Form 1099, and net income has been determined using a Schedule C calculation.



This chart compares how much a self-employed person with a gross income of $150,000 can contribute to various defined contributions retirement plans for 2025. In the example shown, gross income has been reported on Form 1099, and net income has been determined using a Schedule C calculation.



QUALIFIED PLAN CONTRIBUTION LIMITS

The 2025 limits for your owners-only 401(k) are shown in the following table.

STANDARD LIMITS

Salary Deferral Limit	Maximum Funding Limit*
$23,500	$70,000

LIMITS FOR THOSE 50 AND OLDER

Salary Deferral Limit	Catch-Up Contribution	Maximum Funding Limit*
$23,500	$7,500	$77,500

*Includes salary deferral and profit sharing contributions.

SHOULD YOU CONSIDER AN OWNERS-ONLY 401(K)?

This type of retirement savings plan is appropriate for individuals who are the sole operators of their businesses. It may also be appropriate for those who share ownership and responsibility with family members or with partners, as long as those individuals each own at least 5% of the business. The owners-only 401(k) is available to business entities including sole proprietorships and partnerships, as well as C, S and limited liability corporations.

Owners who employ – or who may employ in the near future – workers who cannot be excluded under 401(k) eligibility requirements may find other plans to be more suitable. Employees who may be excluded include those under age 21 or who work fewer than 1,000 hours in a 12-month period, nonresident aliens and union employees covered by a collective bargaining agreement.

FREQUENTLY ASKED QUESTIONS

What is the deadline for establishing an owners-only 401(k)?

The deadline for establishing an owners-only 401(k) is the business tax filing deadline, including extensions.

What is the deadline for funding an owners-only 401(k)?

The deadline for funding the employer contribution to an owners-only 401(k) is the business tax filing deadline, including extensions. The deadline for depositing salary deferral contributions is the earliest date on which the deferral can be reasonably segregated from the general assets of the business, but no later than the 15th business day of the month following the deferral.

The U.S. Department of Labor has proposed a new regulation for small plans that provides a seven-day safe harbor for depositing salary deferral contributions to a plan. As long as the contributions are transmitted within seven business days after the amounts would have been paid to the employee, the contributions would be considered timely.

Due to final 401(k) regulations issued in 2006, an owner of an unincorporated business (sole proprietor) can postpone the deposit of a deferral until the tax filing date, provided the deferral election is made by the end of the tax year (December 31 of a calendar tax year). For sole proprietors, compensation is deemed to be earned on the last day of the tax year. That means the election to defer must be made by that date, since an election to defer can never be made retroactively. However, the deposit can be made up until the tax filing deadline, including extensions.

From a funding perspective, are owners-only 401(k) plans more flexible than other types of business retirement plans?

Owners-only 401(k) plans are extremely flexible from a funding perspective. There are two primary components to an owners-only 401(k) plan contribution: profit sharing and salary deferral.

The profit sharing contribution can be any amount up to 25% of annual compensation.

Employee salary deferrals can be any amount up to $23,500 for 2025, plus an additional $7,500 catch-up contribution if the employee reaches the age of 50 or older by the end of the calendar year.*

Employee salary deferrals can be either the traditional pre-tax or after-tax Roth contributions.

What happens to the salary deferral and catch-up contribution levels in 2025?

Both contribution levels for owners-only 401(k) plans will be indexed for inflation.

Do contributions have to be made to the plan each year?

No. You have the flexibility to decide from year to year how much you can and are willing to contribute, up to the annual limits.

Can distributions from other retirement plans or IRAs be rolled over to an owners-only 401(k)?

Yes. Most owners-only 401(k) plans allow for rollovers from other retirement plans. For example, traditional and SEP IRAs, profit sharing and money purchase pension plans, and other 401(k) savings are eligible for rollover into an owners-only 401(k). Roth IRAs are not eligible for rollover.

A plan participant leaving an employer typically has four options (and may engage in a combination of these options):

- Leave the money in his former employer's plan, if permitted
- Roll over the assets to his new employer's plan, if one is available and rollovers are permitted
- Roll over to an IRA
- Cash out the account value

Can loan provisions be included in an owners-only 401(k)?

Yes. The same loan rules that apply to other qualified plans apply to owners-only 401(k) plans.

*Under a change made in SECURE 2.0, a higher catch-up contribution limit applies for employees aged 60, 61, 62 and 63 who participate in these plans. For 2025, this higher catch-up contribution limit is $11,250 instead of $7,500.

Are there IRS reporting requirements associated with an owners-only 401(k)?

Not initially. If there are no employees in the plan except the business owner and his or her spouse, Form 5500-EZ should be filed with the IRS only when the total assets in the plan reach $250,000, and in the final year of the plan.

Are Roth 401(k) contributions separated from the pre-tax contribution?

Roth contributions must be record kept separately from pre-tax contribution amounts. Although there is no requirement to maintain two separate accounts for this purpose, you may find it easier to record keep the Roth contributions in a second account.

Can I convert my existing pre-tax contributions to my Roth account inside my 401(k)?

No. They must remain either pre-tax or Roth at the time of election.

Can I make both pre-tax and Roth salary deferrals in the same year?

Yes. You may designate some or all of your elective salary deferrals as Roth contributions.

How are Roth 401(k) distributions treated?

Qualified distributions are tax-free if withdrawn after five years and due to death, disability or attainment of age 59 1/2.

Withdrawals may be subject to income taxes, and prior to age 59 1/2 a 10% federal penalty tax may apply.

TAKING THE NEXT STEP

To learn more about the owners-only 401(k), contact your advisor.

RAYMOND JAMES®

INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER
880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863
RAYMONDJAMES.COM