Solo 401(k)

A “Solo 401(k)” is a regular 401(k) plan that covers only a business owner, or the business owner and his or her spouse. In such a plan, the business owner plays two roles, that of employee and that of employer.

How It Works

- As an “employee,” the business owner can choose to either receive cash (salary or bonus) or defer the funds into the 401(k) plan. If the 401(k) plan is chosen, these “elective deferrals” are not subject to current income tax, but are subject to FICA and FUTA payroll taxes.[1] For 2026, employee deferrals are limited to $24,500. Additional deferrals of $8,000 may be made if the individual is age 50 or over.

- As the “employer,” the business owner may also contribute to the plan. For 2026, the employer’s deductible contribution is limited to 25% of the employee’s compensation.[2] Employer contributions are not currently taxed to the employee.

- In 2026, total 401(k) contributions (from both employer and employee) are limited to the lesser of 100% of the employee’s compensation or $72,000. Assets in the plan grow on a tax-deferred basis. Distributions are generally taxed as ordinary income.

- All 401(k) plans must meet prescribed nondiscrimination tests. Plans in which the business owner, or the business owner and spouse, are the only employees, effectively avoid this issue. Just one additional eligible employee, however, can trigger these nondiscrimination requirements, increasing the administrative complexity and cost.

How Much Can Be Contributed?

A key attraction of a 401(k) plan is the significant amount of money that can be contributed to the plan, as well as being deducted from taxable income. This amount will vary with the level of income and the form of business ownership.

[1] The discussion here concerns federal income tax law. State and/or local tax law may differ.
[2] In 2026, a maximum of $360,000 of compensation may be considered in this calculation.

2026 Maximum Deductible Contributions
Under Age 50 – Incorporated Business

Wages & Salary (W-2)	$100,000	$200,000	$300,000	$400,000
401(k)				
Employee Contribution	$24,500	$24,500	$24,500	$24,500
Employer Contribution[1]	25,000	47,500	47,500	47,500
TOTAL	**$49,500**	**$72,000**	**$72,000**	**$72,000**
SEP IRA, Profit Sharing or Money Purchase				
Employer-only Contribution	**$25,000**	**$50,000**	**$75,000**	**$100,000**
SIMPLE IRA				
Employee Contribution	$17,000	$17,000	$17,000	$17,000
Employer Match at 3.0%	3,000	6,000	9,000	12,000
TOTAL	**$20,000**	**$23,000**	**$26,000**	**$29,000**

2026 Maximum Deductible Contributions
Under Age 50 – Unincorporated Business

Self-Employment Income	$100,000	$200,000	$300,000	$400,000
401(k)				
Employee Contribution	$24,500	$24,500	$24,500	$24,500
Employer Contribution[2]	25,000	50,000	46,000	46,000
TOTAL	**$49,500**	**$74,500**	**$70,500**	**$70,500**
SEP IRA, Profit Sharing, or Money Purchase				
Employer Only Contribution	**$18,587**	**$37,281**	**$57,013**	**$70,000**
SIMPLE IRA				
Employee Contribution	$17,000	$17,000	$17,000	$17,000
Employer Match at 3.0%	2,695	5,406	8,267	10,500
TOTAL	**$19,695**	**$22,406**	**$25,267**	**$27,500**

[1] Equals 25% of the employee's W-2 income, subject to the overall $72,000 limitation.

[2] Equals 25% of "net" self-employment income, i.e., gross income less the contribution and one-half the self-employment tax, subject to the overall $72,000 limitation.

Other Points to Consider – Pros and Cons

- **Pros**
  - **Flexible contributions:** Contribution amounts may vary from year to year.
  - **Loan provisions:** A 401(k) plan may allow for participant loans.
- **Cons**
  - **Coordination with other plans:** If a business owner is also a participant in another 401(k) plan,[1] the overall elective deferral limits apply to deferrals made to both plans.

Seek Professional Guidance

Setting up a qualified plan involves a number of complex issues. The guidance of qualified financial professionals is highly recommended.

[1] For example, this would include someone who works full-time for one employer, but who also has a side business from which he or she earns self-employment income.

Disclosure Notice

The information that follows is intended to serve as a basis for further discussion with your financial, legal, tax and/or accounting advisors. It is not a substitute for competent advice from these advisors. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney. The application of other concepts may require the guidance of a tax or accounting advisor. The company or companies listed below are not authorized to practice law or to provide legal, tax, or accounting advice.

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