

Survival 401k Financial Intelligence: Solo 401k Basics



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Chapter 1: What Is a Solo 401(k)?

Definition & History

The Solo 401(k) (officially called a “**One-Participant 401(k)**”) was created by the **Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001** to help self-employed individuals save more for retirement. Unlike traditional 401(k)s, it eliminates costly administration fees and complex compliance burdens for small business owners. **Only 3% of Americans know anything about it.**

Key Features

- ✓ **Checkbook Control** – You act as trustee, allowing direct investments without custodian approval.
- ✓ **Higher Contribution Limits** – Up to **\$69,000/year (2024)**, nearly 10x a Traditional IRA.
- ✓ **Roth Option** – Unlike SEP IRAs, you can choose **tax-free growth**
- ✓ **Loan Provisions** – Borrow up to **\$50,000 or 50% of your account balance** (with interest paid back to yourself).

Case Study: “*Mark, a real estate investor, rolled over his old 401(k) into a Solo 401(k). He now uses it to fund private mortgages at 10% interest—earning passive income while his principal grows tax-deferred.*”

Chapter 2: Who Qualifies for a Solo 401(k)?

A Solo 401(k) is one of the most powerful retirement plans available—but **only if you qualify**. Below is the most detailed eligibility breakdown available, including little-known exceptions and IRS gray areas.

1. Primary Eligibility Requirements

A. Self-Employment Income

✓ Business Types That Qualify:

- Sole proprietors
- Single-member LLCs (taxed as sole prop or corporation)
- S-Corps (if you're the only employee)
- C-Corps (if you're the only employee)
- Partnerships (only if you have no employees other than spouse)

✓ Income Requirements:

- Must have **earned self-employment income** (W-2 employees don't qualify unless they also have a side business).
- No minimum income—even **\$200/year** in net earnings qualifies you.

B. No Full-Time Employees

✗ You **CANNOT** have any full-time W-2 employees (other than your spouse).

Allowed Exceptions:

- **Independent contractors (1099 workers)** – They don't count as employees.
- **Part-time employees** – If they work **<1,000 hours/year**, some providers allow them.
- **Your spouse** – They can participate even if they don't work in the business.

Red Flag: Hiring your child as an employee **disqualifies you** unless they're **over age 21**.

2. Special Cases & Gray Areas

A. Side Hustlers with a Day Job

✓ You CAN contribute to a Solo 401(k) if:

- You have a W-2 job **and** a side business with no employees.
- Your employer's 401(k) **does not restrict outside plans.**

⊘ You CANNOT “double dip” salary deferrals – The \$23,000 employee limit (2024) applies across all 401(k)s combined. *Example:*

- Max out your W-2 401(k) with \$23,000 → \$0 left for Solo 401(k) employee deferrals.
- But you can still make **employer profit-sharing contributions** (up to 25% of self-employment income).

B. Married Couples in Business Together

✓ Both spouses can participate IF:

- They co-own the business (even 99%/1% splits qualify).
- The business has **no other employees.**

Contribution Power:

- Each spouse gets their own \$23,000 **employee deferral + profit-sharing.**
- Potential **combined contributions: \$138,000+/year (2024).**

How to Verify Your Eligibility

Step-by-Step Checklist

1. **Do you have self-employment income?** (Schedule C, K-1, or corporate earnings.)
2. **Do you have any full-time W-2 employees?** (Exclude spouse/contractors.)
3. **If married, is your spouse the only other participant?**
4. **Are you rolling over an old 401(k)?** (Ensure you qualified when opening the plan.)

Chapter 3: Solo 401(k) vs. Other Retirement Plans

Comparison Chart (2024 Rules)

Feature	Solo 401(k)	SEP IRA	SIMPLE IRA	Traditional IRA
Max Contribution	\$69K (+\$7.5K if 50+)	\$69K or 25% of income	\$16K (+\$3.5K if 50+)	\$7K (+\$1K if 50+)
Roth Option?	✔ Yes	✘ No	✘ No	✔ Yes (income limits)
Loan Allowed?	✔ Yes	✘ No	✘ No	✘ No
Employee Rules	No full-time W-2 employees	Can have employees	Must cover employees	N/A

Bottom Line:

Best for flexibility & high contributions: Solo 401(k).

Best for businesses with employees: SEP IRA or SIMPLE IRA.

Chapter 4: Contribution Limits & Tax Advantages

2024 Contribution Breakdown

1. **Employee Salary Deferral:**
 1. \$23,000 (under 50) or \$30,500 (50+).
2. **Employer Profit-Sharing:**
 1. Up to **25% of net self-employment income** (calculated after deducting half of self-employment tax).

Example Calculation: “Sarah, 45, earns \$100,000 from her consulting business. She contributes:”

- \$23,000 (employee deferral).
- \$18,587 (employer profit-sharing, after deductions).
- **Total: \$41,587 (saving her \$12,000+ in taxes).**

Tax Strategies

- **Traditional Solo 401(k):** Deduct contributions now, pay taxes later.
- **Roth Solo 401(k):** Pay taxes now, withdraw tax-free in retirement.

Pro Tip: “If you expect higher taxes in retirement, go Roth. If you want immediate savings, go Traditional.”

Chapter 5: Investment Options Beyond Stocks & Bonds

Approved Alternative Investments

Investment Type	How It Works	Potential Returns	Risk Level	Solo 401(k) Rules
Rental Properties	Buy properties using Solo 401(k) funds, collect rent tax-free.	8-36% annual interest (varies by state)	Medium (research required)	✅ Allowed - Must follow state redemption periods
Private Lending	Loan money secured by real estate (first/second mortgages).	10-15% interest	Medium-High	✅ Allowed - No loans to disqualified person
Gold & Silver	Physical bullion	Inflation hedge / Life Assurance	Low	✅ Allowed - Must be .995+ pure with exceptions
Tax Liens	Purchase delinquent property tax debt from counties. If unpaid, you may foreclose or earn 8-36% interest.	8-36% annual interest (varies by state)	Medium (research required)	✅ Allowed - Must follow state redemption periods

Why Tax Liens Belong in Your Solo 401(k)

1. **Higher Returns Than Bonds** - Some states mandate 16-36% interest rates on unpaid liens
2. **Collateralized by Real Estate** - If the owner doesn't pay, you can foreclose (in most states)
3. **Tax-Advantaged Growth** - All interest/foreclosure profits grow tax-deferred

Example: “Arizona Solo 401(k) investor bought \$50K in tax liens at 16% interest. After 3 years of compounding, his account grew to \$78,000 - all tax-free until retirement.”

3 Critical Rules for Tax Liens in Solo 401(k)s

1. **No Personal Involvement** - Can't bid on liens in counties where you live/work
2. **State-Specific Research Required** - Redemption periods vary (6 months - 3 years)
3. **Foreclosure Risks** - Must follow IRS rules for property disposition

Best States for Beginners:

- Florida (18% interest)
- Arizona (16%)
- Iowa (24%)

Prohibited Transactions to Avoid

- ✗ Buying liens in your home county (creates self-dealing risk)
- ✗ Using personal knowledge to “cherry pick” properties
- ✗ Skipping due diligence on property valuations

Why Real Estate is the Ultimate Solo 401(k) Investment

A Solo 401(k) isn't just another retirement account—it's a **wealth-building machine** when used to invest in real estate. Below, we break down exactly why real estate is the #1 asset class for Solo 401(k) investors, along with **step-by-step strategies, tax advantages, and real-world examples.**

The Unbeatable Tax Advantages

A. Tax-Deferred (or Tax-Free) Growth

- **Traditional Solo 401(k):** No capital gains tax when you sell a property. All profits **compound tax-deferred** until retirement.
- **Roth Solo 401(k):** Pay taxes upfront, then **all rental income and appreciation are tax-free forever.**

*Example: "Sarah buys a \$200K rental property in her Solo 401(k). After 10 years, it's worth \$400K. When she sells, she pays **\$0 in capital gains tax (Traditional)** or **\$0 in taxes ever (Roth).**"*

B. No UBTI (Unrelated Business Taxable Income)

- Unlike **Self-Directed IRAs**, Solo 401(k)s **don't trigger UBTI** when:
 - Using leverage (mortgages)
 - Earning rental income
 - Flipping properties (if held over 1 year)

*This means you can **finance properties** without the 35%+ UBTI tax that applies to IRAs.*






C. Deductible Expenses

Repairs, property management fees, and HOA costs are paid with **pre-tax dollars.**

Chapter 6: Solo 401(k) Compliance: Rules, Recordkeeping & Penalties

A Solo 401(k) is a formal trust under IRS rules, meaning you must maintain:

Required Documentation

-  **Plan Documents** – Adoption agreement, trust agreement, IRS determination letter (if applicable).
-  **Contribution Records** – Dates, amounts, and whether they were employee deferrals or employer contributions.
-  **Investment Transactions** – Purchase/sale agreements, loan documents (if applicable), and asset valuation
-  **Beneficiary Designations** – Keep updated copies.
-  **Meeting Minutes** – If your plan allows loans or other trustee decisions, document them.

Best Practices:

- Store records at **least 6 years** (IRS statute of limitations).
- Use a **separate business bank account** for all plan transactions.
- Digitize documents (use cloud storage like Dropbox or a secure USB drive).

Form 5500-EZ: Who Must File & Deadlines

When Is It Required?

You must file Form 5500-EZ if your Solo 401(k) has \$250,000 or more in assets at year-end.

Key Deadlines:

- **Due Date: July 31** of the following year (e.g., 2024 filing is due by July 31, 2025).
- **Extensions:** No formal extension, but filing late (before IRS notices) reduces penalties.

Penalties for Late or Missing Filings

- **\$250 per day** (up to **\$150,000 maximum**).
- **Plan Disqualification Risk** – If unfiled for multiple years, the IRS may terminate your plan, triggering:
 - Immediate taxation of **all assets**.
 - 10% early withdrawal penalty (if under age 59½).

Failure to Take RMDs

- Starting at **age 73**, you must take Required Minimum Distributions (RMDs).
- **Penalty: 25% of the amount you should have withdrawn** (reduced to 10% if corrected quickly).





Prohibited Transactions (The Biggest Compliance Risk)

What Is a Prohibited Transaction?

Any transaction between the plan and a “disqualified person”, including:

- You (the plan owner)
- Your spouse, children, parents
- Your business partners or entities you control

Common Prohibited Transactions

-  Buying property for personal use (e.g., your home, vacation rental).
-  Lending money to yourself or family member
-  Selling assets to your plan (e.g., your personal gold collection).
-  Using plan assets as collateral for a personal loan.

Penalties for Prohibited Transactions

- **15% excise tax** on the transaction amount (paid annually until corrected).
- **100% penalty** if not fixed (yes, the IRS can take **the entire amount**).
- **Plan disqualification** – All assets become taxable immediately.

Example: “A business owner used his Solo 401(k) to buy a warehouse he personally guaranteed. The IRS ruled this a prohibited transaction—forcing him to liquidate the property and pay \$50,000 in penalties.”

Other Compliance Pitfalls

Late Contributions

- **Employee Deferrals:** Must be deposited by **December 31**.
- **Employer Contributions:** Due by **your tax filing deadline** (including extensions).

Penalty:

- **10% excise tax** on late amounts + potential plan disqualification.

Excess Contributions

- Contributing more than the **\$69,000 limit** (2024) triggers a **6% annual penalty** until corrected.

Chapter 7: Solo 401(k) Pros & Cons – The Full Breakdown

A Solo 401(k) is one of the most powerful retirement tools for self-employed individuals—but it’s not perfect. Below, we dive deep into every advantage and drawback, including real-world tradeoffs most advisors won’t tell you.

The Pros: Why a Solo 401(k) Beats Every Other Plan




1. Higher Contribution Limits (Up to \$69,000+/Year)

- **2024 Limits:**
 - **Employee Salary Deferral:** \$23,000 (\$30,500 if 50+)
 - **Employer Profit-Sharing:** Up to 25% of net self-employment income
 - **Combined Max:** \$69,000 (\$76,500 if 50+)
- **Comparison:**
 - **IRA:** \$7,000 max
 - **SEP IRA:** \$69,000 but **no Roth option**

Example: “A 52-year-old consultant earning \$150K can contribute \$30,500 (employee) + \$28,500 (employer) = \$59,000/year—nearly 10x an IRA.”

2. Checkbook Control – Invest in Almost Anything

Unlike IRAs or traditional 401(k)s, you can:

-  **Buy real estate directly** (no custodian approval)
-  **Invest in private businesses, tax liens, crypto, and mo**
-  **Move fast on deals** (no paperwork delays) *“Lisa used her Solo 401(k) to buy a foreclosure in 5 days—something impossible with an IRA.”*

Chapter 7: Pros Continued

3. Roth Option (Tax-Free Growth Forever)

- **Traditional Solo 401(k):** Tax deduction now, taxed later.
- **Roth Solo 401(k):** Pay taxes now, **all growth is tax-free in retirement.**

Best For: High earners who expect **higher tax rates later.**

4. Loan Privileges (Borrow Up to \$50,000)

- Can borrow **50% of your balance or \$50,000 max** (whichever is less).
- **Pay interest back to yourself** (not a bank).

“Mike borrowed \$40K from his Solo 401(k) to fund a business expansion—saving \$8K in bank loan interest.”

5. No UBTI Tax (Unlike IRAs)

- **IRAs get hit with 35%+ Unrelated Business Taxable Income (UBTI)** if:
 - Using leverage (mortgages)
 - Flipping properties (if held <1 year)
- **Solo 401(k)s are exempt**—meaning you can:
 - Finance rental properties
 - Flip houses (if held 1+ year)

6. Asset Protection from Lawsuits & Creditors

- **IRAs:** Protected up to \$1M in bankruptcy (federal law).
- **Solo 401(k)s:** **Fully shielded** from creditors in most states.

X The Cons: Where a Solo 401(k) Falls Short

1. No Employees Allowed (Except Spouse)

🚫 Disqualifies You If:

- You have **full-time W-2 employees** (1099 contractors are fine).
- You hire your **child under 21** as an employee.

Workaround: Use a **SEP IRA** if you have employees.

2. More Paperwork Than an IRA

- Must file **Form 5500-EZ** if balance >\$250K.
- Requires **separate bank account** for plan transactions.

“John forgot to file Form 5500-EZ for 3 years—costing him \$27,500 in IRS penalties.”

3. Prohibited Transactions Can Destroy Your Plan

🚫 Never Do These:

- Buy property from yourself, family, or business partners.
- Use plan assets for personal benefit (e.g., vacation home).
- Mix personal and plan funds.

Penalties: **15% excise tax + plan disqualification** (all assets become taxable).

4. Limited Liquidity (Compared to Stocks/ETFs)

- Real estate, private loans, and tax liens **aren't instantly sellable**.
- Must keep **some cash reserves** for emergencies.

5. Setup Costs

- **DIY Providers:** ~\$1200 (e.g., Survival 401k).
- **Full-Service Providers:** ~\$1,500+ (e.g., Rocket Dollar).

“Worth every penny for the tax savings.”

Chapter 8: How to Set Up a Solo 401(k) in 5 Simple Steps

Setting up a Solo 401(k) is straightforward—if you know the right steps. Below, we break down the entire process with **provider comparisons, hidden fees to avoid, and exact timelines** so you can start investing ASAP.

Step 1: Choose a Provider

Not all Solo 401(k) providers are equal.

Why Choose Survival 401k for Your Solo 401(k)?

✔ Built for Entrepreneurs, Not Wall Street

Unlike generic providers, **Survival 401k specializes in self-directed investing**, giving you:

- ✔ **True Checkbook Control** – Buy real estate, tax liens, and private loans **without custodian delays**
- ✔ **Roth Solo 401(k) Option** – Grow your wealth **tax-free** (most providers don't offer thi

✔ **No Asset-Based Fees** – Flat pricing (no % of AUM scams)

✔ Expert Guidance for Alternative Investments

Most providers just hand you documents. **Survival 401k gives you a battle-tested roadmap** for:

- 🏠 **Real Estate** – Buy rentals, flip houses, or lend money—**all tax-deferred**
- 💎 **Precious Metals** – Hold physical gold/silver in your 401(
- 📈 **Private Equity** – Invest in startups or small businesses

✔ IRS-Approved & Lawsuit-Protected

- ✔ **Pre-Approved Plan Documents** – No risk of IRS rejection
- ✔ **Asset Protection** – Shield your wealth from creditors and lawsuits

Chapter 8: Step 2: Sign Plan Documents

After selecting Survival 401k you'll receive 7 critical documents:


1. **Employee Identification Number for Plan**
2. IRS Approval Letter – Confirms your plan meets tax code requirements.
3. Plan Highlights
4. **Adoption Agreement – Outlines plan rules (e.g., Roth option, loans).**
5. **Trust Agreement – Establishes your 401(k) as a legal trust.**
6. **Basic Plan Document**
7. **Successor Trustee**
8. **Beneficiary Designation**
9. Custodial Letter of Transfer
10. And other Rollover and Roth Conversion Documents

What to Watch For:

- Ensure your plan allows **your specific investments** (e.g., real estate, crypto).
- If rolling over old 401(k)s, verify the provider accepts **incoming rollovers**.

Timeline: 5-7 business days (digital signing).

Chapter 9: Next Steps

 **Schedule a Free Consultation –**
Talk to a Solo 401(k) expert at
Survival401k.com or [833-224-5517](tel:833-224-5517)

