



Maximizing Wealth

Your Guide to Tax Deductions with Small Business Retirement Plans



DISCLAIMER

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All information and materials are for educational purposes only. All parties are encouraged to consult with their attorneys, accountants, and financial advisors before entering any type of investment.





AGENDA

WHAT WILL BE COVERED

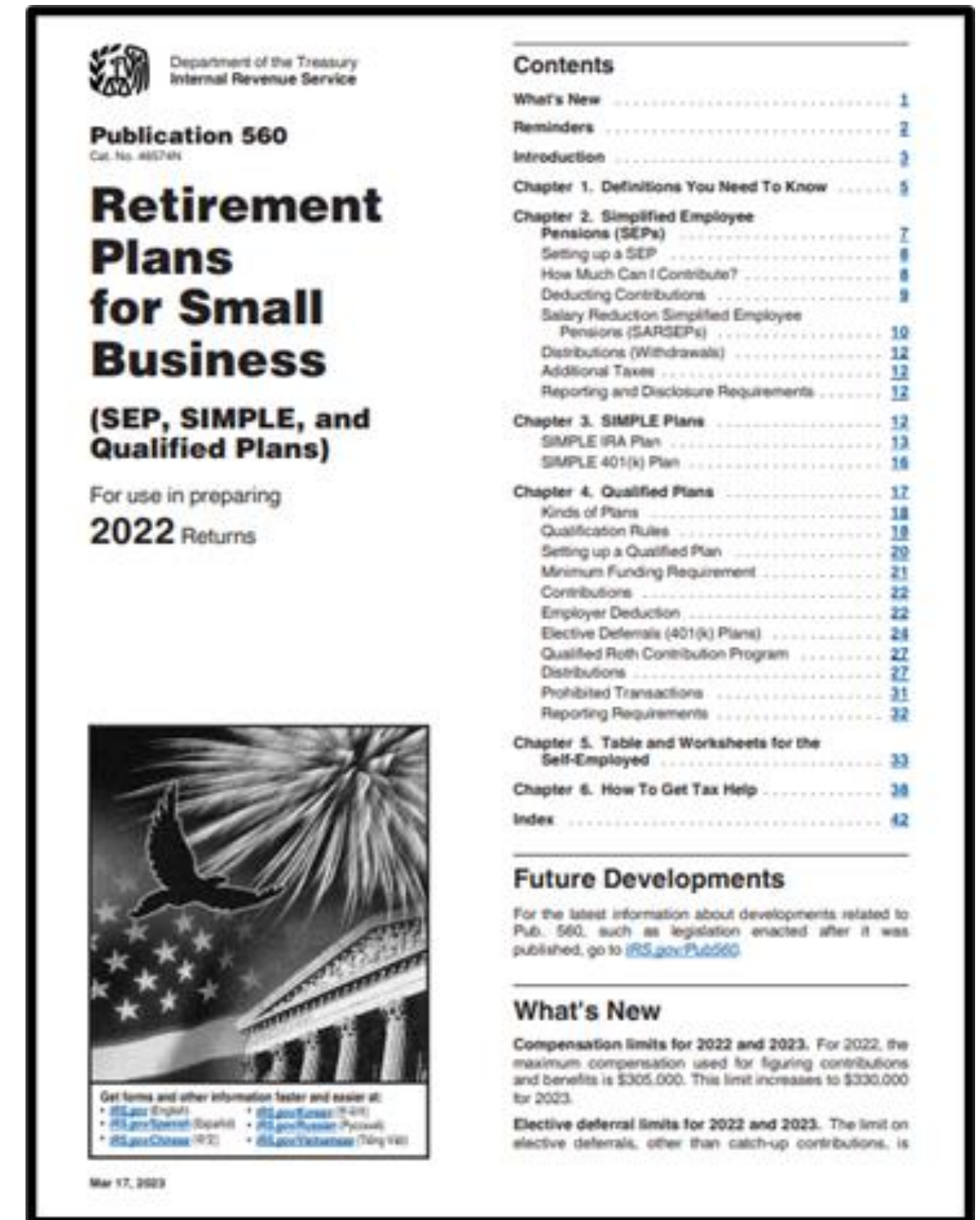
- ❑ A breakdown of SEP IRA, SIMPLE IRA, and Solo 401(k) Plan: contributions and tax return due dates
- ❑ How to take advantage of these plans to lower your taxable income
- ❑ How to use retirement plan assets to invest in real estate



OVERVIEW OF SMALL BUSINESS RETIREMENT PLANS

IRS Publication 560

- ❑ Small business retirement plans:
 - **SEP-** Simplified Employee Pension Plans
 - **SIMPLE-** Savings Incentive Match Plans
 - **Solo 401(k)** - Individual 401(k) plans – Owner only plans
- ❑ IRA-based employer plan contributions go into an IRA
- ❑ Individual 401(k) considered an employee benefit plan



EMPLOYER BENEFITS



- Contributions are tax deductible to the employer

Employer tax credit or the greater of:

- 50% of the start up expenses up to \$500.00 or the lesser of \$250.00 for each eligible rank and file employee or \$5,000
- For employers with 50 or less employer the 50% is increased to 100%
- Employer must have at least 1 rank and file employee
- Tax credit is available for three years



- Attracts employees as part of the package
- Retention tool

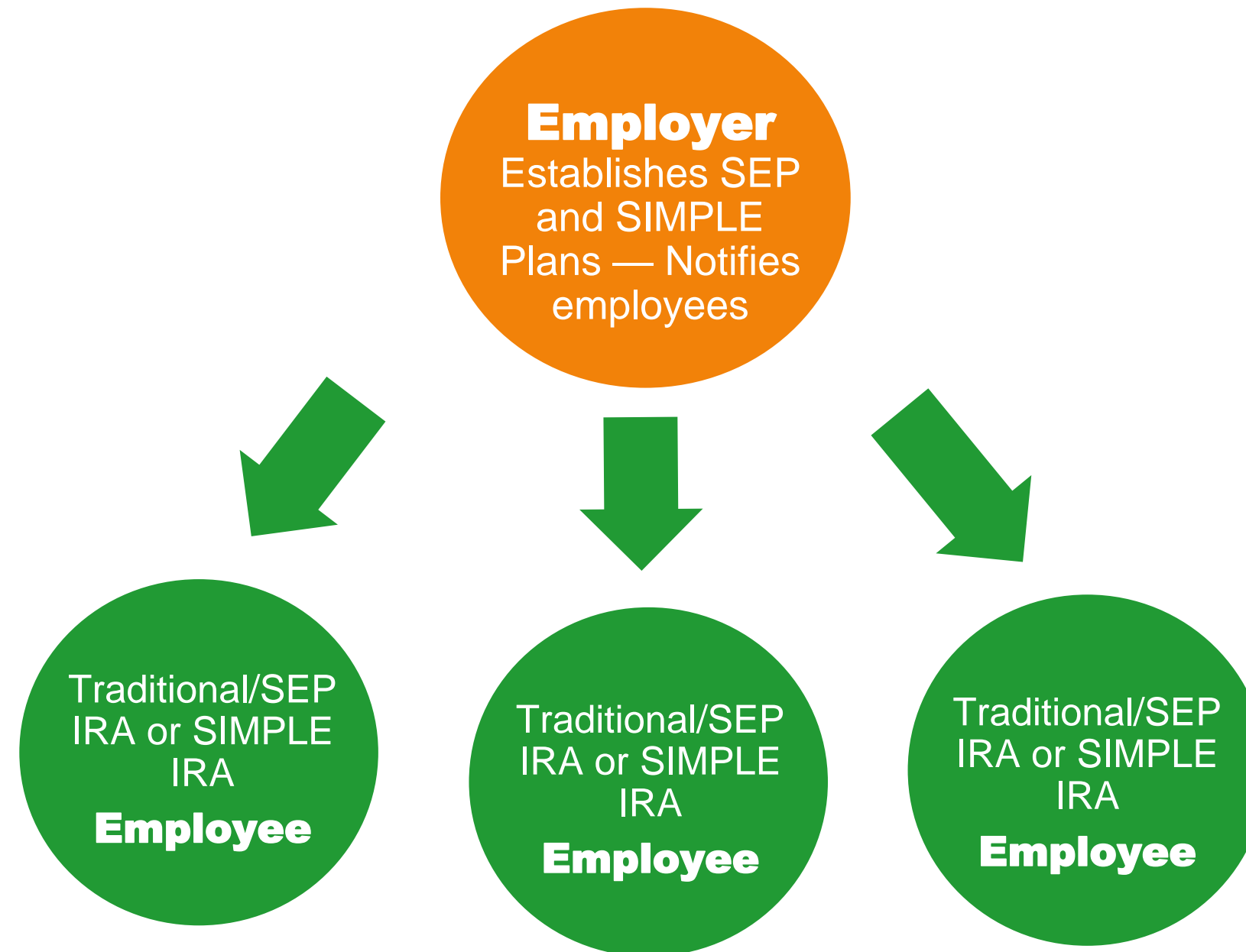


- Owners are treated as employees – can make contributions on own account





IRA BASED PLANS



Each employee establishes their own IRA to receive the contribution. SEP max is < 25% of compensation capped at \$66,000 for 2023. SIMPLE Max is \$15,500 plus \$3,500 if >50 plus match.

SOLO 401(K) PLAN

- ❑ **Benefits come by not having employees**
 - Not subject to nondiscrimination test
 - Maximum contribution limit not affected
- ❑ **Employer adopts plan by completing an approved adoption agreement**
- ❑ **Each employee's account must be tracked separately**
 - Each source must be tracked separately per employee
 - Deferrals, profit-sharing, rollovers, designated Roth, and After Tax
 - Each source has separate rules
 - Maximum for 2023 for someone aged 50 and older \$73,500

ABC Realty Solo 401(k)

Owner 1: Jane Doe

Owner 2 (spouse): John
Doe

Owner 3: Mary Smith

DEADLINE TO ESTABLISH PLANS

SEP IRA AND SOLO 401(k)

- ❑ May be established up until the tax return due date plus extension of the employer
- ❑ Contributions must be funded by the employer's tax return due date plus extension
- ❑ May be used as a tax deduction for the year of the contribution
- ❑ Deferrals can only be made from income not yet received

SIMPLE IRA

- ❑ Must be established by October 1st of a calendar year
- ❑ Employer must provide a notice of 60 days prior to the beginning of the plan year or date of establishment
- ❑ For new businesses (established after 10/01) – as soon as administratively feasible but on or before the end of the year plan



EMPLOYEE ELIGIBILITY



SEP – maximum requirements –
can be waived

Age 21

Service – 3 out of an immediate 5-
year period



SIMPLE – maximum requirements –
can be waived

No age requirements

Service 2 out any preceding years

Current year compensation not to
exceed \$5,000

ELIGIBLE EMPLOYERS



For-profit entities

Sole proprietors
Partnerships
Corporations (C-Corps and
S-Corps)



Tax-exempt entities



State and local governments

✓ Controlled group rules apply



EMPLOYER'S TAX FILING DUE DATE FOR TAX YEAR

**Employer must physically file for an extension to file their return*

Type of Organization	Tax Return Deadline	Extension Deadline*
Sole proprietor-Corporations	April 15	October 15
Partnerships and S-Corporations	March 15	September 15

If the deadline falls on a weekend or holiday, the deadline is the following business day.

CONTRIBUTION LIMITS

SEP IRA

- Lesser of 25% of compensation or
- \$61,000 (2022); \$66,000 (2023)
- Compensation cap at \$305,000 (2022); \$330,000 (2023)

SIMPLE IRA

- Employee deferrals: \$15,500 (2023)
Catch up \$3,500 (2023)
- Employer mandatory contribution:
 - Matching contribution formula – dollar for dollar, up to 3% of compensation
 - Non-elective contribution formula – 2% of each eligible employee's compensation
 - Subject to compensation cap: \$330,000 (2023)



EMPLOYER

- Lesser of 25% of compensation or
- \$61,000 (2022); \$66,000 (2023)
- Compensation cap at \$305,000 (2022); \$330,000 (2023)

EMPLOYEE

- Individual 401(k) deferral limits
- Deferrals \$20,500 (2022), \$22,500 (2023)
- Catch-up contribution \$6,500 (2022), \$7,500 (2023)

EMPLOYER AND EMPLOYEE LIMITS

- Cannot exceed \$61,000 (2022), \$66,000 (2023)

CATCH-UP CONTRIBUTIONS

- **NOT** capped by the \$61,000 (2022), \$66,000 (2023)

SOLO 401(k) PLAN CONTRIBUTION LIMITS

TAX DEDUCTION ILLUSTRATION

Jane, a REALTOR[®], has \$100,000 of W-2 income as an employee of her S-Corp. Here's the effect of a Solo(k) plan contribution deduction for 2023. Jane is age 55.

Taxable Income	\$100,000	
Solo 401(k)		
Pre-tax deferral	\$23,500	
Profit Sharing	\$25,000	
After-tax contribution	\$17,500	
Catch-up (age 55)	\$ 7,500	
Total Contributions	\$73,500	(can be used to invest in RE)



TAX DEDUCTION ILLUSTRATION

Joe, a REALTOR[®], has \$100,000 of W-2 income as an employee of his S-Corp. His spouse who is a partner also makes \$100,000. Here's the effect of a Solo 401(k) plan contribution deduction for 2023. Joe is age 55. His spouse/partner is 56.

Joe		Spouse/partner	
Taxable Income	\$100,000	Taxable Income	\$100,000
Solo 401(k)		Solo 401(k)	
Pre-tax deferral	\$ 23,500	Pre-tax deferral	\$ 23,500
Profit Sharing	\$ 25,000	Profit Sharing	\$ 25,000
After-tax	\$ 17,500	After-tax	\$ 17,500
Catch-up (age 55)	\$ 7,500	Catch-up (age 56)	\$ 7,500
Total contribution	\$ 73,500	After Deductions	\$ 73,500

\$147,000 in total contributions that can be invested in real estate





REAL ESTATE INVESTMENTS

Examples

- Partner with other real estate investors
- Purchase real estate (rentals)
- Hard money lending
- Purchase tax liens
- Mortgage deeds
- Others

Note: earnings are tax-deferred (not taxed)

- Rental income
- Capital gains
- Interest
- Others



RULES TO KEEP PLAN TAX-FREE

DISQUALIFIED PERSONS

- ❑ IRC 4975 (e)(2)
- ❑ Lineal ascendants and descendants (siblings are okay)

PROHIBITED TRANSACTIONS

- ❑ IRC 4975 (e)(2)
- ❑ Transactions that involve lineal ascendants and descendants (siblings are okay)

DISALLOWED INVESTMENTS

- ❑ Life insurance
- ❑ Collectibles





GETTING STARTED

1. COMPARE PLAN CUSTODIANS

- ❑ Fees: Help participants save
- ❑ Knowledge: Wrong information can lead to a taxable event
- ❑ Service: Timely transactions for real estate

2. OPEN & FUND THE PLAN

- ❑ Funding SEP or SIMPLE plan
 - Transfer or Rollover
 - Contribution
- ❑ Funding a Solo 401(k) plan
 - Contribution
 - Move a plan (do not terminate)



GETTING STARTED

3. INVESTMENT PURCHASE

- ❑ Make an offer in the name of the IRA or if Solo(k) Plan, plan name.
- ❑ Fund and close the deal with retirement funds

Check out our other webinars for step-by-step details on a transaction and strategies:

<https://www.nar.realtor/center-for-realtor-financial-wellness/archived-webinars>



SMALL BUSINESS PLANS OFFER

- Tax benefits
- Contributions can be invested in real estate

CONTRIBUTION TYPES

- Different for each plan
- Due dates

HOW IT WORKS

- Open an account first
- Choose an investment strategy
- Start transaction

TODAY'S TAKE AWAY

THANK YOU!



John Paul Ruiz, QKA

CERTIFIED IRA SERVICES PROFESSIONAL (CISP)



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