

IRA RESOURCES, INC.

Maximizing Wealth

Your Guide to Tax Deductions with Small Business Retirement Plans



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RAR TRUST COMPANY IRA RESOURCES, INC.



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



Department of the Treasury Internal Revenue Service

Publication 560

Retirement Plans for Small **Business**

(SEP, SIMPLE, and **Qualified Plans**)

For use in preparing 2022 Returns



Mar 17, 2023

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Future Developments

For the latest information about developments related to Pub. 560, such as legislation enacted after it published, op to iRS.pov Pub560

What's New

Compensation limits for 2022 and 2023. For 2022, the maximum compensation used for figuring contributions and benefits is \$305,000. This limit increases to \$330,000 By 2023

Elective deferral limits for 2022 and 2023. The limit on elective deferrals, other than catch-up contributions, is

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EMPLOYER BENEFITS



• Contributions are tax deductible to the employer

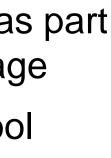
Employer tax credit or the greater of:

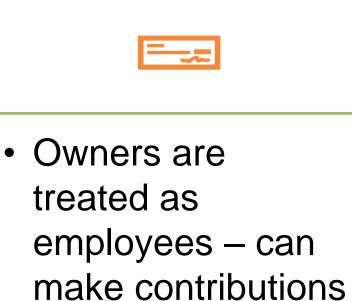
- 50% of the start up expenses up to \$500.00 or the lesser of \$250.00 for each eligible rank and file employee or \$5,000
- For employers with 50 or less employer the 50% is increased to 100%
- Employer must have at least 1 rank and file employee
- Tax credit is available for three years



- Attracts employees as part of the package
- Retention tool







on own account





Traditional/SEP IRA or SIMPLE IRA Employee

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.



Employer Establishes SEP and SIMPLE Plans — Notifies employees

Traditional/SEP Traditional/SEP IRA or SIMPLE **IRA or SIMPLE** IRA IRA Employee **Employee**

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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

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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

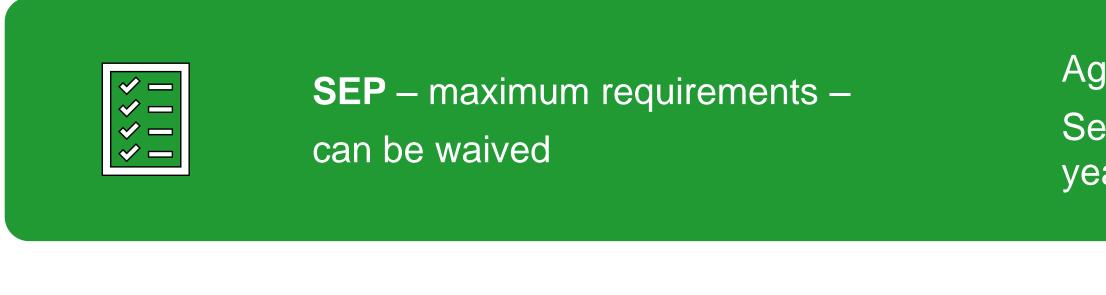
SIMPLE IRA

- 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



	No
SIMPLE – maximum requirements –	Ser
can be waived	Cur
	exc

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Age 21 Service – 3 out of an immediate 5year period

age requirements rvice 2 out any preceding years irrent year compensation not to ceed \$5,000

ELIGIBLE EMPLOYERS





For-profit entities

Tax-exempt entities

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



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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	Ex
Sole proprietor- Corporations	April 15	00
Partnerships and S-Corporations	March 15	Se

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

xtension Deadline*

ctober 15

eptember 15

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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

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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 **Profit Sharing** After-tax contribution Catch-up (age 55)

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

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



\$100,000

\$ 23,500 \$ 25,000 17,500 7,500 \$ 73,500





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)

DISALLOWED INVESTMENTS

- Life insurance
- Collectibles

PROHIBITED TRANSACTIONS

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

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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

details on a transaction and strategies:

financial-wellness/archived-webinars

- Check out our other webinars for step-by-step
- https://www.nar.realtor/center-for-realtor-



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

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THANK YOU!



John Paul Ruiz, QKA

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