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THE COURSE —

SELF EMPLOYED 401K

GETTING STARTED GUIDE

WHY SELF-EMPLOYED 401(K) PLANS?

401(k) plans can be a valuable tool in gaining financial security in retirement. They are a great option for companies considering a retirement plan. 401(k) plans provide the business with higher contribution limits and other unique options that may not be available with other retirement plans. As a self-employed business owner, you know what it takes to operate a successful business. But how well are you planning for your future? With a self-employed 401(k), you can be on your way to obtaining financial security for yourself and your family.

WHAT IS A SELF-EMPLOYED 401(K)?

A self-employed 401(k) plan, also known as a "Solo K" or "Individual K" and other "brand names" is a 401(k) for owner-only small businesses. The self-employed 401(k) was made legal as a result of changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001, also known as the 2001 Tax Act.

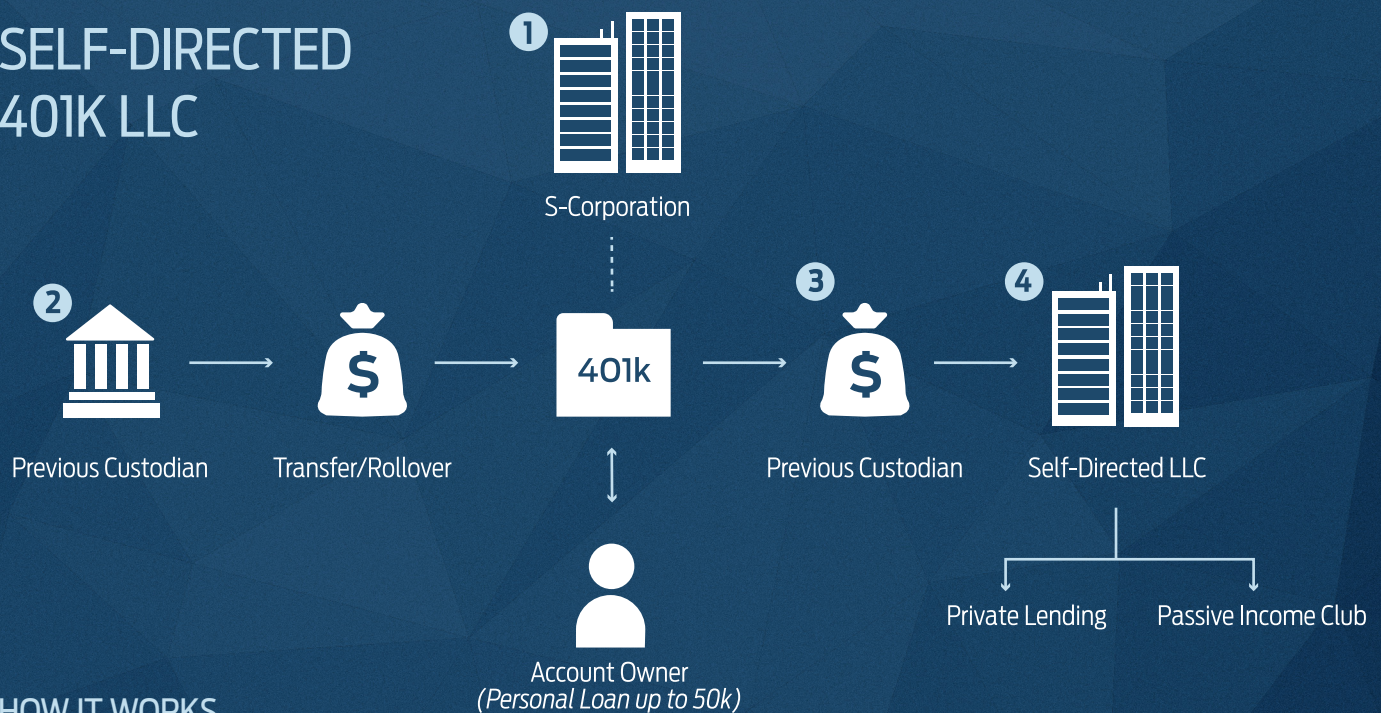
WHO IS ELIGIBLE FOR A SELF-EMPLOYED 401(K)?

Under the laws and regulations affecting qualified plans, an "owner" includes all owners, as in the case of a partnership where there are two or more owners, as well as spouses of all owners, but no other full-time employees. Corporations, S-corporations, sole proprietorships, partnerships, and LLCs may all set up a self-employed 401(k) as long as they have no full-time employees.

ADVANTAGES OF A SELF-EMPLOYED 401(K)

- No nondiscrimination testing
- High contribution limits
- Limited plan reporting requirements
- Plan loans available

SELF-DIRECTED 401K LLC



HOW IT WORKS

1) S-Corporation establishes a 401(k) Plan. 2) Funds are moved into the 401(k) Plan from the previous custodian. 3) A Capital Contribution is made to a Self-Directed LLC. 4) LLC purchases investments

CHECKBOOK CONTROL A 401K

Why would somebody WANT checkbook control?

- To eliminate transaction based custodian fees
- No custodian delays to process the transaction
- To reduce fees by consolidating accounts
- And the fact that good deals don't stay around long

Five steps to how checkbook control works with a 401K:

1. A person opens an IRA or Solo 401k account at a self directed custodian and transfers other retirement account funds into the account.
2. The account holder has a Special Purpose LLC created and names themselves as the LLC manager.
3. The account holder directs their custodian to invest some or all of the retirement funds into the newly created Special Purpose LLC.
4. The LLC further invests in real estate, private companies, or mortgage notes, private lending.
5. The LLC is owned by the IRA/SoloK but managed by the IRA/SoloK account holder. The term 'checkbook control' is given because the manager is the authorized signor on all LLC accounts.

WHY DON'T SELF-EMPLOYED 401(K)S REQUIRE NONDISCRIMINATION TESTING?

Since one of the rules for having a self-employed 401(k) is having no common-law employees, it is not possible to discriminate against that group. Therefore, nondiscrimination testing is not necessary.

ESTABLISHING A 401(K) PLAN

When you establish a 401(k) plan, you must take certain basic actions. One of your first decisions will be to decide whether you will set up the plan

yourself or to consult a professional or financial institution, such as a bank or trust company. There are three initial things that you will need to do to setup a 401(k) plan:

- Adopt a written plan document
- Arrange a trust fund for the plan's assets
- Develop a record keeping system

Because it can be expensive to adopt your own plan document and have it approved by the IRS, you may want to find a prototype plan sponsor who already has an IRS approved document. This is where Horizon Trust Company comes into the picture. Horizon Trust Company, is a prototype plan sponsor with an IRS approved plan document for a self-employed 401(k). We will provide you with a written plan document, which has been approved by the IRS and has a built-in trust. This document must be amended from time to time as required by law and operating according to the terms of the document.

WHAT IS THE DEADLINE FOR ESTABLISHING THE PLAN?

The plan must be set up before the end of the tax year, generally December 31.

WHAT ARE THE CONTRIBUTION LIMITS?

There are two types of contributions allowed with an Individual 401(k), a deferral limit (sometimes referred to as the 402(g) limit) and the employer contribution limit. A discussion of each limit follows.

DEFERRAL LIMIT (2015-2016)

The deferral limit for 2015 and 2016 is \$18,000 (\$24,000 if age 50 or older), or 100% of the self-employed individual's earned income. This limit, sometimes referred to as the 402(g) limit, must be coordinated with any other contributions that are subject to the 402(g) limit, which made by or

on behalf of the same participant. For example, if a person who is both an employee and self-employed individual participates in a 401 (k) sponsored by his owner-only business and in one sponsored by his employer, the 402(g) limit must be coordinated between the two plans (i.e., the most a person may defer in 2016, regardless of the number of plans he or she participates in, is \$18,000 (\$24,000 if age 50 or older).

EMPLOYER CONTRIBUTION LIMIT

The employer contribution limit for incorporated individuals is 25% of compensation (salary), and for non-incorporated individuals (self-employed and partners), 20% of "net income from employment" and the dollar limit for 2015 and 2016 is \$53,000.

* "Net income from self-employment" is defined as "business income" (from line 12 of the 1040) reduced by that business' share of the adjustment for one-half of self-employment tax paid (from line 27 of the 1040).

Profit Sharing Contribution 0%-25%
(Incorporated individuals) or 0%-
20% (non-incorporated individuals)

+

Salary Deferral Contribution
\$0-\$18,000 (\$24,000 if age 50 or
older)

Maximum Funding with
Maximum Flexibility
\$53,000 (\$59,500 if age 50 or older)

WHAT IS THE DEADLINE FOR MAKING DEFERRALS AND CONTRIBUTIONS?



The deadline for making the "employer" contribution is the filing deadline (April 15th for sole proprietors and partners, March 15th for corporations and S-corporations plus extensions). The deadline for making the elective deferral contributions are the end of the tax year for S-corporations and corporations, and April 15th for partnerships and sole proprietorships.

ARE THERE ANY PLAN REPORTING REQUIREMENTS?

It is not necessary to file a Form 5500-EZ until the plan assets reach \$250,000. However, once assets reach \$250,000, a Form 5500-EZ will need to be filed every year until the plan is terminated.

To see form 5500-EZ, please direct your web browser to the following address:

<http://www.irs.gov/pub/irs-pdf/f5500ez.pdf>

In addition to the plan level reporting, a Form 1099-R will need to be generated whenever a distribution is taken from the plan.

Form 1099-R is used for distributions from Pensions, Annuities, Retirement or Profit Sharing Plans, IRAs, etc. and is given to both the IRS and recipients of distributions from the plan during the year. It is used to report distributions (including rollovers) from a retirement plan.

To see Form 1099-R, please direct your web

browser to the following address: http://www.irs.gov/pub/irs-pdf/fl_099r.pdf

WHAT INVESTMENTS CAN A SELF-DIRECTED 401(K) HOLD?

A self-employed 401(k) may invest in a wide array of investments, but as with self-directed IRAs, these investment must be held by a trustee or custodian, and care must be taken to be sure the investments do not violate rules against "self-dealing", also referred to as "prohibited transactions".



PROHIBITED TRANSACTIONS

According to Internal Revenue Code 4975, prohibited transactions are defined as follows:

(c) Prohibited transaction

(1) General rule

For purposes of this section, the term "prohibited transaction" means any direct or indirect-

(A) sale or exchange, or leasing, of any property between a plan and a disqualified person;

(B) lending of money or other extension of credit between a plan and a disqualified person;

(C) furnishing of goods, services, or facilities between a plan and a disqualified person;

D) transfer to, or use by or for the benefit of, a disqualified person of the income or assets of a plan;

E) act by a disqualified person who is a fiduciary whereby he deals with the income or assets of a plan in his own interests or for his own account; or

(F) receipt of any consideration for his own personal account by any disqualified person who is a fiduciary from any party dealing with the plan in connection with a transaction involving the income or assets of the plan.

DISQUALIFIED PERSON

For purposes of this section, the term "disqualified person" means a person who is-

(A) a fiduciary;

(B) a person providing services to the plan;

(C) an employer any of whose employees are covered by the plan;

(D) an employee organization any of whose members are covered by the plan;

(E) an owner, direct or indirect, of 50 percent or more of-

(i) the combined voting power of all classes of stock entitled to vote or the total value of shares of all classes of stock of a corporation,

(ii) the capital interest or the profits interest of a partnership, or

(iii) the beneficial interest of a trust or unincorporated enterprise, which is an employer or an employee organization described in subparagraph (C) or (D);

(F) a member of the family (as defined in paragraph (6)) of any individual described in subparagraph (A), (B), (C), or (E);

(G) a corporation, partnership, or trust or estate of which (or in which) 50 percent or more of-

(i) the combined voting power of all classes of stock entitled to vote or the total value of shares of all classes of stock of such corporation,

(ii) the capital interest or profits interest of such partnership, or

(iii) the beneficial interest of such trust or estate,

is owned directly or indirectly, or held by persons described in subparagraph (A), (B), (C), (D), or (E);

(H) an officer, director (or an individual having powers or responsibilities similar to those of officers or directors), a 10 percent or more shareholder, or a highly compensated employee (earning 10 percent or more of the yearly wages of an employer) of a person described in subparagraph (C), (D), (E), or (G); or

(I) a 10 percent or more (in capital or profits) partner or joint venture of a person(s) described in subparagraph (C), (D), (E), or (G).

If you have questions about whether or not a specific transaction would be considered a prohibited transaction, we strongly urge you to speak with a CPA or tax attorney.

ARE ALL CONTRIBUTIONS MADE ON A PRETAX BASIS?

A self-employed 401(k) plan can include a qualified Roth contribution program, which allows you to designate some or all of your deferrals as Roth after-tax contributions. The earnings grow tax-deferred, and may be distributed tax free if you meet certain distribution requirements.

Unlike Roth IRA contribution eligibility, designated Roth contribution eligibility is not subject to income limits. So, like many business owners, if you do not qualify for Roth IRA contributions, a self-employed 401(k) plan with a Roth contribution feature might be a wise choice.

AM I ABLE TO TAKE A LOAN FROM A SELF-EMPLOYED 401(K) PLAN?

Under federal law, business owners are permitted to take loans from self-employed 401(k) plans regardless of whether the business is incorporated or unincorporated. Loans, therefore, can be part of the plan program.

Loans may be taken in the amount of 50% of the vested portion of the 401 (k) or \$50,000, whichever is less.

WHAT IF A SELF-EMPLOYED INDIVIDUAL HIRES EMPLOYEES?

The rules that apply to a "self-employed 401 (k)" do not hold once an employer hires employees. They may still maintain their 401(k), but their plan document will need to be amended to account for the employees, and will be subject to more stringent reporting and testing rules.

SELF-DIRECTED 401K LOAN VS CREDIT CARD - 50K

	Monthly Payment	Term	Interest Rate	Total Interest	Total Paid (Principal & Interest)
Credit Card \$50k Loan	\$1,215.90	5 Years	16%	\$22,954.17	\$72,954.17
Credit Card \$50k Loan	\$926.48	8 Years	16%	\$38,934.25	\$88,934.25
Solo K 50k \$LOan	\$926.48	5 Years	4.25%	\$5,588.67	\$55,588.67

TERMINATING A 401(K) PLAN

401(k) plans must be established with the intention of being continued indefinitely. However, business needs may require that the employer terminate the 401(k) plan. For example, you may want to establish 1 plan in lieu of the 401(k)

Typically, the process of terminating a 401(k) plan includes amending the plan document, distributing all assets, and filing a final F01m 5500.

WHAT DO I DO ONCE THE 401(K) PLAN HAS BEEN ESTABLISHED ?

As the prototype plan sponsor, Horizon Trust will provide you with your Basic Plan Document, Summary Plan Description, Plan Adoption Agreement, IRS Determination Letter and your 401(k) EIN.

The first thing that you will need to do is establish your 401(k) checking account. You may use the bank or financial institution of your choice. You will need to establish a checking account in the name of the 401(k), using the 401(k) EIN that is provided for you . The type of account you open will depend on the bank that you choose. You will need to provide them with your EIN, your 401(k) plan documents and in some cases, you business Operating Agreement and/or Articles of Organization.

If you are having trouble opening your checking account, Horizon Trust Company has a arrangement with US Bank and Wells Fargo Bank and we can help you open an account with either of these two institutions .

Once you have your account open, you may want to fund it through a rollover from another qualified retirement account. To do this, you will need to fill out the Direct Rollover Request form in your 401(k) packet and send it to your current Custodian or Plan Administrator. They will send you a check made payable to your 401(k), which you can deposit directly into the new 401(k) checking account.

All contributions, distributions, investments,

loans, etc. will go through that checking account. You will need to come up with a record keeping system to make sure that you are accounting for everything coming into and going out of the 401(k) checking account.

Also, we highly recommend finding a knowledgeable CPA or Tax Attorney to help you along the way.

ADDITIONAL RESOURCES:

www.dol.gov/ebsa - Click on "Publications and Reports" or "Compliance Assistance for Small Employers" for information you can use.

www.irs.gov/ep - Click on "Types of Plans" in the



"Retirement Plans Community Topics" section. Publications can be ordered by calling the appropriate agency's toll-free number - for the IRS, 800-TAX-FORM or for DOL 866-444-3272.

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