



Tax Time

One-Person Businesses Benefit from the Latest Thing in 401(k)s

By Kevin Bourke

Saturday, March 8, 2008

Dear Kevin,

Tax time is here again. I teach kindergarten and my husband is self-employed but has no employees. What should we be doing to minimize our taxes for 2007?

Isabella from Santa Barbara

Dear Isabella,

There are several things you can do to minimize your taxes for 2007, and some strategies you should investigate now for 2008.

First off, as a teacher, you are entitled to a \$250 deduction for the money you undoubtedly spent on purchasing classroom supplies. According to [IRS Publication 17](#), you can deduct up to \$250 of your 2007 qualified expenses as an adjustment to your gross income. Just be sure to save your receipts.

Your husband is self-employed, and **this country's tax code favors the self-employed**. There are several options for tax-deferral available to your husband that is not available to those who earn a regular wage and collect a paycheck.

One plan open to business owners is something called a SEP-IRA. SEP stands for Simplified Employee Pension. This plan would allow your husband to contribute a much larger amount to his Individual Retirement Account (IRA) than the \$4,000 traditional IRA limit available in 2007. **With a SEP-IRA he can contribute somewhere between 20% and 25% of his income**—depending on whether his business is a sole proprietorship, a corporation, or a partnership---up to a maximum of \$44,000.

The beauty of a SEP-IRA is that it can be funded up until your tax extension deadline. So, he **could wait until October 15th to fund his SEP-IRA for 2007**.

Incidentally, you both may also make IRA contributions for 2007 in the amount of \$4,000 each, which may or may not be deductible. Ask your tax advisor for help in determining deductibility.

While there are other retirement plans available, the **SEP-IRA may be the quickest, easiest, and**

least expensive retirement plan to establish on short notice, and one of the few that will allow you to contribute for last year even at this late date.

Another option is setting up a **Uni-K, or Individual 401(k)**. It's relatively new, but really exciting. It's a 401(k) plan, exactly like those offered by many companies, but it's designed for a business where the owner (and perhaps his or her spouse) is the only employee. In the past, 401(k)s were generally too expensive to administer for one-person companies.

Now, the IRS allows one-person 401(k)s, and **many financial services firms have jumped on the bandwagon, offering these Individual 401(k)s at a very low cost**. It's too late to set up a Uni-K for 2007, but you might want to get a head start by establishing one now for 2008.

One advantage of the Individual 401(k) over the SEP-IRA is that **you can take a loan against your balance** for any reason. The SEP IRA offers no such provision.

Another plus? In the typical 401(k) as offered by many corporations, the employee chooses from a menu of mutual funds pre-selected by the employer. In the Individual 401(k), many financial services firms allow you to select from stocks, bonds, mutual funds, and even CDs. So in that way too, it gives you greater flexibility.

Make sure to get a copy of **IRS Publication 590**, which discusses IRAs, SEP-IRAs, SIMPLE IRAs, and other retirement plans for the small business owner, so you can feel confident choosing the right option for yourself.

Kevin Bourke is a registered principal with and offers securities through LPL Financial, Member FINRA/SIPC.