

When someone works for a large organization, retirement benefits may arrive through a human-resources department before the employee has given them much thought. A business owner receives no such invitation. There is no separate employer standing nearby to select a plan, make contributions, explain the tax rules, or remember the filing deadlines. The owner must build the business and build the retirement system that will eventually replace income from that business. This creates a strange financial position: one person may be the worker earning compensation, the employer sponsoring the plan, and the decision-maker responsible for administering it. Understanding those separate roles is the beginning of retirement planning for self-employed people.

The term “self-employed” covers many working arrangements. It can describe a freelance writer receiving payments reported on Form 1099, a barber renting a chair, a contractor operating as a sole proprietor, two people working through a partnership, or an owner paying wages from an S corporation. An LLC does not settle the question by itself because a limited liability company can be taxed as a sole proprietorship, partnership, S corporation, or C corporation. The tax treatment determines what income can support a retirement contribution and which calculations apply. Two businesses with identical revenue can therefore have different contribution limits because their expenses, tax classifications, wages, and ownership structures are different. Retirement calculations begin with legally recognized compensation, not the amount of money passing through the business bank account.

Revenue is everything the business collects before expenses, while profit is what remains after allowable business costs. Neither number automatically becomes retirement-plan compensation. A sole proprietor generally begins with net earnings from self-employment and makes adjustments for part of the self-employment tax and the owner’s retirement contribution. A partner generally uses qualifying earned income from the partnership. An S corporation shareholder-employee uses W-2 wages paid by the corporation, not shareholder distributions. An owner who takes \$40,000 in wages and another \$100,000 in S corporation distributions cannot calculate the retirement contribution as though the full \$140,000 were eligible compensation. The IRS confirms that S corporation distributions are not earned income for retirement-plan contribution purposes.

That rule makes compensation planning important, but it should not be manipulated carelessly. An S corporation owner may want low wages to reduce payroll taxes, yet lower wages can reduce the amount that can be contributed to an employer-sponsored retirement plan. Federal law also requires an owner who performs substantial services for the corporation to receive reasonable compensation rather than disguising all earnings as distributions. Retirement planning, payroll taxes, income taxes, Social Security benefits, and business cash flow are connected. Saving a small amount of payroll tax today may reduce the space available for tax-advantaged retirement contributions. A sound salary decision considers the entire financial structure instead of chasing one isolated tax result.

Every owner can begin with the ordinary Traditional or Roth IRA if eligible, but business retirement plans can create much more contribution room. The principal choices include a one-participant 401(k), a SEP IRA, a SIMPLE IRA, and, for some mature businesses, a defined benefit or cash balance pension. A business with employees may also establish a regular 401(k) with matching or profit-sharing contributions. These plans are not arranged from weakest to strongest because each responds to a different business problem. The owner's income, age, number of employees, desired contribution, administrative tolerance, and ability to make recurring commitments determine the fit. The simplest plan can become expensive if it requires contributions for an entire workforce, while a more complex plan can be worthwhile when it creates benefits the business truly needs.

A one-participant 401(k) is commonly called a Solo 401(k), Individual 401(k), Solo-k, or Uni-k. These names describe an ordinary 401(k) covering a business owner with no eligible common-law employees, or the owner and the owner's spouse. It is not a separate category of federal retirement law with unlimited contribution privileges. Its power comes from allowing the owner to contribute in two capacities. Wearing the employee hat, the owner can make an elective salary deferral. Wearing the employer hat, the business can make an additional employer contribution based on eligible compensation.

For 2026, the employee-deferral limit for a one-participant 401(k) is generally \$24,500. A participant who will be at least fifty by year-end may qualify for an \$8,000 catch-up contribution, while someone who will be ages sixty through sixty-three at year-end may qualify for the higher \$11,250 catch-up amount. Employer contributions can then be added, but the ordinary combined defined contribution limit—excluding qualifying catch-up money—is generally the lesser of 100% of compensation or \$72,000. These limits do not mean every owner can automatically deposit \$72,000. Compensation, business structure, plan terms, and the employer-contribution formula must support the amount. [The IRS explains how a business owner contributes to a one-participant 401\(k\) as both employee and employer.](#)

An S corporation example makes the two roles easier to see. Suppose an owner receives \$80,000 in W-2 wages during 2026 and is younger than fifty. As an employee, the owner could defer as much as \$24,500, assuming the plan was properly established and the election was made on time. As the employer, the corporation could potentially contribute another \$20,000, representing 25% of the \$80,000 wage. The combined contribution would be \$44,500 before considering other limits or plan-specific restrictions. The owner did not reach \$72,000 because the employer portion was limited by compensation, demonstrating why the federal maximum is a ceiling rather than a guaranteed allowance.

The calculation for a sole proprietor is less direct. People often multiply net profit by 25% and assume the result is the permitted employer contribution. Because the owner's contribution reduces the compensation on which that contribution is based, the effective maximum rate is generally 20% of adjusted net earnings rather than a simple 25% of

Schedule C profit. One-half of self-employment tax also enters the calculation. The IRS provides worksheets for this circular-looking formula because the contribution affects the number used to calculate the contribution. Estimating is useful during the year, but the final deposit should be based on the completed tax figures.

A spouse who genuinely works in the business can create another retirement opportunity. If the business is owned by one spouse and the other spouse receives legitimate compensation for real work, the one-participant 401(k) may cover both of them. Each spouse can make an individual employee deferral, and the business may make an employer contribution for each based on eligible compensation. The arrangement cannot be invented on paper at year-end by paying someone who did not actually perform services. Job duties, hours, compensation, payroll records, and tax reporting should support the employment relationship. When legitimate, a spouse's participation can allow one household to place a substantial amount into tax-advantaged retirement accounts.

A Solo 401(k) can often permit Traditional and Roth employee deferrals. Traditional deferrals generally reduce current federal taxable income, while Roth deferrals are made after income tax and can later support qualified tax-free withdrawals. Employer contributions have traditionally entered the pretax side, although newer rules allow plans to offer certain Roth employer contributions when the plan document and provider support them. Roth availability is not automatic merely because a financial institution advertises a Solo 401(k). The owner must read the adopted plan document, because that document controls available contribution types, loans, investment choices, and distribution provisions. Owning the business does not permit the owner to disregard the written plan.

A Solo 401(k) may also allow participant loans if the plan was designed to include them. A permitted loan can offer temporary access to retirement funds under formal repayment and interest rules. SEP and SIMPLE IRAs cannot offer participant loans because IRA assets cannot be borrowed or pledged as collateral. This difference can matter to an owner who values flexibility, although the presence of a loan feature should not become a reason to treat retirement money as business working capital. A struggling company can consume borrowed retirement money and still fail, leaving the owner with both a damaged business and a damaged future. Legal access does not remove economic danger.

The Solo 401(k)'s simplicity begins to disappear when the owner hires employees. Once a common-law employee satisfies the plan's eligibility rules, the person generally cannot be excluded merely because the account was marketed as a Solo 401(k). The plan may have to become a regular employee 401(k), provide required notices, perform nondiscrimination testing, file additional reports, and offer employees the participation rights stated in its document. Long-term part-time employees may also acquire deferral rights under current federal law even if they never become full-time. The owner should review the plan before hiring rather than discovering afterward that an eligible worker

was improperly excluded. Correcting that mistake can require employer-funded contributions for the affected employee.

A financial institution may describe its Solo 401(k) as inexpensive or free, but administration still belongs to the owner. A one-participant plan generally must file Form 5500-EZ when the combined assets of the owner's one-participant plans exceed \$250,000 at year-end. A final return is ordinarily required when the plan closes and all assets are distributed, even if the balance is below that threshold. Missing a filing can lead to significant penalties that are far larger than the annual cost the owner hoped to avoid. Account statements, contribution records, beneficiary forms, plan amendments, and tax returns should be kept together. A retirement plan can remain open for decades, and its legal history should not depend on someone remembering what happened years earlier.

The SEP IRA—short for Simplified Employee Pension Individual Retirement Arrangement—removes much of that administrative weight. The business makes contributions into separate IRAs owned by eligible participants. Employees do not ordinarily make salary deferrals into a traditional SEP arrangement, so the employer controls whether a contribution will be made each year. Contributions are flexible: the business may contribute generously after a strong year, reduce the percentage during a weaker year, or contribute nothing. SEP plans are relatively easy to establish and generally do not require the employer to file an annual Form 5500. That combination is attractive to freelancers and small businesses whose income changes sharply from year to year.

For 2026, the employer contribution to each SEP IRA is generally limited to the lesser of 25% of eligible employee compensation or \$72,000. A self-employed owner again uses the special adjusted-net-earnings calculation, producing an effective maximum rate of approximately 20% rather than a simple 25% multiplication. SEP contributions are immediately 100% vested, so employees own them as soon as the money enters their IRAs. There is no age-based catch-up contribution within the SEP itself because the traditional SEP contribution comes from the employer rather than an employee salary deferral. A participant can still make a separate regular IRA contribution if eligible, but that contribution follows the ordinary IRA limit and deductibility rules. Current SEP limits and the self-employed calculation are explained by the IRS.

The SEP's employee rule can transform an inexpensive owner benefit into a major business expense. An employer generally must contribute the same percentage of eligible compensation for every qualifying participant. If an owner wants to contribute 20% for personal retirement, the business may need to contribute 20% for each eligible employee as well. Suppose the owner earns \$150,000 and has four eligible workers who each earn \$50,000. A 20% contribution would place \$30,000 into the owner's SEP IRA and \$10,000 into each employee's account, costing the business \$70,000 in total. The owner cannot ordinarily contribute 20% personally while giving employees 2% merely because the owner created the company.

Eligibility must therefore be examined before a SEP is adopted. The standard IRS model document can require coverage for employees who have reached age twenty-one, performed service during at least three of the preceding five years, and received at least the indexed minimum compensation, although an employer can use less restrictive requirements. Someone who worked only briefly in each qualifying year may still meet the service condition because the SEP rule is not necessarily based on completing 1,000 hours. Businesses with recurring seasonal or part-time workers can be surprised by this broad eligibility. The plan should be modeled using the actual workforce rather than the owner's assumption about who counts as permanent staff.

The SIMPLE IRA occupies another space. Its name means Savings Incentive Match Plan for Employees, and it is generally available to an eligible employer with no more than one hundred employees who earned at least the required amount during the preceding year. Unlike a SEP, employees can defer part of their own pay into the plan. The employer must then provide a required contribution, generally either a match of employee deferrals up to 3% of compensation or a 2% nonelective contribution for eligible employees. A nonelective contribution goes to eligible workers even when they contribute nothing personally. The plan is easier to administer than a full 401(k), but the employer gives up the freedom to decide that no contribution will be made.

The standard SIMPLE employee-deferral limit is \$17,000 for 2026. Certain SIMPLE plans, including those of employers with twenty-five or fewer employees, may use the higher \$18,100 limit; some employers with twenty-six to one hundred employees can also use that higher amount if they provide the enhanced employer contribution required by law. The ordinary age-fifty catch-up limit is \$4,000, while participants ages sixty through sixty-three may qualify for a \$5,250 catch-up. These amounts are lower than the corresponding 401(k) limits, but the plan requires less testing and administration. SIMPLE IRA contributions are immediately vested, allowing employees to take the full account when they leave. [The IRS describes the current SIMPLE IRA limits and required employer contribution choices.](#)

A SIMPLE IRA works well when a small employer wants workers to contribute from their own pay and can reliably afford the required employer portion. It is less suitable when the owner wants the higher contribution room, Roth flexibility, loan feature, or design choices available in a 401(k). The word "simple" describes the reduced administrative structure rather than every financial consequence. The plan generally cannot operate beside another employer-sponsored retirement plan for the same employees during the year, except under limited circumstances. Establishment and employee-notice deadlines also arrive before the end of the year. Waiting until tax preparation season may be too late to create the SIMPLE arrangement the owner thought was available.

A mature business with strong, dependable profits may move beyond IRA-based plans and defined contribution limits. A defined benefit or cash balance plan can fund a promised future pension using age, compensation, service, and actuarial assumptions. Contributions can be far larger than those available through a SEP or 401(k), particularly

for an older owner with only a limited number of years remaining before retirement. That opportunity carries a serious commitment: the business may have required annual contributions, actuarial expenses, federal filings, and employee-benefit obligations. A single excellent year does not prove that the company can maintain a pension. Stability matters because a pension promise continues after the excitement of the profitable year has passed.

Combining a cash balance plan with a 401(k) and profit-sharing feature can create substantial retirement funding. The pension establishes one benefit under defined benefit rules, while the 401(k) allows employee deferrals and employer contributions under defined contribution rules. Such designs can be effective for profitable medical practices, law firms, consulting companies, family businesses, and other organizations with predictable cash flow. They must still pass coverage and nondiscrimination testing, which means employees cannot be treated as though they do not exist while owners collect every tax advantage. The expense of contributions for workers is not an administrative mistake; it is part of receiving favorable tax treatment for the plan. A design should be judged by the total business cost, not solely by the owner's contribution.

Owners sometimes hear the word "Keogh" and assume it identifies another modern retirement plan. Keogh is an older term once commonly used for qualified retirement plans established by self-employed individuals. Today, the actual structure is generally described more specifically as a 401(k), profit-sharing plan, money-purchase plan, or defined benefit plan. A financial account may retain the old label even though it operates under one of those current plan types. The name does not create a separate contribution limit. Understanding the underlying plan document matters more than recognizing the historical nickname.

Someone with a regular job and a separate business must coordinate the plans. The annual employee-deferral limit belongs to the person, not separately to each 401(k). If an employee contributes the full \$24,500 to a workplace 401(k) in 2026, that person generally cannot make another \$24,500 employee deferral into a Solo 401(k) for a side business. The side business may still be able to make an employer contribution based on its eligible earnings, subject to the applicable rules. Unrelated employers can have separate employer contribution calculations, but controlled or related businesses may be treated as one employer. Multiple accounts do not automatically multiply every federal limit.

Controlled-group and affiliated-service-group rules prevent owners from dividing one business into several legal entities merely to exclude employees from retirement benefits. A person might place management in one LLC, employees in another, and professional services in a third, yet federal law may combine those entities when ownership and business relationships meet specified tests. Family ownership can also be attributed from one person to another. The retirement plan must examine all related businesses before deciding that the owner has no eligible employees. Entity paperwork

cannot be used as a curtain to hide the real economic organization. This is an area where professional plan administration is especially valuable.

Cash flow should influence the choice as strongly as tax deductions. A deduction reduces taxable income, but it does not make the contribution free. If an owner contributes \$30,000 and saves \$9,000 in combined taxes, the business still surrendered approximately \$21,000 of net cash. Money deposited into the plan belongs to the retirement account and cannot be pulled back simply because the business later needs inventory, payroll, rent, or emergency repairs. A contribution made only to avoid taxes can become a mistake when the company has no operating reserve. Retirement funding should come from durable business strength rather than money the business needs to survive the next quarter.

The timing of income adds another difficulty. A business may collect heavily in December but not know its final net earnings until expenses, depreciation, and taxes are calculated months later. Owners often estimate contributions during the year and finalize employer amounts after the accounting records are complete. Different plans have different establishment, election, notice, deposit, and tax-deduction deadlines. A SEP can generally be established as late as the employer's tax-return due date, including extensions, while employee-deferral elections under a 401(k) usually require earlier action. Business owners lose opportunities when they wait until the tax return is being filed to begin asking which plan they wanted for the previous year.

Administration deserves the same respect as investing. Payroll deferrals must be transmitted on time, eligibility must be monitored, employer contributions must follow the adopted formula, and required tax forms must be filed. The plan may need amendments as federal law changes. A provider may hold the investments without performing every duty assigned to the employer. "Self-directed" does not mean free from federal rules, and "prototype plan" does not mean permanently maintenance-free. The owner should know which responsibilities belong to the financial institution, payroll company, third-party administrator, accountant, and business itself.

Investment choices determine whether tax-advantaged contributions become lasting wealth. An owner whose entire net worth is already tied to one company may need more diversification inside the retirement plan, not another concentrated bet on the same industry. Broad stock funds, bond funds, target-date funds, and cash-equivalent investments can serve different time horizons and risk levels. Holding business property, private investments, cryptocurrency, or other unusual assets inside a self-directed retirement structure introduces valuation, prohibited-transaction, custody, and tax complications. The freedom to purchase something does not prove that the retirement plan is legally permitted to own it or that the asset belongs there. Simple diversified investments can accomplish more than complicated arrangements promoted through tax-saving language.

Plan fees should be measured against the value received. A SEP IRA may involve little more than ordinary investment expenses, while a Solo 401(k) can add document, recordkeeping, loan, or filing costs. A regular employee 401(k) may involve payroll integration, annual testing, participant notices, audits at larger sizes, and third-party administration. A cash balance plan adds actuarial work and pension filings. The cheapest plan is not automatically best if it blocks needed features or produces smaller contributions. The most expensive plan is not automatically sophisticated if the business cannot maintain it correctly.

Retirement assets should remain separate from business and personal money. The business cannot borrow casually from a SEP IRA, pledge it as security for a loan, or use it to purchase personal property. A Solo 401(k) loan is allowed only when the plan permits it and every loan rule is followed. Transactions involving the owner, family members, related companies, and plan assets can become prohibited transactions, producing taxes and serious qualification problems. The retirement account is not a private tax shelter in which the owner can move money without boundaries. Its tax advantages exist because access and transactions are restricted.

A business sale or closure does not end the need for plan administration. Employees must receive vested benefits, final contributions must be calculated, payroll deferrals must be deposited, and the plan may need a formal termination. Solo 401(k) assets can often be rolled into an IRA or another eligible plan, but a final Form 5500-EZ may still be required. A SEP or SIMPLE IRA generally remains owned by the participant even after the business stops operating. Closing the company bank account before completing retirement-plan duties can leave records, distributions, and filings unresolved. The final year deserves as much care as the first contribution.

The choice becomes clearer when the business is viewed honestly. A freelancer with no employees and modest irregular income may value the contribution power of a Solo 401(k) or the simplicity of a SEP. An owner with several workers who wants employee salary deferrals and predictable employer costs may prefer a SIMPLE IRA or regular 401(k). A company with uneven cash flow may appreciate discretionary SEP or profit-sharing contributions, while a mature organization with reliable profits may be able to support a cash balance pension. The best plan is the one the business can fund, administer, explain, and maintain—not the one displaying the largest theoretical tax deduction.

Owning a business can create income, independence, equity, and something that may eventually be sold, but none of those automatically creates retirement income. A valuable company may fail, lose customers, depend too heavily on its owner, or prove difficult to sell at the expected price. A retirement plan moves part of the wealth outside the daily risks of the business and places it into assets intended for the owner's later life. Each contribution is a decision to let the present business pay the person who will exist after the work has ended. For a self-employed worker, retirement security begins when the

person acting as employer finally provides the person acting as employee with the benefit both of them have earned.