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GENERAL BUSINESS UPDATE

SELF EMPLOYED RETIREMENT PLANNING

1. **SEP–IRA**...the **S**implified **E**mployee **P**ension is a glorified IRA that suits the one-man show, i.e., a sole proprietor.

- Contribute up to 25% of net self-employment income up to a max of $49,000 (2010 and 2011).
- If 50 or over, you can make a catch-up contribution of $5,500.
- Flexibility is best feature–fund the account when you file your return (including extensions), so if earnings are high, increase your contribution and vice versa. You can also contribute while covered by employer's 401(k).
- Biggest drawback is, when and if employees are added, you must make the same percentage contributions for all workers 21 years and older who have worked for you for at least 3 out of last 5 years and are expected to earn at least $550 in the current year. Your spouse is exempt. Generally, contributions to employees' and your SEP are tax deductible.

2. **SOLO 401(k)**...the Solo 401(k) typically suits a married couple who are able to set aside a significant portion of their earnings.

- You can contribute up to $16,500 as an employee. The employer can contribute up to 25% of compensation up to $49,000 (including your employee contribution).
- If 50 or over, you can make a catch-up contribution of $5,500.
- The contributions to a Solo 401(k) are optional. So, if earnings are robust, you can contribute the maximum and vice versa.
- The annual deadline to establish a Solo 401(k) is December 31, with funding to filing date, including extensions.
- If you are still working for an employer and contributing to your employer's 401(k), then your contributions will be cumulative and count toward the $16,500 (or $22,000 for catch up contributions).
- You must file form 5500 if your Solo 401(k) has at least $250,000 in assets.

3. **Simple IRA**...a Simple IRA (i.e., a **S**avings **I**ncentive **M**atch **P**lan for **E**mployees) is ideal for small businesses and self-employed individuals.

- Typically suited for employers with 10 or fewer employees who make more than $5,000.
- For 2010 and 2011, you can make an employee contribution of up to $11,500, or $14,000 if you are 50 or older.
- There are no percentage of income restrictions.
- You cannot contribute to a Simple IRA if you have maxed out your employee contributions to your employer's 401(k).
- Be careful, because you are generally required to make a contribution to match each employee's contributions from salary on a dollar-for-dollar basis up to 3% of the employee's salary or a flat 2% of pay, regardless of what the employee contributes to his or her account.
- If you make a withdrawal from a Simple IRA within two years of its inception, then a 25% penalty will apply. This is far greater than the typical 10% early withdrawal penalty for regular IRAs.
- It is probably too late to establish a Simple IRA for 2010, but it is not too late for 2011, however. Must establish the account by October 1 and all employee contributions must be made by December 31.

4. **Social Security Update**

On a somber note, the Social Security Board of Trustees recently released its annual report on the financial health of the Social Security Trust Funds. The assets that comprise the fund will be exhausted in 2036, one year sooner than projected last year. The Disability Insurance Trust Fund will be exhausted in 2018.

2010 was the first year non-interest income ($664 billion) fell below program expenditures ($713 billion). This situation is expected to continue absent corrective legislation action. Finally, on a more positive note, the assets of the Social Security Trust Funds increased by $69 billion in 2010 to a total of $2.6 trillion.

This newsletter was prepared by Glenn Booker. Glenn's practice centers around estate planning for property transfers and estate/trust administration. He also specializes in appraising closely-held business interests. Glenn advises clients on complex accounting and finance issues, yet his conversational approach enables him to explain such issues in simple and understandable terms. You may contact Glenn at (229) 883-2441 or e-mail him at glenn.booker@gwsh-law.com. 32-144-2011-01