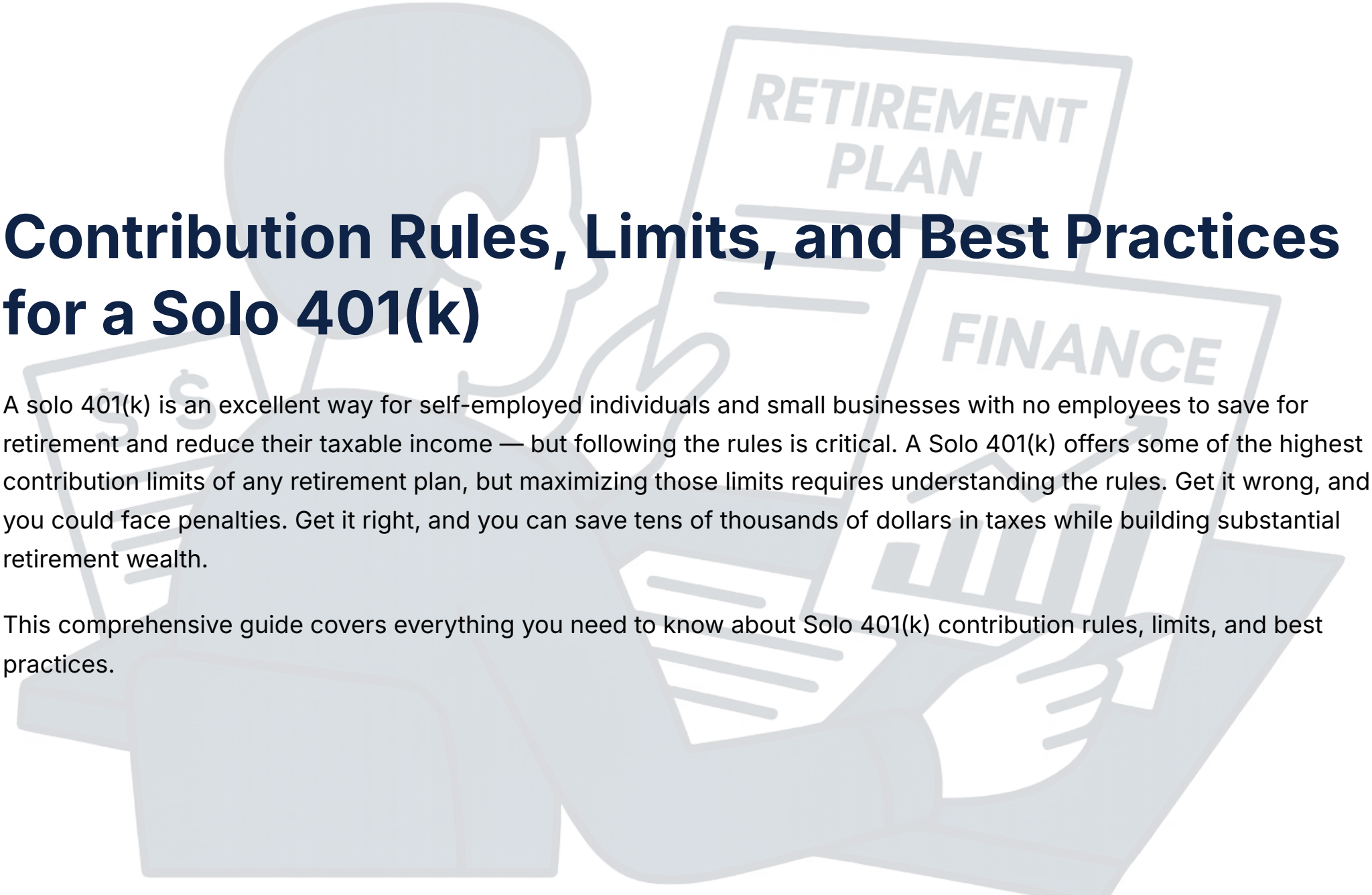


Contribution Rules, Limits, and Best Practices for a Solo 401(k)

A solo 401(k) is an excellent way for self-employed individuals and small businesses with no employees to save for retirement and reduce their taxable income — but following the rules is critical. A Solo 401(k) offers some of the highest contribution limits of any retirement plan, but maximizing those limits requires understanding the rules. Get it wrong, and you could face penalties. Get it right, and you can save tens of thousands of dollars in taxes while building substantial retirement wealth.

This comprehensive guide covers everything you need to know about Solo 401(k) contribution rules, limits, and best practices.

2026 Contribution Limits Overview

For 2026, the Solo 401(k) offers some of the most generous contribution limits available — significantly outpacing IRAs and SEP IRAs for most self-employed individuals.

$72,000

Under Age 50

Maximum total contribution for the 2026 tax year

$80,000

Age 50–59

Includes $8,000 standard catch-up contribution

$83,250

Age 60–63

Includes $11,250 "super catch-up" contribution

$80,000

Age 64+

Reverts to standard $8,000 catch-up contribution

How Solo 401(k) Compares

These limits are **significantly higher** than IRAs ($7,500) and SEP IRAs, which share the same employer contribution limit but offer no employee deferral option — making the Solo 401(k) the clear winner for self-employed savers.

Why It Matters

The gap between a maxed-out Solo 401(k) and a maxed-out IRA can be tens of thousands of dollars per year. Over a career, that difference compounds into life-changing retirement wealth — and meaningful annual tax savings along the way.

Understanding the Two Types of Contributions

Solo 401(k) contributions come in two distinct flavors, each with its own rules, limits, and strategic considerations. Understanding both is essential to maximizing your plan.

1. Employee Deferrals

As the **employee** of your business, you can defer up to **$24,500** of your compensation ($32,500 if age 50+; $35,750 if age 60–63) into your Solo 401(k).

- Can be made as pre-tax (traditional) or post-tax (Roth) contributions
- Limit is shared across ALL 401(k) plans you participate in
- Reduces your taxable income if made pre-tax

2. Employer Profit-Sharing

As the **employer**, you can contribute up to 25% of your W-2 compensation (if incorporated) or 20% of your net self-employment income (if unincorporated).

- Typically made as pre-tax contributions (Roth option available with some providers)
- Combined employee + employer contributions cannot exceed $72,000 (plus catch-ups)
- Can be made until your tax filing deadline, including extensions

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⚠ **New for 2026:** If your prior-year wages exceeded $150,000, the IRS now requires catch-up contributions to be made on a **Roth (after-tax) basis**. Plan accordingly when structuring your contributions.

RETIREMENT PLANNING

Employer Profit-Sharing Contributions

The employer contribution is where self-employed individuals can really supercharge their retirement savings. Understanding how it's calculated — and when it can be made — gives you powerful planning flexibility.

Key Rules to Remember

- Combined employee + employer contributions cannot exceed **$72,000** (plus applicable catch-ups)
- Can be made up until your **tax filing deadline**, including extensions (typically October 15th)
- Calculated based on your **actual business income** — wait until year-end for precision
- Roth option available with some providers for employer contributions

Contribution Rate by Business Structure

Business Type	Contribution Rate	Based On
S-Corporation / C-Corporation	Up to 25%	W-2 Compensation
Sole Proprietor / Partnership	Up to 20%	Net Self-Employment Income
Single-Member LLC (no election)	Up to 20%	Net Self-Employment Income
LLC taxed as S-Corp	Up to 25%	W-2 Compensation

Pro Tip: Sole proprietors must reduce their net self-employment income by **half of self-employment tax** before applying the 20% rate. This is a common calculation error — use a tax professional or a dedicated platform to get it right.

Contribution Calculation Examples

Seeing the numbers in action makes the rules much clearer. Here are three real-world scenarios illustrating how Solo 401(k) contributions work across different business structures and life situations.

1

S-Corporation Owner — Maria, Age 45

Maria owns an S-Corp and pays herself a W-2 salary of $100,000.

- Employee deferral: **$24,500** (maximum allowed)
- Employer contribution: **$25,000** (25% of $100,000)
- Total contribution: **$49,500**

2

Sole Proprietor — John, Age 52

John is a sole proprietor with $150,000 in net self-employment income.

- Employee deferral: **$32,500** (includes $8,000 catch-up)
- Employer contribution: **$30,000** (approx. 20% of net income)
- Total contribution: **$62,500**

3

Multiple 401(k) Plans — Lisa, Age 40

Lisa has a W-2 job with a 401(k) and a side consulting business with a Solo 401(k).

- Employer 401(k) deferral: **$15,000**
- Solo 401(k) employee deferral: **$9,500** (to reach $24,500 combined limit)
- Solo 401(k) employer contribution: **$12,000** (based on consulting income)
- Total Solo 401(k) contribution: **$21,500**

⚠ **Multiple Plans Alert:** If you participate in more than one 401(k) plan (like Lisa), your **combined employee deferrals across all plans** cannot exceed $24,500 ($32,500 if age 50+). Exceeding this limit results in double taxation and penalties.

Contribution Deadlines

Understanding deadlines is crucial to avoid missing contribution opportunities. The rules differ depending on whether you're making employee deferrals or employer profit-sharing contributions.

1 Throughout the Year

Deduct employee deferrals from your paycheck or business income consistently. Set up payroll to automate this process.

2 December 31st

Hard deadline for employee deferrals AND plan establishment. Cannot be made retroactively. The plan must exist by this date to allow employee deferrals.

3 Tax Filing Deadline

Employer profit-sharing contributions can be made up to your standard filing deadline — typically **April 15th** for most filers.

4 October 15th

Extended deadline for employer contributions if you file for an extension. Gives maximum flexibility to calculate based on actual year-end income.

Employee Deferrals — Strict Rules

- Must be made by **December 31st** of the tax year
- Cannot be made retroactively under any circumstances
- Should be deducted from compensation throughout the year

Employer Contributions — More Flexible

- Can be made up until your tax filing deadline
- Includes extensions (typically October 15th)
- Allows you to calculate based on actual year-end income

SECURE Act Note: Some SECURE Act provisions allow for later plan establishment for employer-only contributions. However, to make **employee deferrals**, the plan must be established by December 31st of the tax year — no exceptions.

Pre-Tax vs. Roth Contributions

One of the most powerful decisions you'll make with your Solo 401(k) is choosing between pre-tax (traditional) and Roth contributions. Each has distinct advantages depending on your current and expected future tax situation.

Pre-Tax (Traditional)

Benefits:

- Reduces your current taxable income
- Lowers your current tax bill immediately
- Ideal if you expect a lower tax bracket in retirement

Drawbacks:

- Withdrawals in retirement are fully taxable
- Required minimum distributions (RMDs) starting at age 73 or 75

Roth Contributions

Benefits:

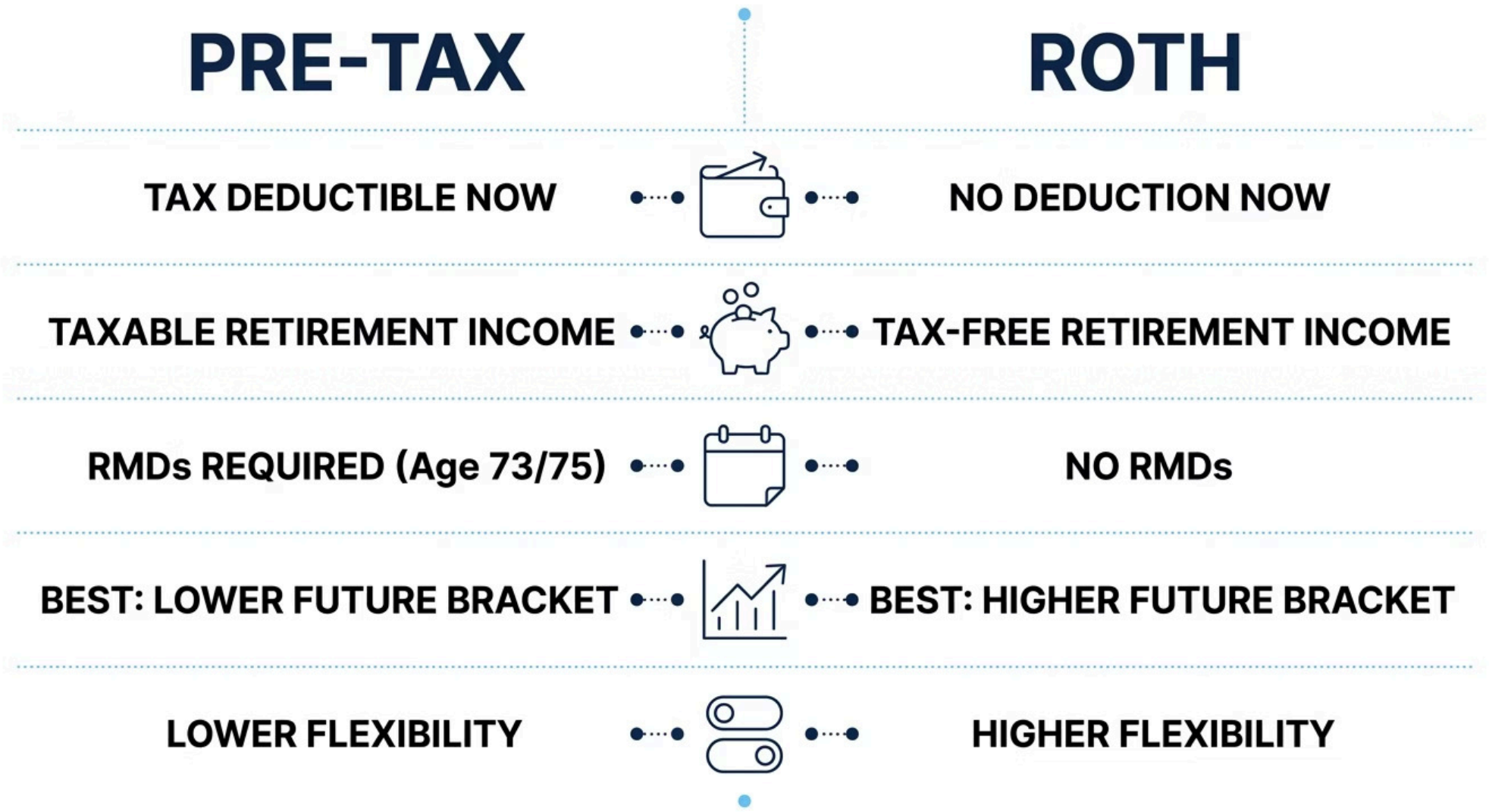
- Qualified withdrawals in retirement are completely tax-free
- No RMDs during your lifetime
- Ideal if you expect a higher tax bracket in retirement

Drawbacks:

- No immediate tax deduction
- Pay taxes now instead of deferring them

Best Practice: Mix Both

Many financial advisors recommend a **mix of pre-tax and Roth contributions** to provide tax diversification in retirement. This gives you flexibility to manage your tax liability when taking distributions — drawing from whichever account is most tax-efficient in any given year.



Common Contribution Mistakes to Avoid

Even well-intentioned savers can run into costly errors with Solo 401(k) contributions. Here are the five most common mistakes — and how to avoid them.

Exceeding the Employee Deferral Limit

If you have multiple 401(k) plans, you must track your **total employee deferrals across all plans**. Exceeding the $24,500 limit results in double taxation and penalties. This is especially common for those with a W-2 job and a side business.

Missing the December 31st Deadline for Employee Deferrals

Unlike employer contributions, **employee deferrals cannot be made retroactively**. Many self-employed individuals wait until tax season to think about contributions — by then, it's too late for deferrals. Plan ahead and set up payroll deductions early.

Incorrectly Calculating Employer Contributions

The calculation differs based on your business structure. **Sole proprietors must reduce their net income by half of self-employment tax** before calculating the 20% contribution. Skipping this step leads to over-contributions and IRS penalties.

Not Establishing the Plan by December 31st

Even though you can make contributions after year-end, **the plan itself must be established by December 31st** of the tax year to allow for employee deferrals. Don't wait until January to set up your plan.

Forgetting About Catch-Up Contributions

If you're 50 or older, don't leave the extra **$8,000** (or **$11,250** for ages 60–63) on the table. These catch-up contributions can make a significant difference in your retirement savings over time.

Best Practices for Maximizing Contributions

Knowing the rules is only half the battle. Implementing smart strategies throughout the year ensures you capture every dollar of tax-advantaged savings available to you.



Front-Load Employee Deferrals

If possible, make your employee deferrals **early in the year** to maximize tax-deferred growth. The sooner the money is invested, the longer it compounds.



Wait on Employer Contributions

Since employer contributions can be made until your tax filing deadline, **wait until you know your exact income** to calculate the optimal contribution amount. This prevents over- or under-contributing.



Use a Payroll System

Set up a payroll system to **automatically deduct employee deferrals** from your compensation. This ensures consistency, proper documentation, and eliminates the risk of missing the December 31st deadline.



Keep Detailed Records

Maintain clear records of all contributions, including **dates, amounts, and whether they're employee or employer contributions**, pre-tax or Roth. Good recordkeeping protects you in the event of an audit.



Review Annually

Review your contribution strategy each year. Your income, tax situation, and retirement goals may change, requiring **adjustments to your contribution approach**. What worked last year may not be optimal this year.

Special Situations & Getting Expert Help

Solo 401(k) rules have nuances that apply to specific circumstances. Understanding these edge cases can unlock additional savings opportunities — or prevent costly mistakes.

Spouse Participation

If your spouse works in the business, they can also participate in the Solo 401(k) with their **own contribution limits**, potentially doubling your household's retirement savings and tax deductions.

Multiple Businesses

If you own multiple businesses, you generally need only **one Solo 401(k) plan**. All businesses you control are treated as a single employer for contribution purposes under IRS controlled group rules.

Partial Year

If you establish your business mid-year, you can still make contributions based on your **income for that partial year**. Don't assume you need a full year of business activity to participate.

Get Expert Help with SEPira(k)

Navigating Solo 401(k) contribution rules can be complex, but you don't have to do it alone. The **Guardian Solo 401(k) platform** provides tools and guidance to help you maximize your contributions while staying compliant.

The platform:

- Tracks your contributions
- Calculates your limits based on 2026 IRS guidelines
- Ensures you're taking full advantage of all available tax benefits

If you would like to open a solo 401(k) reach out at sepirak.com/contact and we will connect you to one of our partners.

Your Next Steps

01

Establish Your Plan

Set up your Solo 401(k) before December 31st of the tax year.

02

Set Up Payroll Deferrals

Automate employee deferrals to ensure you hit the limit.

03

Calculate Employer Contribution

After year-end, calculate and make your profit-sharing contribution.

04

Review & Optimize Annually

Revisit your strategy each year as income and goals evolve.