

Roth IRA vs. Roth 401(k) for the Self-Employed

WASHINGTON, DC (SEND2PRESS NEWSWIRE) – Under new tax rules that took effect in January 2006, employees can ask their company to save part of their wages in a Roth 401(k). However, independent contractors, the self-employed, and business owners with no employees can establish their own Solo 401(k) with a Roth feature – (Solo Roth 401k) – right away, according to Daniel Lamaute, retirement plan specialist, with Lamaute Capital (InvestSafe.com).

Unique to Roth retirement accounts – Roth 401(k) and Roth IRA – participants get to save part of their wages on an after-tax basis. In exchange, any earnings in the Roth accounts can grow tax-free. In addition, the principal and accumulated earnings of a Roth account can be withdrawn tax-free provided that certain qualifications are met.

In contrast, contributions to an IRA, 401(k), etc, are on a pre-tax basis, but withdrawals of every dollar are taxed as ordinary income.

Roth 401(k)s can be viewed as Roth IRAs on steroids. For example, in 2006, the Roth 401(k) salary deferral limit is \$15,000 vs. \$4,000 for the Roth IRA, and the “catch up” for those 50 and older is \$5,000 vs. \$1,000 for the Roth IRA. Loans can be taken from a Roth 401(k) account, but not from a Roth IRA. And, unlike the Roth IRA high income earners are not restricted from having a Roth 401(k).

Solo 401k contributions can be split between the pre-tax account and the Roth after-tax account. However, the aggregate contributions must not exceed the elective deferral limit. Profit sharing or employer contributions on a pre-tax basis can be made to a Solo 401(k).

The Roth 401(k) feature would probably appeal most to:

** Individuals who think that their tax rate may be higher when they are ready to retire.*

** Long term investors that have the potential to accumulate considerable compounded earnings in their account over time and want that growth to stay tax-free.*

** Those concerned with passing some their retirement funds tax-free to their heirs.*

** Executives whose income level disqualifies them*

for the Roth IRA.

The Roth feature of the Solo 401(k) is another tool for small business owners to tailor their investments to meet their individual retirement objectives. Owners should ask their accountants about this plan and how it may benefit them. Anyone can visit www.investsafe.com to request a free information kit on the Solo 401(k) with the Roth and the loan features.

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