

Smart New Financing Tool for the Small Business Owner

By Daniel Lamaute

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Pressed for cash, many people will take money out of their individual retirement account (IRA) as a means to get quick access to capital. They do this even though they have to pay taxes and generally if they are younger than 59 ½, also pay a 10% penalty on the money they withdraw.

Only as a last resort should one touch their retirement savings for anything other than retirement expenses. But, in those cases when you need to tap into your retirement savings, a way to get money out of your retirement account without paying the penalty and deferring the tax was just made available beginning in 2002, as a result of a tax law change.

Under the new law, those with a small business and no employees or only a spouse as an employee can establish Solo-Owner 401(k) plans and take a loan from those plans. The loan from the Solo-Owner 401(k) is not treated as a withdrawal. As such it is not subject to tax and the 10% penalty for early withdrawal as long as you repay the loan on time.

You can roll over or transfer the funds you have in your IRAs, 401(k), 403(b), or other qualified retirement funds into your Solo-Owner 401(k) and then borrow from the balance in your Solo-Owner 401(k) plan.

Employees of large corporations for the most part always had the ability to borrow from their 401(k). Now small business owners, such as freelancers, consultants, and entrepreneurs, who have left the corporate world also have that choice. They can borrow up to the lesser of \$50,000 or 50% of the balance in their 401(k). A Solo-Owner 401(k) plan gives small business owners the opportunity to defer up to \$40,000 per year in a tax deferred retirement plan and the flexibility, should they ever need it, to borrow from their retirement funds.

The Solo-Owner 401(k) plan goes under different names depending on the provider of the plan. Make sure you are aware in advance of the fees that may be associated with rolling over or transferring your money into or out of your Solo-Owner 401(k) plan. For more information on the Solo-Owner 401(k) plan and other ways to get money out of your retirement plan while minimizing the taxes and penalties visit www.InvestSafe.com

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