

Why Use the Owner-Only 401(k) Profit Sharing Plan Over a SEP IRA?

Since both plans allow for a maximum contribution of \$49,000 for 2010, why would I choose an Owner-Only 401(k) Profit Sharing Plan over a SEP IRA that's easier to maintain and administer? It's true, both plans do have the same maximum contribution limit, but an individual may not have sufficient income to reach this limit. That's where the benefits of the Owner-Only 401(k) Profit Sharing Plan come into play.

The chart below compares the Owner-Only 401(k) Profit Sharing Plan to the SEP IRA and highlights the differences that may make it more advantageous for self-employed business owners.

| | Owner-Only 401(k) | SEP IRA |
|---------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Target Market | Small business owners who have no full-time employees other than their spouse | Small business owners who may or may not have employees |
| Employee Eligibility | <ul style="list-style-type: none"> ■ Age 21 ■ 1 yr. of service (1,000 hours in a 12-month period) | <ul style="list-style-type: none"> ■ Age 21 ■ Worked 3 out of 5 preceding years ■ Earned \$550 in year of eligibility |
| Maximum employer contribution | 25% of gross eligible payroll | 25% of gross eligible payroll |
| Maximum salary deferral, employee contribution | 100% of compensation limited to: 2010: \$16,500 | Not allowed |
| Catch-up contributions for participants age 50 or older | 2010: \$5,500 | Not allowed |
| Loans | Allowed. Usually the lesser of 50% of vested account balance or \$50,000. | Not allowed |
| Nondiscrimination testing | Not applicable | Not applicable |
| IRS Form 5500 | Not required until plan assets exceed \$250,000. When needed, may qualify to file Form 5500-EZ, which is a streamlined-version of the Form 5500 | Not applicable |
| Plan Document | RBC Wealth Management Self-Trusteed Owner-Only 401 (k) Profit Sharing Plan Adoption Agreement | IRS Form 5305-SEP or suitable plan agreement |
| Third Party Administrator | May be required to: <ul style="list-style-type: none"> ■ Prepare annual 5500 EZ Form ■ Monitor and report distributions ■ Provide loan administration ■ Monitor contribution limits | May be required to: <ul style="list-style-type: none"> ■ Calculate contribution amounts ■ Determine eligibility |
| Deadline for plan establishment | Last day of plan year (December 31 for calendar year plans) | Business owner's tax filing deadline (usually April 15 for sole-proprietors). Extensions do apply |



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