

Beating the \$51K Limit – Friday Q&A Series



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Today's Q&A Series is a little different from most, because I'm the one asking the question. I'm also providing the answer, but only because it was handed to me on a silver platter. I like to think I know a lot about personal finance and investing, but one of the reasons I started this blog was to learn this stuff a little better myself, and I'm still learning all the time. The teacher in this case is one of my favorite financial bloggers, Mike Piper, who blogs at [The Oblivious Investor](#). We were having an innocent little email conversation about deductions for bloggers when he noted one of his was his Solo 401K. I expressed regret that I'd already maxed out a 401K for 2012. That was when he dropped this little pearl of wisdom into my lap.

Q.

Is the \$51K limit per person or per job?

A.

In 2013, the total of employee and employer contributions to retirement plans such as 401Ks, 403Bs, 457Bs, Solo 401Ks, SEP-IRAs, Profit-Sharing Plans, Keoghs etc is \$51,000. (Add \$5500 as a catch-up contribution for those over 50.) However, that limit is PER JOB, not per person. If you have two jobs with completely unrelated employers, you may be able to shelter

much more than \$51K, especially if you own one or both businesses. You are limited to \$17,500 in employee contributions to all of your 401Ks, no matter how many jobs you work at, but the EMPLOYER contribution is unlimited up to \$51,000 per job, with the caveat that you can only put in ~18% of your gross income into the plan.

The \$51K limit is officially called the I.R.C. Section 415(c) limit (which is \$40K, but Section 415(d) adjusts it for inflation which so far brings it to \$51K). It is explained in plain language on the [IRS website](#), with a very helpful example.

How This Affects Me

I am now an owner of two businesses, my partnership at work and this website. Now that I'm a partner, my entire 401K/Profit-Sharing Plan contribution can be an employer contribution. As long as I keep working full time, I should make enough to be able to max that out at \$51K for 2013. I can open a Solo 401K to shelter blog income. Since I haven't used any of my \$17.5K employee contribution, I can completely shelter my first \$17.5K in blog income into a Solo 401K. If the blog miraculously makes more than that this year, then I can shelter ~18% of the profit above and beyond \$17.5K. At a 38% marginal rate, if this site generates my goal for the year (\$12K profit), I can save myself \$4560 in taxes. Alternatively, I could pay taxes on it now and put it into a Roth Solo 401K, and never pay taxes on it again.

Couldn't Do It In 2012 Anyway

At first I was bummed that I didn't learn this until January, since the deadline to set up a Solo 401K is December 31st of any given year. But then I realized it didn't really matter for 2012. Since I'd already maxed out my employee contributions (remember I was an employee for most of 2012)

there was no difference between what I could put into a Solo 401K and what I can put into a SEP-IRA. Either way, I can only put in ~18% of my profits. However, a SEP-IRA can be opened for 2012 until April 15, 2013, which gives me time to open the account and make my contribution. On \$6749 of profit, I should be able to shelter ~ \$1215, saving me ~\$401 in federal and state taxes, and increasing my tax-sheltered (and creditor-sheltered) nest egg by \$1215. I can either immediately convert the SEP-IRA to a Roth IRA or simply roll it into the Solo 401K (or even my old 401K- The TSP) I'll open later in 2013 so I can preserve my ability to do backdoor Roths. Two great options.

How This Might Affect You

Do you have two jobs? Would you like to pay less in taxes? Would you like to put more toward retirement? This might be your chance. Set yourself up so you have one job as an employee or partner, and one job as an independent contractor. If you have sufficient income (and a decent plan at your first job), you may be able to get more than \$51K into 401Ks. Consider a surgeon who may be a hospital employee at his main job. He contributes his \$17.5K into the main job 401K, and receives the match, which could be as much as \$33.5K. Let's say he makes another \$100K moonlighting as an independent contractor across town. He could put another \$18K or so into a Solo 401K (or SEP-IRA) for a total of \$69K. If he and his spouse also do backdoor Roths, that's another \$11K, for a total of \$80K in tax-advantaged savings for 2013.