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commodity around. But like fax machines and VHS recorders, Keoghs are now regarded by many as relics. Nevertheless, this type of plan still might fit the bill for certain sole practitioners.

**Ken Berry, JD • Jul. 11, 2014**



(This is part of a [series of articles](#) on qualified retirement plans for small business owners.)

In the not-so-distant past, the Keogh plan was the hottest retirement planning

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quickly became popular among professionals, like physicians and dentists, who were self-employed and employed a small staff.

There are two main types of Keogh plans: the defined contribution Keogh and the defined benefit Keogh. As you might imagine, these mirror the basic rules for defined contribution and defined benefit plans, including annual limits on contributions, with a few tweaks here and there.

1. **Defined contribution Keogh:** The maximum deductible contribution for 2014 is equal to the lesser of \$52,000 or 15% of earned income. One variation is a money purchase plan where contributions are based on a percentage of annual income. With this type of plan, you can contribute and deduct the lesser of \$52,000 or 25% of earned income.
2. **Defined benefit Keogh:** Like other defined benefit plans, the limit for this type of Keogh is based on actuarial computations. The plan may provide an annual retirement benefit equal to the lesser of 100% of earned income for the three highest-paid years or a specific dollar amount adjusted for inflation. The dollar limit for 2014 is \$210,000.

But be aware of this tax twist. To compute “earned income” for a plan, your earnings from self-employment are reduced by your contributions and one-half of the self-employment tax you pay. Furthermore, note that the maximum amount of compensation allowed for this calculation is limited in 2014 to \$260,000.

Most other rules for qualified retirement plans also apply to Keogh plans. For instance, pre-age 59  $\frac{1}{2}$  withdrawals are subject to regular income tax, plus a 10% tax penalty, unless you qualify under a special tax law exception. Required minimum distributions (RMDs) must begin in the year after the year in which you attain age 70  $\frac{1}{2}$ .

If you have other employees, you're required to cover them under the Keogh plan in

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Finally, the deadline for contributions to a Keogh plan for the 2014 tax year is your tax return due date, plus extensions, as long as the plan is set up before January 1, 2015. This provides a late-year planning opportunity for procrastinators.

The Keogh plan certainly isn't as prevalent as it once was due to subsequent tax law modifications and the emergence of solo 401(k) plans. But it's hardly a dinosaur either. Keogh plans still abound and can provide a fast way for unincorporated business owners to build up a nest egg.

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