participant. But now the "solo 401(k)" is a more viable alternative for this segment of the ...

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(This is the third article in a three-part series on unique tax breaks for qualified plans

plans. Contributions to your account are made on a pre-tax basis up to certain annual limits. For 2015, the maximum elective deferral to the plan is $18,000 or $24,000 if you are age 50 older. These amounts can grow without any current tax erosion until withdrawals are made.

In addition, employers may make matching contributions up to certain limits. Thus, you may benefit from both employee and employer contributions. Under the rules for defined contribution plans like a Simplified Employee Pensions (SEP), the maximum deduction for employers can't exceed the lesser of 25% of compensation or $53,000 or $59,000 for a participant age 50 or over. The maximum compensation that may be taken into account for this purpose in 2015 is $265,000.

Here's where solo 401(k) plans offer an edge to the self-employed crowd: The elective deferrals to the account don't count towards the 25%-of-compensation cap, although the annual dollar limit still applies. Let's look at a hypothetical example.

Suppose that Business Owner is self-employed, age 45 and earns $100,000 a year. If he establishes a SEP for his one-man operation, the maximum deductible amount that may be contributed to the plan in 2015 is $25,000 (the lesser of 25% of compensation or $53,000). Not bad, but he can do better.

If Business Owner sets up a solo 401(k) instead of a SEP, he can defer $18,000 to his account, with, say, a matching employer contribution of $18,000. The overall contribution comes to $36,000 – still $10,000 below the $53,000 threshold. It doesn't matter that the total exceeds 255 of his compensation. In other words, he sets aside $11,000 more than he could with a SEP with no tax worries. This differential can be exploited year after year.

With a solo 401(k), a participant may borrow against their account or take hardship withdrawals if necessary. Funds from a qualified plan at a former company may be rolled over into the solo 401(k) for convenience. Contributions are discretionary, so

Your clients who are self-employed may seek guidance from you in the retirement planning arena. Explain all the options available so they can make an informed decision.

Benefits