

Retirement Plans for Writers

by Lawrence Sprung, CFP®

WAS 2015 A GOOD YEAR FINANCIALLY? Did you have a book that was a huge success? Did that success result in you feeling like you paid too much in taxes?

Setting up a retirement plan could make you feel better this time next year. As a writer, your business (yes, writing is a business) is typically set up in one of two ways: an independent contractor or 1099 employee and a corporation. Each can take advantage of setting up a retirement plan, this will lower your tax burden while putting money away for your financial future.

Retirement plans can be set up and funded by writers regardless of their business structure. The type of plan, the amount you can contribute and your overall tax deduction may differ based upon your structure. Let's take a look at one of the most popular options available to writers.

The most common retirement plan for writers who are working as independent contractors, 1099 employees or who file a Schedule C for their taxes is a Simplified Employee Pension Plan IRA (SEP IRA). Those names all are synonymous with the same type of employment status and are treated the same for retirement plan purposes.

The SEP IRA allows a writer to defer a maximum of 25 percent of their income into the plan each year, which in turn will lower your tax liability. The 25 percent maximum applies to those writers who are on payroll and paying themselves via W-2, which is the least common method. Paying yourself via W-2 will allow you to defer a maximum of 25 percent of the compensation list-

ed. Those writers that are simply using a Schedule C to determine their income for the year (the most common method for writers) have a maximum contribution of 20 percent of net income.

Whether you are limited to 20% or 25 percent, the maximum dollar amount you can contribute for 2016 is \$53,000. Keep in mind, a SEP IRA simply needs to be set up and funded before your tax filing deadline. The contributions are not mandatory and can change from year to year based upon your annual success.

As an example, if you are an independent contractor in the 25 percent tax bracket who had a net income of \$50,000 for 2016 and have a SEP IRA, the SEP IRA would allow you to make a maximum contribution of \$10,000. This would lower your taxable income from writing, to \$40,000. In turn, your tax bill will be reduced by \$2,500. Essentially the \$10,000 contribution made to your SEP IRA only cost you \$7,500.

The SEP IRA will work the same way for those writers set up as corporations. Writers who are W-2 through their corporations can only include the W-2 wages to determine their maximum contribution. Shareholder distributions are not included as compensation for calculating your SEP IRA contribution. If you have employees, this may not be the best option because you will be required to contribute for employees that have been with you three years or more.

The percentage used to determine your contribution would be used for your employees as well — and could create a financial burden.

We will discuss other retirement plan options for writers in upcoming articles that may be better suited for those with employees. We also encourage you to contact us directly to discuss your own personal situation and what options may be best suited for you.

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