

Self-Employed Individuals – Calculating Your Own Retirement-Plan Contribution and Deduction

If you are [self-employed](#) (a sole proprietor, or a working partner in a partnership or limited liability company), you calculate your [self-employment](#) (SE) tax using the amount of your net earnings from self-employment and following the instructions on Schedule SE, *Self-Employment Tax*. However, you must make adjustments to your net earnings from self-employment to arrive at your plan compensation, which is the amount you use to determine the plan contribution/deduction for yourself.

Plan compensation

To calculate your plan compensation, you reduce your net earnings from self-employment by:

- the deductible portion of your SE tax from your Form 1040 return, page 1 (Schedule SE, IRC Sections 401(c)(2) and 164(f)); and
- the amount of your own (not your employees') retirement plan contribution from your Form 1040 return, page 1, on the line for self-employed SEP, SIMPLE, and qualified plans (IRC Section 401(c)(2)).

You use your plan compensation to calculate the amount of your own contribution/deduction.

Note that your plan compensation and the amount of your own plan contribution/deduction depend on each other - to compute one, you need the other (this is a circular calculation). One way to do this is to use a reduced plan contribution rate. You can use the [Table and Worksheets for the Self-Employed](#) (Publication 560) to find the reduced plan contribution rate to calculate the plan contribution and deduction for yourself.

Example

Joe, a Schedule C sole proprietor, will have \$100,000 net profit on his 2013 Schedule C (after deducting all Schedule C expenses, including a 10% retirement plan contribution made for his common-law employees but not his own contribution). Joe must pay \$14,130 in SE taxes. To compute his plan compensation, Joe must subtract from his net profit of \$100,000:

- the IRC Section 164(f) deduction, which in this case is $\frac{1}{2}$ of his SE tax ($\$14,130 \times \frac{1}{2}$); and
- the amount of contribution for himself to the plan.

To determine the amount of his plan contribution, Joe must use the reduced plan contribution rate (considering the plan contribution rate of 10%) of 9.0909% from the rate table in [Pub. 560](#). Alternatively, Joe can compute his reduced plan contribution rate by:

1	Taking the plan contribution rate	10%
2	Dividing the plan contribution rate by 100% + plan contribution rate	10%/110%
3	To get the reduced plan contribution rate	9.0909%