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What Is a Keogh Plan?

A Keogh (HR 10) plan is a tax-deferred retirement savings program for self-employed individuals. It is named for Eugene Keogh, the congressman who first came up with the idea in 1962.

Keoghs can be established by any individual who is self-employed on a part-time or full-time basis, as well as by sole proprietorships and partnerships (who are considered “employees” for the purpose of participating in these plans).

Unlike IRAs, which limit tax-deductible contributions to $5,000 per year (in 2008), Keoghs allow you to save as much as $46,000 of your net self-employment income for 2008 (this number grows to $49,000 for 2009), depending on the type of Keogh plan you adopt.

Contributions to a Keogh plan may be tax deductible up to certain limits. These contributions, along with any gains made on the investments within the fund, will accumulate tax deferred until you withdraw them.

Withdrawal rules mirror those of other qualified retirement plans. Distributions are taxed as ordinary income and may be subject to an additional 10% federal income tax penalty if taken prior to age 59½. Keoghs can typically be rolled over to another qualified retirement plan or to an IRA. Annual minimum distributions are required after the age of 70½. Unlike the case with other qualified retirement plans, hardship distributions are not permitted with a Keogh plan.

You can open a Keogh account through banks, brokerage houses, insurance companies, mutual fund companies, and credit unions. Although the federal government sets no minimum opening balance, most institutions set their own, usually between $250 and $1,000.

The deadline for setting up a Keogh plan is earlier than it is for an IRA. You must open a Keogh by December 31 of the year for which you wish to claim a deduction. However, you don’t have to come up with your entire contribution by then. As with an IRA, you have until the day you file your tax return to make your contribution. That gives most taxpayers until April 15 to deposit their annual retirement savings into a Keogh account.

Each tax year, plan holders are required to fill out Form 5500, for which they may need the assistance of an accountant or tax advisor, incurring extra costs.

If you earn self-employment income, a Keogh plan could be a valuable addition to your retirement strategy. And the potential payoff — a comfortable retirement — may far outweigh any extra costs or paperwork. For more information on how a Keogh plan and other financial solutions can fit into your overall financial plan, contact **Jason M. Woodward, J.D.** today at (603) 264-7550 or financialattorney@gmail.com.