



Investing Wisely: Tips for Using Your Savings to Start a Business


 by [Brette Sember, Esq.](#)

Freelance writer

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Starting a business is a dream that many people have. While ideas abound for great businesses, getting the cash to get one started is often the biggest hurdle. What you may be surprised to learn is that you might actually have the start-up funding already at your fingertips.

Savings Are a Solution

When planning to **start a business**, the first place to look for **small business financing options** is your own resources. While your personal savings account is the easiest option, most people don't have enough cash on hand to adequately fund a business, and it is also unwise to use all of your available cash because you need to have a reserve for emergencies (both personal and business) on hand.

Although you might not have a savings account you can use to fund your business, an option you may not be aware of is **401(k) business financing**. It's possible to do what is called a [Rollovers as Business Startups \(ROBS\)](#). Using the funds in your personal **401(k) to start a business** can give you the cash infusion you need to get your venture off the ground.

How It Works

If you have a 401(k) plan, you can roll the funds from it into a new 401(k) you open for your incorporated business (it must be incorporated to qualify). Because you're rolling the funds, there are no taxes due on the transfer. You then decide to use the funds in the new account to invest in the business (by buying stock in your new company), giving you a direct infusion of cash for your business startup expenses. The funds can't be used to pay your personal salary, but they can be used for your other business costs. If and when you sell the business, the money goes back into your 401(k).

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Tread Carefully

Although this sounds like a simple way to get funding for a startup, it is actually a very complex transaction and one the IRS considers legal, but questionable. It must be done exactly right or you could end up owing taxes and penalties. Because of this, it is essential to pay an investment firm to handle the transaction. Although this will incur additional fees, it is a necessary expense. In addition to these short-term concerns, the biggest issue with using your 401(k) in this manner is that if your business fails, you not only lose your livelihood, but you've lost your retirement funds as well. If you take the risk and it doesn't pay off, you could be left with nothing to retire on if you have no other retirement accounts.

Other Small Business Finance Options

There are other ways to use your 401(k) for funding. You could do a **401(k) early withdrawal**, and pay a 10% penalty if you are under 50½ years old. It is also possible to take a loan from your 401(k). Most plans allow a loan of \$50,000 or 50% of the account without penalty. The interest is charged at a competitive rate and you must repay within 5 years. The catch to this is the loan has to be repaid before you leave your job, so if you're looking to start a business, you won't be able to do this unless you're working your old job and your new business simultaneously.

If you have a Roth IRA, you can withdraw from that account as long as it is more than 5 years old. The money is tax-free but you cannot replace it once you withdraw it. Another financing option to consider is credit cards. A low-interest card may give you the access to the cash you need and you can also look at 0% balance transfers to another card to make it easier to pay down. You can also take out a home equity loan, but risk your home if your business fails.

Business loans are another funding option. Regular business loans require collateral (such as a building, vehicle or equipment). A business line of credit does not require collateral, but usually has a higher interest rate. A Small Business Administration (SBA) loan may be an option and venture capital is another consideration. A venture capitalist provides funding in return for an ownership stake in the company.

Starting your business is a way to fulfill your dreams and your potential, if you can find a way to get the startup funds and manage the risk that is involved.

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