

The image features a dark blue background with a repeating pattern of stylized, overlapping chevron shapes in various shades of blue. In the center, the word "SAX" is written in a large, bold, white sans-serif font. Below it, the tagline "EXPECT MORE" is written in a smaller, white, all-caps sans-serif font.

SAX

EXPECT MORE

Maximizing Tax Deferral Opportunities Through Employer Retirement Offerings

Wednesday, February 17, 2021



Our firm provides the information in this webinar presentation for general guidance only, and does not constitute the provision of legal advice, tax advice, accounting services, investment advice, or professional consulting of any kind.

The information provided herein should not be used as a substitute for consultation with professional tax, accounting, legal, or other competent advisers.

Before making any decision or taking any action, you should consult a professional adviser who has been provided with all pertinent facts relevant to your particular situation.



Meet Our Presenters



Jennifer Moroz, CPA
Partner
Leader, Professional Services
Sax LLP



Eric Seidman, AIF®
Retirement Plan Director
Sax Wealth Advisors



Chris Gaffney, CPA, MST
Tax Partner
Sax LLP

EXPECT MORE



Today's Agenda

- Beneficial offerings beyond the traditional 401(k)
- How to leverage your existing plan
- Key employer contribution strategies
- Tax planning through your retirement plan

Maximizing Your Plan's Tax Deferrals

Discussion Points

- 401(k) and similar type plans
- Profit-sharing contribution options
- Targeted / Custom calculations
- Cash balance “Combo” plans
 - Secure Act provides opportunity
 - More flexible defined benefit plan

Maximizing Your Plan's Tax Deferrals



Maximizing Your Plan's Tax Deferrals

2020 Pre-Tax Limits – 401(k) & Profit-Sharing Plans

- Salary Deferral Contributions of \$19,500. Owners & Employees
 - Includes in-plan Roth
- Catch up of \$6,500 available for those 50 and above
- Employer Contributions Total: \$37,500 per employee
 - All tax deductible: Employer Match, Safe Harbor, and/or Profit-Sharing Contributions, up to 25% of total paid comp
 - Combines to total available pre-tax contribution of \$57,000 per employee (\$58,000 for 2021)
- Key Question: Are you taking full advantage of these tax savings opportunities in your existing plan design?

Maximizing Your Plan's Tax Deferrals

Non-Discrimination Requirements

- 401(k) plans have flexibility in plan design – however for ownership to take full advantage of tax deferral opportunities, the plan must pass certain tests with regard to participation
- Or, another option is to implement a safe harbor employer contribution
- In many instances, plan design decisions and employer contributions are made when the plan is established. As circumstances change, it is often beneficial to revisit
- Providing safe harbor and match contributions to pass testing, in addition to being tax deductible themselves, can put you in a strong position to fully leverage other tax deferral opportunities such as profit sharing

Maximizing Your Plan's Tax Deferrals

Safe Harbor Options & Benefits

- **“Basic” SH Match**
- Participants must contribute to receive
- 100% up to 3%, plus 50% on the next 2%
 - Participants must contribute 5% to get 4%
 - **“Enhanced”** – 100% up to 4% or higher
- Employer can contribute throughout the year or in one lump sum prior to filing tax return
 - Key Plan Document Provision
- 100% vested immediately
- Non-discretionary & notices are required

Maximizing Your Plan's Tax Deferrals

Employer Contribution Options & Benefits

- **3% Safe Harbor Contribution “Non-Elective”**
- All eligible participants receive 3% of salary
 - Does not require a participant to contribute to receive
- Employer can contribute throughout the year or in one lump sum prior to filing tax return
- 100% vested immediately
- Non-discretionary & notices are required
- Can help in custom profit-sharing calculations
 - May be ideal if intending to make a discretionary profit-sharing contribution. If no profit-sharing contribution, it may make sense to consider a safe harbor match

Maximizing Your Plan's Tax Deferrals

Discretionary Match Contributions

- Custom Match - Participants must contribute to receive
 - Example: 50% up to 6%
 - Concept of a “stretch match” to encourage participation
- Custom Vesting: Up to 6 year graded
- Optional Last Day / 1000-hour rule
- Employer can contribute throughout the year or in one lump sum prior to filing tax return
- Discretionary. More easily suspended
- Strong option if passing Non-Discrimination Testing Requirements. Could also be an additional match on top of a Safe Harbor contribution

Maximizing Your Plan's Tax Deferrals

Discretionary Profit-Sharing Example

	<u>Age</u>	<u>Compensation</u>	<u>Deferrals</u>	<u>Catch up</u>	<u>SHNE</u>	<u>SHNE %</u>	<u>Profit Sharing</u>	<u>Profit Sharing %</u>	<u>Total</u>
Owner 1	51	\$285,000.00	\$19,500.00	\$6,500.00	\$8,550.00	3.00%	\$28,950.00	10.16%	\$63,500.00
Owner 2	37	\$285,000.00	\$19,500.00		\$8,550.00	3.00%	\$28,950.00	10.16%	\$57,000.00
Owner Profit Sharing Total							\$57,900.00	89.17%	
Employee 1	65	\$148,877.34	\$19,500.00	\$6,500.00	\$4,466.32	3.00%	\$2,069.40	1.39%	\$26,035.72
Employee 2	47	\$86,245.00	\$818.55		\$2,587.35	3.00%	\$1,198.81	1.39%	\$4,604.71
Employee 3	34	\$80,196.00			\$2,405.88	3.00%	\$1,114.72	1.39%	\$3,520.60
Employee 4	36	\$79,350.00	\$815.50		\$2,380.50	3.00%	\$1,102.97	1.39%	\$5,114.47
Employee 5	51	\$51,719.00	\$650.00		\$1,551.57	3.00%	\$718.89	1.39%	\$2,920.46
Employee 6	28	\$29,428.00			\$882.84	3.00%	\$409.05	1.39%	\$1,291.89
Employee 7	50	\$21,624.00	\$400.00		\$648.72	3.00%	\$300.57	1.39%	\$1,349.29
Employee 8	27	\$3,816.00			\$114.48	3.00%	\$114.48	3.00%	\$228.96
Employee Profit Sharing Total							\$7,028.89		
Total		\$1,071,255.34	\$61,184.05	\$13,000.00	\$32,137.66		\$64,928.89	10.83%	\$165,566.10

Maximizing Your Plan's Tax Deferrals

Discretionary Profit-Sharing

Primary drivers of calculation

- Give to Get: Non HCEs must reach a certain threshold
- Highly dependent on specific company demographics
- 5% or 1/3 rule
- Compensation – limit of \$285k (\$290k for 2021)
- Option to exclude highly compensated employees if desired
- Ideal Scenario – Owners/Key employees receive 70-80+%

Maximizing Your Plan's Tax Deferrals

Tax Savings

	<u>Profit Sharing Contributions</u>	<u>Tax Savings</u>
Owners	\$ 57,900	\$ 24,318
Employees	\$ 7,028	\$ 2,951
Total	<u>\$ 64,928</u>	<u>\$ 27,269</u>

*Tax savings estimate based on a 42% combined rate for Federal and State taxes.

Maximizing Your Plan's Tax Deferrals

Discretionary Profit-Sharing (cont'd)

- Main tool for ownership and key employees to reach max \$57,000 pre-tax contribution. Must be made prior to filing taxes to get deduction. **Can structure to target ownership**
- Contributed by employer after year-end, prior to filing taxes
- Does not need to come from “profits”
- Formula driven – must give to get, however:
- Not all formulas are created equal...
 - Pro-Rata – more rudimentary design, boilerplate
- **VS.**
- New Comparability – advanced custom design
- Upcoming document restatement cycle – good opportunity to upgrade your document formula

Maximizing Your Plan's Tax Deferrals

Discretionary Profit-Sharing (cont'd)

- Leverage existing employer contributions
 - If you are already making employer contributions, especially a 3% Safe Harbor contribution
 - Ownership and key employees may be able to receive a large portion of contribution. Tax savings may offset. Can reduce additional expense of profit sharing
- Custom Vesting: Up to 6 year graded. Forfeited contributions can be used to offset future contributions
- Potential for different eligibility requirements
 - Employee Retention tool
- Optional Last Day Rule. Discretionary each year
- **What if you could benefit from additional tax savings?**

Maximizing Your Plan's Tax Deferrals

The Cash Balance Plan – Beyond the \$57,000 limit

- Type of Pension Plan that allows for significantly higher tax-deductible contribution limits than a traditional 401(k) plan
- Only company contributions. No participant contributions
- Contribution formula is customized with an actuary
 - A portion must be contributed to employees; however, the majority of contributions can often be directed towards ownership, family, or other favored group
- Maximum contribution varies by age, rather one across the board limit
 - Actuarial equivalent of \$230,000 per year at Retirement

Maximizing Your Plan's Tax Deferrals

Cash Balance & 401(k) Profit Sharing Plans 2020 Contribution Limits

Age	Cash Balance	401(k)/ Profit Sharing	Total	Potential Tax Savings*
70	\$297,500	\$63,500	\$361,000	\$151,620
65	\$277,000	\$63,500	\$340,500	\$143,010
62	\$294,800	\$63,500	\$358,300	\$150,486
60	\$266,800	\$63,500	\$330,300	\$138,726
55	\$207,900	\$63,500	\$271,400	\$113,988
50	\$162,100	\$63,500	\$225,600	\$94,752
45	\$126,400	\$57,000	\$183,400	\$77,028
40	\$98,700	\$57,000	\$155,700	\$65,394

*Tax savings estimate based on a 42% combined rate for Federal and State taxes.
Taxes are deferred.

Maximizing You Plan's Tax Deferrals

401(k) and Cash Balance Combo Plan Example

	Age	Total Comp	Plan Comp	401(k)	Profit Sharing	Cash Balance	Total Contribution	Tax Savings	
								w/CB	w/o CB
Owner	60	600,000	280,000	25,000	37,000	250,000	312,000	131,040	26,040
Owner	55	<u>600,000</u>	<u>280,000</u>	<u>25,000</u>	<u>37,000</u>	160,000	222,000	93,240	26,040
Owner Total		1,200,000	560,000	50,000	74,000	410,000	534,000	224,280	52,080
Employee 1	50	125,000	125,000	10,000	9,375	3,125	22,500	9,450	8,138
Employee 2	50	100,000	100,000	5,000	7,500	2,500	15,000	6,300	5,250
Employee 3	44	80,000	80,000	4,000	6,000	2,000	12,000	5,040	4,200
Employee 4	37	65,000	65,000	3,250	4,875	1,625	9,750	4,095	3,413
Employee 2	32	<u>60,000</u>	<u>60,000</u>	<u>3,000</u>	<u>4,500</u>	1,500	9,000	3,780	3,150
Employee Total		430,000	430,000	25,250	32,250	10,750	68,250	28,665	24,150
Total		1,630,000	990,000	75,250	106,250	420,750	602,250	252,945	76,230

7.50% of pay total contribution rate to employees

Tax rate of 42% combined Federal and State

Maximizing Your Plan's Tax Deferrals

Cash Balance Plan – A good fit?

- Is your company already providing a 3% Safe Harbor contribution and/or a profit-sharing contribution
- Generally, 10-15 employees per owner and some younger rank and file employees
- Most often used with closely-held businesses and professional workforces (doctors, dentists, lawyers)
- Ideal for companies with consistent profits year to year
- Confident can maintain the plan for at least 3 years

Maximizing Your Plan's Tax Deferrals

Additional Cash Balance Plan Features

- Plan assets are invested in a pooled account. Participants do not direct investments
- Predictable contributions for employers
- Portable for employees. Lump sum can be rolled into another qualified plan
- Can have a vesting schedule
- Because of Secure Act, can now be adopted prior to filing tax returns. Opportunity to still take advantage for 2020

Maximizing Your Plan



Maximizing Your Plan

- Basic plan – limited strategies and tax planning
- 401(k) with a discretionary PSP – every year you can decide the amount – but limited
- Cash Balance Plan – ultimate contributions – but can I commit?

Maximizing Your Plan

Key questions to ask yourself:

1. Do you have a Plan and is it benefitting ownership and key employees?
2. Is this the right plan for our company? If not, how do we fix this?
3. Should we provide an employer contribution? If so, is it structured to provide the maximum benefit?
4. Is your TPA and/or Investment Advisor providing proper guidance in these areas?
5. Have you had your Plan “Benchmarked” recently and by an outside Third Party?
6. Who is available to help me with these decisions?

Maximizing Your Plan

- Retirement Plan Specialist Advisor
- Independent Fiduciary
 - Partner with expert Recordkeepers, TPAs and Actuaries to develop custom plan solutions
 - Plan Design / Provision Review
 - Expense / Fund Benchmarking
 - Tax Solution Coordination

Questions & Answers



Contact Us



Jennifer Moroz, CPA
Partner
Leader, Professional Services
Sax LLP

jmoroz@saxllp.com



Eric Seidman, AIF®
Retirement Plan Director
Sax Wealth Advisors

eseidman@saxwa.com



Chris Gaffney, CPA, MST
Tax Partner
Sax LLP

cgaffney@saxllp.com

SAX LLP

389 Interpace Parkway, Floor 3 > Parsippany, NJ 07054 > 973.472.6250

10 South Main Street > Pennington, NJ 08534 > 609.737.6600

551 Madison Avenue, Floor 12 > New York, NY 10022 > 212.661.8640

saxllp.com