Profit Sharing Guide

Profit Sharing Plans

While annual personal 401(k) contributions are capped at $31,000 for people aged 50 and older ($23,500 for people under 50), you can save up to $77,500 in your 401(k) account with profit sharing.

In fact, profit sharing may be the most cost-effective way to increase your company's contribution to your retirement account because you can keep your overall employee obligations low while maximizing contributions to yourself. These contributions are a tax-reducing business expense.

The key is to implement the right kind of Profit Sharing plan for you and your business. There are four types of Profit Sharing plans:

New comparability (cross-testing)

Employees receive different amounts based on unique benefit groups.

Integrated

Employees receive different amounts based on their Social Security tax levels.

Pro-rata

All employees get the same percentage of salary determined by the employer each year.

Age-weighted

Employees receive different amounts based on their age—older employees receive more.

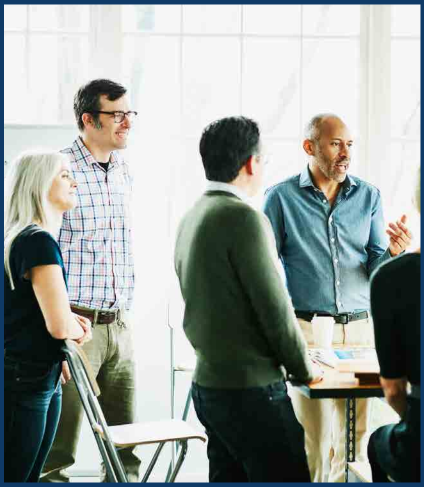
New Comparability Profit Sharing Benefits and Risks

Benefits

- Allows for maximum cost-effective employer contributions into the plan—up to $70K / $77.5K per year
- Contributions to the plan are flexible and discretionary from year to year
- Contributions are a tax-reducing business expense
- A vesting schedule of up to 6 years can be added to Profit Sharing contributions

Risks

- Can be expensive to make an employer contribution to eligible plan participants



More on New Comparability

An employer can use what's called "cross-testing" to customize profit sharing. It works by looking at the big picture of an employee's retirement savings and takes into account the projected benefit at retirement. Younger employees and rising stars have room to grow their savings, while owners and senior employees don't, so they can receive more now.

In fact, if your company has fewer than ~25 employees per owner, and the owners are generally older than most employees, you might be able to save tens of thousands on your annual tax bill by adding a Profit Sharing component to your 401(k) plan.

Profit Sharing Case Study

Consider the chart below. A 50-year-old owner doesn't have a Profit Sharing component in his current 401(k). This means he is limited to saving only $31,000 per year toward retirement. By adding a Profit Sharing component, the owner is able to receive an additional $46,500 per year toward retirement from corporate profits. This accelerates the owner's retirement savings, and reduces the annual corporate tax bill by over $15,000[2] per year.

Title	Age	Annual Contribution 401(k) Only	Annual Contribution 401(k) + Profit Sharing
Owner	50	**$31,000**	**$77,500[1]**

Results

Increased owner's annual retirement savings by $46,500[2]	Reduced corporate tax bill by over $15,000[2] per year	Tax savings funded about one-quarter of the owner's retirement savings![3]

Profit Sharing allows the business owner to put away an additional $46,500 annually toward retirement, and reduces the corporate tax bill by over $15,000[2]. Effectively, the tax savings funds about one-quarter of the owner's retirement savings!

And remember, because profit sharing is going into a retirement account, the earnings are tax-deferred for the business owner, and the contributions are tax-reducing for the business.

[1] This is based on a 50-year-old business owner maximizing their contribution for 2025 including a catch-up contribution.
[2] Assumes a corporate tax rate of 27%.
[3] Savings are tax-deferred until withdrawn in retirement.

By the Numbers

401(k)

Up to $77,500[4]

Personal 401(k) Contribution

1 — $23,500 if < 50 years
$31,000 if > 50 years

Maximize personal 401(k) contribution through salary deferral and catch-up contributions

+

Profit Sharing

2 — Up to $46.5K

Maximize employer contribution to owner(s) by making a profit sharing contribution up to $46,500 cap[5]

Adding a Profit Sharing component to the 401(k) plan allowed the business owner to save an additional $46,500 annually toward retirement, and reduced their corporate tax bill by over $15,000[2] per year. Effectively the tax savings funded about one-quarter of the owner's retirement savings.

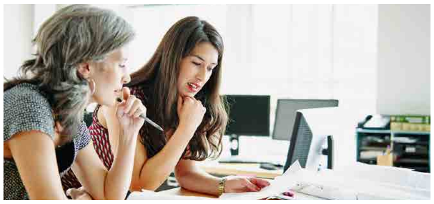
Key Takeaways

- In order to maximize tax benefits for business owners, the second step is to maximize employer contributions in the 401(k) plan.
- The most efficient way to do this is to add a Profit Sharing component.
- Adding a Profit Sharing component to the 401(k) plan allows the business owners to receive the maximum annual 401(k) contribution: $70,000 per year ($77,500 if over age 50).
- There are many types of Profit Sharing calculations, but under the right circumstances, New Comparability is the most cost-effective for helping owners maximize their plan contributions.

Helpful Resources

Profit Sharing Case Study

See how a business owner can leverage a Profit Sharing component to reduce her 401(k) costs by $51K per year.



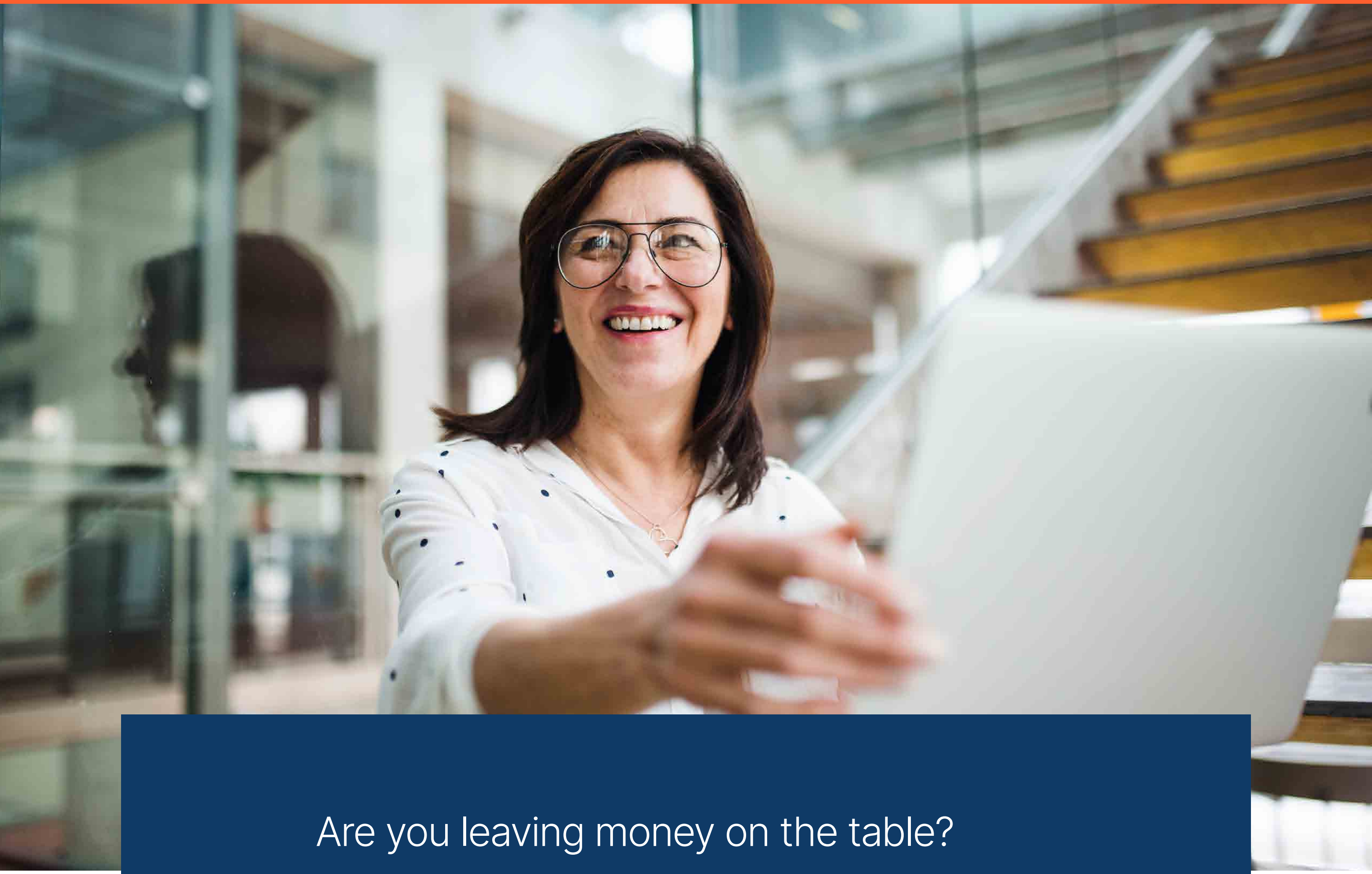
Profit Sharing Infographic

Compare the different types of profit sharing to help determine which might be the best fit for your business.

Tax Savings for Business Owners

What business owners need to know to optimize their retirement plan for huge tax savings.

[4] 2025 annual contribution limits are age based.
[5] 2025 Includes 401(k) salary deferral and Safe Harbor contributions in addition to Profit Sharing contribution.



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