Fisher\SMB

Tax Savings Guide

What if you could move $250,000 or more directly from your business profits to your retirement savings, pre-tax? You'd slash your tax bill while turbo charging your retirement savings. With the right retirement plans in place, the IRS says you can.

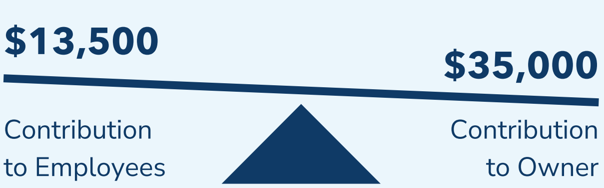
A retirement plan offers business owners an enormous tax benefit because it takes advantage of an expense that the owner can deduct from their profits and keep. But many financial advisors and tax professionals don't know how to maximize these deductions because they aren't retirement plan specialists.

That's why we outlined a three-step approach—we call it the Tax Advantage Layer Cake—to help business owners understand how to unlock legitimate IRS tax benefits.

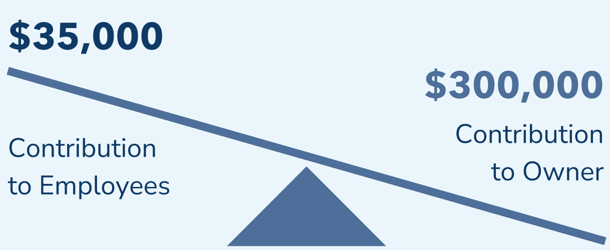
Maximum Benefit

Ordinarily, tax-deferred retirement plans cannot offer the business owner a significantly greater benefit than employees receive. The strategy you'll find in this guide is different. It maximizes owner benefit while helping employees save more for retirement.

An Ordinary Retirement Plan[1]



A Maximized Retirement Plan[2]

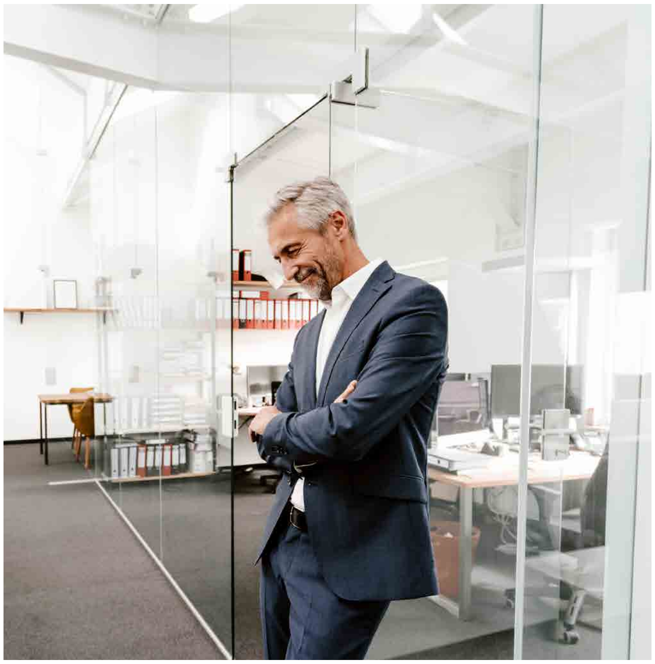


[1]Based on a case study of a 60-year-old owner who has four employees and an ordinary 401(k) plan.

[2]Based on a case study of a 60-year-old owner who has four employees and 401(k) with a Safe Harbor 3% Match, Profit Sharing, and Cash Balance Plan.

The Tax Advantage Layer Cake

It starts with maximizing your personal 401(k) plan deferral to minimize your personal income taxes, then adding a Profit Sharing Plan and a Cash Balance Plan to further minimize your business taxes. Together, these strategies keep taxes low for you and your business while turning your sweat equity into more money at retirement.



A **Cash Balance Plan** has much higher contribution limits than other plan types. Contributions are tax-deductible, so they reduce business taxes and personal taxes; and they grow tax-deferred.

Adding a **Profit Sharing Component** to a 401(k) plan can help reduce business taxes because it allows for larger employer contributions.

A **401(k) Plan** is an employer-sponsored retirement plan that comes with impactful tax advantages. Contributions made to the plan are deducted from taxable income, so they reduce personal taxes; and they grow tax-deferred.

Step 1: Maximize Personal Tax Benefits

Every dollar of income you save in your 401(k) reduces your taxable income today, and also grows tax-deferred. High-earning business owners can reduce today's tax bill by thousands of dollars by maximizing their 401(k) savings. Unfortunately, many business owners are not realizing the full benefit of this strategy.

As a business owner, what you save for retirement is tied to what your employees save. Plans often fail compliance testing if the high-earners contribute a significantly higher percentage than the rank-and-file employees. There must be a fair balance in the benefits received through the plan. This means that in order for high earners to fully maximize their individual contribution ($23,500 if under 50 and $31,000 if 50 or older), rank-and-file employees must also contribute a significant amount. For plans where this doesn't happen, a Safe Harbor component can be added to the 401(k) in order to automatically pass most compliance testing.

Adding a Safe Harbor component to the 401(k) plan allows business owners (and other high earners) to maximize their personal contribution, thus reducing their personal taxes.

Safe harbor benefits and risks

Benefits

- Enables plans to automatically pass compliance testing, allowing owners to maximize their salary deferral
- Employer contribution is a tax-reducing business expense
- Offers flexible options

Risks

- Can be expensive because of the required employer contribution
- Required annual employer contribution
- Employer contributions are fully vested immediately

There are three different types of Safe Harbor programs:

Nonelective Safe Harbor

1

Eligible employees get an annual employer contribution of 3% of their salary. This amount is immediately fully vested and the employee gets it whether or not they contribute to the plan.

Basic Safe Harbor Match

2

The employer matches 100% of the first 3% of each employee's contribution and 50% of the next 2%. Employees are required to contribute to their 401(k) in order to get the match.

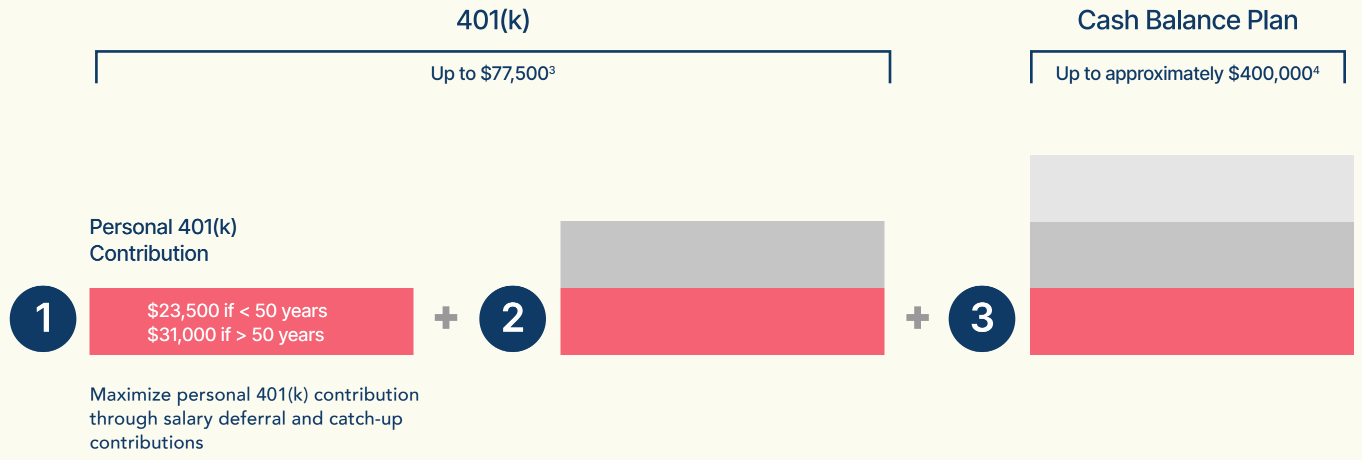
Enhanced Safe Harbor Match

3

The employer matches 100% of the first 4% of each employee's contribution. Like a Basic Safe Harbor Match, employees are required to defer money to their 401(k) in order to qualify for the match.

STEP 1

By the Numbers



Optimizing the 401(k) with a Safe Harbor component allowed the business owner to save $31,000 annually toward their retirement, and reduced their tax bill by over $12,400 annually[5]

Maximum Personal Deferral

- In order to maximize tax benefits for business owners, the first step is to maximize personal contributions in the 401(k) plan.
- Often, the most efficient way to do this is by adding a Safe Harbor component to the 401(k) plan.
- Adding a Safe Harbor component to the 401(k) plan allows business owners (and other high earners) to maximize their personal 401(k) contribution: $23,500/year ($31,000 if over age 50).

Helpful Resources

Safe Harbor Case Study

Check out this case study and find out how to increase your personal annual retirement contribution with a Safe Harbor 401(k).

Safe Harbor 401(k) 101

Everything you need to know about starting a Safe Harbor 401(k) all on one helpful page.

Does your business have a top heavy plan?

In this article, we lay out the challenges and solutions for ‘top heavy’ retirement plans.

[3] 2025 annual contribution limits are age-based.

[4] 2025 Includes 401(k) salary deferral and Safe Harbor contributions in addition to Profit Sharing contribution.

[5] Based on a personal tax rate of 40% and a 27% corporate tax rate.

Step 2: Implement a New Comparability Profit Sharing Plan

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[7] per year.

Title	Age	Annual Contribution 401(k) Only	Annual Contribution 401(k) + Profit Sharing
Owner	50	$31,000	$77,500[6]

Results

Increased owner's annual retirement savings by $46,500	Reduced corporate tax bill by over $15,000[7] per year	Tax savings funded about one-quarter of the owner's retirement savings![8]

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[7]. Effectively, the tax savings funds about one-quarter of the owner's retirement savings!

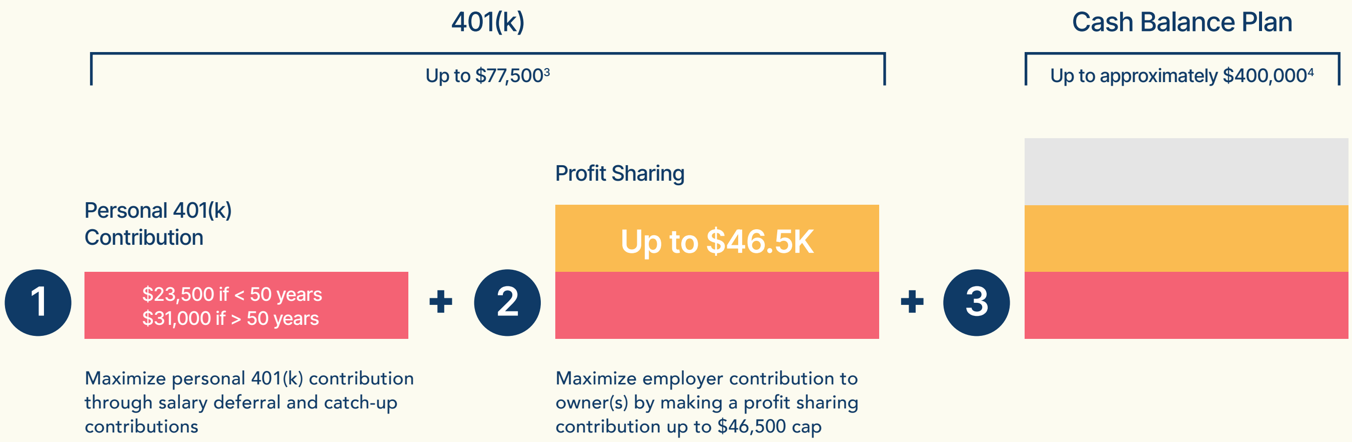
And remember, because profit sharing is going into a retirement account, then the "earnings" are tax-deferred for the business owner, and the "contributions are tax-reducing for the business."

[6] This is based on a 50-year-old business owner maximizing their contribution for 2025 including a catch-up contribution.

[7] Assumes a corporate tax rate of 27%.

[8] Savings are tax-deferred until withdrawn in retirement.

STEP 2
By the Numbers



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[7] per year. Effectively the tax savings funded nearly one-quarter of the owner's retirement savings.

Profit Sharing: 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

How to Save More with a 401(k) Profit Sharing Plan

In this brief whitepaper, find out how small business owners can maximize retirement savings using a cross-tested 401(k) Profit Sharing plan.

Lower Your Tax Bill with a Profit Sharing Plan

Are you maximizing your tax savings within your retirement plan? Download this guide to learn how to maximize your Profit Sharing Plan to reduce plan costs and capture more tax savings.

Profit Sharing 101

What you need to know about adding a Profit Sharing component to your company's 401(k) all on one helpful page.

Step 3: Add a Cash Balance Plan

If you are a high-earning business owner looking for a way to reduce your tax liability and accelerate your retirement savings, then adding a Cash Balance Plan to your retirement program might be the right strategy for you.

A Cash Balance Plan can enable some companies to turn taxable corporate profits into tax-deferred retirement contributions. The annual contribution limits are much higher than 401(k) limits—approximately up to $400,000 per year. This can substantially decrease the annual corporate tax bill, and significantly increase the owner's retirement savings.

How does it work? A Cash Balance Plan is a type of Defined Benefit Plan. This means the annual contribution limits are much higher than a 401(k) plan, allowing the owner to take advantage of substantial tax advantages. A Cash Balance Plan works alongside the 401(k) plan to help owners save more for retirement (and reduce their tax liability). All contributions come from the company and are required annually; plan assets are pooled and trustee-directed. Often times a Cash Balance Plan paired with a 401(k) profit sharing plan, can allow the owner to save up to $480,500[9] tax-deferred per year.

Cash balance benefits and risks

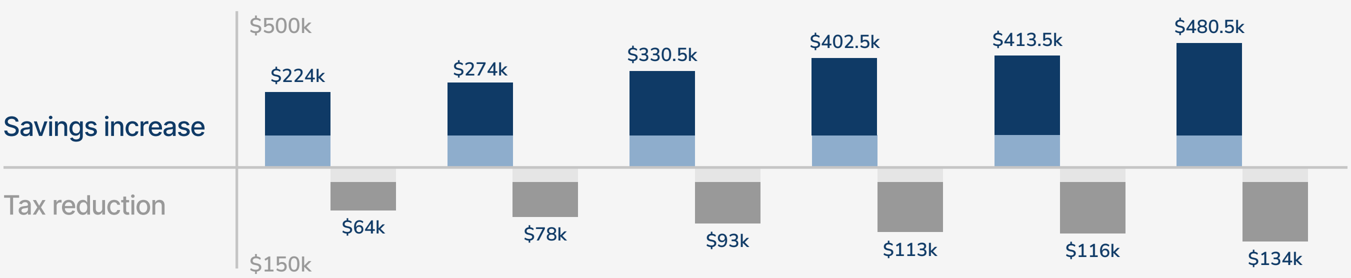
Benefits

- Can enable high-earning business owners to save up to $480,500[9]
- Can substantially reduce tax liability for the owner and the business by deferring significant amount of taxable income each year

Risks

- Can be expensive to maintain
- Can be complex
- Investments are trustee-directed, and annual return is guaranteed by the employer
- Annual contribution is required and works best for businesses with steady revenue

Increased savings, decreased taxes



Age	45	50	55	60	65	70
Cash balance contribution	$154,000	$197,000	$253,000	$325,000	$336,000	$403,000
Maximum 401(k) contribution	$70,000	$77,500	$77,500	$77,500	$77,500	$77,500
Personal tax savings[12]	$9,400	$12,400	$12,400	$12,400	$12,400	$12,400
Corporate tax savings[12]	$54,135	$65,745	$80,865	$100,305	$103,275	$121,365

[9] 2025 includes 401(k) salary deferral, Profit Sharing contribution and Cash Balance contribution for a 70-year-old.

[10] Tax Savings: Assumes 40% personal tax rate & 27% corporate tax rate. Taxes vary by state. Taxes are deferred until withdrawal at retirement.

STEP 3

By the Numbers

401(k)

Up to $77,500[3]

Cash Balance Plan

Up to approximately $400,000[4]

1 Personal 401(k) Contribution

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

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

+ 2 Profit Sharing

Up to $46.5K

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

+ 3 Cash Balance

Up to approximately $400K

Add a Cash Balance Plan strategy that allows an additional employer contribution of up to approximately $400,000 per owner

Adding a Cash Balance Plan allowed one business owner to save up to approximately $400,000[4] annually toward their retirement, and reduced their corporate tax bill by an additional $120,000[11] annually.

Cash Balance: Key Takeaways

- In order to maximize tax benefits for business owners, the third step is to maximize employer contributions to the retirement plan by adding a Cash Balance Plan.
- Under the right circumstances, adding a Cash Balance Plan to the 401(k) plan strategy allows business owners to significantly increase their tax-advantaged retirement plan contribution—up to $480,500[9] per year.
- Cash Balance Plans aren't a fit for every business. A specialized advisor can help owners evaluate whether this is the right strategy.

Helpful Resources

Cash Balance Case Study

Check out this case study to learn how much a business owner saved in taxes.

Cash Balance Guide

Learn how to leverage your company's retirement program.

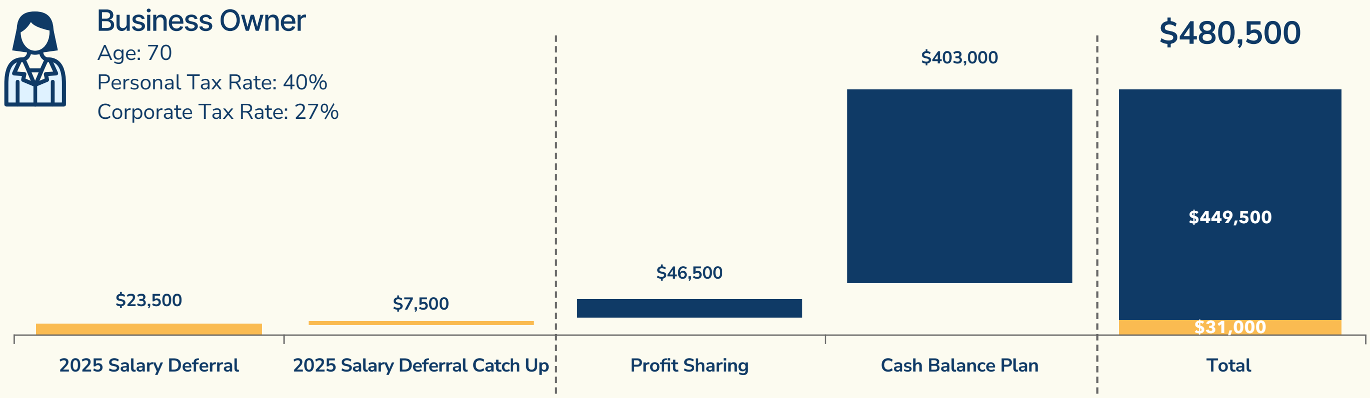
Cash Balance 101

What you need to know about adding a Cash Balance component to your company's 401(k).

[11] Tax Savings: Assumes 40% personal tax rate & 27% corporate tax rate of a 70-year-old making the maximum Cash Balance contribution. Taxes vary by state. Taxes are deferred until withdrawal at retirement.

The Tax Mitigation Three Layer Cake at Work

In the case study below, a business owner saved $480,500 in one year for retirement while also saving $134,000 on taxes. In essence, tax savings funded about a quarter of the retirement contribution!



Deferred from personal taxes
$12,400
Annual personal tax savings[10]

+

Deferred from business taxes
$121,365
Annual business tax savings[10]

=

$133,765
Total annual tax savings

Schedule a consultation

Give us fifteen minutes and we'll consult on an actionable plan to optimize your retirement program for tax savings. Some owners will be able to reduce their tax bill by more than $130,000 per year.[12]

Contact us

[12] Based on a 70-year-old business owner putting away $23,500 in individual contribution, $7,500 as a catch-up contribution, $46,500 as Profit Sharing, and $403,000 as Cash Balance per 2025 contribution limits.

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