Fisher\SMB

Tax Savings Case Study

How a high-earning business owner can optimize her retirement plan to reduce her tax bill by over $100k per year[1]

Total Annual Tax Savings

$117,205 per year

At a Glance

Situation

- 60-year-old doctor
- Owns a practice with eight employees
- Practice has a Safe Harbor 401(k)
- Looking to accelerate retirement savings while reducing her tax bill

Possible Benefits

- Reduced annual tax bill by $117,205[2]
- Increased retirement savings from $42,250 per year to $413,750 per year
- Opportunity to retire earlier than expected

Challenge

Consider a 60-year-old doctor who, for thirty years, has worked hard to build her practice into a thriving business. Her practice has eight employees and a Safe Harbor 401(k) plan.

The challenge is that the doctor is getting crushed by the tax burden that comes along with her success. She writes large checks to pay her tax bills every year—both for the business and personally.

Furthermore, she spent the first part of her career going to medical school, paying off student loans, and injecting capital into her growing business. As a result, she didn't start saving for her retirement until her 40s, which has put her behind where she'd like to be for retirement savings. She hopes to be able to retire in the next 10 years, but fears she won't be able to save enough in her 401(k) plan, especially with her growing tax burden.

[1]This is based on a 60-year-old business owner putting away $23,500 in individual contribution, $7,500 as a catch-up contribution, $11,250 for super catch-up contribution, $46,500 as Profit Sharing and $403,000 as Cash Balance per 2025 contribution limits. [2]Assumes a corporate tax rate of 27% and a personal tax rate of 40%.

Objective

The doctor sponsors a Safe Harbor 401(k) plan, which she and her employees participate in. The Safe Harbor component allows the doctor to put away $42,250 per year into the plan on a tax-deferred basis, while still passing compliance testing. However, this isn't enough to put her on track to retire comfortably in the next 10 years.

The doctor's objectives in the near-term are to:

1. Substantially reduce her annual tax liability
2. Save enough to be able to retire in the next ten years

Solution

She consults with Fisher\SMB™ to help her evaluate additional options to optimize the retirement plan. This includes adding two additional components to the retirement program.

1. New Comparability Profit Sharing Plan
2. Cash Balance strategy

Both of these programs have a significant impact on the doctor's ability to save. Whereas, she could previously only contribute $42,250 annually towards her retirement, the Profit Sharing Plan allows her to put away an additional $46,500 per year as a tax-deferred employer contribution. By adding the Cash Balance Plan, she can contribute an additional $325,000 of tax-deferred business profits toward her retirement savings each year.

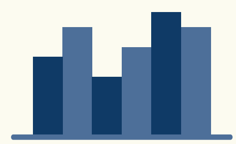
Her total allowable contribution jumps from $42,250 to a whopping $413,750 per year.[3]

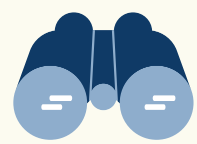
In Summary:

As a result she reduces her tax bill by $117,205 per year[4] and uses money that otherwise would've gone toward taxes to fund one-third of her annual retirement contribution. The combination of tax savings and accelerated retirement savings puts her on track to retire comfortably.

$117K
Total annual tax savings

~$2.5MM
In retirement savings over 6 years





Results

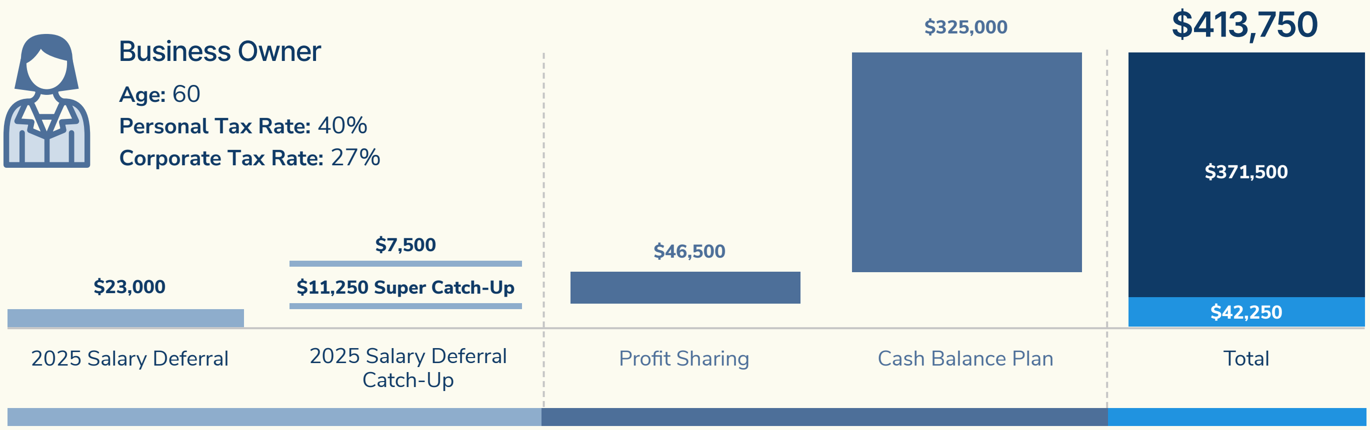
- **Reduces Tax Liability**
  The doctor reduces her annual tax liability by $117,205 per year!
- **Pays Herself Rather Than the IRS**
  The doctor is able to put $117,205 per year in her retirement account instead of giving it to the IRS.
- **Comfortable Retirement**
  She increases her annual retirement savings from $42,250 per year to $413,750 per year, putting her on track to retire comfortably.
- **Early Retirement**
  She can now save nearly $2.5 million over the next six years, putting her on track to retire comfortably and ahead of schedule.

[3]Cash Balance Plans come with some risks. They are complex, and can be inflexible and expensive. Consult with a professional to determine if a Cash Balance Plan makes sense for your business. The 3-layer cake strategy isn't a good fit for every business. Consult with a professional to determine if all, or some parts of this strategy are a good fit for your business.

[4]Assumes a corporate tax rate of 27% and a personal tax rate of 40%.

Business Owner

Age: 60
Personal Tax Rate: 40%
Corporate Tax Rate: 27%



Deferred from personal taxes		Deferred from business taxes		
$16,900	+	**$100,305**	=	**$117,205**
Annual personal tax savings[5]		Annual business tax savings[5]		Total annual tax savings

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

Are You a Fit for a Cash Balance Plan?

	Better Fit	Poorer Fit
How much would the owner like to defer?	>$73.5K	<$73.5K
What is the owner's income?	>$215K	<$215K
Is the company revenue stable enough to fund the plan for 3 years?	Yes	No
What is the owner:employee ratio?	<1:15	<1:15

Cash Balance Benefits and Risks

Benefits

- Can enable high earning business owners to save up to $480,500 annually tax-deferred
- 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

Helpful Resources

Profit Sharing Case Study

Check out this case study and find out how one business reduced its tax bill by over $20K with a profit sharing component.

Tax Mitigation Guide

What you need to know about leveraging your company's 401(k) plan for huge tax savings.

Cash Balance Guide

Learn everything you need to know to unlock huge savings by adding a Cash Balance Plan to your company's 401(k) program.

Give us fifteen minutes and we'll consult on an actionable plan to optimize your retirement program for tax savings. Some owners may be able to reduce their tax bill by more than $100,000 per year.[1]

Contact Us

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