

Retirement Plan For A Sole Proprietor – Case Study

Executive Summary

A successful attorney in private practice with no employees was looking for ways to reduce his tax burden and increase his contributions to his 401k Profit Sharing Plan (the “Plan”) but was unable to do so with the current Plan design.

Challenges

The attorney had Schedule C income of \$445,000 and took \$120,000 in compensation. He was only utilizing the 401k portion of the Plan. We needed to find out if he could adjust his compensation up, contribute to the Profit Sharing side of the Plan and see if he was open to adding on a Defined Benefit Pension Plan (“DB”).

Retirement Plan Design – Adding on the Big “DB”

At age 64, this attorney was an excellent candidate for a DB. We worked with the CPA to increase his compensation and restructured the existing Plan.

Results

This two-sided plan design - a DB plus the 401k Profit Sharing allowed the attorney to go from a contribution / deduction of \$24,000 (401k) to a massive tax deduction of \$248,522 and superfund his retirement account expanding his future retirement distributions.

DB contribution: \$212,092
Profit Sharing (6%): \$12,430
401k: \$24,000

Total tax deduction: \$248,522

PlanPerfect, Inc. is a Third Party Administrator (TPA) that works with all types of industries, providing expert retirement plan design, compliance, administration and record-keeping services. Our partners (CPAs, business managers, owners and financial advisers,) work with us, we believe, because we solve problems, answer questions, and offer creative solutions that provide higher tax-savings potential through the use of Defined Benefit Pension, Profit Sharing, and Safe Harbor 401k Plans.