

401(k) PROFIT SHARING OPTIONS

Professional firms & businesses use them to reward employees.

Presented by Glazer Financial Network

Could you help your employees save more for retirement? Adding a profit sharing feature to your company's 401(k) plan could allow you to do just that. It could also help your firm compete against the "big fish" as you try to recruit the best.

Most 401(k) plan participants know about the annual employee contribution limit on their accounts: \$17,500 in 2013, with up to \$5,500 of additional elective deferrals permitted for those 50 and older. The annual maximum deferral limit (the limit for *combined* employee/employer contributions to a 401(k) per year) is less well known. For 2013, that limit is \$51,000.¹

In addition, employer contributions to a profit sharing plan are usually tax-deductible at both the federal and state level. So 401(k) profit sharing may help your firm shrink its tax burden.^{2,3}

SBOs can also take advantage. You can receive profit shares yourself as an owner, a move that may let you greatly reduce your own tax liability. You can even determine the size of your profit share for a given year after the year is over (you can do this between January 1-March 15 if your company is a corporation or between January 1-April 15 if your business is a partnership, sole proprietorship, or other business entity on a calendar fiscal year). Solopreneurs can also direct profit shares to themselves.⁴

You have great flexibility. Many firms simply direct equal profit shares into each employee's 401(k) account. Other businesses opt for age-weighted or comparability profit sharing methods; a comparability analysis from the plan advisor instructs how the profit sharing formula should be weighted toward older or key employees. This formula may be refined and adjusted as a byproduct of yearly testing.²

The amount of profit sharing can vary year to year. There is no requirement to make annual employer contributions. This means that if your business has a lean year, you aren't obligated to share what little profit there is with 401(k) plan participants.²

In 2013, the per-employee profit sharing contributions made by an employer cannot exceed the smaller of 100% of an employee's eligible compensation or \$51,000. (The amount of compensation taken into account is limited to \$255,000 for 2013.) A company's total deductible profit sharing contribution can't exceed 25% of its total eligible payroll.^{1,3,5}

Your employees have more impetus to excel. Not every employee sees the (direct) link between their performance and attitude and a company's success. When profit sharing is introduced, that link is recognized. Workers have motivation to succeed regardless of how they are managed. Profit sharing has the potential to leave owners, employees, and even a firm's clients or customers happier.

There is still time to arrange this for 2013. If you have wondered about introducing a profit sharing option for your workers in 2013, there is still probably time to do so. You can often purchase a plan just weeks before the end of a year, and your firm will have until almost its tax deadline next year to make profit sharing contributions for 2012.⁴

Registered Representatives offering securities through Kovack Securities, Inc. Tel (954)752-4771. Member FINRA/SIPC. Investment advice offered through GFN Capital Management a Registered Investment Advisor. GFN Capital Management is not affiliated with Kovack Securities, Inc. or Kovack Advisors, Inc. ©2011 Glazer Financial Network. All Rights Reserved.

This material was prepared by MarketingLibrary.Net Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

Citations.

- 1 - www.shrm.org/hrdisciplines/benefits/Articles/Pages/2013-IRS-401k-Contribution-Limits.aspx [10/19/12]
- 2 - www.dol.gov/ebsa/publications/profitsharing.html#UKQs8laG1G8 [11/14/12]
- 3 - www.irs.gov/publications/p560/ch04.html#en_US_publink10008978 [11/13/12]
- 4 - www.forbes.com/sites/stuartrobertson/2011/11/01/how-401k-profit-sharing-helps-small-business-owners-maximize-their-savings/ [11/1/11]
- 5 - benefitslink.com/src/irs/IR-2012-77.pdf [10/18/12]