GNM TraderTax
GREEN, NEUSCHWANDER & MANNING, LLC

ED **Solo 401(k) Elective Deferral**
PSP **Solo 401(k) Profit Sharing Plan**
DBP **Defined Benefit Plan**

Solo 401(k) & DBP 2015 Examples For a Trading S-Corp

	Health Insurance Only	ED Max PSP on ED	ED max PSP max	Below FICA cap	FICA cap reached	Back to Net Savings over FICA	Income Needed For Max PSP Limit	DBP Age 55 Retire 65	
S-Corp tax return:									
S-Corp trading income less expenses before officer compensation & employee benefits	(25,000)	75,000	75,000	170,000	170,000	197,000	197,000	500,000	
Deduct: Officer's compensation gross wages (Includes **$12,500 of Health Insurance**)	(12,500)	(30,500)	(59,500)	(87,500)	(131,000)	(132,500)	**(152,500)**	**(262,500)**	
Deduct: Payroll tax (1/2 of FICA & Medicare plus FUI)	-	(1,419)	(3,638)	(5,780)	(9,107)	(9,129)	(9,419)	(12,139)	
Deduct: Employee benefits (Solo 401(k) profit sharing plan)	-	(4,500)	(11,750)	(18,750)	(29,625)	(30,000)	(35,000)	**(158,000)**	**DBP***
Schedule K-1 net income	(37,500)	38,581	**113**	57,971	**268**	25,371	81	67,361	
Officer W-2:									
Gross wages	12,500	30,500	59,500	87,500	131,000	132,500	152,500	262,500	
Solo 401(k) ED (employee contribution)	-	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	(18,000)	-	
Taxable wages	**12,500**	**12,500**	41,500	69,500	113,000	114,500	134,500	262,500	
wages) net of Solo 401(k) contributions	(25,000)	51,081	41,613	127,471	113,268	139,871	134,581	329,861	
Calculation of payroll taxes (FICA, Medicare, FUI):									
Gross wages excluding health insurance which is exempt from payroll taxes	-	18,000	47,000	75,000	**118,500**	120,000	140,000	**250,000**	IRS compensation limit is 265k
Payroll taxes (FICA & Med plus $42 FUI) (15.3% of SSA base and 2.9% Medicare unlimited)	-	2,796	7,233	11,517	**18,173**	18,216	18,796	24,236	Includes 0.9 Medicare Obamacare surtax
Solo 401(k) contribution:									
Solo 401(k) Elective Deferral	-	18,000	18,000	18,000	18,000	18,000	18,000	-	
Solo401(k) Profit Sharing Plan	-	4,500	11,750	18,750	29,625	30,000	35,000	**158,000**	**DBP**
Total Solo 401(k) contribution	**-**	**22,500**	**29,750**	**36,750**	**47,625**	**48,000**	**53,000**	158,000	
Tax savings from Solo 401(k):									
Defined benefit plan contribution								**158,000**	DBP tax deduction
Solo 401(k) contribution	-	22,500	29,750	36,750	47,625	48,000	53,000		
Health insurance deduction	12,500	12,500	12,500	12,500	12,500	12,500	12,500	12,500	
50% payroll tax deduction	-	1,419	3,638	5,780	9,107	9,129	9,419	12,139	
Total deductions for income taxes	12,500	36,419	45,888	55,030	69,232	69,629	74,919	182,639	
Assumed income tax rate (federal marginal rate and assumed state rate of 5%)	0.15	0.30	0.30	0.33	0.33	0.38	0.38	0.46	
Income tax savings from Solo 401(k)	1,875	10,926	13,766	18,160	22,847	26,459	28,469	84,014	
Net tax savings from Solo 401(k):									
Income tax savings from Solo 401(k)	1,875	10,926	13,766	18,160	22,847	26,459	28,469	84,014	
Less: payroll tax cost	-	(2,796)	(7,233)	(11,517)	(18,173)	(18,216)	(18,796)	(24,236)	
Total net tax savings	**1,875**	**8,130**	**6,533**	**6,643**	**4,674**	**8,243**	**9,673**	**59,778**	
Increase (decrease) in net tax savings	**1,875**	**6,255**	**(1,596)**	**109**	**(1,969)**	**3,569**	**1,430**	**50,105**	

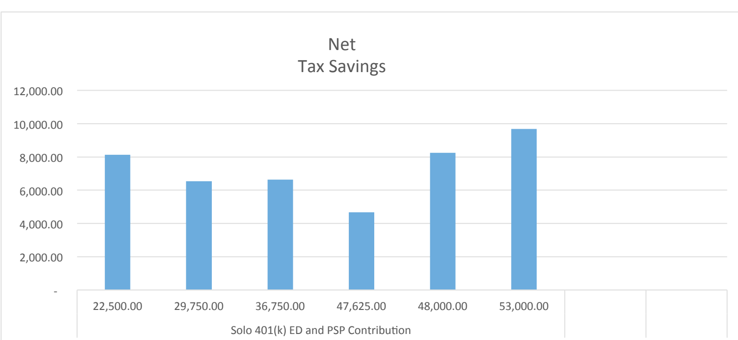

Chart explaination: Net tax savings dips in the middle columns demonstrating the PSP component is more powerful when wages exceed the SSA base of 118.k, the 12.4% FICA cap.

* A DBP requires strict adherance to complex plan, ERISA and IRS rules. With a commitment to making an annual minimum or maximum contribution over many years and no closure without a valid business reason. It's best to consult an employee-benefit plan attorney about a DBP.

Authors: Adam Manning CPA and Robert A. Green, CPA
Members of Green, Neuschwander & Manning, LLC