

Own a business?

Is the owner paying themselves enough W2/Distributions Jan-Dec for their needs?

Is the business profitable even, after owner compensation?

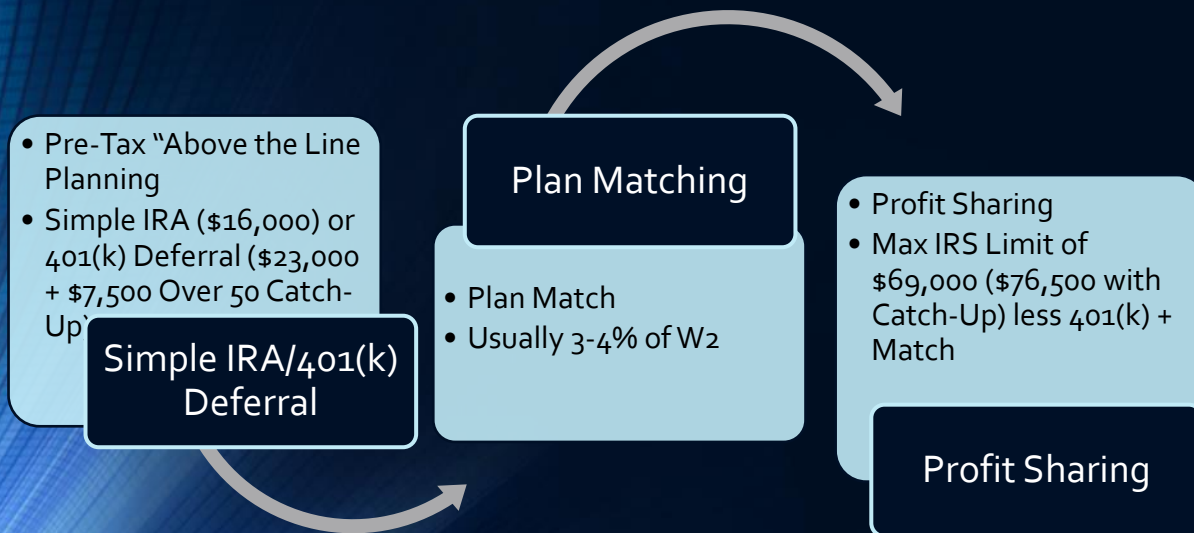
What is the strategy for the profits?

## Start with the Profit & Loss Statement

Revenue

- Expenses (Including Owner W2 & Distributions)

**Net Income (aka Taxable Profit)**



### Case Study: Business owner with \$200k Salary and 4% Match

\$23,000 401(k) deferral  
+ \$8,000 401(k) Match  
\$31,000 Owner (Jan-Dec)

\$69,000 IRS Maximum  
- \$31,000 401(k) + Match  
\$38,000 Total Profit Sharing

### Profit Sharing: Two Issues

- **Profit Sharing is too Expensive...owner has to give more to Employees than Uncle Sam**

When profit sharing is calculated, monies are given to some of your employees. This can cause the profit sharing to be more expensive to fund than it would to pay Uncle Sam. Ideally the owner should keep at least 60-70% of the total contributions.

EXAMPLE: Owner can put in \$38,000 but has to give \$35k to employees - \$73,000 Total Contribution, owner only keeps 52% **(Bad!)**  
**Better off paying taxes on \$73,000**

- **Profit Sharing works, but is not a big enough "bucket" for the Net Income/Taxable Profit**

EXAMPLE: Owner can put in \$38,000 and only has to give \$16,000 to employees \$54,000 Total Contribution, owner keeps 70% **(Good!)**  
**BUT ... owner has Net Income/Taxable Profit of \$350k**

## What do we do with the additional profit?

- ☐ Reinvest in your business ... are these *depreciating* assets?
- ☐ Pay Uncle Sam and pay down Debt, if any (School, Practice, Building Loans)
- ☐ Pay Uncle Sam and Spend/Invest (Stock Market, Real Estate, Kids College)

## ✓ SAVE ALL OR SOME PRE-TAX



## Bucket 4: Cash Balance Plan

- ☐ Profit Sharing is too expensive or not a big enough “bucket”
- ☐ Allows for six-figure pre-tax savings, owner usually keeps 80%-90%
- ☐ Money is deducted from corporate return versus “flowing through” to personal tax return ... saving 30-40% in taxes

### EXAMPLE:

- ☐ Owner is paid \$200k W2 + \$50k quarterly distribution = \$400k Total Income
- ☐ Owner defers \$23,000 to 401(k) plus \$8,000 match = \$31,000

### ☐ Business has Net Income (Profit) of \$350k

- ☐ Profit Sharing works (\$73,000 total contribution) but doesn't help much compared to total Net Income of \$350k ... **what do we do with the rest?**

- ☐ Owner can put away six figures into a Cash Balance Plan and keep 80-90%
- ☐ Assume \$200k to Cash Balance and take home the other \$77k
- ☐ Have to give employees \$40k, owner keeps \$160k (80%)
- ☐ Full tax deduction on \$200k saves \$80k in taxes ... net savings of \$40k (after employee cash balance contributions)
- ☐ Cash Balance Saving of \$160k vs \$31,000 = 5x more for retirement



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