StatonWalsh
Financial Clarity Through Transparency

Prepared for:

Prepared by:

Ryan Staton, MBA, CFP, AIF, CeXP, CHFC
Managing Partner
StatonWalsh
Phone: 410-777-9487
Email: rstaton@statonwalsh.com
Website: www.statonwalsh.com
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Table of Contents

How a Traditional Profit Sharing Plan Works

EMPLOYER

- Employer contributions are discretionary and flexible.
- Employer contributions need not be a specified percentage of compensation, nor made each year, as long as they are recurring and substantial.
- Contributions are tax deductible to the business.[1]

TRADITIONAL PROFIT SHARING PLAN

- Employer contributions are not currently taxable to employee and account growth is tax deferred.
- Investment risk remains on employee.
- The forfeited, unvested portion of former employee's accounts may be reallocated to current participants.

EMPLOYEE

- The allocation of contributions to an employee's account in 2023 may not exceed the lesser of 100% of compensation or $66,000 per year.
- The maximum compensation recognized in 2023 is $330,000.[2]
- Employee may be given right to direct investments.

EARLY WITHDRAWAL

- A 10% penalty generally applies if withdrawals are made before age 59½.
- Some exceptions to 10% penalty are available.
- Employee may borrow from plan within certain guidelines if provided for in plan documents.

RETIREMENT

- Distributions must begin by specified date.[3]
- Funds may be distributed as lump sum or periodic payments.
- Distributions are generally taxed as ordinary income and may be eligible for 10-year income averaging or rolled over into an IRA.

DEATH

- Value of account is included in owner's gross estate.
- Proceeds can pass to beneficiaries with payments made over varying time periods.
- Income and estate taxes can severely reduce funds left to non-spousal beneficiaries.

[1] Up to 25% of covered payroll can be contributed and deducted by the employer.

[2] For those self-employed, compensation is limited to net self-employment income, e.g. gross income less the contribution and the deduction allowed for one-half of the self-employment tax.

[3] Except for 5% owners, distributions must begin by April 1 of the later of (a) the year following the year in which the participant reaches age 72, or (b) the year following the year in which the participant retires. If the employee is a 5%-or-more owner, withdrawals must begin by April 1 of the year following the year he or she reaches age 72.

How a Traditional Money Purchase Plan Works

EMPLOYER

- Contributes a fixed percentage of each participant's compensation.
- Total employer contribution is then allocated on that basis or on a separately defined basis.
- Contributions are tax deductible to the business.[1]
- Nondiscrimination rules apply.

EMPLOYEE

- The allocation of contributions to an employee's account in 2023 may not exceed the lesser of 100% of compensation or $66,000 per year.
- The maximum compensation recognized in 2023 is $330,000.[2]
- Employee may be given right to direct investments.

MONEY PURCHASE PLAN

- Employer contributions are not currently taxable to employee and account growth is tax deferred.
- Investment risk remains on employee.
- The forfeited, unvested portion of former employee's accounts may be reallocated to current participants.

EARLY WITHDRAWAL

- A 10% penalty generally applies if withdrawals are made before age 59½.
- Some exceptions to 10% penalty are available.
- Employee may borrow from plan within certain guidelines if provided for in plan documents.

RETIREMENT

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DEATH

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How a Traditional Defined Benefit Plan Works

EMPLOYER

- Employer contributes an actuarially-determined amount sufficient to pay each participant a fixed or defined benefit at retirement.
- Employer contributions are tax deductible.

TRADITIONAL DEFINED BENEFIT PLAN

- Employer contributions are not currently taxable to employee and earnings accumulate tax deferred.
- Investment risk remains on employer. Investments must be diversified and prudent. Both equity and debt investments may be used.
- Retirement benefit is typically defined as a percentage of compensation for each year of service or participation.

EMPLOYEE

- Employee has a known retirement benefit.
- Maximum retirement benefit is the lesser of $265,000 per year[1] or 100% of the individual's average compensation for the three highest consecutive years.[2]

EARLY WITHDRAWAL

- A 10% penalty generally applies if withdrawals are made before age 59½.
- Some exceptions to 10% penalty are available.
- Employee may borrow from plan within certain guidelines if provided for in plan documents.

RETIREMENT

- Distributions must begin by specified date.[3]
- Funds may be distributed as lump sum or periodic payments.
- Distributions are generally taxed as ordinary income and may be eligible for 10-year income averaging or rolled over into an IRA.

DEATH

- The present value of the accrued retirement benefit is usually included in owner's gross estate.
- Proceeds can pass to beneficiaries with payments made over their lifetimes.
- Income/estate taxes can severely reduce funds left to nonspousal beneficiaries.

[1] These are 2023 limits. This amount is subject to indexing for inflation. Applies when retirement occurs at age 65 or the Social Security full retirement age, if later.

[2] The 100% is reduced by 10% for each year of service less than 10.

[3] Except for more than 5% owners, distributions must begin by the later of (1) April 1 of the year following the year in which the participant reaches age 72, or (2) the year following the year in which the participant retires. If the employee is a 5%-or-more owner, withdrawals must begin by April 1 of the year following the year he or she reaches age 72.

Important Notice

This report is intended to serve as a basis for further discussion with your other professional advisors. Although great effort has been taken to provide accurate numbers and explanations, the information in this report should not be relied upon for preparing tax returns or making investment decisions.

Assumed rates of return are not in any way to be taken as guaranteed projections of actual returns from any recommended investment opportunity. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney.

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