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December 2019

To My Clients and Friends:

RETIREMENT PLANNING

Income tax generally favors self-funding mechanisms for retirement plans. The tax rules allow retirement plans for sole proprietorships, partnerships, and S Corporations like retirement plans for with C Corporations.

Retirement plans come in a variety of two basic forms: defined benefit and defined contribution. Defined benefit plans are very useful in situations where a business desires to rapidly fund an otherwise under-funded retirement plan. It is not unusual to be able to fund defined benefit contributions of 75% or more of the owner's compensation or earnings. These plans are usually costly to establish and maintain, since an actuary is required to make actuarial calculations for contributions.

Defined contribution plans are generally the most popular because they are less costly to establish and generally easier to administer. The most popular and useful type is the ***401(k) profit sharing plan***. This type of plan can allow employee (participants to reduce taxable salary by up to $19,000 (plus $6,000 if they are over age 50) with the employer contributing up to an additional amount so the maximum addition can be $62,000 for 2019. Contribution s to a 401(k) profit sharing plan are discretionary.

The following table shows the maximum level of funding possible under the listed assumptions:

	2019 Level of Income			
	$75,000	**$100,000**	**$125,000**	**$150,000**
Base 401(k) Contribution, Maximum	$19,000	$19,000	$19,000	$19,000
Catch-up Contribution 50 & over	6,000	6,000	6,000	6,000
Profit Sharing Maximum Percentage (25%)	18,750	25,000	31,250	37,000
Total Contribution allowed	**$43,750**	**$50,000**	**$56,250**	**$62,000**

The maximum funding for profit sharing plans for 2019 is $56,000 plus the $6,000 catch up contribution if you are 50 & over for a grand total of $62,000.

If you have a SEP-IRA retirement plan, you should give serious consideration to the establishment of the 401(k) profit sharing plan.

Generally, 401(k) contributions can be made on earnings after the plan adoption. That would most likely mean that a 401(k) plan adopted for 2019 may be limited since the 401(k) contribution amount is limited to earnings after adoption. Nevertheless, consideration should be given to adoption of the 401(k) profit sharing plan by December 31, 2019, to be able to realize the maximum contribution deduction in 2019.

I trust that this letter will be useful to you in your tax and financial planning.

If you would like to discuss how the 401(k) profit sharing plan or any other retirement plan can fit into your specific situation, please contact me.

Very truly yours,

Charles E. Solak

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