CHARLES E. SOLAK
CPA PA
WWW.SOLAKCO.COM
CSOLAK@SOLAKCO.COM

PO BOX 560069
MIAMI, FL 33256

TELE (786) 250-3025
FAX (815) 346-2380

December 2025

To My Clients and Friends:

RETIREMENT PLANNING

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

Retirement plans come in two basic forms: defined benefit and defined contribution. Defined benefit plans are particularly 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 the most popular because they are less costly to establish and 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 $23,500 (plus $7,500 if they are over age 50) with the employer contributing up to an additional amount so the maximum addition can be $77,500 for 2025. Contributions to a 401(k) profit sharing plan are discretionary.

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

	2025 Level of Income			
	$75,000	**$100,000**	**$150,000**	**$200,000**
Base 401(k) Contribution, Maximum	$23,500	$23,500	$23,500	$23,500
Catch-up Contribution 50 & over	7,500	7,500	7,500	7,500
Profit Sharing Maximum Percentage (25%)	18,750	25,000	37,500	46,500
Total Contribution allowed	**$49,750**	**$56,000**	**$68,500**	**$77,500**

The maximum funding for profit sharing plans for 2025 is $70,000 plus the $7,500 catch up contribution if you are 50 & over for a grand total of $77,500.

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

401(k) contributions may be limited to earnings after the plan's adoption. That would mean that a 401(k) plan adopted late in the year may not be able to achieve the maximum annual contribution. Nevertheless,. consideration should be given to adoption of the 401(k) profit sharing plan **by December 31, 2025**, to be able to realize the maximum available contribution deduction in 2025.

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

CES: ah