

REDUCING THE PAIN OF RECENT TAX HIKES

When working with clients we often hear the familiar cry “I’m paying too much in income taxes, what can I do to stop the bleeding?” Frequently a Cash Balance Plan is the answer.

The top marginal federal income tax rate went up in 2013 to 39.6%. Couple the top federal rate with the top NC state tax rate of 5.75% and the phase out of certain deductions and you’re looking at paying an effective **tax rate of over 45%**. With these new higher tax rates every deduction becomes even more valuable. With that in mind, Cash Balance Plans are possibly the best tax planning tool for the closely held business and professional practice.

Tax Type	2012 Rates	2013 Rates
Investment tax	0%	3.8%
Top marginal income tax	35%	39.6%
Medicare tax	2.9%	3.8%
Capital gains tax	15%	23.8%
Dividend tax	15%	23.8%

A Cash Balance Plan is a unique type of pension plan. Properly designed it allows business owners to contribute \$100,000 or more per year to a tax-deductible, asset-protected retirement plan. That is substantially more than can be contributed to a traditional SEP or profit-sharing/401(k) plan.

The key is in the design. We find many businesses with retirement plans, but their contribution amounts are limited by the plan design (i.e., contribution limits in an SEP or 401(k) profit-sharing plan). A properly designed retirement plan can yield tax-deductible contributions in the hundreds of thousands.

Example: Maximizing Deductions

Bob is 55 years old and expects to have W-2 income of at least \$375,000 in his business this year and until he retires in 10 years. By establishing a Cash Balance Plan, he can contribute and take a deduction of \$180,000 or less if he chooses. By adding a 401(k), Bob could contribute an additional 59,000 for a total deduction for 2017 of \$239,000. That is more than 5 times what he could contribute in a SEP or profit-sharing/401(k).

For more information on this powerful retirement plan please contact:

Bruce D. Henning, CFP®, CLU®, ChFC®

704-369-0805

bruce@forthfinancial.com

Bob is a fictional representation of our client base. Any similarities to real persons, living or dead, are entirely coincidental.