

Family Business Retirement Plan Example

The Situation: Husband (H) and Wife (W) own ACME, Inc., a multi-state distributor of specialty products. W left her career as an accountant when the family had kids but now helps with the record-keeping and customer service while H travels to visit clients. ACME doesn't have employees other than H and doesn't expect to ever need any. Since W only works part-time and to minimize payroll taxes, ACME has never paid her a salary. H's annual salary is \$150,000. ACME will make \$50,000 this year. At their CPA's recommendation, H&W setup ACME as an S-Corporation. ACME contributes the maximum to H's SEP every year. Unfortunately, the family's income is so high H&W usually cannot contribute to W's IRA. Now that the kids are grown, H&W worry that they have not put enough for retirement and wonder how they can ever catch-up. They would rather save for themselves than pay so much to Uncle Sam.

The Solution: ACME brings W onto its payroll and begins to compensate her for the work she does. ACME then establishes a 401(k) Profit Sharing Plan for H & W, its two employees.

	Current Scenario		New Scenario		Difference in Retirement Contributions
	Compensation	Retirement Contributions	Compensation	Retirement Contributions	
H – Age 53	\$150,000	\$37,500	\$128,000	\$54,500	\$17,000
W – Age 51	\$0	\$0	\$22,000	\$27,500	\$27,500
Total	\$150,000	\$37,500	\$150,000	\$82,000	\$44,500
Tax Savings (25%)		\$9,375		\$20,500	\$11,125
Net Cash Impact		\$28,125		\$61,500	\$33,375

Note: For simplicity, payroll and state taxes have not been considered.

The Analysis: ACME's new 401(k) Profit Sharing Plan allows H&W to both defer \$16,500 plus an additional \$5,500 since they are over age 50. The new plan also allows ACME to contribute 25% of each employee's compensation. Note that the family's total compensation of \$150,000 hasn't changed. It's only been reallocated between H&W.



Planning Idea – If H&W's kids had not yet gone to college, employment at ACME and participation in the ACME 401(k) Profit Sharing Plan could represent a way to supercharge the family's college savings.

Of course, this is only a sample plan. Deciding which plan to actually implement will need to consider factors such as your family's available cash flow and specific tax situation. For questions about specific plan options for your family, email us at wayne@waynefirebaugh.com or call 540-366-5800.

