

HICKS NOTES

NH **HICKS** Experience Counts

Legal and Pension Consultants

(800) 310-4975 | www.nhhicks.com

February 2017

By Tom Hicks, Attorney At Law

OWNER ONLY DEFINED BENEFIT PLANS ARE PERFECT FOR SMALL EMPLOYERS

We are seeing a growth in owner-only Defined Benefit Plans (DB) as real estate agents, computer consultants, doctors and other owner-only businesses are rebounding in this economy. These plans allow for substantial contributions based on the owner's age and compensation. They can be set up regardless of the type of entity the owner has established.

For instance, a fifty year old making \$90,000 a year can contribute up to \$180,000. To view a chart showing how age and compensation work towards a contribution, [click here](#). This chart is set up to get around 1.6 million dollars in the plan after 10 years of funding or age 62.

In addition, I believe every owner-only DB client should also have a 401(k) Plan. This will allow for the owner to make 401(k) deferrals of \$18,000 (\$24,000 if over age 50) plus a 6 percent of pay additional employer contribution to this plan. By using this feature and funding the lower side of the DB, they can get an additional few years of higher contributions. If you want more information about an owner-only 401(k) plan, [click here](#).

For even greater contributions, an owner may want to employ a spouse, pay them a salary and fund the DB and 401(k) contributions for them. This can be a greater benefit than what they take home in pay, given the ages of each participant. Consulting and approval from the client's CPA is a must when utilizing this option.

Owner-only Defined Benefit Plans have greater flexibility because no promises have been made to employees. We can set up an average normal contribution level, but still provide the flexibility to change contribution levels up or down depending on the deduction they may need from year to year. By having a 401(k) Plan to fund, this range can be greater and may be important as business circumstances change.

Should they have a less profitable year and know within the first five months of the year, an amendment to the plan can significantly lower the contribution for that year. There is flexibility in this plan that you don't have when you have employees and we can help with tax planning each year.

Finally, we have contracted with our actuary to supply one stop shopping at a reasonable fee. We charge \$1200 to set up and \$1400 per year for annual administration including all actuarial work. Learn more about Owner only defined benefit plans [here](#). There are also tax credits for employers. This credit is limited to 50% of the qualified plan costs paid or incurred during the tax year, up to a maximum of \$500 per year for the first year and each of the following two tax years.

[Contact us](#) today and let us run you some numbers. Now is the time to plan, so your clients have time to fund as cash flows in throughout the year.

NH HICKS CONTACTS

Tom Hicks
(530) 521-7024
TomHicks@nhhicks.com

Debbie Rath
(530) 891-4975
drath@nhhicks.com

Samantha Nethington
(530) 891-4975
snethington@nhhicks.com