

# **PROFIT SHARING PLAN**

## **EXECUTIVE SUMMARY**

**January 2009**



*We Deliver Performance*

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## Advantages:

Profit sharing plans are the most popular tax-qualified plans because:

- They allow the employer to fluctuate contributions each year based on business considerations;
- They provide tax-deferred growth of the underlying investments;
- If structured properly, they can provide different contribution amounts to selected groups of employees; and
- In cases where there are two or more principals, each principal may have differing amounts of contributions allocated on his or her behalf in the same plan year.

Unlike SEP's or SIMPLE plans, the profit sharing plan offers the following advantages:

- Federal protection of plan assets against bankruptcy, judgments and lawsuits.
- Vesting schedules so that the employees must work six years to receive the full amount of the contributions and earnings upon termination of employment.
- Ability to receive penalty-free (still taxable), lump sum distributions as early as age 55 if the principal retires at that time.
- Ability to "tier" the contributions to favor certain individuals.

## Contribution Limits:

For profit sharing plan years **beginning** on or after January 1, 2009:

- Compensation limit per person is \$245,000.
- Maximum allocation to any one individual is 100% of compensation up to \$49,000.
- The maximum deductible limit on all employer contributions in any one fiscal year is 25% of the total of all benefiting employees' compensation.
- If the profit sharing plan has a 401(k) feature, employee deferrals do **NOT** reduce the overall limitation.

## Allocation Comparison Profit Sharing Plans

<u>Name</u>	<u>Age</u>	<u>Comp</u>	<u>SEP/ Pro-Rata</u>	<u>Tiered or Cross-Tested</u>
Principal 1	56	\$245,000	\$49,000	\$49,000
Principal 2	49	245,000	49,000	49,000
Principal 3	47	245,000	49,000	49,000
Employee 1	59	90,000	18,000	4,500
Employee 2	29	40,000	8,000	2,000
Employee 3	47	34,000	6,800	1,700
Employee 4	32	30,000	6,000	1,500
Employee 5	27	26,500	5,300	1,325
Employee 6	26	25,000	5,000	1,250
Employee 7	23	25,000	5,000	1,250
Employee 8	69	24,000	4,800	1,200
Employee 9	60	24,000	4,800	1,200
Employee 10	32	23,000	4,600	1,150
Employee 11	35	<u>23,000</u>	<u>4,600</u>	<u>1,150</u>
<b><u>TOTAL</u></b>		<b><u>\$1,099,500</u></b>	<b><u>\$219,900</u></b>	<b><u>\$165,225</u></b>
Total Contributions for Principals:			\$147,000	\$147,000
Total Contributions for all others:			\$72,900	\$18,225
Percentage to Principals:			<u>67%</u>	<u>89%</u>