DUNBAR BENDER & ZAPF
retirement plan actuaries and consultants

Explore Your Retirement Plan Options Under the New Tax Law – July 2018

Under the Tax Cut and Jobs Act (TCJA), tax rates are the lowest they have ever been. Some say that tax rates may never be this low again, providing employers with a unique opportunity to use plan design to take advantage of these lower rates. The plan options that can help you utilize these lower rates include:

- Roth Contributions
- Roth Conversions
- Cash Balance and Profit Sharing Plan contributions

Before you decide how you want to take advantage of these lower tax rates, it important to understand your plan options.

Roth Contributions

Roth contributions are placed in a designated Roth account in 401(k), 403(b) or governmental 457(b) plans. They are funded with after tax money up to contribution limit of $18,500 plus the catch up contribution of $6,000 if the participant is aged 50 or older in 2018.

Employees may elect a combination of pre-tax and Roth contributions if the total does not exceed the IRS 402(g) limit of $18,500 plus the $6,000 catch up. There are no income restrictions, but the required Minimum Distribution rules still apply.

Upon distribution, these investment earnings are tax-free, if the following conditions are met:

- Distribution occurs over 5 years from the initial Roth deposit and the participant is 59 ½ or older
- Upon death or disability of the participant

These contributions are still subject to ADP discrimination testing so if it is feasible, you should consider adding a safe harbor contribution to take advantage of the maximum contribution amounts.

Roth Conversions

401(k), 403(b) and governmental 457(b) plans can be amended to allow participants to convert their vested account balance, including earnings, to a Roth account within the existing plan if it allows for Roth contributions. An in-plan Roth rollover is:

- Irreversible
- Has no income limitations
- Results in taxable income for participant which is paid using outside money unless the participant is eligible for a distributable event.

In-plan Roth rollovers will increase an individual's AGI, so they should be considered if you plan on taking advantage of the QBI 20% deduction. Both Roth contributions and in-plan Roth rollovers allow for participants to pay taxes now based on the current lower rates.

Take Advantage of the QBI 20% Deduction with Cash Balance and Profit Sharing Plans

Contributions from profit sharing plans and cash balance plans can be used to:

- Reduce your income below the Adjusted Gross Income (AGI) threshold of $315,000 if you are married, filing jointly and $157,000 if you are a single filer
- Allow employers to contribute up to 25% of the total amount of eligible plan compensation

Profit sharing contributions may be slanted to provide larger benefits to certain key employees and owners. Small businesses such as S corporations can reduce their AGI by making profit sharing contributions and/or adding a cash balance plan.

Cash Balance Plans

A cash balance plan is a defined benefit plan with characteristics similar to a contribution plan. Participant accounts under a cash balance plan are credited with a set percentage of yearly compensation plus interest charges.

This set percentage may vary by participant allowing the employer to slant larger contribution amounts to themselves while providing less costly benefits to employees. Maximum benefit or contribution amounts under this plan are determined by age and can be as high as:

- $156,000 for age 50
- $294,000 for age 70

From cash balance plans and the QBI 20% deduction to Roth contributions and conversions, there are a variety of options employers can use to take advantage of the lower tax rates under the new tax

Contact Dunbar, Bender & Zapf today to learn more about the impact this law will have on your business and how we can redesign your retirement plan to help you take full advantage of the benefits offered by the new tax law.