

NEW COMPARABILITY PROFIT SHARING PLANS

GREAT NEWS FOR THE SMALL BUSINESS!!

Internal Revenue Regulations now allow innovative designs for Profit Sharing plans. This means great news for the small business. Profit Sharing contributions can be allocated heavily in favor of the owner in many situations. The most favorable type of design for many small businesses is called the NEW COMPARABILITY profit sharing plan.

This method of allocating Profit Sharing contributions was the subject of Final Regulations issued by the IRS in June of 2001. This method of allocating contributions simply means the owner of the typical small business, if older than most of the other employees, should get a much larger share of the profit sharing plan contribution compared to "traditional" methods of allocating the contributions. Every firm with an existing Profit Sharing plan should examine whether this plan design would be beneficial to them. Other firms who had decided against installing a new plan in the past should also review their situation, especially in light of the numerous pension provisions included in new Tax Act just passed in June (the Economic Growth and Tax Relief Reconciliation Act of 2001). Many favorable provisions were enacted to specifically encourage the establishment and ease the administration of small business retirement plans.

In testing IRS nondiscrimination compliance for New Comparability profit sharing plans, a comparison of the projected BENEFITS of the participants is performed to prove that the plan is nondiscriminatory. In a "traditional" plan, only CONTRIBUTIONS are compared. This testing of "benefits" usually means more favorable allocations for the owners of small businesses. Consider the comparison below between a "traditional" profit sharing allocation and a "new comparability" allocation:

	<u>Age</u>	<u>Salary</u>	<u>Traditional Profit Sharing Allocation</u>	<u>% of Salary</u>	<u>New Comparability Profit Sharing Allocation</u>	<u>% of Salary</u>
OWNER	60	\$160,000	\$24,000	15%	\$40,000	25%
Employee	33	35,000	5,250	15%	1,750	5%
Employee	34	42,000	6,300	15%	2,100	5%
Employee	54	32,000	4,800	15%	1,600	5%
Employee	42	28,000	4,200	15%	1,400	5%
Employee	43	<u>23,000</u>	<u>3,450</u>	15%	<u>1,150</u>	5%
		<u>\$320,000</u>	<u>\$48,000</u>		<u>\$48,000</u>	
OWNER'S SHARE			50%		83%	

The above example illustrates the allocation possibilities of the NEW COMPARABILITY plan compared to the results of traditional plan designs. The typical small business owner, needless to say, would be pleased to learn of this option for increased efficiency in the firm's retirement plan expenditures. In the example, the owner is allocated 25% of salary and everyone else is allocated 5% of salary. Without knowledge of this new plan design, small employers may be spending more than necessary for their retirement plans.

Each firm's situation is different and the demographics of the employee group will determine how favorable this plan design will be in any specific fact situation. Small employers owe it to themselves to examine this concept, and accountants owe it to their clients to become familiar with this and other types of new plans now allowed for small businesses.

THE NEW 2001 TAX ACT CREATES MANY NEW RETIREMENT PLANNING OPPORTUNITIES FOR THE OWNER OF A SMALL BUSINESS

**TAKE A FREE LOOK AT WHAT A PLAN COULD DO IN YOUR SPECIFIC SITUATION !
ALL THAT IS NEEDED IS A CENSUS OF THE FIRM'S EMPLOYEES.
IT MAY BE COSTING YOU MONEY NOT HAVING A PLAN !!**

