



## Profit Sharing Plan

A Profit Sharing Plan is a retirement plan in which the contributions are made solely by the employer. The business owner has the flexibility to contribute and deduct between 0% and 25% of eligible participant's compensation up to a maximum each year. Several allocation methods are available:

- Same percentage of compensation for each participant
- Permitted Disparity (Social Security Integration)
- Age-Weighted

### Plan Eligibility

- Sole proprietorships, partnerships, limited liability corporations (LLCs), or incorporated businesses, including subchapter S corporations, can establish a Profit Sharing plan.
- All eligible employees must be allowed to participate in the Profit Sharing Plan. An eligible employee is any employee who:
  - has provided service to the employer for up to 2 years
- Union employees and non-resident aliens who have no U.S source of income may generally be excluded from coverage.
- If the elected waiting period is 1 year or longer, the employee must normally work 1,000 hours during the 12-month period beginning on the date of employment and satisfy the plan's service requirement in order to enter the plan.
- If the waiting period is less than 1 year, all employees must be included after satisfying the eligibility requirements regardless of the number of hours worked during the year.
- The employee's minimum age is elective but cannot exceed age 21.

Note: An employer can establish less restrictive eligibility requirements than the ones listed above, but not more restrictive ones.

### Vesting

Vesting is the participant's ownership in the value of his/her retirement account or benefit. The vesting schedule elected by the employer applies to all participants.

- If the service requirement is 1 year or less, a graded vesting schedule may be elected. The most common graded schedule is 0% the first year and 20% per year thereafter.
- If the service requirement is greater than 1 year, vesting must be 100% immediately upon becoming a participant in the plan.

### Tax Advantages

- Employer contributions are tax deductible for the employer -- up to the lesser of 25% of the total participant's compensation.
- Tax-deferred growth potential is possible -- any investment earnings grow tax-deferred until withdrawn.

### Plan Deadline

The deadline to establish a Profit Sharing Plan is the last day of the fiscal year of the business. For calendar year businesses, this deadline is December 31st.

## **Contribution Flexibility**

No annual contribution is required

- Contribution percentage can vary each year, from 0-25% of compensation, up to a dollar maximum per participant each year.

## **Investment Options**

- Annuities\*
- Life Insurance
- Mutual Funds®
- Fixed Rate CD

## **Key Advantages**

- Contributions may vary from year to year
- Gradual vesting of employee balances available

## **Attractive benefits for employees**

- Offering a Profit Sharing Plan can make it easier to attract and retain valuable employees.
- A Profit Sharing Plan can assist in providing retirement income for eligible employees.

## **Early Withdrawal Penalty**

Generally, a 10% tax penalty is applicable to distributions for participants under age 59 1/2. Participants may have to pay Federal Income Tax on the distributions, as well.

## **Reporting and Disclosure Requirements**

- Reporting to the IRS - Form 5500 (Annual Return/Report of Employee Benefit Plan) and applicable schedules must be filed with the IRS each year.
- Disclosure to Plan Participants and Beneficiaries -- each plan participant or beneficiary can request an easily understandable summary plan description within 90 days after they become eligible and a summary annual report each year within 7 months after the end of each plan year.