

# Maximizing your business's value with a workplace retirement plan

## Much more than a retirement savings plan

Do you think of SEP and SIMPLE IRAs and other workplace retirement plans as just “retirement savings plans”? Consider this: Workplace retirement plans may help your bottom line, enhance employee satisfaction and make it easier for you later to accumulate and transfer wealth created by your business — at far less cost than you may think.

Research has shown that planning for retirement is one of the most important financial priorities for employees.<sup>1</sup> Yet many business owners believe that workplace retirement plans are too expensive, or have felt forced by changing economic conditions to move retirement planning to the back burner. The good news is that affordable retirement plans exist for business owners, are often easy to set up, can be structured to meet any number of needs and can offer potentially immediate tax advantages.

## Attract and keep the right people

These plans function as an attractive benefit and a differentiating hiring and retention feature during today's challenging labor market. As benefits continue to shrink and pay raises are harder to offer, SEP IRAs, SIMPLE IRAs, and small business 401(k)s can help you offer lower-cost, tangible rewards to your employees. Consider:

- Employees will see 100% of your retirement plan contribution deposited in their accounts, versus a smaller percentage of cash bonuses you award, which are subject to immediate tax withholding.
- They also have the potential to benefit from tax-deferred compounded growth.

<sup>1</sup> Bank of America 2021 Workplace Benefits Report.

**See last page for additional important information.**

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	Individual 401(k)	SEP IRA
Self-employed income <sup>1</sup>	\$150,000	\$150,000
Max. salary deferral	\$22,500	N/A
Maximum contribution (Max. 20% of self-employed income)	\$30,000	\$30,000
Max. total contribution	\$52,500	\$30,000
And if aged 50 or older, add an additional catch-up contribution to salary deferral	\$7,500 for total of \$60,000	N/A

## Choose a plan that fits your needs

There are many options in choosing an affordable workplace retirement plan. Whether you are self-employed with no employees or are a company with hundreds of employees, a SIMPLE IRA,<sup>2</sup> SEP IRA, or small business 401(k) is easy to administer and may have little to no administrative costs. A SIMPLE IRA allows employees to fund the accounts through salary-deferral contributions and requires the employer to match employee contributions up to 3% annually, unless the employer chooses to contribute 2% of each eligible employee's salary. A SEP IRA, though fully funded by the employer, may be more suitable for a business with varying profits because contributions are discretionary.

Alternatively, a small business 401(k) may be more appealing to some because it may allow for even larger salary or income contributions, including pretax deferrals, to be set up with discretionary employer contributions, and provides a valuable loan feature.

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## More incentive for your contribution

### Cash bonus versus 401(k) profit-sharing contribution

	Cash bonus	Profit sharing
Employer pays	\$5,000.00	\$5,000.00
Federal income tax withholding	\$1,250.00	\$0.00 (deferred)
State/local income tax withholding	\$506.00	\$0.00 (deferred)
Social Security/Medicare taxes	\$382.50	\$0.00
Your employee can invest	\$2,861.50	\$5,000.00

A hypothetical illustration. Tax calculations assume a \$50,000 annual salary and \$5,000 cash bonus treated as supplemental pay, with no deductions (health care, for example), taxed in New York State and including NY SDI tax. Dollar figures are estimated and rounded. Social Security and Medicare taxes do not apply to employer profit-sharing contributions to a 401(k). Making a plan contribution, rather than a cash bonus, will also reduce the payroll taxes for your business such as FICA, FUTA and workers' compensation, impacting your bottom line.

#### Case study: Potential for significant tax advantages

Sarah's incorporated business had a profitable year in 2021. While preparing her business tax filing, her accountant suggested she establish a business retirement plan. It could help her retain her valuable employees and provide her business with a much-needed tax deduction. Since Sarah is uncertain that her business will have the same success in future years, her accountant recommended a SEP IRA because:

- Sarah can open a SEP IRA in the current year, up to her tax filing deadline for tax year 2021, and apply the deductions toward the previous year.
- Contributions can be made on a discretionary basis.
- SEP IRAs can be funded up to the business tax filing deadline (including extensions), giving Sarah the opportunity to evaluate her finances before committing to contributions.
- Sarah's business can receive a \$25,000 deduction if she contributes 10% to the plan for herself and her employees.
- Her business can also receive a tax credit of up to \$5,000 for the first three years since this is her first business retirement plan and she has employees.<sup>3</sup>

Employee	Salary	SEP IRA contribution
Sarah	\$105,000	\$10,500
Jane	\$65,000	\$6,500
Bob	\$45,000	\$4,500
John	\$35,000	\$3,500
<b>Business deduction</b>		<b>\$25,000</b>

Hypothetical example. For illustrative purposes only. Consult with your tax advisor regarding the business tax deduction and available tax credit.

<sup>1</sup> Self-employed income is the net income after the subtraction of hypothetical business expenses and self-employment taxes.

<sup>2</sup> SIMPLE IRA is only available if you have 100 or fewer employees who make \$5,000 or more per year.

<sup>3</sup> The tax credit of up to 50% of the cost to set up and administer the plan and educate employees about the plan, up to a maximum of \$5,000 per year, may be available for each of the first three years beginning with the start-up year or the year prior.

	SEP IRA	SIMPLE IRA	401(k)
<b>Most appropriate for</b>	Employers with unpredictable cash flow.	Employers with 100 or fewer employees who can afford to make mandatory contributions.	Those who are self-employed with no employees, or employers with up to hundreds of employees.  Employers who seek potentially higher contributions than SEP IRA, SIMPLE IRA or profit-sharing plans.
<b>Employer contribution</b>	Not mandatory.	Mandatory, but annually adjustable prior to the 60-day period preceding January 1 of a calendar year.	Not mandatory.
<b>Employee contribution</b>	Not allowed.	Optional (salary deferrals; if employee contributes, employer must match, unless employer opted to make nonelective contribution on behalf of all eligible employees).	Optional (salary deferrals).
<b>2023 contribution limits</b>	Lesser of \$66,000 or 25% of eligible compensation up to \$330,000.  Self-employed individual subject to an effective 20% limit.	Employee salary deferral up to \$15,500 (additional \$3,000 for those aged 50 and older).  Employer match: Dollar-for-dollar match of employee salary deferral up to 3% of compensation (can be reduced to as low as 1% in two out of any five years; compensation cap does not apply), or nonelective: a flat 2% of compensation to all eligible employees, subject to a compensation cap of \$330,000 per employee.	Maximum employee salary deferral is \$22,500 (\$30,000 for those aged 50 or older).  Employees aged 50 or older are eligible to make a \$7,500 catch-up contribution.  Total allocations per employee (employee contributions, employer contributions and forfeiture allocations) are limited to the lesser of \$66,000 (\$73,500 for age 50 or older) or 100% of compensation with a \$330,000 compensation cap per employee.  401(k) and profit-sharing plans can be combined.  Total tax-deductible employer contributions of up to 25% of eligible compensation (20% for self-employed) with a \$330,000 compensation cap per employee.
<b>IRS Form 5500 reporting</b>	Generally not required.	Not required.	Required annually; generally not required when plan assets total \$250,000 or less for Owner Only plans.
<b>Standout fact</b>	Low costs and optional contributions make SEP IRAs affordable for almost any business, and especially attractive for those wanting to make larger contributions.	For multi-employee businesses, there isn't an easier plan to run than a SIMPLE IRA.	The most feature-rich of all plans, including the ability to take loans.

Net earnings from self-employment must take the contribution into account. See "Deduction Worksheet for Self-Employed" in IRS Publication 560, Retirement Plans for Small Business (SEP IRA, SIMPLE IRA, and Qualified Plans).

## How can you get started?

To discuss how Merrill can help you and your business, please contact your Merrill advisor.

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