

— 2025 CASH BALANCE PLANS

Optimizing 2025 Retirement Tax Savings Under IRC Section 199A

Advantages of cash balance and 401(k) profit sharing plans for the qualified business income tax deduction

This tax law offers a significant tax break for pass-through business owners, but exclusions and limitations may prevent many professional services firms from benefitting. **Fortunately, cash balance and 401(k) profit sharing retirement plans offer better advantages than ever before, allowing some owners to reduce adjusted gross income (AGI) enough to qualify for the full deduction which is 20% of qualified business income (QBI).**

NOTE: Unless Congress extends this law, it will expire on December 31, 2025.

Who qualifies for the 20% pass-through income deduction in 2025?

| Taxable income ¹ | Business type | Pass-through deduction |
|---|---|---|
| <input checked="" type="checkbox"/> < \$394,600 | Any pass-through entity, including specified service businesses. ² | YES, can deduct 20% of QBI |
| \$394,600-\$494,600 | Any pass-through entity. | LIMITED: wage/capital limitation ³ phases in for all firms and deduction phases out for specified service firms. |
| > \$494,600 | Not a specified service business. | LIMITED to lesser of 20% of QBI or wage/capital limitation. |
| <input checked="" type="checkbox"/> > \$494,600 | Specified service business. | NO deduction allowed; excluded from tax law benefits. |

¹ Assumes married filing jointly. Single filers use \$197,300 and not over \$247,300.

² Specified service businesses under the tax law include medical and law firms, consultants, and most other professional services excluding engineering and architecture.

³ Wage and capital limitation formula is complex and the advice of a tax professional should be sought.

Qualified retirement plan contributions like cash balance and 401(k) profit sharing amounts remain the gold standard of above-the-line deductions, since they reduce both taxable income and AGI.



Before and After Adding a Cash Balance Plan and 401(k) Profit Sharing Plan*



MEDICAL GROUP PARTNER

60, Married

AGI: \$750,000

No qualified retirement plan: not eligible for pass-through deduction

Adding a cash balance and 401(k) profit sharing plan:

With the combined maximum retirement plan contributions of \$405,250, AGI is lowered to **\$344,750** allowing 20% pass-through deduction and reducing effective tax rate.

Call FuturePlan for a free consultation and plan design to find out how to take advantage of the tax law.

Let's Connect

866-929-2525 | Sales@FuturePlan.com | FuturePlan.com

*(Plan Limits) \$23,500 for 401(k) plan; \$7,500 catch-up (age 50 or older); \$11,250 catch-up age 60-63; \$46,500 profit sharing. The following assumptions also apply:

- Maximum annual contribution amounts for the cash balance/defined benefit plan are calculated using 4% interest rates and assuming no pre-retirement mortality and using the latest available applicable mortality tables.
- The maximum cash balance amounts assume a 3-year average compensation of at least \$280,000 (the maximum annuity limit for 2025), and prior years of service.
- The amounts needed to fund the cash balance/defined benefit plan may be reduced by a participant's prior highest 3-year salary history if it is less than the IRS maximum annuity limit (as shown above) or below the IRS maximum compensation limits under 401(a)(17) (e.g., \$350,000 for 2025, \$345,000 for 2024, etc.) and other deduction limits may apply.
- The amounts needed to fund in the cash balance/defined benefit plan will also be reduced if a participant participated in any prior cash balance/defined benefit plan of the employer or a related employer.
- Further, amounts shown may be reduced if the cash balance/defined benefit plan is not covered by the Pension Benefit Guaranty Corporation (PBGC), which may limit the amount available to fund in any paired 401(k) profit sharing plan of the employer. Plans typically not covered by the PBGC are professional service businesses with fewer than 26 active participants.
- It is also important to note that hypothetical amounts shown are estimates and will vary depending on an employer's demographics of owners and employees along with a myriad of other factors and considerations.

Important: if you want to obtain your own, or your client's personalized scenario, please provide FuturePlan with a full, up-to-date owner and employee census in order to receive a customized plan design illustration. FuturePlan by Ascensus does not provide tax, legal, or accounting advice. This material has been prepared for informational and illustrative purposes only, and is not intended to provide, and should not be relied on for, tax, legal, or accounting advice. You or your client should consult your/their own tax, legal, and accounting advisors before engaging in any transaction.

FuturePlan by Ascensus provides plan design, administration, and compliance services. It is not a broker-dealer or an investment advisor and does not provide tax, legal, or accounting services.