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"How One Business Owner Reduced His Tax Bite by 40%"

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✓ **Feature Article**

Well-timed financial moves made before 12/31 can rack up significant savings. After that, your tax return is merely a history report of your taxable income for the prior year. This article, based on actual client experience, is about one business owner's move to reduce his taxable income.

Most people call us at Kravitz after they've gone to their accountant complaining about their tax bite. Gary was no different. 2004 was a very good year for him, but also painful. It was good in the sense that his income was higher than ever, bad in that his tax bite was almost \$200,000—a problem most of us would like to have—but a problem nonetheless. It only takes a year or two of writing six-figure checks to the IRS before one gets serious about finding tax-saving strategies. Such was the case with Gary.



Gary's CPA told him to call us to review his company's retirement plan. Most tax professionals agree that IRS tax-qualified retirement plans are one of the best tax-savings tools available. Every dollar invested into the plan escapes current taxation. And tax deferral is one of the pillars of smart tax planning.

Gary's company had a typical off-the-shelf 401(k) plan with no employer match, little participation and even less interest. The plan was several years old and had not grown or changed with the company. At the time the company adopted the current plan, saving taxes was not an important issue to Gary, and retirement savings was not vital to Gary's young staff. But times have changed. Gary now needs tax help and his employees are more interested in retirement benefits—a very common situation for growing companies.

We advised Gary to do two things:

1. Keep his 401(k) plan.
2. Adopt a new Cash Balance Plan. Make a 6%-of-pay contribution for the employees. For Gary's company, this is a \$32,000 annual contribution. This contribution for employees will allow \$140,000 to be contributed just for Gary. (We performed a series of nondiscrimination tests to determine the appropriate level of employee contributions required to allow \$140,000 to be contributed for Gary.) **(continued on back)**

Overall his company will contribute \$172,000 to the retirement program, with 81% going to into Gary's account. If Gary had taken this \$172,000 as income, his tax bite on that amount would have been about \$69,000. But instead of going to Uncle Sam, \$32,000 went into his employees' accounts and \$37,000 of the tax savings went to Gary's account in the new Cash Balance plan. The employees will also benefit significantly from the generous plan—a win-win.

Overview

	Old Plan	New Plan	Comments
Gary's income	\$500,000	\$500,000	
Employee plan contribution	—	\$32,000	Rewarding loyal employees
Gary's plan contribution	—	\$140,000	\$69,000 in tax savings, \$37,000 went to Gary
Taxable Income	\$500,000	\$328,000	
Tax bill*	\$169,000	\$100,000	40% reduction

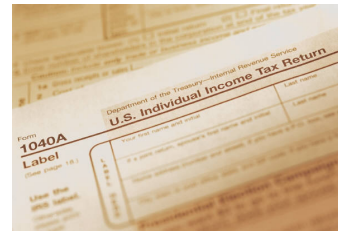
*Approximation for illustrative purposes, considering both federal and state taxes.

Gary wants to do what many successful business owners want to do—reward loyal employees. He feels a debt of gratitude for employees who have stuck with him through the lean times. Offering his

dedicated employees a good retirement benefit is one of the best ways to reward that loyalty.

Gary will still have a tax bite in 2005, but it will be \$69,000 less than without a retirement plan overhaul—a 40% reduction in his tax bill. And his employees, with their larger retirement account balances, will be rewarded for their service to the company.

Is it too late to lower your tax bill for 2005? It's not too late, but you must act before 12/31/05. Cash Balance and Profit Sharing plans must be adopted by 12/31/05. Funding, however, can occur later.



Check under the hood of your retirement plan and tune it up if necessary. Consult with Kravitz, your pension consulting firm, to see about enhancing your plan. Should you add a feature? Or should you add a new plan?

Call Ken Guidroz for a phone consultation at 818-379-6165 or go online at www.LKravitz.com to see what other companies are doing.