Profit Sharing Plans

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Profit Sharing Plans

A Profit Sharing Plan is an employer sponsored 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 of $50,000 (2012).

Contributions are allocated in one of several methods:

- Same percentage of compensation for each participant
- Permitted Disparity
- Age-Weighted

Plan Eligibility

- Sole proprietorships, partnerships, LLC's, LLP's or incorporated businesses, (including subchapter S corporations), may establish a Profit Sharing plan.
- All eligible employees must be allowed to participate in the Profit Sharing Plan. Generally, an eligible employee is any employee who:
  - Has one year of service
  - Has attained age 21
  - Works 1,000 hours or more during a plan year
  - Has not bargained in good faith for pension benefits
- Union employees and non-resident aliens who have no U.S. source of income may generally be EXCLUDED from coverage.

Of course, 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 or 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. For example:

Years of Service	% Vested
< 2 years	0%
2 but <3 years	20%
3 but <4 years	40%
4 but <5 years	60%
5 but <6 years	80%
6 or more years	100%

- 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.
- Tax-deferred growth potential is possible -- any investment earnings grow tax-deferred until withdrawn.

Plan Deadline

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

Contribution Flexibility

No annual contribution is required.

The appeal of a Profit Sharing Plan is the contribution percentage can vary each year. One may contribute between 0% and 25% of the compensation of the eligible employees, up to a dollar maximum of $50,000 (2012) per participant each year.