

MERRILL SMALL BUSINESS 401(k)

Tax benefits can help you keep more of your earnings



The Merrill Small Business 401(k) can give you the opportunity to obtain significant tax advantages along with simplified features that make sense for small business owners. The bottom line? A Small Business 401(k) may help you retain employees and more of your hard-earned profits at a price that fits your budget.

401(k) tax facts

The Merrill Small Business 401(k) gives business owners and employees several opportunities to keep more of the money they earn.

- **Salary contributions:** Individuals participating in the plan can contribute up to \$19,500 in 2020, in any combination of pre-tax or Roth 401(k) contributions. Pre-tax contributions reduce an employee's taxable income. Individuals age 50 or older can even contribute an additional \$6,500, to "catch up" their retirement nest egg.
- **Tax treatment of earnings:** Earnings on the funds in an employee's pre-tax 401(k) are tax deferred. That means earnings are not reported as taxable income until withdrawn in retirement, when employees are likely to be in a lower tax bracket.¹ Earnings on the funds in an employee's Roth 401(k) are tax free if withdrawn as part of a qualified distribution.²
- **Tax deductions:** If you include company matching contributions as part of your company's 401(k) plan, you not only help your employees' accounts accumulate wealth, but you also may realize tax benefits for your business. Small business owners generally can deduct administrative costs and other plan expenses, along with company contributions. Limits may apply.
- **Tax credits:** If this is your company's first 401(k) and you have employees, you may be eligible for a tax credit of up to \$500 each year for the first three years. For more information, visit www.irs.gov, Retirement Plans Startup Costs Tax Credit.

Pre-tax savings add up

If you contribute \$4,000 to your pre-tax 401(k) account, and you are in the 25% tax bracket, you save \$1,000 in current income taxes. You can see that the more you contribute pre-tax, the more in tax savings you generate.¹

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Tax benefits and more

The money invested through a 401(k) plan can go toward helping build a nest egg. And now with the Merrill Small Business 401(k), getting a plan that works with your business needs is as easy as ever.

The start-up process and plan administration are simple. The plan is affordable and has features that fit busy small business owners.

Other advantages include:

- 24/7 online access to your plan and educational resources.
- A step-by-step guide to help make year-end plan document and report processing a little easier.
- Automatically satisfy certain IRS testing with a safe harbor plan design.
- Fully disclosed fees.
- Affordable plan expenses potentially offset by tax savings.
- Simplified menu of investments and portfolios selected for the Small Business 401(k) by Morningstar Investment Management LLC, requiring minimal administration, allowing you to focus on running your business.

Tax savings may offset plan costs

Contributions and plan expenses generally are tax deductible, and may offset plan expenses.

For example, let's meet Chris

Chris is a small business owner with fewer than 50 employees. This is the first 401(k) for the business. He is in the 25% personal income tax bracket.

- Thirty of Chris's employees participate in the plan. The average salary for all 30 employees is \$45,000, with an average contribution rate of 5%. The business makes a 4% matching contribution. This results in a tax deduction to the business of roughly \$54,000.
- The business is eligible for a tax credit of up to \$500 each year for the first three years.
- Chris contributes the maximum \$19,500 to his own account via pre-tax dollars, which results in a \$4,875 reduction in his individual taxable income in one year.

With a plan administration cost of only \$90 per month, the tax benefit opportunities for Chris and his business far outweigh the costs associated with the plan.

Hypothetical example for illustrative purposes only. You should consult your tax advisor regarding your specific situation.

Start investing for your future today

Get started online at www.merrilledge.com/401k or call a PAi 401(k) Consultant at **866.890.4177**.

¹ Taxes on pre-tax contributions and any associated earnings will be due upon withdrawal. You may also be subject to a 10% additional tax if you take a withdrawal before age 59½.

² A qualified distribution is one that is taken after the last day of your fifth consecutive taxable year after making your first regular contribution to any designated Roth account under a single plan and after you have attained age 59½ (or became disabled or died). For example, if your first regular contribution to a designated Roth account under a plan was made any time between January 1, 2009 and April 15, 2010, for tax year 2009, the first time you can take a qualified distribution is January 1, 2014 (after you meet one of the other requirements, such as attaining age 59½). If you contribute funds to a designated Roth account through a rollover, the taxable period for the funds rolled over would be calculated based on the other plan's taxable period. If you take a non-qualified distribution of amounts in your Roth 401(k) account, and it is not rolled over to another Roth IRA, the earnings will be subject to regular income taxes, plus a possible 10% additional tax if withdrawn before age 59½.

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