

There's still time to set up a retirement plan for 2016



Saving for retirement can be tough if you're putting most of your money and time into operating a small business. However, many retirement plans aren't difficult to set up and it's important to start saving so you can enjoy a comfortable future.

So if you haven't already set up a tax-advantaged plan, consider doing so this year.

Note: If you have employees, they generally must be allowed to participate in the plan, provided they meet the qualification requirements.

Here are three options:

1. **Profit-sharing plan.** This is a defined contribution plan that allows discretionary employer contributions and flexibility in plan design. You can make deductible 2016 contributions as late as the due date of your 2016 tax return, including extensions — provided your plan exists on Dec. 31, 2016. For 2016, the maximum contribution is \$53,000, or \$59,000 if you are age 50 or older.
2. **Simplified Employee Pension (SEP).** This is also a defined contribution plan that provides benefits similar to those of a profit-sharing plan. But you can establish a SEP in 2017 and still make deductible 2016 contributions as late as the due date of your 2016 income tax return, including extensions. In addition, a SEP is easy to administer. For 2016, the maximum SEP contribution is \$53,000.
3. **Defined benefit plan.** This plan sets a future pension benefit and then actuarially calculates the contributions needed to attain that benefit. The maximum annual benefit for 2016 is generally \$210,000 or 100% of average earned income for the highest three consecutive years, if less. Because it's actuarially driven, the contribution needed to attain the projected future annual benefit may exceed the maximum contributions allowed by other plans, depending on your age and the desired benefit. You can make deductible 2016 defined benefit plan contributions until your return due date, provided your plan exists on Dec. 31, 2016.

Please contact Ceschini, CPAs at (631) 474-9400 for more information about this topic and other tax and business developments – such as new IRS regulations and court decisions.