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Invest in yourself with a profit-sharing plan.

What is a profit-sharing plan?

It's an employer contribution plan that may be a good choice for you if you have variable profits but want to reward your employees by giving them a percentage of the company's profits (although you may not need profits or employees to make contributions). In fact, many old Keogh plans are now profit-sharing plans. This type of plan offers:

- Flexibility in determining annual contribution amounts
- The option for employers to decide how much to contribute each year—or even to skip years if necessary
- Tax benefits for both employer and eligible employees

Who is best suited for this plan?

This plan is best suited for self-employed individuals and small business owners who want to reward employees with a percentage of profits. However, you do not need employees to use this plan for your business.

What are the key benefits?

- Contributions are **tax-deductible** for your business and offer **tax-deferred growth potential**
- Employers have the option to make contributions subject to a vesting schedule
- TD Ameritrade offers a prototype plan document and adoption agreement with IRS Opinion Letter and will provide 1099-R tax reporting for plan distributions
- There are no setup or account maintenance fees. Commissions, service fees, and exception fees may apply.

What do I need to know about contributions?

- Employers may contribute the lesser of 25% of compensation or up to $66,000 for 2023 ($61,000 for 2022) per eligible employee. Employer contributions are discretionary and provide tax benefits for both the employer and employee.
- The most common way to allocate employer contributions is to give each eligible employee and the employer the same percentage of their compensation
- Profit-sharing plan contributions must be made prior to the employer's tax filing deadline, including extensions

Flexible employer contributions

Tax-deductible contributions

No hidden fees

  – For tax years before 2020, a brand-new plan needed to be opened by the last day of the employer's/business's tax year. The Setting Every Community Up for Retirement Enhancement Act of 2019 (the SECURE Act) now allows a brand-new plan to be opened until the employer's tax filing deadline, including extensions, for the 2020 tax year (or later).

    ***Example:** To make contributions for 2022, you now have until your company's 2022 tax filing deadline to open the plan and make your contribution. For a calendar year company, this deadline could be as early as March 15, 2023, or as late as October 16, 2023, depending on your company structure (C-Corp, LLC, sole proprietorship, etc.) and whether you have a tax extension.*

- Contact your accountant or tax advisor to learn more about what makes sense for your business and circumstances

How are rollovers and transfers handled?

- Rollovers may be accepted into the plan if allowed under the plan document
- Rollovers (either direct or 60-day) out of a profit-sharing plan may only be made if the plan participant has an approved reason for withdrawal, usually termination of employment, death, or disability. However, employee withdrawals while still working for the company may be allowed if specified in the plan document.
- Transfers between profit-sharing plans are made by the employer for all plan participants to change profit-sharing plan vendors or investments. Moving the entire plan between custodians/vendors should not be done as distributions or as rollovers.

What about distributions?

- Distributions may be subject to tax and a 10% early withdrawal penalty if you are under the age of 59½, but exceptions may apply. Employees may be able to avoid the 10% penalty if they are at least age 55 and then sever employment.
- For the business owner(s), required minimum distributions (RMDs) start at age 73 (unless you turned 72 prior to January 1, 2023; then your RMDs must begin by age 72). Those who turned 70½ prior to January 1, 2020, had to start RMDs at age 70½. Employees can wait until retirement (if later).
- **TD Ameritrade no longer allows plan loans**

How do I set up a profit-sharing plan?

1. Go to **tdameritrade.com/smallbusiness** to obtain the forms. Be sure to select Profit-Sharing Plan on the application.
2. TD Ameritrade will send you the Profit-Sharing Adoption Agreement and Basic Plan Document.
   - You will need to complete, sign, and return the agreement to TD Ameritrade
   - These documents will govern your profit-sharing plan; make sure to retain copies for your records
3. You and each eligible employee must complete and send in the **Participant Application and Designation of Beneficiary**. Your employees should let you know their account number so you can reference it when you send in your contribution for them.
4. You may fund the profit-sharing plan upon opening the account or after it has been established via check or direct deposit. You can download the deposit form **here**.

If you already have your own profit-sharing plan document, please set up a tax-exempt trust and not a profit-sharing plan. You will need to hire a vendor to do your own 1099-R distribution reporting as well as keep track of individual employee accounts. The employer is usually the trustee in this instance, not TD Ameritrade.

Where can I find additional IRS information?

Please refer to IRS Publications **560** and **4806** and the IRS page on **profit-sharing**.

Apply online at tdameritrade.com/smallbusiness or give us a call at 800-472-0586.

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Special information for business owners with employees

- Employees must be included in the plan if:
  - They've been employed at the company for at least one year (or two years if the plan is always 100% vested)
  - They've worked 1,000 hours or more during a plan year. You can never require more than 1,000 hours of service.
  - They're 21 years of age or older
- An employer can use less restrictive participation requirements than those listed above but not more restrictive. For example, an employer can make all employees immediately eligible for the plan.
- Nonresident aliens are generally excluded from the plan. An employer may also choose to exclude certain union employees.
- Tip: If you own multiple businesses, you may have to cover all of your employees under this plan, or you may have to hire a third-party administrator to perform additional annual plan testing. Consult a tax advisor for more details.

Remember: The business owner must also meet all requirements to qualify for a contribution.

Additional details

- This plan allows you to maintain certain other retirement plans, although contributions may have to be aggregated for all plans of the employer
- If participant loans were permitted in the plan, the employer is responsible for making sure that **loans have been paid back by May 31, 2022**. Plans with outstanding loans after May 31, 2022, must be transferred off the TD Ameritrade retirement platform, and a new plan document provider must be found before July 31, 2022.
- New plan loans may no longer be taken in TD Ameritrade Profit-Sharing Plans
- Employers must file a Form **5500** return/report each year unless an exception applies
- Employers must create and provide employees with a Summary Plan Description (SPD) that informs participants of the basics of the plan. Certain other fee disclosures may also be required.
- You may need to hire additional service providers, like a tax advisor or third-party administrator, to assist you in maintaining your plan