

Tax Advantages of Cash Balance Retirement Plans



REDUCING THE PAIN OF RECENT TAX HIKES

Tax deductions are increasingly hard to come by, especially “above the line” deductions that directly reduce ordinary income dollar for dollar. With many federal, state and local tax increases in place for 2013, Cash Balance Plans make a bigger impact on savings than ever before.

Four Key 2013 Tax Changes: How Does a Cash Balance Plan Help?

Cash Balance contributions reduce both taxable income and adjusted gross income (AGI), so high income earners may move into a lower tax bracket. All of the following taxes may be **reduced or eliminated** by contributing to a Cash Balance Plan:

1. Investment Tax

An additional 3.8% tax on unearned net income is now imposed on individuals making more than \$200,000 (or \$250,000 for married couples). The new surtax is in addition to the capital gains and dividend tax increase from 15% to 20%.

2. Top Marginal Income

The top marginal tax rate has increased to 39.6% for individuals earning more than \$400,000 (or \$450,000 for married couples).

3. Medicare Tax

There is an additional 0.9% Medicare payroll tax on income above \$200,000 for individuals (or \$250,000 for married couples).

4. Phase-Out of Tax Deductions

The ability to itemize certain tax deductions has been phased out for individuals making more than \$250,000 (or \$300,000 for married couples).

Federal Tax Increases

As of January 1, 2013

Tax Type	2012 Rates	2013 Rates
Investment tax	0%	3.8%
Top marginal income tax	35%	39.6%
Medicare tax	2.9%	3.8%
Capital gains tax	15%	23.8%
Dividend tax	15%	23.8%

Examples of Tax Savings:

Business Owner

Age 55, married filing jointly, two children

- \$400,000 adjusted gross income (\$350,000 wages, \$50,000 investment income)
- No Cash Balance contribution: will pay \$103,000 in federal taxes
- \$150,000 Cash Balance contribution: will pay \$51,000 in federal taxes

Federal Tax Savings:* **\$52,000**

Medical Group Partner

Age 60, married filing jointly, no children

- \$600,000 adjusted gross income (\$550,000 wages, \$50,000 investment income)
- No Cash Balance contribution: will pay \$180,500 in federal taxes
- \$200,000 Cash Balance contribution: will pay \$103,400 in federal taxes

Federal Tax Savings:* **\$77,100**