

How to Optimize Savings Under the New Tax Law



ADVANTAGES OF CASH BALANCE RETIREMENT PLANS

The new tax law offers a significant tax break for pass-through business owners, but exclusions and limitations may prevent many professional services firms from benefitting. Fortunately, **Cash Balance retirement plans** offer a greater advantage than ever, allowing some owners to reduce AGI enough to qualify for the full deduction, 20% of qualified business income (QBI).

Who qualifies for the new 20% pass-through income deduction?

Taxable Income ¹	Business type	Pass-through deduction
✓ < \$315,000	Any pass-through entity, including specified service businesses. ²	YES, can deduct 20% of QBI.
\$315,000 – \$415,000	Any pass-through entity.	LIMITED: wage/capital limitation ³ phases in for all firms, and deduction phases out for specified services firms.
> \$415,000	<u>Not</u> a specified service business.	LIMITED to the lesser of 20% of QBI or wage/capital limitation.
✗ > \$415,000	Specified service business.	NO deduction allowed, excluded from new tax law benefits.

¹ Assumes married filing jointly; single filers use \$157,500 / \$207,500 instead of \$315,000 / \$415,000.

² Specified service businesses under the new tax law include medical and law firms, consultants, and most other professional services excluding engineering and architecture, see our Kravitz Information Release on the new tax law for details, visit CashBalanceDesign.com.

³ Wage and capital limitation formula is complex; see the Kravitz Information Release for a detailed explanation.

Qualified retirement plan contributions like Cash Balance remain the gold standard of deductions, since they reduce both taxable income AND adjusted gross income (AGI).



Before & After Adding a Cash Balance Plan

Medical Group Partner, 60, married

AGI: \$650,000

No Cash Balance Plan:

Not eligible for pass-through deduction.

Add a Cash Balance Plan to 401(k) Profit Sharing Plan:

With combined retirement plan contributions of \$335,000, AGI is lowered to **\$315,000** allowing 20% pass-through deduction and reducing effective tax rate to 20.1%.

Reminder: This handout provides general information only and is not a substitute for professional tax advice. Please consult with your tax advisor to review your specific case.