

## EMPLOYEE BENEFIT PLAN TAXATION

One attractive feature of properly-designed employee benefit plans is the unique tax advantages they offer to both employers and employees. In general:

- The employer receives a tax deduction for its contributions;
- Employees are not taxed on employer contributions; and
- The benefits received by employees are either completely tax-free (e.g., health insurance benefits) or taxation of benefits is deferred until benefits are actually received (e.g., qualified retirement plans).

For employee benefit tax purposes, owner-employees of sole proprietorships and partnerships, as well as shareholder-employees who own more than 2% of an S corporation's stock, are not considered employees of the business, as compared to shareholder-employees in a regular (or 'C') corporation, who are considered employees of the corporation.

While sole proprietorships, partnerships and S corporations can provide employee benefit plans for their employees on the same basis as those provided by regular (or 'C') corporations, the owners themselves will receive less favorable tax treatment on certain employee benefits provided to them than that received by shareholder-employees of regular corporations.

## QUALIFIED RETIREMENT PLAN TAXATION

In order to encourage saving for retirement, qualified retirement plans offer a variety of **tax advantages to businesses and their employees**. The most significant tax breaks offered by all qualified retirement plans are:

- Contributions by an employer are immediately tax deductible as a business expense, up to specified maximum amounts.
- Employer contributions are not taxed to the employee until actually distributed.
- Investment earnings and gains on qualified retirement plan contributions grow on a tax-deferred basis until received.

Type of Plan	Maximum Deductible 2016 Contributions/Benefits*
<b>Money Purchase Pension Plan</b>	Lesser of 100% of the participant's compensation or \$53,000.
<b>Profit-Sharing Plan</b>	Lesser of 100% of the participant's compensation or \$53,000.
<b>401(k) Plan</b>	Employer contributions: Up to 15% of covered payroll. Elective employee deferrals: \$18,000 (\$23,000 if age 50 or older) Allocation limits: Total of employer contributions and elective employee deferrals cannot exceed the lesser of 100% of a participant's compensation or \$53,000.
<b>Simplified Employee Pension (SEP) Plan</b>	Lesser of 25% of the participant's compensation or \$53,000.
<b>SIMPLE Plan (401(k) or IRA)</b>	Maximum annual salary reduction deferral: \$12,500 (\$15,500 if age 50 or older)
<b>Target Benefit Pension Plan</b>	Lesser of 100% of the participant's compensation or \$53,000.
<b>Defined Benefit Pension Plan</b>	Benefit provided cannot exceed the lesser of 100% of the average of the participant's highest three consecutive years of compensation or \$210,000.

\* Only the first \$265,000 of compensation can be used in applying these limits.

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**2016 Employee Benefit Tax  
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