

# Profit Sharing – Are You Missing Out?



While 401(k) employee deferrals and employer matching contributions help participants toward reaching their retirement goals, there is an additional contribution option with great benefits available to you called a profit sharing contribution. The contribution can be totally discretionary and you have control over how you want this contribution to work for you. Here are some key advantages to having a profit sharing provision:

- There is no set amount that is required to be made annually. If your business does well one year, you can elect to make a contribution. If there isn't money in the budget the next year, you simply don't have to make a contribution.
- Every eligible participant receives the same ratio of their eligible compensation with the option to provide additional money for compensation earned over the Social Security Taxable Wage Base (TWB).
- Profit sharing contributions can help in the recruitment process, as well as aid in retaining valuable employees.
- Profit sharing contributions may be tax deductible for employers.
- While employee 401(k) contributions are capped at \$23,500 in 2025, participants are allowed as much as \$70,000 in total contributions for the year (as indexed annually). Even though an employer match might provide some additional retirement funding, the main avenue to get the IRS maximum is through profit sharing contributions.

We'll go into a little more detail on the options available to you, as well as examples showing how the costs and benefits change with each.

## Pro-rata allocation

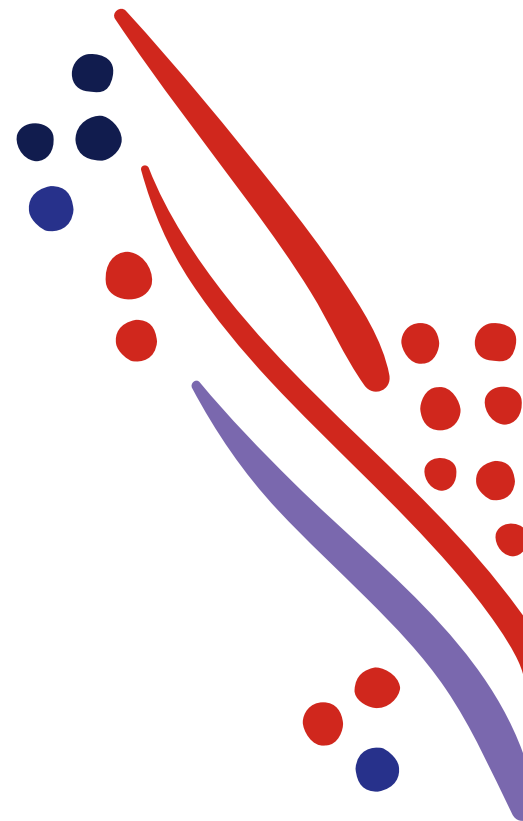
All eligible employees receive the same percentage of eligible compensation. Compensation considered for the allocation is capped at the IRS limit (\$350,000 in 2025).

### Example #1

For 2025, all eligible employees will receive 3% of their compensation.

### Example #2

For 2025, the company makes a \$50,000 profit sharing contribution. Each eligible employee receives their compensation divided by the total company compensation, multiplied by 50,000.





## Integrated allocation

All eligible employees receive the same percentage of eligible compensation up to the Social Security TWB, up to \$176,100 in 2025, as indexed annually. This is referred to as Base Contribution Percentage (BCP). Eligible compensation over the TWB receives up to two times the BCP or the BCP plus the disparity percentage (5.7%), whichever is less. This is referred to as the Excess Contribution Percentage (ECP). This allocation method is best for companies who want to provide high earning employees a little higher contribution percentage but don't want added compliance testing and administrative work. Compensation considered for the allocation is capped at the IRS limit (\$350,000 in 2025).

### Example #1

For 2025, the company wants to give a base contribution of 3%.

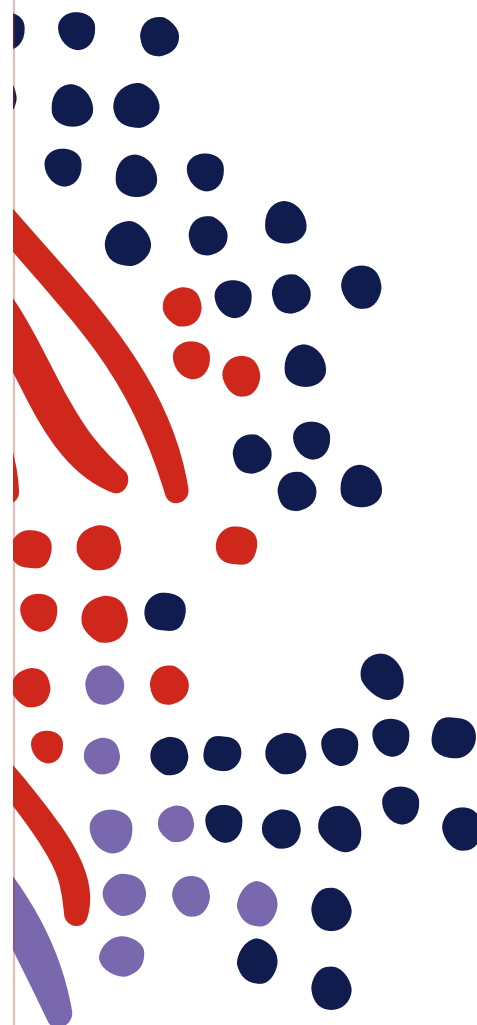
- An eligible employee who has compensation of \$75,000 would receive  $75,000 \times .03 = \$2,250.00$ .
- An eligible employee who has compensation of \$200,000 would receive  $(176,100 \times .03) + ((200,000 - 176,100) \times .06) = \$6,717.00$ .

### Example #2

For 2025, the company wants to give a base contribution of 7%.

- An eligible employee who has compensation of \$75,000 would receive  $75,000 \times .07 = \$5,250.00$ .
- An eligible employee who has compensation of \$200,000 would receive  $(176,100 \times .07) + ((200,000 - 176,100) \times (.07 + .057)) = \$15,362.30$ .

*For short plan years, total compensation and allocations for testing purposes will be pro-rated depending on when your plan starts at ADP.*



## Comparison of the two options



<b>Pro-rata</b>	For 2025, the company gives each eligible employee 5% of compensation.
<b>Integrated</b>	For 2025, compensation up to the TWB (\$176,100) receives a 5% contribution. Compensation over the TWB receives a 10% contribution.

### Example #1

Name	HCE	AGE	Compensation	Pro-rata	Integrated
Sheila (Owner)	YES	60	\$225,000	\$11,250	\$14,070
John	YES	55	\$155,000	\$7,750	\$7,750
Tom	NO	45	\$90,000	\$4,500	\$4,500
Lisa	NO	52	\$75,000	\$3,750	\$3,750
Bob	NO	30	\$50,000	\$2,500	\$2,500
Tammy	NO	30	\$60,000	\$3,000	\$3,000
Sarah	NO	25	\$35,000	\$1,750	\$1,750
Dave	NO	35	\$55,000	\$2,750	\$2,750
Steve	NO	21	\$30,000	\$1,500	\$1,500
Nancy	NO	33	\$40,000	\$2,000	\$2,000
TOTAL CONTRIBUTION				\$40,750	\$43,570
<b>OWNER SHARE</b>				<b>27.61%</b>	<b>32.29%</b>

If you are interested in offering a profit sharing provision to your plan, reach out to your 401(k) Specialist at **844-448-0325**. Please consider consulting a tax advisor or an attorney to decide what is the best option for your plan.

### 2025 Pro-Rated Limits for Short Plan Years

Month Plan Starts at ADP	401(a)(17) Annual Compensation	415(C) Total Annual Additions
January 1, 2025	\$350,000.00	\$70,000.00
February 1, 2025	\$320,833.33	\$64,166.67
March 1, 2025	\$291,666.67	\$58,333.33
April 1, 2025	\$262,500.00	\$52,500.00
May 1, 2025	\$233,333.33	\$46,666.67
June 1, 2025	\$204,166.67	\$40,833.33
July 1, 2025	\$175,000.00	\$35,000.00
August 1, 2025	\$145,833.33	\$29,166.67
September 1, 2025	\$116,666.67	\$23,333.33
October 1, 2025	\$87,500.00	\$17,500.00
November 1, 2025	\$58,333.33	\$11,666.67
December 1, 2025	\$29,166.67	\$5,833.33

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- Profit sharing contributions can help in the recruitment process, as well as aid in retaining valuable employees.
- Profit sharing contributions may be tax deductible for employers.
- While employee 401(k) contributions are capped at \$23,000 in 2024, participants are allowed as much as \$69,000 in total contributions for the year (as indexed annually). Even though an employer match might provide some additional retirement funding, the main avenue to get the IRS maximum is through profit sharing contributions.

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## Pro-rata allocation

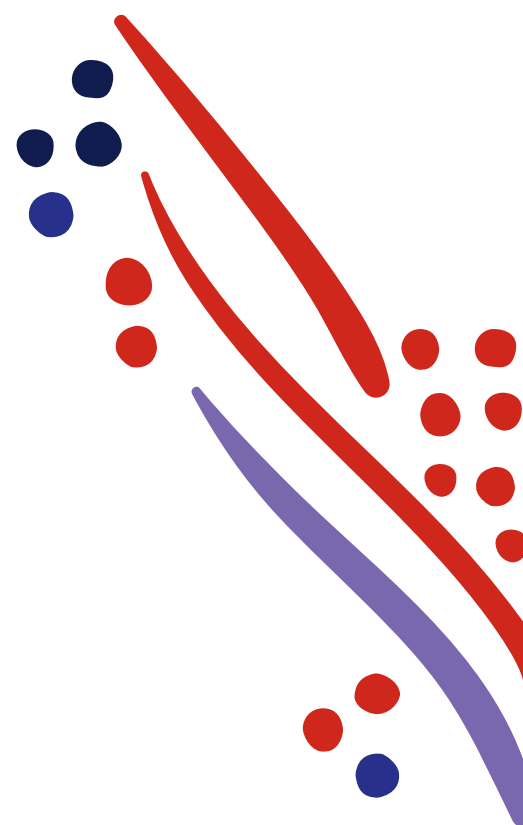
All eligible employees receive the same percentage of eligible compensation. Compensation considered for the allocation is capped at the IRS limit (\$345,000 in 2024).

### Example #1

For 2024, all eligible employees will receive 3% of their compensation.

### Example #2

For 2024, the company makes a \$50,000 profit sharing contribution. Each eligible employee receives their compensation divided by the total company compensation, multiplied by 50,000.



Always Designing  
for People™



## Integrated allocation

All eligible employees receive the same percentage of eligible compensation up to the Social Security TWB, up to \$168,600 in 2024, as indexed annually. This is referred to as Base Contribution Percentage (BCP). Eligible compensation over the TWB receives up to two times the BCP or the BCP plus the disparity percentage (5.7%), whichever is less. This is referred to as the Excess Contribution Percentage (ECP). This allocation method is best for companies who want to provide high earning employees a little higher contribution percentage but don't want added compliance testing and administrative work. Compensation considered for the allocation is capped at the IRS limit (\$345,000 in 2024).

### Example #1

For 2024, the company wants to give a base contribution of 3%.

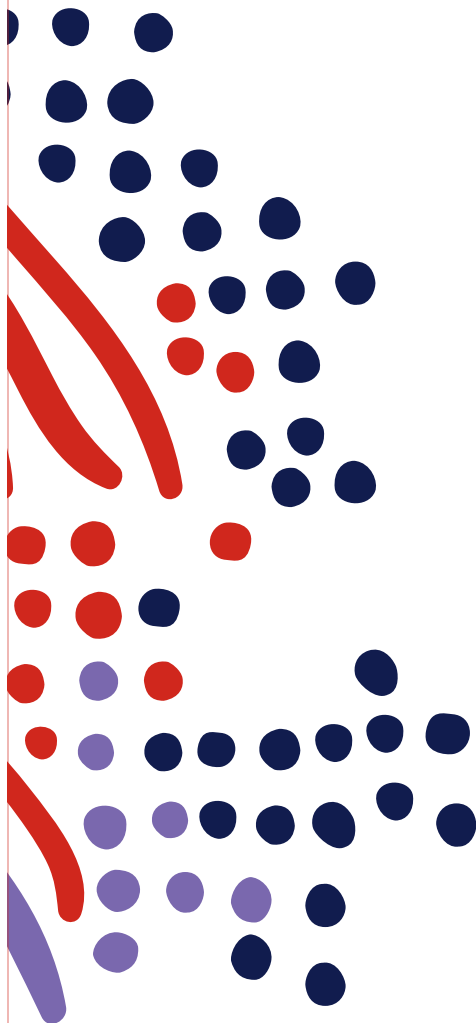
- An eligible employee who has compensation of \$75,000 would receive  $75,000 \times .03 = \$2,250.00$ .
- An eligible employee who has compensation of \$200,000 would receive  $(168,600 \times .03) + ((200,000 - 168,600) \times .06) = \$6,942.00$ .

### Example #2

For 2024, the company wants to give a base contribution of 7%.

- An eligible employee who has compensation of \$75,000 would receive  $75,000 \times .07 = \$5,250.00$ .
- An eligible employee who has compensation of \$200,000 would receive  $(168,600 \times .07) + ((200,000 - 168,600) \times (.07 + .057)) = \$15,789.80$ .

*For short plan years, total compensation and allocations for testing purposes will be pro-rated depending on when your plan starts at ADP.*



## Comparison of the two options



<b>Pro-rata</b>	For 2024, the company gives each eligible employee 5% of compensation.
<b>Integrated</b>	For 2024, compensation up to the TWB (\$168,600) receives a 5% contribution. Compensation over the TWB receives a 10% contribution.

### Example #1

Name	HCE	AGE	Compensation	Pro-rata	Integrated
Sheila (Owner)	YES	60	\$225,000	\$11,250	\$14,070
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### 2024 Pro-Rated Limits for Short Plan Years

Month Plan Starts at ADP	401(a)(17) Annual Compensation	415(C) Total Annual Additions
January 1, 2024	\$345,000.00	\$69,000.00
February 1, 2024	\$316,250.00	\$63,250.00
March 1, 2024	\$287,500.00	\$57,500.00
April 1, 2024	\$258,750.00	\$51,750.00
May 1, 2024	\$230,000.00	\$46,000.00
June 1, 2024	\$201,250.00	\$40,250.00
July 1, 2024	\$172,500.00	\$34,500.00
August 1, 2024	\$143,750.00	\$28,750.00
September 1, 2024	\$115,000.00	\$23,000.00
October 1, 2024	\$86,250.00	\$17,250.00
November 1, 2024	\$57,500.00	\$11,500.00
December 1, 2024	\$28,750.00	\$5,750.00