



CPA's Secret Weapons: Unlock Massive Tax Savings

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AGENDA

- Cash Balance Pension Plans
- Donor Advised Funds
- Primary Home Sale Exemption



What is a cash balance plan?

While technically a defined benefit (pension) plan, it has the look and feel of a defined contribution plan. It is used in conjunction with a 401k profit sharing and safe harbor to allow ownership and/or groups of employees substantial pre-tax contributions.



MAJOR BENEFITS

- ✓ **Asset Protection**
- ✓ **Portable**
- ✓ **SuperSize Savings/Catch Up**
- ✓ **Transparency**
- ✓ **Retain Key Staff / Succession**



Contribution Limits: 2025

Age	401k Only	401k & P/S	Cash Balance	Total
66-70	\$31,000	\$77,500	\$383,000	\$460,500
60-65	\$31,000	\$77,500	\$342,000	\$419,500
55-59	\$31,000	\$77,500	\$280,000	\$357,500
50-54	\$31,000	\$77,500	\$218,000	\$295,500
45-49	\$23,500	\$70,000	\$170,000	\$240,000

Tax Implications and Reporting

- Contributions are 100% funded by the employer and thus fully deductible to the business
- Contributions can be made up until the company files their business tax return
 - SecureAct allows you to adopt the plan by the business filing as well
- Plan need to be in place for 3-5 years
- Must pass non discrimination test



Tax Return Location

TAX TYPE	WHERE TO RECORD
Sole Proprietor	Adjustment to Income & Schedule C
Partnership	Line 13: Code R of Form 1065 & K1
S-Corp	Line 17 of Form 1120-S
C-Corp	Line 23 of Form 1120



IDEAL CANDIDATES

- **Highly profitable businesses**
- **Successful solo firms - consultants, independent sale reps**
- **Owners with a desire to maximize retirement savings**
- **Staff/Partner ratio is low**
- **Owners/Partners looking to contribute more pre-tax dollars**
- **Best for individuals over the age of 45**
- **Self employed spouse with high income**



CASE STUDIES

Small Employer Under 10 employees

OBJECTIVE: Tax savings and Max benefit, control employee contributions

PROFILE: Small business owner with 3 employees

SOLUTION: Fund the Cash Balance plan for 7 years, until owner's age 60

<u>NAME</u>	<u>AGE</u>	<u>COMP</u>	<u>SAFE HARBOR/PS</u>	<u>CASH BALANCE</u>	<u>ANNUAL CONTRIB.</u>
Owner	53	\$345,000	\$20,700	\$220,000	\$240,700
Employee 1	29	\$45,000	\$2,675	\$700	\$3,375
Employee 2	40	\$45,000	\$2,675	\$700	\$3,375
Employee 3	43	\$55,000	\$3,425	\$700	\$4,125

Donor Advised Funds

What is a DAF?

Charitable investment account in which a client makes an irrevocable contribution of cash, appreciated securities, or business ownership. The account is held by a sponsoring organization and the assets inside of the fund grow tax-free. Annually clients make donations to various charities of their choice.



Tax Implication and Reporting

- Deduction limits: 60% of AGI for cash donation and 30% of AGI for stock
- No capital gains on securities
- Gifts are made on Schedule A, either Line 11 or 12.
 - If donating stock over \$500, form 8283 is required
- Grants (donations) from the DAF in subsequent years are NOT tax deductible



IDEAL CANDIDATES

- **High Income/High Net Worth Individuals:**
 - **Clients who itemize**
- **Clients with liquidity events:**
 - **Selling a business**
 - **Receive Stock Options**
- **Clients with concentrated holding(s)**



CASE STUDIES

Retired Couple

- **Mr. & Mrs. Jones (63) with income (pension, deferred comp, dividend/interest) of \$130,000 & IRA distributions of \$150,000**
- **Est. AGI = \$280,000**
- **Est. IRMMA Premium at 65 = \$370/month per person**



Retired Couple – Solution

- Mrs. Jones has highly appreciated stock from former employer
- She contributes \$100,000 to a DAF
- 2025 deduction = \$84,000
- \$16,000 carry forward deduction for 2026
- Full \$100,000 is available to grant tax free immediately
- Any further growth in the account is tax free
- IRMMA premium drops to \$185/month per person



Stock Options

- **Mr. Smith (45) is married, with W2 income of \$500,000**
- **Received NQO 5 years ago**
- **\$2000/share growth on exercise price**
- **Plan is to wait until the year of expiration to exercise**



Stock Option – Solution

- Mrs. Smith begins exercising stock in 2025
 - 100 shares * 2000 delta = \$200,000 additional income
- 2025 DAF deduction = \$210,000
- Lowers income to \$490,000
- Stays in the 32% tax bracket



PRIMARY HOME EXEMPTION

SECTION 121 EXCLUSION

- **Exclusion Amount**
 - **Single Filers:** Exclude up to \$250,000 of gain
 - **Married Filing Joint:** Exclude up to \$500,000 of gain

- **Eligibility**
 - **Ownership Test:** Own the home for 2 of the last 5 year period
 - **Use Test:** Must have lived as your main home for 2 year of the last 5 year period







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