THE BUSINESS JOURNAL of Greater Keene, Brattleboro & Peterborough

Expert Tips

Advice You Can Trust From the People You Know

Retirement Planning For Your Small Business: The Basics

BY STEPHEN G. DAVIS | November 2016

As a small business owner, you're used to wearing a lot of hats. It's very likely that financial planning for your business has taken a back- seat to more immediate concerns.

At some point, though, these important aspects of running your own business must be addressed, preferably with the help of an expert. There are so many things to think about and so many options in retirement planning. One small mistake now can have enormous implications down the road.

THE PLANS

Planning for your retirement and the retirement of your employees can be complex. Here are just a few of the retirement plans available to business owners:

SEP-IRA. The Simplified Employee Pension-IRA is a convenient way to contribute up to 25 percent of your net income toward retirement. Like a traditional IRA, savings are tax-deferred.

Defined contribution. Examples of this type of plan include 401(k)s and 403(b)s. Contribution limits are $18,000, $24,000 if age 50 or older. Savings are tax-deferred.

Profit sharing. Employers contribute a share of a company's profits to this type of plan. This approach gives an employee incentive and an owner flexibility.

Deferred compensation. This type of plan operates much like a defined contribution plan.

Keogh. Similar to a SEP-IRA, a Keogh al- lows you to contribute up to 25 percent of your net income.

A Combination Plan. Combines a 401K, pro t sharing, and a cash balance defined benefit plan and allows a tax-deferred contribution and a tax deductible contribution.

This can allow the business owner to maximize the deductions and contributions well above the usual and customary amounts.

THE FINER POINTS

Once you've decided on the best retirement plan for your business, there are the finer points of your business' financial plan to consider. For example:

Key employee. This term refers to an employee who meets certain compensation or ownership criteria and may or may not hold a leadership role. This designation has implications for defined contribution plans.

Buy-sell agreement. This agreement provides for the sale of an owner's interest in a business to the remaining owners if an owner dies or chooses to exit the business. (Also known as a buyout agreement.)

Stock redemption plan. In this arrangement, a business agrees to purchase an owner's interest at a specified time.

Succession plan. This plan for passing on a business often employs life insurance to transfer ownership in the event of an owner's passing. The proceeds are then used to buy out the deceased owner's interest.

Long-term care/life insurance hybrid. This newer insurance option solves two problems at once. Should a beneficiary need long-term care, the long-term care benefit is subtracted from the policy's cash value be- fore coverage kicks in.

There are so many decisions to be made when structuring your business' financial plan. And each comes with its own tax con- sequences. For example, having a family member on the payroll may be the secret to your business' success as well as provide you with some unique tax advantages.

Running your own business takes every- thing you've got — there's no doubt. Make sure it remains viable well into the future by taking the time now to create the ideal financial plan for you.

Stephen G. Davis is the founder and president of S.G. Davis Financial Group, LLC, an independent financial planning firm with three New Hampshire offices located in Con- cord, Nashua and Keene.