

*CPA Quick Guide to
Defined Benefit Plans
and PensionQuote Services*

ABC Medical Office

CPA Quick Guide to Defined Benefit Plans

1) Defined Benefit Plan Overview

- a. Plan Structure – may include 3 elements: The main plan is a Defined Benefit Pension plan. Additional contributions and benefits may include a 401(k) deferral and a profit sharing plan.
- b. The Defined Benefit plan is subject to a required actuarial certification each year and the inclusion of a Schedule B with the annual F-5500 filing with the IRS.
- c. The plan is a qualified plan pursuant to IRC Sec. 401.
- d. Contributions are determined initially and in future years by the actuary taking into account census data provided by the employer, plan asset information, and other IRS actuarial factors.
- e. Employer contributions to the plan are income tax deductible as “ordinary and necessary business expenses” pursuant to IRC Sec. 162.
- f. Employer contributions to the plan are not taxable to a participant (including owner-employees) at the time of contribution.
- g. Benefits are taxable to the participant as ordinary income at the time of distribution (unless rolled over to a successor qualified plan).

2) Income Issues

- a. Benefits and resulting plan contributions for business owners are based on earned income subject to an IRC Sec. 415 maximum limit of \$255,000 (2012 limit). Specific definition of eligible compensation depends on the type of business structure.

- 1) For **S and C-Corps**. Eligible compensation is defined as W-2 income. In most cases, a business owner should take W-2 income of at least \$255,000 to achieve a maximum plan benefit/contribution while maintaining the lowest possible employee cost. If there are no non-owner W-2 employees, the actuary may calculate a lesser W-2 sufficient to meet the business owner’s objectives. The pension contribution will be IN ADDITION to the W-2 income taken. For example, if the client wishes to contribute \$255,000 to the pension, his TOTAL income

from his business must be at least \$505,000 (\$255,000 of W-2 PLUS the \$250,000 pension contribution equals \$505,000).

2) For **Partnerships**. Generally, partners may take W-2 salary and/or K-1 distributions. To be eligible as compensation for a pension plan, K-1 distributions must be subject-to FICA/Social Security taxes (“earned income”). Salary and/or K-1 distributions are in addition to the pension contribution. For example, a partner who desires a \$200,000 plan contribution may need \$255,000 of W-2 and/or K-1 income for a total income of at least \$455,000.

3) For **Sole Proprietors**

i. “Compensation” on which the owner’s benefit/contribution is based is defined as “Net Schedule C earned income reduced by 50% of the Self-Employment tax and further reduced by all employer contributions”.

ii. Note that a pension contribution may NOT create a loss in a Sole Proprietorship. For example, a Sole Proprietor has a plan contribution of \$150,000. They would have to show \$427,027 of total Net Schedule C income to meet plan compensation requirements and have sufficient cash flow to fund the desired plan contribution (\$427,027 Schedule C income after expenses - 32,027 (7.5% = 1/2 Self-employment tax) leaves \$395,000, of which \$250,000 is compensation and \$145,000 is the deductible plan contribution).

3) **Accounting for the Plan**

a. **C-corporations** - The plan contribution is taken as a corporate deduction on the corporate tax return, **F-1120, line 23**.

b. **S-Corporations** - The plan contribution is taken on the S-Corporation tax return, **F-1120-S, line 23**.

c. **Partnerships** - The deduction for contributions on behalf of **non-partner employees** is taken on the partnership return, **F-1065, line 18**. The deduction for contributions on behalf of partners is

reported on the partner's **F-K1, box 13, Code R**, and is taken on the partner's **F-1040, line 28**.

- d. Sole Proprietors** - The plan contribution for **participating non-owner employees** is taken on the **Schedule C, line 19**. The deduction for the **owner's contribution** is taken on **F-1040, line 28**.

4) Time table – Implementation and Administration the pension plan

a. Implementation

A plan must be adopted with a Trust document executed prior to the close of the business owner's tax year. For example, a business operating on a calendar year must have their plan document executed prior to December 31 of the year they intend to initiate their plan.

The TPA/actuaries will:

- 1) Prepare Plan documents.
- 2) Letter of Determination requested for all plans.
- 3) Complete annual compliance testing for all plans including determination of eligibility, calculation of benefits/contributions.
- 4) Prepare annual Form 5500s for all plans in the program (pension, profit sharing and 401(k)).
- 5) Annual Actuarial certification Schedule B for defined benefit plans.
- 6) Annual conference calls to discuss client status:
 - i. Owner's income changes?
 - ii. Changes in census (new hires? Terminations?)
 - iii. Impending changes in the owner's business?

b. Annual Administration

After the close of the business tax year:

1. The actuaries will request an updated census from the business owner to determine newly eligible employees, terminations, and to calculate the contribution for all eligible participants.

2. The actuary requests asset valuation from the business owner and /or their advisers.
3. The actuary runs the plan anniversary valuation and provides the contribution amount to the business owner.
4. The business owner makes the balance of their annual plan contribution no later than the date they file their business tax return.

5) See attached Tax forms as reference

ABC Medical Office

1. Compensation required:

S or C- Corporation:

	W-2
<u>Owners:</u>	<u>Salary</u>
Dr. Smith	\$250,000

"salary" for purposes of the pension plan is defined as compensation subject-to Medicare.

Above salary required for the first three years of the plan - 2012,2013, 2014.

Salary may be less starting in 2015.

2. Deductible contribution for 2012:

Includes pension + profit sharing	201,000
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3. Total income required:

Owner's compensation	250,000
Contribution to program	201,000
Total	451,000

Above amounts are preliminary and may vary depending upon final year-end payroll data and review by the actuary.

For the year Jan. 1–Dec. 31, 2012, or other tax year beginning , 2012, ending , 20 See separate instructions.

Your first name and initial Last name Your social security number

If a joint return, spouse's first name and initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Presidential Election Campaign

Foreign country name Foreign province/state/county Foreign postal code Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse

Filing Status

- 1 Single 2 Married filing jointly (even if only one had income) 3 Married filing separately. Enter spouse's SSN above and full name here. 4 Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. 5 Qualifying widow(er) with dependent child

Exemptions

Table with columns for dependent details: (1) First name, Last name, (2) Dependent's social security number, (3) Dependent's relationship to you, (4) if child under age 17 qualifying for child tax credit. Includes checkboxes for 'Youself', 'Spouse', and 'Total number of exemptions claimed'.

Income

Table for income reporting with lines 7 through 22. Includes categories like Wages, interest, dividends, and total income.

Adjusted Gross Income

Table for adjusted gross income reporting with lines 23 through 37. Includes categories like educator expenses, health savings account deduction, and self-employed SEP, SIMPLE, and qualified plans.

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

**Profit or Loss From Business
(Sole Proprietorship)**

► **For information on Schedule C and its instructions, go to www.irs.gov/schedulec.**
► **Attach to Form 1040, 1040NR, or 1041; partnerships generally must file Form 1065.**

OMB No. 1545-0074

2012
Attachment
Sequence No. **09**

Name of proprietor	Social security number (SSN)										
A Principal business or profession, including product or service (see instructions)	B Enter code from instructions <table border="1" style="width:100%; height: 20px; border-collapse: collapse;"> <tr> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> </tr> </table>										
C Business name. If no separate business name, leave blank.	D Employer ID number (EIN), (see instr.) <table border="1" style="width:100%; height: 20px; border-collapse: collapse;"> <tr> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> <td style="width:10%;"></td> </tr> </table>										
E Business address (including suite or room no.) ► City, town or post office, state, and ZIP code											
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ►											
G Did you "materially participate" in the operation of this business during 2012? If "No," see instructions for limit on losses . . . <input type="checkbox"/> Yes <input type="checkbox"/> No											
H If you started or acquired this business during 2012, check here . . . <input type="checkbox"/>											
I Did you make any payments in 2012 that would require you to file Form(s) 1099? (see instructions) . . . <input type="checkbox"/> Yes <input type="checkbox"/> No											
J If "Yes," did you or will you file required Forms 1099? . . . <input type="checkbox"/> Yes <input type="checkbox"/> No											

Part I Income

1 Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked . . . <input type="checkbox"/>	1		
2 Returns and allowances (see instructions)	2		
3 Subtract line 2 from line 1	3		
4 Cost of goods sold (from line 42)	4		
5 Gross profit. Subtract line 4 from line 3	5		
6 Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6		
7 Gross income. Add lines 5 and 6	7		

Part II Expenses

Enter expenses for business use of your home only on line 30.

8 Advertising	8			18 Office expense (see instructions)	18		
9 Car and truck expenses (see instructions).	9			19 Pension and profit-sharing plans	19		
10 Commissions and fees	10			20 Rent or lease (see instructions):			
11 Contract labor (see instructions)	11			a Vehicles, machinery, and equipment	20a		
12 Depletion	12			b Other business property	20b		
13 Depreciation and section 179 expense deduction (not included in Part III) (see instructions).	13			21 Repairs and maintenance	21		
14 Employee benefit programs (other than on line 19)	14			22 Supplies (not included in Part III)	22		
15 Insurance (other than health)	15			23 Taxes and licenses	23		
16 Interest:				24 Travel, meals, and entertainment:			
a Mortgage (paid to banks, etc.)	16a			a Travel	24a		
b Other	16b			b Deductible meals and entertainment (see instructions)	24b		
17 Legal and professional services	17			25 Utilities	25		
28 Total expenses before expenses for business use of home. Add lines 8 through 27a	28			26 Wages (less employment credits)	26		
29 Tentative profit or (loss). Subtract line 28 from line 7	29			27a Other expenses (from line 48)	27a		
30 Expenses for business use of your home. Attach Form 8829 . Do not report such expenses elsewhere	30			27b Reserved for future use	27b		
31 Net profit or (loss). Subtract line 30 from line 29.							
• If a profit, enter on both Form 1040, line 12 (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see instructions). Estates and trusts, enter on Form 1041, line 3 .							
• If a loss, you must go to line 32.							
32 If you have a loss, check the box that describes your investment in this activity (see instructions).							
• If you checked 32a, enter the loss on both Form 1040, line 12 , (or Form 1040NR, line 13) and on Schedule SE, line 2 . (If you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on Form 1041, line 3 .							
• If you checked 32b, you must attach Form 6198 . Your loss may be limited.							
				32a <input type="checkbox"/> All investment is at risk.			
				32b <input type="checkbox"/> Some investment is not at risk.			

U.S. Return of Partnership Income

For calendar year 2012, or tax year beginning _____, 2012, ending _____, 20_____

2012

► **Information about Form 1065 and its separate instructions is at www.irs.gov/form1065.**

A Principal business activity	Print or type.	Name of partnership	D Employer identification number
B Principal product or service		Number, street, and room or suite no. If a P.O. box, see the instructions.	E Date business started
C Business code number		City or town, state, and ZIP code	F Total assets (see the instructions) \$ _____

- G** Check applicable boxes: (1) Initial return (2) Final return (3) Name change (4) Address change (5) Amended return
 (6) Technical termination - also check (1) or (2)
- H** Check accounting method: (1) Cash (2) Accrual (3) Other (specify) ► _____
- I** Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ► _____
- J** Check if Schedules C and M-3 are attached

Caution. Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

Income	1a	Gross receipts or sales	1a		
	b	Returns and allowances	1b		
	c	Balance. Subtract line 1b from line 1a			1c
	2	Cost of goods sold (attach Form 1125-A)			2
	3	Gross profit. Subtract line 2 from line 1c			3
	4	Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)			4
	5	Net farm profit (loss) (attach Schedule F (Form 1040))			5
	6	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			6
Deductions <small>(see the instructions for limitations)</small>	7	Other income (loss) (attach statement)			7
	8	Total income (loss). Combine lines 3 through 7			8
	9	Salaries and wages (other than to partners) (less employment credits)			9
	10	Guaranteed payments to partners			10
	11	Repairs and maintenance			11
	12	Bad debts			12
	13	Rent			13
	14	Taxes and licenses			14
	15	Interest			15
	16a	Depreciation (if required, attach Form 4562)	16a		
	b	Less depreciation reported on Form 1125-A and elsewhere on return	16b		16c
	17	Depletion (Do not deduct oil and gas depletion.)			17
	18	Retirement plans, etc.			18
	19	Employee benefit programs			19
20	Other deductions (attach statement)			20	
21	Total deductions. Add the amounts shown in the far right column for lines 9 through 20			21	
22	Ordinary business income (loss). Subtract line 21 from line 8			22	

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

► _____ Date

Signature of general partner or limited liability company member manager

May the IRS discuss this return with the preparer shown below (see instructions)? <input type="checkbox"/> Yes <input type="checkbox"/> No
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Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
Firm's name ►	Firm's EIN ►			
Firm's address ►	Phone no. _____			

Schedule K-1 (Form 1065)

2012

Department of the Treasury Internal Revenue Service

For calendar year 2012, or tax year beginning _____, 2012 ending _____, 20_____

Partner's Share of Income, Deductions, Credits, etc. See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
B Partnership's name, address, city, state, and ZIP code
C IRS Center where partnership filed return
D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number
F Partner's name, address, city, state, and ZIP code
G General partner or LLC member-manager / Limited partner or other LLC member
H Domestic partner / Foreign partner
I1 What type of entity is this partner?
I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here
J Partner's share of profit, loss, and capital (see instructions):
K Partner's share of liabilities at year end:

L Partner's capital account analysis:
Beginning capital account
Capital contributed during the year
Current year increase (decrease)
Withdrawals & distributions
Ending capital account
M Did the partner contribute property with a built-in gain or loss?

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

Table with 4 columns: Line number, Description, Column number, and Other information. Rows include Ordinary business income (loss), Net rental real estate income (loss), Other net rental income (loss), Guaranteed payments, Interest income, Ordinary dividends, Qualified dividends, Royalties, Net short-term capital gain (loss), Net long-term capital gain (loss), Collectibles (28%) gain (loss), Unrecaptured section 1250 gain, Net section 1231 gain (loss), Other income (loss), Section 179 deduction, Other deductions, Self-employment earnings (loss), Distributions, and Other information.

*See attached statement for additional information.
For IRS Use Only

▶ Information about Form 1120 and its separate instructions is at www.irs.gov/form1120.

A Check if: 1a Consolidated return (attach Form 851) <input type="checkbox"/> b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 attached <input type="checkbox"/>	TYPE OR PRINT	Name _____ Number, street, and room or suite no. If a P.O. box, see instructions. _____ City or town, state, and ZIP code _____	B Employer identification number _____ C Date incorporated _____ D Total assets (see instructions) \$ _____
E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change			

Income	1a	Gross receipts or sales			
	b	Returns and allowances	1a		
	c	Balance. Subtract line 1b from line 1a	1b		
	2	Cost of goods sold (attach Form 1125-A)		1c	
	3	Gross profit. Subtract line 2 from line 1c		2	
	4	Dividends (Schedule C, line 19)		3	
	5	Interest		4	
	6	Gross rents		5	
	7	Gross royalties		6	
	8	Capital gain net income (attach Schedule D (Form 1120))		7	
	9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)		8	

Deductions (See instructions for limitations on deductions.)	10	Other income (see instructions—attach statement)			
	11	Total income. Add lines 3 through 10		10	
	12	Compensation of officers (see instructions—attach Form 1125-E)		11	
	13	Salaries and wages (less employment credits)		12	
	14	Repairs and maintenance		13	
	15	Bad debts		14	
	16	Rents		15	
	17	Taxes and licenses		16	
	18	Interest		17	
	19	Charitable contributions		18	
	20	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)		19	
	21	Depletion		20	
	22	Advertising		21	
	23	Pension, profit-sharing, etc., plans		22	
	24	Employee benefit programs		23	
	25	Domestic production activities deduction (attach Form 8903)		24	
	26	Other deductions (attach statement)		25	
	27	Total deductions. Add lines 12 through 26		26	
	28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.		27	
	29a	Net operating loss deduction (see instructions)	29a		
b	Special deductions (Schedule C, line 20)	29b			
c	Add lines 29a and 29b		29c		

Tax, Refundable Credits, and Payments	30	Taxable income. Subtract line 29c from line 28 (see instructions)			
	31	Total tax (Schedule J, Part I, line 11)		30	
	32	Total payments and refundable credits (Schedule J, Part II, line 21)		31	
	33	Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>		32	
	34	Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed		33	
	35	Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid		34	
36	Enter amount from line 35 you want: Credited to 2013 estimated tax ▶	35	36	Refunded ▶	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here	Signature of officer _____	Date _____	Title _____
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May the IRS discuss this return with the preparer shown below (see instructions)? Yes No

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶	Firm's EIN ▶			
	Firm's address ▶	Phone no.			

U.S. Income Tax Return for an S Corporation

▶ Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
 ▶ Information about Form 1120S and its separate instructions is at www.irs.gov/form1120s.

2012

For calendar year 2012 or tax year beginning _____, 2012, ending _____, 20

A S election effective date	TYPE OR PRINT	Name	D Employer identification number
B Business activity code number (see instructions)		Number, street, and room or suite no. If a P.O. box, see instructions.	E Date incorporated
C Check if Sch. M-3 attached <input type="checkbox"/>		City or town, state, and ZIP code	F Total assets (see instructions) \$

G Is the corporation electing to be an S corporation beginning with this tax year? Yes No If "Yes," attach Form 2553 if not already filed
H Check if: (1) Final return (2) Name change (3) Address change (4) Amended return (5) S election termination or revocation
I Enter the number of shareholders who were shareholders during any part of the tax year _____ ▶

Caution. Include **only** trade or business income and expenses on lines 1a through 21. See the instructions for more information.

Income	1a	Gross receipts or sales			
	1b	Returns and allowances			
	1c	Balance. Subtract line 1b from line 1a			
	2	Cost of goods sold (attach Form 1125-A)			
	3	Gross profit. Subtract line 2 from line 1c			
	4	Net gain (loss) from Form 4797, line 17 (attach Form 4797)			
Deductions <small>(see instructions for limitations)</small>	5	Other income (loss) (see instructions—attach statement)			
	6	Total income (loss). Add lines 3 through 5 ▶			
	7	Compensation of officers			
	8	Salaries and wages (less employment credits)			
	9	Repairs and maintenance			
	10	Bad debts			
	11	Rents			
	12	Taxes and licenses			
	13	Interest			
	14	Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)			
	15	Depletion (Do not deduct oil and gas depletion.)			
	16	Advertising			
	17	Pension, profit-sharing, etc., plans			
	18	Employee benefit programs			
	19	Other deductions (attach statement)			
20	Total deductions. Add lines 7 through 19 ▶				
21	Ordinary business income (loss). Subtract line 20 from line 6				
Tax and Payments	22a	Excess net passive income or LIFO recapture tax (see instructions)			
	22b	Tax from Schedule D (Form 1120S)			
	22c	Add lines 22a and 22b (see instructions for additional taxes)			
	23a	2012 estimated tax payments and 2011 overpayment credited to 2012			
	23b	Tax deposited with Form 7004			
	23c	Credit for federal tax paid on fuels (attach Form 4136)			
	23d	Add lines 23a through 23c			
24	Estimated tax penalty (see instructions). Check if Form 2220 is attached ▶ <input type="checkbox"/>				
25	Amount owed. If line 23d is smaller than the total of lines 22c and 24, enter amount owed				
26	Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid				
27	Enter amount from line 26 Credited to 2013 estimated tax ▶	Refunded ▶			

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here

Signature of officer	Date	Title
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May the IRS discuss this return with the preparer shown below (see instructions)? Yes No

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
Firm's name ▶				Firm's EIN ▶
Firm's address ▶				Phone no.