

# 401(k) Plan

A 401(k) Plan is a profit sharing plan with a salary deferral feature which permits employees to defer a portion of their salary into the plan on a pre-tax basis through payroll deduction.

## *Available For*

- Sole proprietors, partnerships, corporations, LLCs, and nonprofit organizations

## *Main Characteristics*

- Contributions may be made by employer and employee.
- **Employer's Deduction Limit** — 25% of total compensation paid to all eligible participants during the year.
- **Employee Salary Deferral Limit** — The lesser of 100% of compensation or \$23,000 (2024). Salary deferral amount is not included in employer's 25% deduction limit.
- **Contribution Limit Per Individual (combination of employer and employee contribution)** — The lesser of 100% of compensation or \$69,000 (2024).
- Catch-up contribution for individuals age 50 and older is \$7,500 (2024).
- Compensation is limited to \$345,000 for 2024.
- Employee contributions must be deposited as soon as administratively feasible, but no later than the 15th business day of the month following the month the assets were deducted from pay.
- Employer profit sharing contributions must be made no later than the federal filing date (plus extensions) for the business.
- Eligible employees generally include those who are age 21, who have one year of service, and work 1,000 hours per year.

## *Advantages*

- Employee salary deferral is not subject to federal or state income tax or withholding until distributions are taken.
- Earnings are tax-deferred.
- Company matching contributions allowed (a contribution based on the employee's salary deferral). Company contributions are discretionary.
- May exclude part-time employees (less than 1,000 hours of service).
- Company contributions and matching contributions may be subject to a vesting schedule of up to six years.
- Employer may allow participants to borrow or elect hardship withdrawals from their accounts.

## *Limitations*

- Annual non-discrimination tests required, which may limit contributions of "Highly Compensated Employees."
- Requires complex administration and government filings (Form 5500).
- Administration may be pricey.

*Before making decisions about 401(k) Plans, business owners should consult their tax advisor. Stifel does not offer tax advice.*