Financial Literacy Advocate Explains Why A High Income Earner Could Out A $100,000 Tax Deduction

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The deadline for setting up a defined benefit plan is looming and many self-employed individuals are unaware of how or why they should consider this option. The deadline is set for December 31, 2017, which may seem like plenty of time, but Norcross, Georgia National Financial Literacy advocate Walter Anderson says that now is the time to take action.

"Defined benefit plans give you substantial deductions for retirement contributions on your taxes," says Anderson. "In addition, you gain future retirement income if you qualify and see much larger contributions than if you had an individual 401K or an SEP IRA."

Defined benefit plans are designed for self-employed individuals and small business owners. For some business owners, they offer the ideal retirement plan solution, as contributions into the plans are 100 percent tax deductible within certain limits set forth by the IRS.

Under the plan, annual contributions are made to the user's chosen level of income upon retirement. Funds are contributed at a predetermined future date of retirement and are made according to a formula that is designed to help the user meet his or her chosen income benefit. The annual benefit payable upon retirement, per 2015 IRS regulations, is up to $210,000 per year. As a result of this amount, defined benefit plans can be larger than the cap of $210,000 to meet the user's chosen retirement income target.

"Of course, you have to first determine if this is the right retirement plan for you," says Anderson. "There are a few things to consider."

Anderson states that sole proprietors as well as LLCs and corporations that have no more than five employees may qualify for up to $100,000 or more per year in tax deductions, but he stresses that the time to set up a plan is running out. Typical businesses or individuals who choose a defined benefit plan include employees who have a side business that provides self-employment income as well as individual contractors, self-employed spouses of high income earners, and consultants, among others.

Those interested in learning more about this type of retirement plan or the deadline imposed by the IRS for qualifying can visit the IRS website.

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