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**EFFICIENT TAX STRATEGIES**

*Qualified Plans  
Sample - \$1mil Net Income*



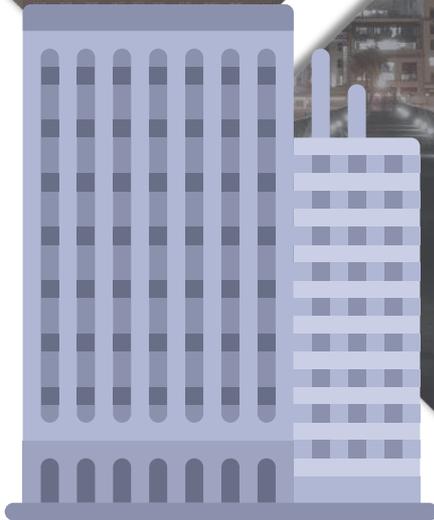
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# Disclosure

*This report provides a general overview of some aspects of your confidential financial situation. It is based on information and assumptions that you have provided. You are solely responsible for the accuracy or completeness of information you have provided. The accuracy and completeness may affect the results and any recommendations contained in the report. This report does not attempt to address all financial issues that may impact you, but is limited to the area included in the specific financial strategy module prepared for you. Rates of return, rate of inflation and other variables used for projections are hypothetical and should not be interpreted as guarantee of future returns or results. There can be no assurances that any investment strategy will be successful. Your actual results will vary based upon your individual situation. Past performance of a particular investment is not a guarantee of its future return. Any tax aspects presented are for illustrative purposes only and are based on current federal tax law and assumed average tax rates and may include state and local taxes. This report provides a general overview of some aspects of your personal financial and income tax situation. Any income tax estimates are made for the current year only and do not consider the possibility of the Alternative Minimum Tax. It is intended to provide educational and general information and is not intended to provide specific tax advice. Results depicting the disposition of property at death and proposed alternatives are general in nature and do not attempt to examine all potential estate planning techniques. The financial strategies offered are not intended to constitute legal or tax advice. Please consult your tax or legal professional before enacting any of the strategies represented in this report.*



# Current Situation



**ABC Company**  
S-Corporation  
Net Profit: \$1 Million  
Los Angeles, CA

Total Income	
Mr. Smith: W-2	\$ 160,000.00
Mrs. Smith: W-2	\$ 130,000.00
TOTAL W-2	\$ 290,000.00
+ K1	\$ 1,000,000.00
Taxable Income	\$ 1,290,000.00
Federal & State Tax*	\$ (537,150.00)
After-Tax Net Income	\$ 752,850.00

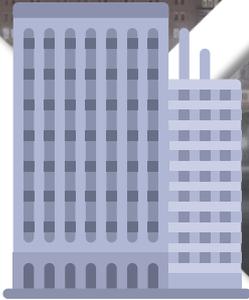
**Tax Exposure: 41% / (\$537,150)**

\*Federal & State Tax based on 2018 Pre-TCJA



# Proposed Solution

ABC Company  
S-Corporation  
Net Profit: \$1 Million  
Los Angeles, CA



Retirement Benefits

\$32K

Profit Sharing  
(Employees)

\$1.02 Mil

Profit Sharing, Cash  
Balance, Aggregated  
Benefits (Owners)

## Total Income

Mr. Smith: W-2	\$ 160,000.00
Mr. Smith: 401(k) Deduction	\$ (24,500.00)
Mrs. Smith: W-2	\$ 130,000.00
Mrs. Smith: 401(k) Deduction	\$ (24,500.00)

### TOTAL

+ Prior K1	\$ 241,000.00
- CB/Aggregated Benefits, P/S	\$ 1,000,000.00
	\$ (1,055,886.00)

Taxable Income	\$ 185,114.00
Federal & State Tax*	\$ (38,500.00)

After-Tax Net Income	\$ 146,614.00
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**Tax Before Planning:**  
(\$537,150)

**Tax After Planning:**  
(\$38,500)

**Potential Tax Saving:**  
\$498,650

\*Federal & State Tax based on 2018 Pre-TCJA



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## Proposed Solution - Breakdown

Name	Age	Salary	401(k) Deferrals	Profit Sharing	Cash Balance	Aggregated Benefits Benefit 1	Aggregated Benefits Benefit 2	Total Allocations	% of Contribution	
Mr. Smith	58	\$160,000	\$24,500	\$9,600	\$372,565	\$25,400	\$100,000	\$507,565	48.07%	} 96.97%
Mrs. Smith	56	\$130,000	\$24,500	\$7,800	\$382,321	\$27,200	\$99,000	\$516,321	48.90%	
Employee 1	39	\$50,100		\$4,008				\$4,008	0.38%	} 3.03%
Employee 2	27	\$39,350		\$3,148				\$3,148	0.30%	
Employee 3	24	\$36,300		\$2,904				\$2,904	0.28%	
Employee 4	30	\$41,500		\$3,320				\$3,320	0.31%	
Employee 5	41	\$63,000		\$5,040				\$5,040	0.48%	
Employee 6	45	\$65,000		\$5,200				\$5,200	0.49%	
Employee 7	35	\$34,500		\$2,760				\$2,760	0.26%	
Employee 8	54	\$70,250		\$5,620				\$5,620	0.53%	
<b>TOTAL</b>			<b>\$49,000</b>	<b>\$49,400</b>	<b>\$754,886</b>	<b>\$52,600</b>	<b>\$199,000</b>	<b>\$1,055,886</b>		



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# Impact of Financial Strategies

Plan Type	401(k)	Owners DB Pension & 401(h)	Tax Saving
Contribution Amount	\$ 24,500.00	\$ 1,023,886.00	\$ 498,650.00
Mode	Annual	Annual	Annual
# of Years	5 Years	5 Years	5 Years
# of Participants	Two		
TOTAL	\$ 245,000.00	\$ 5,119,430.00	\$ 2,493,250.00
	<b>Grand Total</b>	<b>\$ 5,364,430.00</b>	

# Description of the Plans In Simple Language

- ***The Pension Protection Act of 2006 (PPA)*** changed the landscape of qualified plan design. It is unquestionably the best piece of retirement planning legislation for business owners in decades from a contributory, regulatory and fiduciary perspective.
- The plan design combines the most current qualified plan law under *PPA 2006*, with customized plan documentation; advanced, conservative, actuarial methods and the comprehensive benefits of multiple plan forms. Contributions and corresponding tax deductions for owners, professionals and other highly compensated participants can average between three to twenty times the stand alone PS 401(k) limit. Just as importantly the percentage of the plan contribution for owners can often exceed 90% of the total. It is quite simply **business owner friendly** pension legislation.
- In light of the recent *LaRue* decision by the Supreme Court, fiduciary issues cannot be over emphasized. Our add-on plan contribution (defined benefits) is exempt from the *LaRue* decision – and in a litigious environment what more needs to be said.
- Annual plan contributions can easily reach or exceed **\$165,000 to \$500,000+**, and under the right set of facts and circumstances **over \$1 million**. Due to current interest rates (30 year treasuries in the 3% to 3.75% range) plans using guaranteed interest and annuity rates e.g. 412(e)(3) plans, no longer have much, if any, contribution advantage.

# Description of the Plans In Simple Language

- **IRS Notice 2007-28:** Clarification on Deduction Authority was effectively given in IRS Notice 2007-28: Clarification on Deduction Limits for combination DB/DC Plans, the highlights of which are as follows:
  - The **Pension Protection Act of 2006 (PPA)** provided changes to the rules governing the deduction limits for certain qualified plan arrangements under IRC § 404(a)(7) where the plan sponsor makes contributions to both a defined benefit and defined contribution for the same group of participants in a particular year.
  - **Since the enactment of PPA**, there has been considerable debate on the interpretation of these rules among pension practitioners and regulators and this has led to a number of issues. In response to this ongoing debate, the IRS released Notice 2007-28 ([www.irs.gov/pub/irsdrop/n-07-28.pdf](http://www.irs.gov/pub/irsdrop/n-07-28.pdf)).
- **Benefits, Rights and Features - Aggregated Benefits IRC § 1.401(a)(4)-4(d)(4), IRC § 1.401(a)(4)-4(b) and IRC § 1.401(a)(4)-4(c).** Under § 1.401(a)(4)-4(d)(4), an optional form of benefit, ancillary benefit, or other right or feature **is permitted to be aggregated with another optional form of benefit**, ancillary benefit, or other right or feature if one of the two is, in all cases, of inherently equal or greater value than the other, and the optional form of benefit, ancillary benefit, or other right or feature that is of inherently equal or greater value separately satisfies the current availability requirement of § 1.401(a)(4)-4(b) and the effective availability requirement of § 1.401(a)(4)-4(c). For this purpose, one benefit, right, or feature is of inherently equal or greater value than another benefit, right, or feature only if, at any time and under any conditions, it is impossible for any employee to receive a smaller amount or a less valuable right under the first benefit, right, or feature than under the second benefit, right, or feature.

# Description of the Plans In Simple Language

- **The 401h Account** Add a post-retirement individual medical expense reimbursement account to your base pension, cash balance plan or traditional pension design under **IRC § 401h** and increase your pension contribution up to 33 1/3%. **What is a medical expense account under Code Section 401(h)?** A *medical expense account* under Code Section 401(h) is an account within a defined benefit pension plan for the payment of the sickness, accident, hospitalization, and medical expenses of retired employees and the spouses and dependents of retired employees. [Treas. Reg. § 1.401-14(a)] The term *retired* for purposes of eligibility to receive medical benefits under Code Section 401(h) means that the employee is eligible to receive retirement benefits under the plan or is treated as retired by the employer by reason of the employee's permanent disability. An employee who must terminate employment with the employer as a condition of receiving retirement benefits is not considered retired. [Treas. Reg. § 1.401-14(b)(1)].
- **Pre-COLA Funding Account** Life insurance premiums may also be used to pre-fund cost of living adjustments (COLAs) in excess of the **IRC § 415(b)(1)(A) limits**. **Between 1995 and 2015-16 the IRC § 415(b)(1)(A) limits** have increased from \$120,000 to \$210,000 with increases of \$5,000 to \$20,000 in 14 of the last 20 years. In conjunction with a plan's 50% cushion these life insurance premiums can provide a cost effective method of prefunding COLAs before they are announced.



# Employee 401(h): Sample List

Sample list post-retirement medical benefits that may be provided under IRC Sec 105 & 106  
Benefits are not limited to those contained in this list.

- Acupuncture
- ADD Counseling and Assistance
- Air Lift Transportation (Both US and Non US) Alcoholism
- Alternative Healthcare
- Alternative Medicines
- Ambulance
- Artificial Limbs
- Artificial Teeth
- Assisted Living Facilities
- Asthma and Allergy Prevention and Treatment
- Birth Control Pills
- Braces
- Braille-Books and Magazines
- Chiropractors
- Christian Science Practitioners' Fee
- Contact Lenses Including Examination Fee
- Co-Pays
- Cosmetic Surgery (Even Though not by a Physician)
- Cost for Care Outside the United States
- Cost of Operations and Related Treatments
- Counseling
- Crutches
- Deductibles
- Dental Cosmetic
- Dental Fees
- Dentures
- Dependent Care
- Dermatologist Care
- Diagnostic Fees
- Drugs
- Electrolysis
- Experimental Care
- Eyeglasses, Including Examination Fee, Laser Surgery for Vision Correction
- Sterilization Fees
- Fees of Practical Nurse
- Fees for Healing Services
- Fees of Chiropractors
- Fees for Fitness Programs and Facilities
- Fees of Licensed Osteopaths
- Group Therapy
- Handicap Persons' Special Schools
- Flu Shots
- Hair Transplants
- Health Insurance Premiums
- Hearing Devices and Batteries
- Holistic Care
- Hospice
- In Home Care
- Hospitalization Insurance
- Hospital Bills
- Insulin
- Laboratory Fees
- Laetrile by Prescription
- Lasik Eye Surgery
- Hire Lead Base Paid Removal-Children with Lead Poisoning
- Retirement Home for Medical Care
- Long Term Care, Nursing Homes
- Medical Information Plan
- Medicines
- Membership Fees for Medical Services, Hospitalization, Clinical Care, Health Maintenance, Health club memberships
- Nurses Fees, Nurses Room and Board
- Social Security Tax (Where Paid by Taxpayer)
- Obstetrical Expenses
- Operations (100% of All Costs)
- Orthopedic Shoes
- Oxygen
- Personal Trainers
- Physical Therapy
- Physician Fees
- Premiums for LTC
- Surgery Preventive Care including but not limited to Spa Facilities, Usage Fees for Facilities
- Prosthetics
- Psychiatric Care
- Psychologist Fees
- "Seeing-eye" Dog and its Upkeep
- Specialists and Specialized Treatments
- Specially Equipped Cars
- Special Care Costs for Disabled Dependents
- Special Diets
- Support Groups
- Surgical Fees
- Therapy Treatments
- Transportation Expenses for Medical Services including Preventative Care
- Tuition Fee (part), if College or Private School Furnishes Breakdown of Medical Charges
- Tuition at Special School for Handicapped
- Viagra
- Vitamins
- Wheelchair
- Weight Loss Programs
- Wigs
- X-rays



# Our Founders

Kelly  
Woo



Aleksander  
Dyo

## Co-Founders & Managing Partners

- Licensed since 2008
- Pension and Retirement Planning
- Lifetime Income Strategies
- 2015 Top Advisor of the Year by Advisory HQ

- Licensed since 2003
- Business Planning, Capture Insurance Company, Wealth Accumulation
- 2015 Top Advisor of the Year by Advisory HQ

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**Why do we gather information?** We collect information required to open an account, to transact business effectively and to safeguard your assets or your privacy. But we also continually strive to improve our services and provide you opportunities to use additional products and services you may find of interest. To do this, we gather information to help us assess your needs and preferences.

**What information do we collect?** The information we collect directly from you includes information required to communicate with you, including your name, mailing address, telephone number, e-mail address and fax number, gender, education, occupation, employer name and address. And to identify who you are, including birth date and Social Security number. Additionally, we may also collect your approximate annual income, approximate net worth, approximate worth, and credit reports to assess your financial position.

**When do we obtain information?** You directly provide to us the majority of information we collect. You do this by completing the account application and related documentation, placing a trade, sending us an e-mail for questions or comment.

**How do we use your personal information?** Again, the trust of our clients is our most valued asset. Therefore, we use personal information only as appropriate to provide you quality service and security.

For example, PROFECTUS FINANCIAL may use the information collected from you to verify your identity and contact information. We may also use this information to establish and set up your trading account, issue an account number and a secure password, maintain your portfolio and trading activity, and contact you with account information. This information helps us improve our services to you, customize your browsing experience and inform you about additional products, services or promotions that may be of interest to you.

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An affiliate is a company that we own or control or with which there is common ownership with us and our parent company. We may share with our affiliate's information about our transactions and experiences with you such as name, e-mail address, mailing address, date of birth, employment status, and general account and demographic information. This information may be used for internal reporting, anticipating margin calls, and development strategies. We do not share information other than the types of transaction and experience information described above with our affiliates.

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All third parties with which we share personal information are required to protect personal information in a manner similar to the way we protect personal information. Examples of information shared are identifying information such as name, mailing address, e-mail address, telephone number, and information on account activity. If at any time you choose to purchase a product or service offered by another company, any personal information you share with that company will no longer be controlled under our Privacy Statement.

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**Federal law gives you the right to limit sharing – Opting out:** Federal law allows you the right to limit the sharing of your NPI by "opting-out" of the following: sharing for affiliates' everyday business purposes – information about your creditworthiness; sharing with affiliates who use your information to market to you; or sharing with non-affiliates to market to you. State laws and individual companies may give you additional rights to limit sharing. Please notify us immediately at our address or telephone number if you choose to opt out of these types of sharing.

**How will I know if there are any changes to this Privacy Statement?** PROFECTUS FINANCIAL will provide each client an annual Privacy Statement that will include all changes. Should you have any questions concerning our privacy policy, you may submit a written request for additional information to our Private Client Group located at 1055 W. 7<sup>th</sup> Street, Suite 3260, Los Angeles, CA 90017.



# Questions & Answers





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Thank you!

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