PlanForge
CONSULTING

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THE 2026 401(K) TAX GUIDE

Pay your team. Not the IRS.

How business owners use a 401(k) to reduce business and personal taxes. A plain-language walk through the deductions, credits, and payroll savings built into a modern plan, updated for 2026 limits and rules.

The often overlooked tax benefits of a 401(k)

Whether you are just starting out or have been in business for decades, a 401(k) may be an excellent addition to your company. It comes with benefits most owners never fully claim, from tax deductions and credits to stronger employee retention.

In this guide, we will explore how a 401(k) reduces taxes in three places at once.

PART I

You, personally

Contribution options that lower your taxable income now, or make your retirement withdrawals tax free later.

PART II

Your business

Deductible expenses, payroll-tax savings, and SECURE 2.0 credits that can cover the cost of the plan itself.

PART III

Just you

Solo 401(k) plans for owner-only businesses, with large contribution room and very little overhead.

Your employees benefit along the way. A well-designed plan is consistently ranked among the benefits workers value most, which is why the same plan that trims your tax bill also helps you hire and keep good people.

This guide is educational. It is not tax or legal advice. Work with your CPA or tax professional to confirm how these rules apply to your business.

Three ways to save on the money you put in

One of the best advantages of a 401(k) is that it lets both owners and employees save for retirement easily. Retirement accounts carry tax advantages a regular investment account simply does not have. Here are the three contribution options that matter most.

01 **Pre-tax contributions** · lower your taxable income today

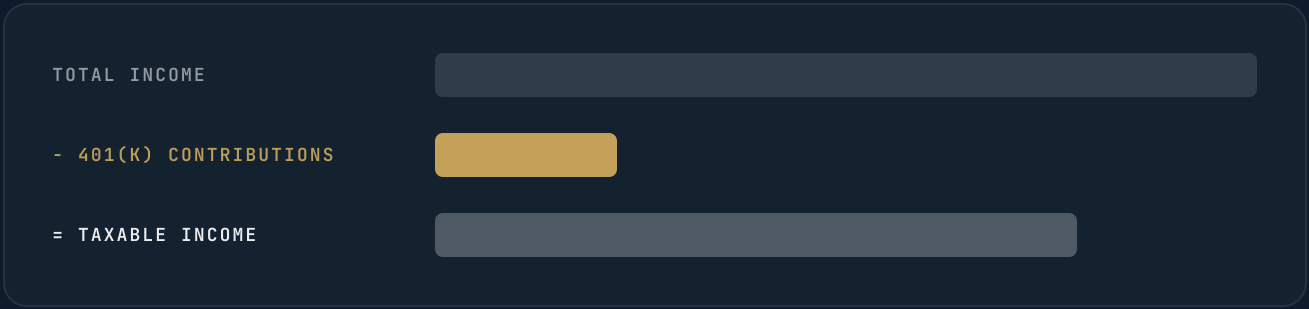
02 **Roth contributions** · make retirement withdrawals tax free

03 **Profit sharing** · often worth more than a bonus

Pre-tax contributions lower your taxable income

In a traditional 401(k), contributions happen before taxes. Both owners and employees put money in without paying federal or state income tax on it, which lowers taxable income right now. The money then grows tax deferred, and withdrawals are taxed as ordinary income in retirement.

In plain terms, every dollar you defer is a dollar the IRS does not count as income this year.



$24,500
2026 CONTRIBUTION LIMIT

+$8,000
CATCH-UP, AGE 50 AND OVER

+$11,250
CATCH-UP, AGES 60 TO 63

Employers can contribute on top of these limits through matching and profit sharing, up to a combined $72,000 per person in 2026. Limits adjust each year, so check the latest IRS guidance.

2026 figures per IRS cost-of-living adjustments. See irs.gov for current limits.

Roth contributions make retirement withdrawals tax free

With a Roth 401(k), contributions are made after taxes. Instead of a tax break today, you pay taxes now in exchange for tax-free growth and tax-free qualified withdrawals in retirement. That trade is appealing if you expect to be in a higher tax bracket later and want to lock in today's rate.

Roth contributions do not lower your taxable income the way traditional ones do, but they diversify how your savings are taxed. The annual limits and catch-up provisions are the same as traditional contributions.

TRADITIONAL

Tax break now

Contributions go in before tax. Withdrawals in retirement are taxed as ordinary income.

ROTH

Tax break later

Contributions are taxed going in. Growth and qualified withdrawals come out tax free.

NEW FOR 2026 · CATCH-UPS GO ROTH FOR HIGH EARNERS

If you earned more than $150,000 in wages from your employer last year, SECURE 2.0 now requires your catch-up contributions to be made as Roth. You pay tax on those dollars now, and they come out tax free later.

SECURE 2.0 also lets employees choose to have employer contributions treated as Roth. The IRS has since spelled out exactly how that works. See our full discussion on page 10.

Roth catch-up requirement per SECURE 2.0 section 603, effective January 2026. Wage threshold is indexed.

Profit sharing can be worth more than a bonus

Beyond matching, your business can make profit-sharing contributions to employee accounts. They are tax deductible for the previous tax year, so you can decide after year end how much you can afford, or elect to contribute nothing that year.

Employees often prefer profit sharing to a bonus because it does not increase their taxable income. It also does not count toward their personal deferral limit, which makes it especially valuable for anyone who has already maxed their own contributions.

PRO-RATA

Everyone receives an equal percentage of salary.

INTEGRATED

Allocations coordinate with Social Security wage levels.

AGE-WEIGHTED

Older employees closer to retirement receive more.

NEW COMPARABILITY

Allocations are set by custom benefit groups you define.

Owners often benefit most from the new comparability method. It typically directs more to those who are older and earn more, which lets you maximize contributions to your own account while still funding your team’s. PlanForge designs the allocation formula around your goals.

Methods per the Department of Labor, Profit Sharing Plans for Small Businesses. Combined employee and employer contributions are capped at $72,000 per person for 2026.

Three tax-saving channels for the business itself

The personal savings are only half the story. The business entity saves too, and for many owners the tax treatment is the single biggest reason to offer a retirement benefit at all.

01 **Deductible expenses** · contributions and plan costs reduce taxable profit

02 **Payroll-tax savings** · matching contributions skip FICA entirely

03 **Tax credits** · SECURE 2.0 can pay you back for starting a plan

Plan costs are deductible business expenses

A 401(k) is an employee benefit, so the costs that come with it are deductible. That includes the contributions you make to employee accounts and the administrative costs of establishing and maintaining the plan.

Typical plan fees that qualify:

01 Third-party administration

02 Recordkeeping

03 Auditing

04 Outside consultants

THE PLANFORGE DIFFERENCE

With PlanForge, this list gets short. Our net-zero design applies SECURE 2.0 credits against plan costs, so a new plan can run at no net cost for its first years. Whatever remains is still deductible.

Deductibility per IRS Publication 535, Business Expenses. You cannot claim the startup tax credit and deduct the same startup expenses. See page 11.

Matching contributions skip payroll taxes

Every dollar of wages you pay carries payroll tax on top. Employer matching contributions do not. They avoid Social Security, Medicare, and unemployment taxes entirely, while still being a deductible expense.

That changes how you think about compensation. When you provide a match, your team receives real compensation through the plan, and you can weigh that against the size of the next raise or bonus. Dollars delivered through the match cost you less than the same dollars delivered as wages.

FICA WITHHOLDING	EMPLOYER	EMPLOYEE
Social Security	6.2%	6.2%
Medicare	1.45%	1.45%
Additional Medicare, wages over $200,000	0%	0.9%

$765 saved in employer payroll taxes for every $10,000 delivered as matching contributions instead of wages, before counting the deduction itself.

Rates per IRS Publication 15. Pre-tax employee deferrals still owe FICA. Employer contributions do not.

Roth employer contributions, explained

SECURE 2.0 lets employees choose to have employer matching and profit-sharing contributions treated as Roth. When the law first passed, nobody knew how the tax reporting would work. The IRS has since settled it in Notice 2024-2, so here is how it actually works.

01 The contribution is reported on Form 1099-R, not your W-2, for the year it lands in your account.

02 It counts as taxable income to you that year, but no tax is withheld from it. Plan for the bill by adjusting your withholding or making an estimated payment.

03 Neither you nor your employer owes Social Security or Medicare tax on it, the same as a pre-tax match.

04 You must be fully vested in the contribution at the time it is made to designate it as Roth.

05 Plans can offer the feature but are not required to. Ask whether your plan supports it.

The trade is the same as any Roth decision. Pay tax on the match once, now, and it grows and comes out tax free. For workers who expect higher income later, that can be the better end of the deal.

IRS Notice 2024-2, questions L-1 through L-11. Reported in boxes 1 and 2a of Form 1099-R with code G.

Tax credits can pay you back for starting a plan

Deductions reduce your taxable income. Credits are better. They reduce your tax bill dollar for dollar. SECURE 2.0 created and expanded three credits designed to make retirement plans affordable for small businesses, and together they are the engine behind our net-zero plan design.

One rule to know up front. For startup costs, you can claim the credit or deduct the expenses, but not both. For most small businesses the credit is worth far more. The first of the three credits rewards automatic enrollment.

CREDIT 1 OF 3 · AUTO-ENROLLMENT

$500 PER YEAR · 3 YEARS **$1,500 total**

Available to plans that include an eligible automatic enrollment feature, including existing plans that add one.

Here is the easy part. SECURE 2.0 requires most 401(k)s established after 2022 to include automatic enrollment anyway, with exceptions for the newest and smallest businesses. So a well-designed new plan typically earns this credit without doing anything extra.

Verify eligibility with your accountant or tax professional, and see irs.gov for details.

Startup costs, up to 100 percent covered

The second credit covers the administrative cost of establishing a new plan. SECURE 2.0 expanded it to cover all of it for most small businesses, for each of the plan's first three years.

50 OR FEWER EMPLOYEES

100% of startup costs

Up to $5,000 per year, for 3 years. As much as $15,000 back.

51 TO 100 EMPLOYEES

50% of startup costs

Up to $5,000 per year, for 3 years.

VERY SMALL TEAMS USE A DIFFERENT CAP

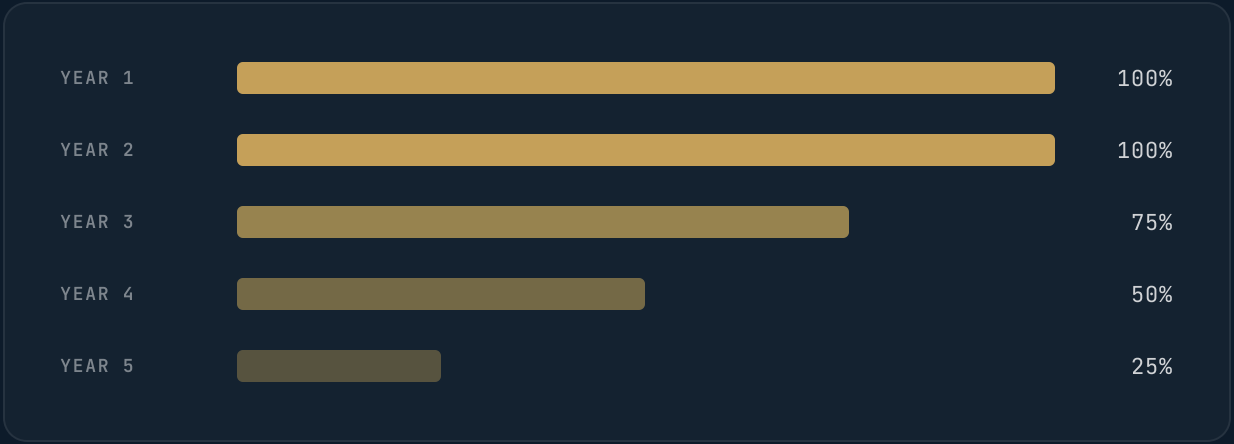
$250 × number of NHCEs = annual maximum, with a $500 minimum

With fewer than 20 non-highly-compensated employees, the yearly cap is $250 per NHCE instead of the full $5,000.

NHCE means non-highly-compensated employee. See irs.gov, retirement plan participant definitions.

Get credit for the contributions you make

The third credit reimburses part of what you contribute to employee accounts, up to $1,000 per eligible employee per year, for the plan’s first five years. For businesses with 50 or fewer employees, the schedule looks like this.



Businesses with 51 to 100 employees use a sliding scale. The percentage drops 2 points for every employee over 50, and the same five-year schedule applies. A business with 70 employees, for example, is 20 over the line, so its credit is reduced 40 percent and it claims 60 percent of each year’s figure.

Eligible employees are those paid no more than $100,000 in wages, indexed for inflation. Contributions to owners and other high earners do not count toward the credit.

Employer contribution credit per SECURE 2.0 section 102. Defined benefit plans are excluded.

What net-zero looks like in real numbers

This is an actual PlanForge illustration for a Texas business. Two owners, 46 eligible employees, about $2.2 million in payroll. Every employer contribution shown is voluntary and discretionary. Nothing here is required.

PLANFORGE STANDARD

Reward your team, not the IRS

$35,482 IN TAX SAVINGS

Total profit share, 2% flat	$44,610
Owner's retained share	-$2,200
Tax deductions, 30%	-$3,984
SECURE 2.0 credits	-$31,330
S-Corp FICA savings	-$168
Forfeitures, actual	-$11,254
Net cost to business	**−$4,326**

Saves $47,614 vs a typical 3% safe harbor plan.

PLANFORGE OPTIMIZED

More for you. Less for Uncle Sam.

$43,816 IN TAX SAVINGS

Total profit share, 2.1% cross-tested	$47,230
Owner's retained share	-$3,230
Tax deductions, 30%	-$1,569
SECURE 2.0 credits	-$42,000
S-Corp FICA savings	-$247
Forfeitures, actual	-$14,000
Net cost to business	**−$13,816**

Saves $57,104 vs typical, plus $3,230 into the owner's retirement.

READ IT THIS WAY A negative net cost means the plan pays the business. The optimized design saves $9,490 more than standard, adds $1,030 to the owner's retirement, and both pass every IRS nondiscrimination test.

Illustration based on an actual client census and 2025 plan-year limits. Results vary with compensation and employee changes. Explore the interactive version at planforge401k.com/tnt-ref.

Just you? A solo 401(k) works harder.

If your business employs just one owner, plus a spouse if applicable, a solo 401(k) is a great option. You wear both hats, employee and employer, so you can contribute from both sides of the table.

The result is one of the largest retirement contribution opportunities available to the self-employed, with almost none of the administrative weight of a full company plan.

Large contributions, little overhead

$72,000 PER YEAR · 2026

In combined employee and employer contributions, without the testing restrictions of a company plan. Add an $8,000 catch-up at age 50 and over, or $11,250 at ages 60 to 63.

EASY ADMINISTRATION

Solo plans are exempt from most qualification requirements and annual nondiscrimination testing. PlanForge handles the day-to-day so you do not think about it.

LOW FEES

Few participants and light administration keep costs very affordable. Spouse accounts are often included at no extra charge.

YOUR CHOICE OF TAX TREATMENT

Traditional contributions reduce your taxable income now. Roth contributions make your retirement withdrawals tax free.

ROOM TO GROW

Hire your first employees later and the plan converts to a standard 401(k), keeping your savings and your tax strategy intact.

Employer-side contributions are limited by compensation. Your CPA can confirm your exact ceiling.

The net-zero 401(k)

Every credit and deduction in this guide is something PlanForge builds into your plan design from day one. On a new plan, SECURE 2.0 credits can offset the costs entirely. On a rollover, we lower your fees. Either way, you keep the tax savings.

And the plan is only the foundation. Every participant gets the full PlanForge financial toolkit, from budgeting and debt to retirement projections, with a real advisor to talk to. Guided by Nick Moore, CFP®. A real advisor. Not a call center.

FOR CPAS, INSURANCE, AND MORTGAGE PROFESSIONALS

Your clients are asking about this. Bring them a plan that costs nothing net to start, and be the one who solved it. Ask us about partnering with PlanForge, and run your own numbers at planforge401k.com/partner-calculator.

Talk to Nick

One conversation is usually enough to know what a plan would save you.

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STEP 2 Owner questionnaire planforge401k.com/owner-savings

Educational material, not tax, legal, or investment advice.
Figures reflect 2026 IRS limits and are subject to change.
Consult your tax professional.


Pay your team. Not the IRS.
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