Cash Balance Plan

One of the many aspects of succession planning is tax planning; specifically, tax planning regarding a family's exit plan. We have seen many farm families that do not have the next generation coming back or actively involved in the operation. While these families do a tremendous job taking advantage of the many deductions provided by the current tax system to minimize their current tax liability; they do not proactively plan for their exit.

Too many families simply decide to exit at a certain point in time and then hold a farm auction where they have to recapture all of the depreciation they took on their equipment via the section 179 bonus depreciation deduction as ordinary income which is subject to both federal and state income tax. They also have no expenses for the upcoming crop season to offset their income from this year's harvest and many times they are still sitting on the proceeds from the prior year's harvest that has not been claimed as income; which is also subject to self-employment tax in addition to federal and state income tax.

When families exit in this way, they get pushed into the top federal and state income tax brackets instead of maximizing the lower federal brackets if they plan their exit over time. The current federal income tax brackets are some of the lowest federal income tax brackets we have seen historically and a couple filing a joint tax return can claim up to $178,150 and still be in a 17% effective federal tax rate and can claim up to $340,100 and be in a 19% effective federal tax rate.

Therefore, a patriarch and matriarch of a farm family should proactively plan their exit and utilize various tools such as a qualified retirement plan which could assist in minimizing their tax liability and instead of forcing the income into one calendar year, they can spread the tax liability over their joint lifetimes.

Since 2018 the contribution limits on various retirement plans has systematically increased. Though no changes were implemented from 2024 to 2025 there are differences among the various types of retirement plans. As small business owners look at different alternatives to manage tax liability, retirement plan contribution limits provide small business owners with an opportunity for tax deferrals. In particular, small business owners can add a tax-advantaged cash balance plan to their existing 401(k) profit sharing plans to realize significant tax savings while making meaningful contributions toward their retirement (see figure 1 below).

As we continue to discuss succession planning with farm families, we need to be aware that succession planning has many steps whether the next generation is coming back to the operation or not. We need to realize the tremendous opportunity proactive tax planning will have for our farm families.

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Figure 1: 2025 IRS annual contribution limits

Age	401(k) Deferrals	401(k) Plus Profit Sharing	Cash Balance Plan	Total
30-34	$23,500	$70,000	$81,000	$151,000
35-39	$23,500	$70,000	$103,000	$173,000
40-44	$23,500	$70,000	$132,000	$202,000
45-49	$23,500	$70,000	$170,000	$240,000
50-54	$31,000	$77,500	$218,000	$295,500
55-59	$31,000	$77,500	$280,000	$357,500
60-65	$31,000	$77,500	$342,000	$419,500
66-70	$31,000	$77,500	$383,000	$460,500

*Qualified plan specifics and annual contribution limits provided by IRS.gov & cashbalancedesign.com

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