



While the IRS contribution formulas are the same across all business structures, the definition and controllability of “compensation” are not.

And since *every* retirement formula is a percentage of compensation, the entity structure directly affects the ultimate ceiling a physician can reach.

Here’s the essence:

- **Sole proprietors** must use “earned income” after deductions and SE-tax adjustments. This reduces eligible compensation by 10–15% and creates retroactive circular calculations that lower maximum fundable contributions.
- **PC/PLLC S-Corp owners** can *set* their W-2 compensation, which becomes the clean input for plan formulas, while taking the remaining income as distributions (not subject to FICA). This creates more usable compensation space for employer 401(k) contributions and gives actuaries predictable comp needed to maximize CBP funding.
- **Cash Balance Plans**, in particular, strongly prefer stable W-2 compensation streams. Entity choice determines whether an actuary can reliably fund the top end of the allowable range.
- The result is simply that **S-Corp physician-owners routinely achieve 2–3× the combined contributions** compared to sole proprietors with identical revenue.
- This isn’t because the rules differ; it’s because entity structure changes the *inputs* that the rules operate on.

I’m including below a side-by-side comparison that captures the mechanics in a visual way.

SIDE-BY-SIDE COMPARISON:

Sole Proprietor vs. S-Corp vs. C-Corp for Solo 401(k) + Cash Balance Plans

Summary Table

Feature / Variable	Sole Proprietor	PC/PLLC S-Corp	C-Corp
How the IRS defines “compensation”	Net earnings from SE after reductions	W-2 wages paid to owner	W-2 wages paid to owner
Control over compensation input	Very limited (based on net profit)	High—owner sets W-2	High—owner sets W-2
Subject to full 15.3% SE tax?	Yes, on <i>all</i> business income	No—only W-2 wages	No—only W-2 wages
Allows distributions not subject to FICA?	No	Yes	No (dividends taxed differently)
Effect of SE tax on retirement calculations	Reduces eligible compensation by 10–15%	None—clean W-2	None—clean W-2
Solo 401(k) employer contribution based on:	Reduced “earned income”	W-2 (up to 25%)	W-2 (up to 25%)
Cash Balance Plan actuarial input	Variable earned income (less favored)	Stable W-2 (strongly favored)	Stable W-2 (favored)
Ability to maximize CBP contributions	Limited—income variability + SE tax	High—predictable W-2 supports top actuarial funding	High
Practical combined max contribution	~\$60k–\$120k typical	~\$150k–\$300k+ typical	~\$150k–\$300k+ typical
Real-world consistency for doctors	Often inconsistent, lower	Consistently the highest	High but less commonly used
Best structure for 1099 physicians aiming to maximize retirement contributions	Not optimal	Optimal	Possible but less flexible

Real-World Example: A 1099 Physician Earning \$400,000

Assumptions:

- 2024 limits
- Age: 50 (to allow catch-up)
- Employee deferral: \$30,500
- Employer contribution limit: 25% of W-2 (S-corp) / approx. 20% of net earnings (sole prop)
- CBP contribution range typical for age 50: **\$80k–\$180k** depending on compensation stability and actuarial design
- All numbers rounded for clarity

1. SOLE PROPRIETOR (Schedule C)

Income: **\$400,000**

Step 1 — IRS reduces compensation due to SE tax

- Must pay SE tax on all \$400,000
- IRS requires using only **92.35%** of this number
- Then subtract half the SE tax

Effective retirement “compensation”: ~\$330,000

(This is why sole proprietors have lower contribution ceilings.)

Step 2 — Solo 401(k) Contributions

Employee Deferral: \$30,500

Employer Contribution (≈20% of adjusted earnings): ~\$66,000

Total Solo 401(k): ~\$96,500

Step 3 — Cash Balance Plan

- Because compensation is variable and reduced by SE tax adjustments, actuaries typically cap CBP contributions lower
- At age 50, typical range: **\$70,000–\$100,000**

Let's use **\$85,000** for this example.

Total Retirement Contributions as Sole Proprietor:

≈ \$181,500

2. S-CORP (PC/PLLC taxed as S-Corp)

Gross income: **\$400,000**

Owner sets:

- **W-2 salary = \$200,000**
- **Distributions = \$200,000** (not subject to FICA)

This cleanly separates “compensation” from business profit.

Step 1 — Solo 401(k) Contributions

Employee Deferral: \$30,500

Employer Contribution: 25% of W-2 = **\$50,000**

Total Solo 401(k): \$80,500

(NOTE: Even though this looks smaller than the sole prop's \$96.5k, it is *not* the main funding source. The CBP is.)

Step 2 — Cash Balance Plan

Actuaries LOVE the stable W-2 of \$200,000.

This allows much higher CBP funding:

Typical CBP range at age 50 with W-2 = \$200k:

\$120,000 – \$180,000

Let's use a conservative **\$150,000**.

Total Retirement Contributions as S-Corp:

≈ \$230,500

3. C-CORP

Income: **\$400,000**

Owner sets W-2 = **\$200,000**

Corporation pays CBP + 401(k) contributions as employer expenses

This scenario is similar to an S-Corp but with different tax treatment of distributions.

Step 1 — Solo 401(k)

Employee Deferral: \$30,500

Employer Contribution (25% of W-2): \$50,000

Total Solo 401(k): \$80,500

Step 2 — Cash Balance Plan

Same actuarial assumptions as the S-Corp:

CBP: roughly \$120,000–\$180,000

Let's again use **\$150,000**

Total Retirement Contributions as C-Corp:

≈ \$230,500

Big Picture Summary

Total Retirement Contributions on \$400,000 of Income

Structure	Solo 401(k)	CBP	Total Retirement Contribution
Sole Proprietor	~\$96,500	~\$85,000	≈ \$181,500
S-Corp	~\$80,500	~\$150,000	≈ \$230,500
C-Corp	~\$80,500	~\$150,000	≈ \$230,500

Why S-Corps (and C-Corps) outperform Sole Proprietors

1. **Sole proprietors must reduce retirement compensation by SE-tax formulas**
→ lowers what the plan formulas are applied to
2. **S-corps can set a clean, predictable W-2 wage**
→ generates higher CBP actuarial room
3. **Distributions avoid FICA**, preserving dollars to fund CBP contributions
4. **Actuaries cannot maximize a CBP** reliably with fluctuating earned income
→ lower contribution ceilings
5. **Corporate structures create more flexibility, control, and funding predictability**
→ higher allowable contributions in practice

Summary

The IRS contribution rules don't change across entities, but the allowable "compensation input" does, and that input completely determines how much a physician can actually contribute. S-corp owners can engineer a compensation structure that allows the actuary to push CBP contributions to the top of the allowable range, while sole proprietors cannot.