

Tax Credit for Small Business Retirement Plan



RETIREMENT MANAGEMENT SERVICES, LLC
Plan Consulting • Administration • Design

RETIREMENT MANAGEMENT SERVICES, LLC
905 Lily Creek Road Louisville, KY 40243
5/18/2015

Tax Credit for Small Business Retirement Plan



Judith Rohr

When small business employers are deciding whether to establish a retirement plan, one hurdle they face is the expense involved with implementing the plan and educating the employees.

Thanks to the Economic Growth and Tax Relief and Reconciliation Act (EGTRRA), **there is a tax credit available to small business employers**, which can be used to offset a portion of those expenses. The credit is available for the first year and for each of the two tax years immediately following the first year. Employers can choose to start claiming the credit in the tax year before the tax year in which the plan becomes effective.

An eligible small business employer is one who employs no more than 100 employees who received at least \$5,000 in compensation in the prior year. If the employer meets this requirement in one year, but does not in a following year, the employer has a two-year grace period to claim the tax credit.

Also, the business must not have started or maintained a retirement plan in the preceding three years (i.e. a qualified plan, SIMPLE, or SEP).

Eligible plans include 401(k) plans, profit sharing plans, defined benefit plans, SEPs, and SIMPLE IRAs. The plan must cover at least one non-highly compensated employee.

Expenses eligible for the tax credit include necessary expenses incurred with the start-up and administration of the plan and for the employees' retirement-related education. These expenses may be incurred in the year preceding the effective date of the plan.

The maximum tax credit is 50% of the set-up costs, up to a maximum of \$500 per year for 3 years. The employer will need to reduce the allowable deduction for the portion of expenses offset by this credit. The credit may be carried back or forward to other tax years if it is not used in the current year.

Using the tax credit is optional. The employer should consult with the company's tax advisor as to whether it is advisable to claim the credit in one or more of the years it is available. To claim the credit, the employer must file *IRS Form 8881 – Credit for Small Employer Pension Plan Startup Costs*.

Retirement Management Services, LLC
905 Lily Creek Road
Louisville, KY 40243



www.consultRMS.com

Phone: 502-429-0767

For more information you can download the following publications at www.IRS.gov.

- Publication 560, *Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)*
- Publication 3998, *Choosing a Retirement Solution for Your Small Business*
- Publication 4222, *401(k) Plans for Small Businesses*
- Publication 4806, *Profit Sharing Plans for Small Businesses*

Please feel free to contact RMS with any questions regarding the small business tax credit or for assistance in establishing a qualified plan.



Retirement Management Services, LLC
905 Lily Creek Road
Louisville, KY 40243

www.consultRMS.com

Phone: 502-429-0767