TAX CREDIT OPPORTUNITIES FOR NEW QUALIFIED RETIREMENT PLANS

Tax credits associated with the start-up of a retirement plan are commonly overlooked in the pension planning arena. These types of tax credits help employers off-set the upfront costs of establishing different types of retirement plans and may also help retain and attract quality employees.

Which Start-Up Costs Are Applicable To Receive A Tax Credit?

When establishing a new qualified retirement plan, small businesses can receive a tax credit covering eligible start-up costs relating to:

- Plan establishment fees
- Administration services
- Retirement-related education for employees about the plan

The credit equals up to 50% of the expenses, not to exceed $500, in any taxable year.

What Types Of Businesses Are Eligible For This Tax Credit?

This tax credit is available to small businesses that setup:

- Any New Qualified Pension, Profit Sharing or Stock Bonus Plan with an Exempt Trust
- Any New SIMPLE IRA
- Any New Simplified Employee Pension IRA (SEP)

Eligible employers qualify to claim this credit if:

- The business has less than 100 employees with salaries of $5,000 or more in the previous year;
- The plan covers at least one non-highly compensated employee; and
- In the three tax years before the first eligible year, employees weren't substantially the same employee who received contributions or accrued benefits in another plan sponsored by the employer, a member of a controlled group that includes the employer, or a predecessor of either.

Who Are Highly Compensated Employees?

- Employees who own more than 5% regardless of compensation
- Employees who earned more than $120,000* in the previous year
- Certain employed family members (spouses, children, parents, grandchildren) of the 5% owners regardless of their salary

* This figure is adjusted with inflation and may increase in the future.

How Do Plans Qualify As New Plans?

For the plan to be considered a new plan, the employer cannot have established or maintained a qualified retirement plan for substantially the same employees during the three years preceding the first taxable year in which the new plan is effective. If the employer is part of a controlled group or affiliated service group, then no member of this group can have established or maintained a qualified plan during that three-year taxable period.

When Can The Tax Credit Be Claimed?

The credit may be taken for qualified costs incurred during each of the three years starting with the taxable year in which the plan became effective by filing IRS Form 8881 (Credit for Small Employer Pension Plan Startup Costs). If the employer prefers, they could take the credit for the year preceding the year in which the plan becomes effective and the first two years of the plan.

Since the employer can't deduct the startup costs and claim the credit for the same expenses, they do have the option to not claim the allowable credit. While the qualifying expenses that are offset by this credit are not deductible, the remaining such expenses, not offset by this credit, may be deductible if they are ordinary and necessary business expenses.

Where Can You Get Additional Information?

This is just one of the many incentives available in the retirement planning industry. Please contact INTAC's knowledgeable and dedicated staff if you would like additional information on this tax credit or any other retirement planning needs.

Source: Internal Revenue Service. (2017). Retirement Plans Startup Costs Tax Credit
Retrieved from: https://www.irs.gov/retirement-plans/retirement-plans-startup-costs-tax-credit

intac
Actuarial Services, Inc.

545 Route 17 South
Ridgewood, NJ 07450
201.447.2525
www.intacinc.com

BRANCH OFFICES:
West Long Branch, NJ
Saratoga Springs, NY
Huntington Beach, CA