

Tax Credit for Small Employer Retirement Plan Startup Costs

If you just started a retirement plan for your business, you may be eligible for a tax credit of up to \$500 for each of the first three years of the plan. The credit can be up to 50% of the cost incurred during the tax year not to exceed \$500. Qualified startup costs are those expenses paid or incurred in connection with:

- Plan establishment
- Administration
- Retirement-related education to employees about the plan

To be an eligible employer, you must have had 100 or fewer employees. Employees who received at least \$5,000 in compensation for the tax year are considered. In addition, you must employ at least one employee who is considered a non-highly compensated employee.¹ Therefore; this credit is not applicable if your plan just covers the owner(s) or the owner(s) and their immediate family members.

401(k) Example (cost is for illustrative purposes only):

Tax Year	Eligible Cost	Amount	50% of Amount	Eligible Credit
2015 (first plan year)	Plan Installation and Administration	\$2,400	\$1,200	\$500
2016	Annual Administration	\$1,400	\$700	\$500
2017	Annual Administration	\$1,400	\$700	\$500

Eligible employers use IRS Form 8881 to claim the credit. Examples of eligible retirement plans include: 401(k), Profit Sharing Plan, 403(b), SEP-IRA, or SIMPLE IRA. The first credit year is generally your tax year that includes the date the plan is established. However, you may elect to have the preceding tax year be the first credit year if you incurred any qualified startup costs during that year.

Your allowable tax deduction for plan startup costs will be reduced by the tax credit.

This credit can significantly help small business owners afford to establish a retirement plan - a plan that may also help to retain and attract quality employees.

Please consult your tax advisor and IRS Form 8881 for further information.

Robert W. Baird & Co. does not offer tax advice.

¹A non-highly compensated employee has compensation less than \$120,000 (2016 limit) and does not own more than 5% of the business.