

The IRS offers an incentive for “small employers” who adopt a new retirement plan, providing a **tax credit of up to \$500 per year for start-up, administration and employee education costs for the first 3 years of the plan.**

Which employers are eligible for the credit?

There are several conditions that must be satisfied in order to be eligible for the credit:

- The employer must have had no more than 100 employees in the prior year with compensation of \$5,000 or more (employees who earned less than \$5,000 are not counted for this purpose).
- The new retirement plan must cover at least one employee who is non-highly compensated (generally, a non-owner with compensation in the prior year of less than \$120,000 (2015 and 2016)).
- The employer cannot have maintained a retirement plan covering substantially the same employees in any of the previous 3 years (for this purpose, a retirement plan includes the same types of plans described below).

Which types of retirement plans qualify?

- 401(k) plans
- Any other type of qualified plan, including profit sharing plans, money purchase pension plans, traditional defined benefit plans, and cash balance plans
- 403(b) plans
- SEP IRAs
- SIMPLE IRAs

What types of expenses qualify for the credit?

Expenses paid by the employer in connection with establishing the plan (ex. plan document fees), administering the plan, or providing related employee education.

How is the tax credit calculated?

In general, the tax credit is equal to 50% of qualifying expenses (described above) up to \$1,000, for a maximum credit of \$500 per year for the first 3 years of the plan.

How is the credit claimed?

IRS [Form 8881](#) is used to claim the tax credit. It is reported differently depending upon structure of employer (i.e. sole proprietorship, partnership, corporation, etc.).

How can I learn more?

If you would like to adopt a retirement plan for your employees and would like to learn more about this important tax incentive, please contact us. Additional information can also be found on the [IRS's website](#).

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