



PA Retirement Solutions, Inc.

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Retirement Plan Start-Up Tax Credit

First made available by the Economic Growth Tax Relief & Reconciliation Act of 2001 (EGTRRA)
Further enhanced by the Setting Every Community Up For Retirement Act of 2019 (SECURE Act)

WHAT IS IT?

Small employers who establish a qualified plan, SEP, or SIMPLE plan are eligible for a tax credit of up to **50% of “qualified start up costs”** for the first 3 years of the plan. This provision is designed to promote the establishment of retirement plans by small employers, particularly those who have either never had a plan or have not had a plan for the past 3 years.

WHO IS ELIGIBLE FOR THE CREDIT?

An eligible employer is an employer who, for the prior calendar year, had 100 or fewer employees who received compensation in excess of \$5,000. The credit is available to those employers who have not maintained another plan covering substantially the same employees for the preceding 3-tax-year period. The plan must cover at least one person who is not a Highly Compensated Employee in order for the credit to be available.

WHAT ARE CONSIDERED QUALIFIED START UP COSTS?

Qualified start-up costs include any expenses directly related to the establishment or administration of the plan. This means the expenses paid to your Third Party Administrator for the installation of your new plan, as well as the year-end administration of the plan are eligible for the tax credit. Qualified start-up costs also include any out-of-pocket expenses attributable to retirement-related education of the employer’s employees. Generally, all other out-of-pocket expenses not covered by the tax credit are fully deductible by the Employer.

WHAT IS THE AMOUNT OF THE CREDIT?

The annual credit may equal 50% of the plan’s qualified start-up costs paid up to the greater of:

- \$500, or
- \$250 times the number of Non-Highly Compensated Employees, capped at \$5,000

EXAMPLE

XYZ Company has never maintained a qualified plan for its employees. XYZ company establishes a 401(k) plan covering 10 non-highly compensated eligible employees. If qualified start-up costs are \$1,000 to implement & \$1,500 each year thereafter for administration (including year 1), the tax credit would be as follows:

Year	Qualified Start-up Costs	Tax Credit	Remaining Deductible Expense
1	\$2,500	\$1,250	\$1,250
2	\$1,500	\$750	\$750
3	\$1,500	\$750	\$750

This is not intended to be tax advice. We advise all employers to consult with a qualified tax advisor on the amount and availability of this tax credit.

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