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401(k) Tax Credits

DISCOVER SUBSTANTIAL INCENTIVES FOR PROVIDING A RETIREMENT BENEFIT

A retirement plan can represent a big expense for employers, especially small businesses. The government has developed valuable tax benefits that are specifically aimed at helping the smallest companies — those with less than 100 employees.

Who gets the tax credits?

For employers to take advantage of these credits, they need to meet the following criteria.

- Had 100 or fewer employees who received at least $5000 in compensation in the preceding year
- Had at least one participant who is a non-highly compensated employee (NHCE)
- In the 3 years prior, employees were not substantially the same employees who received contributions or accrued benefits in another plan sponsored by you, a member of a controlled group that includes you, or a predecessor of either.

What is a highly-compensated employee (HCE)?

In the preceding year, received compensation of more than $135,000 (if the preceding year was 2022) or more than $150,000 (if the preceding year was 2023)

OR

Owned more than 5% of the interest in the business at any time during the year or the preceding year

Are solo-k plans eligible?

Unfortunately, due to the NHCE requirement, an owner-only businesses using a solo 401(k) plan is not eligible for tax credits.

Read on to get the details about 3 valuable tax credits.

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Administrative Credits

COVERS THE EXPENSE INVOLVED IN ESTABLISHING A NEW 401(K) PLAN

100% of qualified startup costs

up to $5000 per year for 3 years

What is the maximum I can receive?

- Those with 50 or fewer employees can claim 100% of startup costs
- Those with 51-100 employees can claim 50% of startup costs

The maximum is $5000 per year, although it is reduced for very small companies. If a business has fewer than 20 employees, use this formula:

$250 x number of NHCEs = max credit

What are qualified startup costs?

Expenses incurred by a business to:

- Establish or administer a retirement plan
- Educate employees about the plan

EXAMPLE

A business has 10 non-highly compensated employees (NHCEs)

$250 x 10 = $2500
max tax credit per year

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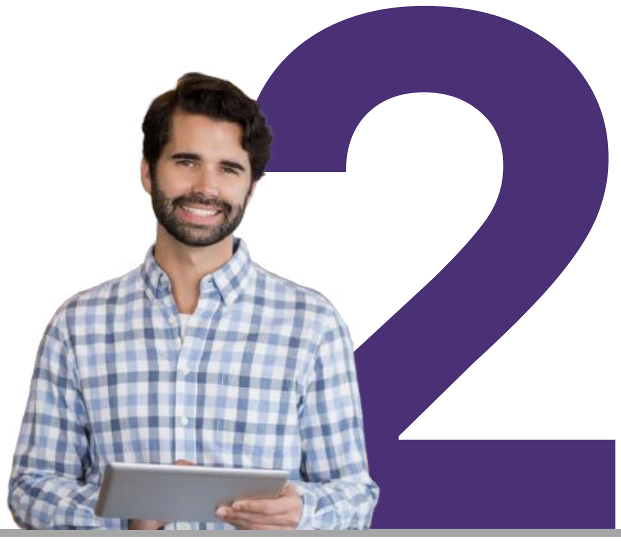
Contribution Credits

HELPS OFFSET THE EXPENSE OF PROVIDING CONTRIBUTIONS TO EMPLOYEES ACCOUNTS



100% of employer contributions

Businesses with 50 or fewer employees

Businesses with less than 50 employees can receive credits totaling 100% of the amount spent on contributions to employee 401(k) accounts, with the amount getting reduced over 5 years.

Tax credit schedule

Year 1:	100%
Year 2:	100%
Year 3:	75%
Year 4:	50%
Year 5:	25%

Businesses with 51 - 100 employees

A sliding scale is used to calculate the tax credit for businesses with 51-100 employees. The percentage is reduced by 2 points for every employee over 50. The 5-year tax credit schedule is still applied.

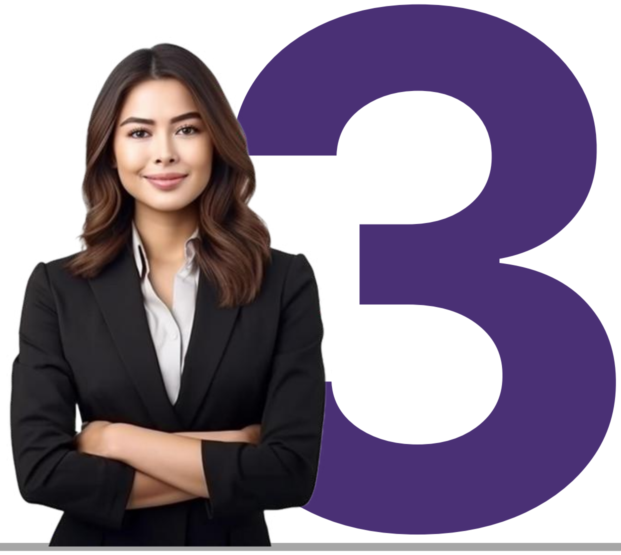
EXAMPLE

A business has 70 employees

number over 50= 20
20 x 2 points = 40% reduction
(or 60% total)

Year 1:	100% x 60%
Year 2:	100% x 60%
Year 3:	75% x 60%
Year 4:	50% x 60%
Year 5:	25% x 60%

Auto-enroll Credits



PROVIDES AN INCENTIVE TO USE AN AUTO-ENROLLMENT PROVISION IN YOUR PLAN

$500 per year for 3 years

Small businesses can claim this $500 credit for using an auto-enrollment feature in their 401(k) plan. This applies to both new and existing plans, so even if you have had a plan in place for many years, adding this provision triggers the tax credit for 3 years.

Who is eligible for the credit?

- Have less than 100 employees that were paid at least $5000 in the prior year
- Meet the Eligible Automatic Contribution Arrangement (EACA) criteria
- Use an automatic enrollment feature

A QACA Safe Harbor plan will meet the EACA requirements. Ask us if a QACA plan is right for your business.

IMPORTANT

Beginning in 2025, almost all 401(k) plans will be required to use an auto-enrollment feature.

Add your auto-enrollment now to take full advantage of this valuable tax credit.

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