



401(k) Tax Credits

TAX 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 (non-HCE)
- ✓ 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 **\$155,000** (if the preceding year was 2024)

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 non-HCE requirement, an owner-only business using a solo 401(k) plan is not eligible for tax credits.

How do I claim the credits?

Include the IRS form 8881 with your taxes to claim these credits. When you start a new plan with 401GO, we will complete the form on your behalf and send it to you, making it even easier to take advantage of this offer!

Form

8881

Department of the
Treasury
Internal Revenue Service

Administrative Credits

COVERS THE EXPENSE INVOLVED IN ESTABLISHING A RETIREMENT PLAN

100%

of qualified
startup costs

up to **\$5000**
per year for **3 years**

What are qualified startup costs?

Expenses incurred to a business to:

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

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

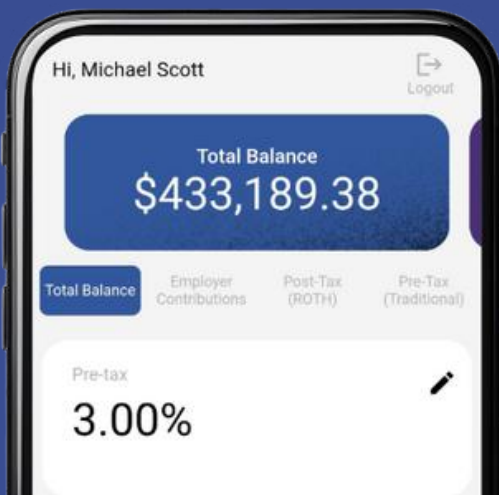
The maximum is \$5000 per year, although it is reduced for very small companies. If a business has fewer than 20 employees, use this formula:

$$\text{\$250} \times \text{number of non-HCEs} = \text{max credit}$$

EXAMPLE

A business has 10 non-highly compensated employees (non-HCEs):

$$\text{\$250} \times 10 = \text{\$2500 per year max tax credit}$$



Contribution Credits

HELPS OFFSET THE EXPENSE OF PROVIDING CONTRIBUTIONS TO EMPLOYEES

100%

of employer
contributions

up to **\$1000**
per employee **per year**

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, **up to \$1000 per eligible employee.**

Eligible employees are those that are paid no more than \$100,000. The amount of the credit is reduced gradually over 5 years.

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.



TAX CREDIT SCHEDULE

Year 1: 100%

Year 2: 100%

Year 3: 75%

Year 4: 50%

Year 5: 25%

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

Auto-enrollment is mandatory.

Under the SECURE Act 2.0, beginning in 2025, most new 401(k) and 403(b) plans must automatically enroll employees in the retirement plan once they become eligible—unless the employee actively opts out.

This is a major shift meant to combat low participation rates in employer-sponsored plans by making saving the default option.

Tax credits are still available.

Despite the mandatory nature of the auto-enrollment provision, small businesses can still claim this credit.

It 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 must comply?

All new 401(k) and 403(b) plans established on or after December 29, 2022

Who is exempt?

Businesses are exempt from the mandate if:

- They have 10 or fewer employees
- They have been in existence for less than 3 years
- They are a church plan
- They are a government plan
- They have a plan that was established before 12/29/2022

Take advantage of these tax credits before they are gone.

A traditional or Safe Harbor 401(k) plan from 401GO is easy to set up and manage, and gives you tax credits now, and tax deductions in the future.



★★★★★
4.8 STAR RATING

