



PA Retirement Solutions, Inc.
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Retirement Plan Start-Up Tax Credit

Made available by the Economic Growth Tax Relief & Reconciliation Act of 2001

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 was 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.

WHAT IS THE AMOUNT OF THE CREDIT?

The credit is 50% of the qualified start-up costs, with a maximum credit of \$500 in the employer’s taxable year in which the plan is first effective, and \$500 in each of the next 2 years (no credit is available beyond the 3rd year of the plan). The employer may not deduct (as a business expense) any portion of the qualified start-up costs for which a credit is claimed.

EXAMPLE

XYZ Company has never maintained a qualified plan for its employees. The company establishes a 401(k) plan covering all of its employees on April 1, 2017. XYZ Company may claim a credit for up to 50% of the qualified start-up costs and administration, with a maximum of \$500 for each of the first 3 years maintaining the plan.

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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