

# Tax Credit Opportunities



## Make the most of your retirement plan tax credits

We know how important it is to maximize your investment in employee benefits, and your new 401(k) comes with significant tax credit opportunities over the first few years of the plan. We've put together this reference to assist you in evaluating eligibility criteria and estimating credit amounts. We strongly advise that you review any estimates with a certified tax professional.



## Understanding the Available Tax Credits

To get you started, here are some important definitions to keep in mind:

- 'Employees' refer to employees who received at least \$5,000 in compensation for the preceding year.
- Non-Highly Compensated Employees (NHCEs) are defined as employees who a) did not own more than 5% interest in the business in the current or preceding year, and b) for the preceding year, did not receive compensation of \$150,000 or more (if the preceding year is 2023; \$155,000 if the preceding year is 2024).

Credit & Description	Eligibility	Amount	Period
<b>Startup Cost Credit</b> Offset the costs of establishing a new qualified retirement plan, such as setup and administration and costs to educate employees.	<ul style="list-style-type: none"><li>• 100 or fewer employees: 50 or less - up to 100% of plan costs; 51-100 - up to 50% of plan costs</li><li>• At least one plan participant is a non-highly compensated employee</li><li>• Have not offered a plan in the preceding 3 years</li></ul>	\$500 up to \$5,000/year	First 3 years
<b>Automatic Enrollment Credit</b> Encourages the adoption of automatic enrollment features in retirement plans.	<ul style="list-style-type: none"><li>• 100 or fewer employees</li><li>• Added automatic enrollment to a new or existing 401(k) plan</li></ul>	\$500/year	First 3 years
<b>Employer Contribution Credit</b> Directly incentivize employer contributions to employee retirement accounts.	<ul style="list-style-type: none"><li>• 100 or fewer employees (w/ a phased credit reduction between 51-100)</li><li>• Available for contributions made to employees earning \$100,000 or less</li></ul>	Up to \$1,000/employee 2% reduction for each employee over 50	Phased credit reduction over 5 years

### Additional Resources & Information

- The next page includes additional details and sample scenarios to help you better understand the calculations.
- No double-dipping – expenses cannot be both deducted and used for calculating tax credits, so be sure to choose the option that is most beneficial for your business.
- When you're ready to file, use [Form 8881, Credit for Small Employer Pension Plan Startup Costs](#)
- Don't forget to discuss this with your tax advisor to ensure that eligibility assumptions and any calculations are accurate.



## Sample Tax Credit Scenarios

Here are some sample scenarios to help you better understand the credit calculations:

### Startup Cost & Automatic Enrollment Credits

- If eligible, minimum annual startup cost credit is \$500; maximum is \$5,000
- If automatic enrollment applies, add \$500/yr
- 50 or fewer employees - up to 100% of startup costs; 51-100 - up to 50% of costs
- Take the lesser of: Startup Cost calculation (1); Max Credit calculation (2); \$5,000

**Employer A**  
20 employees, 18 NHCEs, Auto-Enroll - Yes,  
Costs - \$4,100

1. Startup Cost Calc:  $\$4,100 \times 100\%$  (50 or less) = **\$4,100**
2. Max Credit Calc:  $18 \text{ NHCEs} \times \$250$  = **\$4,500**
3. Lesser of 1 & 2 & \$5,000 = **\$4,100**
4. Automatic Enrollment = **\$500**
5.  $3 + 4$  = **\$4,600**

**Yr 1: \$4,600   Yr 2: \$4,600   Yr 3: \$4,600**

**Employer B**  
65 employees, 58 NHCEs, Auto-Enroll - Yes,  
Costs - \$11,500

1. Startup Cost Calc:  $\$11,500 \times 50\%$  (51 to 100) = **\$5,750**
2. Max Credit Calc:  $58 \text{ NHCEs} \times \$250$  = **\$14,500**
3. Lesser of 1 & 2 & \$5,000 = **\$5,000**
4. Automatic Enrollment = **\$500**
5.  $3 + 4$  = **\$5,500**

**Yr 1: \$5,500   Yr 2: \$5,500   Yr 3: \$5,500**

### Employer Contribution Credits

- Qualifying employer contributions: made to employees who earned \$100,000 or less in wages for the tax year, \$1,000 maximum per eligible employee
- 51-100 employees: 2% reduction for each employee over 50 (ex: 75 employees would mean a 50% reduction in the available tax credit -  $75 - 50 = 25 \times 2\% = 50\%$ )
- 5-year credit phase-out: Yrs 1-2 - 100%; Yr 3 - 75%; Yr 4 - 50%; Yr 5 - 25%

**Employer A**  
20 employees, \$17,000 in qualifying employer  
contributions made to employees earning \$100,000  
or less

1. Qualifying employer contributions - **\$17,000**
2. Reduction (50 or fewer employees) - **\$0**
3.  $1 - 2$  = **\$17,000**

**Yr 1: \$17,000   Yr 2: \$17,000   Yr 3: \$12,750**  
**Yr 4: \$8,500   Yr 5: \$4,250**

**Employer B**  
65 employees, \$53,000 in qualifying employer  
contributions made to employees earning \$100,000  
or less

1. Qualifying employer contributions - **\$53,000**
2. Reduction (51-99 employees) -  $65 - 50 = 15 \times 2\% = 30\% \times \$53,000$  = **\$15,900**
3.  $1 - 2$  = **\$37,100**

**Yr 1: \$37,100   Yr 2: \$37,100   Yr 3: \$27,825**  
**Yr 4: \$18,550   Yr 5: \$9,275**