

Small Business Retirement Plan Tax Credit

Credit for Startup Costs

You may be able to claim a tax credit for part of the ordinary and necessary costs of starting a SEP, SIMPLE, or qualified plan. The credit equals 50% of the cost to set up and administer the plan and educate employees about the plan, up to a maximum of \$500 per year for each of the first 3 years of the plan. You can choose to start claiming the credit in the tax year before the tax year in which the plan becomes effective. You must have had 100 or fewer employees who received at least \$5,000 in compensation from you for the preceding year. At least one participant must be a non-highly compensated employee. The employees generally cannot be substantially the same employees for whom contributions were made or benefits accrued under a plan of any of the following employers in the 3-tax-year period immediately before the first year to which the credit applies.

1. You.
2. A member of a controlled group that includes you.
3. A predecessor of (1) or (2).

The credit is part of the general business credit, which can be carried back or forward to other tax years if it cannot be used in the current year. However, the part of the general business credit attributable to the small employer pension plan startup cost credit cannot be carried back to a tax year beginning before January 1, 2002. You cannot deduct the part of the startup costs equal to the credit claimed for a tax year, but you can choose not to claim the allowable credit for a tax year. To take the credit, use Form 8881, Credit for Small Employer Pension Plan Startup Costs.

Retirement Savings Contributions Credit

Retirement plan participants (including self-employed individuals) who make contributions to their plan may qualify for the retirement savings contribution credit. The maximum contribution eligible for the credit is \$2,000. To take the credit, use Form 8880, Credit for Qualified Retirement Savings Contributions. For more information on who is eligible for the credit, retirement plan contributions eligible for the credit and how to figure the credit, see Form 8880 and its instructions or go to the IRS website and search Retirement Topics-Retirement Savings Contributions Credit (Saver's Credit).