



Startup Tax Credits for Small Employers

Questionnaire

1. [True/False] My employees haven't had access to a retirement plan within the last three years.
2. [True/False] I have 100 or fewer employees who made at least \$5,000 last year.
3. [True/False] I have at least one employee who made under \$155,000 last year and who is not a company owner (or relative of an owner)

If you answered *True* to all each of these questions, your company is eligible to claim a tax credit for your company contributions for the next four years.

Small companies with 50 or fewer employees can claim a tax credit for the company contributions they make to the retirement accounts of eligible employees in the initial years of their retirement plans' existence.

An eligible employee is any employee who makes \$100,000 or less. In the first two years of the plan, the credit is 100% of the employer contribution capped at \$1,000 per eligible employee, in year three of the plan it is 75% of the employer contribution capped at \$1,000 per eligible employee, in year four of the plan it is 50% of the employer contribution capped at \$1,000 per eligible employee and in year five of the plan, it is 25% of the employer contribution capped at \$1,000 per eligible employee.

Illustration: Company A has 12 eligible employees (that is, employees who make less than \$100,000), all of whom are making 401(k) deferrals at a high enough rate to receive a matching contribution of at least \$1,000. Company A can receive \$42,000 in tax credits over the first 5 years of their retirement plan!

Year	Maximum Tax Credit	Calculation	Tax Credit
Year 1	100% of the employer contribution capped at \$1,000 per eligible employee	12 employees x \$1,000	\$12,000
Year 2	100% of the employer contribution capped at \$1,000 per eligible employee	12 employees x \$1,000	\$12,000
Year 3	75% of the employer contribution capped at \$1,000 per eligible employee	\$12,000 x 75%	\$9,000
Year 4	50% of the employer contribution capped at \$1,000 per eligible employee	\$12,000 x 50%	\$6,000
Year 5	25% of the employer contribution capped at \$1,000 per eligible employee	\$12,000 x 25%	\$3,000
Total			\$42,000

Companies with 51-100 employees can also claim a tax credit for the company contributions they make to the retirement accounts of eligible employees in the initial years of their retirement plans' existence.

For these medium-sized companies, the tax credits specified above are reduced by 2% for each employee over 50. For example, the tax credit for a business with 80 employees would be 40% (100% - (2% x (80-50))) of employer contributions for the first two years, 30% (75% x 40%) for the third year, 20% (50% x 40%) for the fourth year and 10% (25% x 40%) in the fifth year.

Enjoy the tax advantages that come with launching a retirement plan. Contact your CPA for details on how your business will benefit from IRC Section 45E(f). Contact the **Northwest AGC Chapters Retirement Plan** to learn more and discuss what contribution structures make sense for your company.