5 GREAT TAX BREAKS FOR BUSINESS OWNERS WITH A RETIREMENT PLAN

TAX BREAK #1: Credit for retirement plan startup costs.

You may be able to claim a tax credit for part of the ordinary and necessary costs of starting a 401(k), 403(b) or other qualified retirement plan. To take the credit, use Form 8881, Credit for Small Employer Pension Plan Startup Costs.

Your company may qualify for up to $16,500 in tax credits for a new or existing retirement plan.

Tax Credit for Starting a New Plan

Employers who sponsor a new retirement plan receive a tax credit for up to 3 (three) years of the **greater** of the following:

1. $500 (this is the same as the original tax credit)
2. The lesser of:
   a. $500 - $5000 calculated as $250 times the number of eligible NHCEs (or $500 - $5000 for 2 – 20 eligible NHCEs). A Non-Highly Compensated Employee is any employee receiving less than $130,000 in compensation in 2020).
   b. $5000 maximum

New Tax Credit for Automatic Enrollment

Employers who sponsor a new retirement plan with automatic enrollment or convert an existing plan to include automatic enrollment will receive an additional $500 tax credit for 3 years.

Tax credit example for a small employer:

- Small business has 40 employees that are eligible NHCEs. 20*$250 = $5,000 (Maximum tax credit.)
- New plan is going to cost $3,000. 100% can be claimed as a tax credit.
- Small business has 10 employees that are eligible NHCEs. 10*$250 = $2,500
- Add on automatic enrollment to the plan for another credit: +$500
- New plan is going to cost $3,000. Tax Credit $2,500+$500=$3,000. 100% can be claimed as a tax credit.
- Maximum credits: $5,000 + $500 = $5,500 tax credit for each of the first 3 years. Total credit = $16,500.

TAX BREAK #2: 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. Form 8880, Credit for Qualified Retirement Savings Contributions, and the instructions explain how to figure the amount of the credit.

TAX BREAK #3: Employer contributions reduce company's taxable revenue.

If your Company makes an Employer contribution, the contributions, up to 25% of the gross compensation, generally reduces the company's taxable revenue by the amount of contribution made to the Plan.

Companies and company owners can receive tax reducing contributions up to $57,000 - $63,500 in a Defined Contribution Plan (e.g. 401(k)) and up to $285,000 and more in a Defined Benefit Plan.

TAX BREAK #4: Company owners reduce their own taxable income.

Company owners may contribute up to $19,500 (+$6,500 if age 50 and older), annually (amounts are generally adjusted upward each year). Company owners may contribute their earned income, which can include W-2 compensation, K-1 draws, etc., to their company retirement plan each year, thereby reducing the owner's personal, taxable compensation.

TAX BREAK #5: Roth contributions made to a 401(k) or 403(b) Plan, result in tax free earnings.

Company owners may contribute, as Roth/post tax contributions, up to $19,500 (+$6,500 if age 50 and older), annually (amounts are generally adjusted upward each year) to the Plan. The Roth contribution tax gratification comes down the road, when you start taking the Roth contributions back out of the Plan (via distribution or otherwise) any and all earnings generated by the Roth dollars come out tax FREE!

Additional information can be found at http://www.irs.gov/pub/irs-pdf/p560.pdf. Your retirement plan Third Party Administrator (TPA), your payroll provider and your Certified Public Accountant (CPA) or bookkeeper can also assist you with claiming various available tax deductions and credits on your company tax returns.