

Workplace retirement plans

Attractive tax credits to start a retirement plan



Thinking of starting a retirement plan for you and your employees and looking for ways to reduce the costs associated with setting up a plan? There are potential tax credits available for small businesses to start a plan: the Employer Contribution Tax Credit and the Plan Startup Costs Tax Credit.



94% of small business owners who do not currently offer a retirement plan said they would be likely to open one if the company received startup plan tax incentives or credits.¹

Employer Contribution Tax Credit: What is it and how does it work?

The Employer Contribution Tax Credit is based on contributions made to eligible employees, by the business to an eligible plan. This credit applies for five years and is phased out for employers with between 51 and 100 employees (reduced by two percentage points for each employee over 50). The maximum credit each year is \$1,000 per eligible employee who receives wages of no more than \$100,000 per year (indexed for inflation).

For employers with up to 50 employees, the credit is 100% of employer contributions for the first two years after the plan is created, 75% in year three, 50% in year four and 25% in year five, with a maximum credit of \$1,000 per employee.

What plan types does this contribution tax credit apply to and what are the limitations?

- The contribution tax credit applies to defined contribution plans, such as SEP IRAs, SIMPLE IRAs and 401(k) plans that have no more than 100 employees.
- Employees with compensation more than \$100,000 are excluded from the calculation.

Plan Startup Costs Tax Credit: What is it and how does it work?

The Plan Startup Costs Tax Credit annual limit is 100% of the eligible startup costs, up to the greater of \$500; or the lesser of \$250 multiplied by the number of non-highly compensated employees (non-HCEs) who are eligible to participate in the plan, or \$5,000. The Plan Startup Costs Tax Credit is for the first 3 years of the plan and is 100% of start up cost for employers with 1-50 employees or 50% for employers with 51-100 employees.

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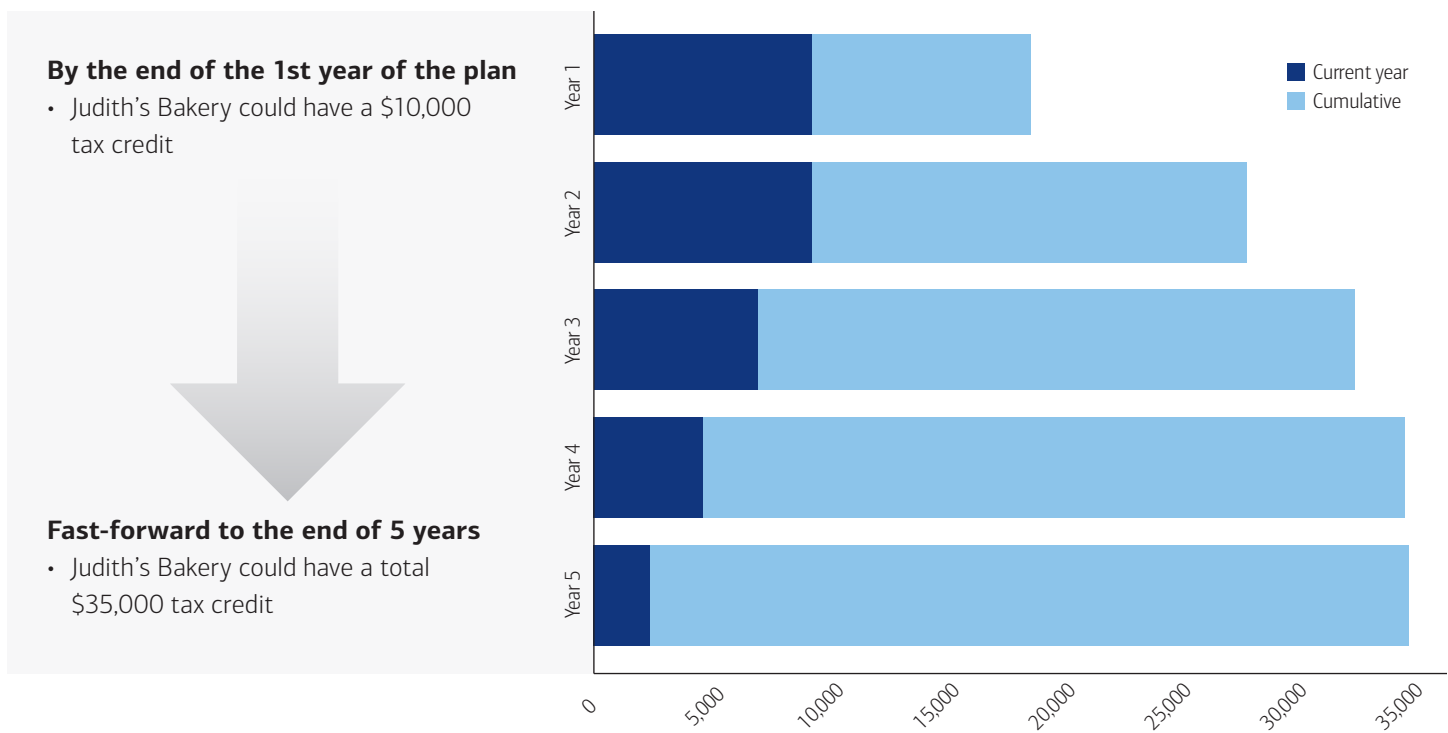
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Let's explore an example of the cumulative impact of the Employer Contribution Tax Credit

Judith's Bakery is looking to start a 401(k)

- The bakery has 15 employees, with 13 earning \$100,000 or less in wages annually
- Of the 13 employees, 10 plan to contribute the 401(k), with an average of \$1,800 from each employee annually
- The bakery plans to offer an employer match with an estimate of \$1,200 for each contributing employee annually

| Company details | |
|--|---------|
| Total number of employees | 15 |
| Employees with wages <\$100,000 | 13 |
| Employees participating in plan with wages <\$100,000 | 10 |
| Average annual employee contribution | \$1,800 |
| Average annual employer matching per contributing employee | \$1,200 |



With the Plan Startup Costs Tax Credit, the total potential tax credit for Judith's Bakery can increase by an additional \$7,500 over the first three years of the plan.²

What requirements must businesses meet to qualify for either of the startup tax credits?

- No more than 100 employees who received compensation of \$5,000 or more in the preceding year.
- Employer didn't offer a plan covering substantially the same employees during the previous three tax years.

What other considerations should I know?

- Contribution credit and plan cost credit are independent of each other. Plans may be eligible for one or both.
- Plans that offer certain automatic enrollment features can claim an additional \$500 tax credit for the first three years.
- Employer contributions that are not used toward tax credits may be able to receive tax deductions. It's best to review tax scenarios with your tax accountant.

Solutions available through Merrill

You have more retirement plan choices today than ever before, and may need help understanding which one can best fit your needs. Merrill can show you various options and help you implement a plan that works best for you and your employees. Additionally, Merrill can help implement a financial strategy that can work for unique circumstances and support broader goals.

| | 401(k) | SIMPLE IRA | SEP IRA |
|---|--|--|---|
| Contribution max (2024) | <ul style="list-style-type: none">• \$23,000 for employees under 50 years old• \$30,500 for employees 50 years old and over• \$69,000 total* | <ul style="list-style-type: none">• \$16,000** for employees under 50 years old• \$19,500** for employees 50 years old and over | <ul style="list-style-type: none">• \$69,000*** |
| Company match option | Yes, optional at employer's discretion | Required (2%–10% non-elective, or 100% match up to 3%) ³ | Required (equal % among all qualified employees) |
| Potential tax credits for opening a new plan⁴ | Eligible | Eligible | Eligible |
| Investments | Wide-range | Wide-range | Wide-range |

* This is the maximum annual contribution limit that includes both employee and employer contributions.

** Increased contribution limits may apply (up to 10% higher) in certain circumstances. See IRS Notice 2024-2.

*** The maximum contribution to a SEP IRA for an employee is the lesser of \$69,000 or 25% of the employee's compensation for the year. Only employer contributions are permitted.

Get started today by contacting a Merrill advisor

Connect with your Merrill advisor or Relationship Manager today and discuss retirement plan options to benefit you and your business.

¹ Source: National Association of Plan Providers, *Small Plan Stats: Will SECURE 2.0 Move the Needle?*, <https://www.napa-net.org/news-info/daily-news/small-plan-stats-will-secure-20-move-needle>, May 2023.

² \$250 credit for 10 employees making <\$100,000 per year for three years.

³ In accordance with the SECURE 2.0 Act and IRS Notice 2024-2, certain SIMPLE IRA plans have higher employee contribution limits, which would also require the employer to make a higher amount of employer contributions if the employer has more than 25 employees.

⁴ Retirement Plans Startup Costs Tax Credit. For more information, visit the IRS website, <https://www.irs.gov/retirement-plans/retirement-plans-startup-costs-tax-credit>.

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