
Tax credit for retirement plan start-up costs



Wealth
Management

Are you considering setting up a retirement plan but are hesitant to do so because of start-up costs and annual administration expenses?

If so, you need to know that you may be eligible to claim a tax credit for part of the ordinary and necessary costs of starting and maintaining an employer-sponsored plan (including SEPs, SIMPLEs, Profit Sharing, and 401(k) plans). 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 three years of the plan. In addition, you may be able to take a tax deduction for any administration expenses that are not part of the credit.

To be eligible, an employer:

- Must sponsor a plan which has at least one employee eligible to participate who is not considered to be a highly compensated employee (individual who is at least a 5% owner or anyone who earned more than \$125,000 in 2019)
- Must have had no more than 100 employees during the preceding year that received at least \$5,000 of compensation
- Cannot have sponsored a retirement plan to which contributions were made or benefits accrued for the preceding three years

To file for the tax credit or for more details, refer to Form 8881—Credit for Small Employer Pension Plan Startup Costs, IRS Publication 560, and talk to your tax advisor.

This is a great benefit to get your company retirement plan started. At RBC Wealth Management, we recognize the importance of selecting and designing an appropriate retirement plan for you and your employees. If you have any questions on this or other retirement related topics, please contact your RBC Wealth Management® financial advisor.

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