Reasons For A Small Business To Start A 401(k) Plan

Small business owners make hundreds of decisions a day ranging from big to small. When it comes to what benefit packages should be offered by the company for its employees, few come with the advantages for not only for the employee, but the business owner as well, as a 401(k) plan.

Why Start a 401(k) Plan?

1 **Tax Credits**
The SECURE ACT passed in 2019 and SECURE ACT 2.0 that passed in 2022increased tax credits available to small businesses to help offset administrative costs. Please see our Tax Credit breakdown on Page _3____.

2 **Employer Contributions**
As a 401(k) plan sponsor, you are not required to match employee contributions, however, as an employee benefit, you can offer to match your employee's contributions. Any matching contributions made by the employer are tax-deductible and have a variety of different options of match types, and include profit-sharing options as well.

3 **Employee Acquisition, Productivity and Retention**
Your benefits package could be a deciding factor when it comes to hiring and retaining employees as the competition for employees has increased. Offering a 401(k) plan can help small to mid-sized businesses stand apart from others. A retirement savings plan can help ease employees' long-term financial anxieties which in turn can make them more productive employees.

4 **Small Business Owners Need Retirement Saving Too**
Business owners need to be able to set aside for retirement as well with tax advantages like a 401(k) plan. Not only does a 401(k) plan have a higher contribution limit than other retirement vehicles such as IRA's and SIMPLE IRA's, but they are flexible to fit with your business needs and goals.

5 **Easy To Maintain**
Many small businesses can be unsure if they the time or capacity to run a 401(k) plan along with all the other business aspects they handle. Luckily, a Third-Party Administrators (TPA) specialize in helping businesses run their 401(k) plan. Fiduciary protections are available to help take the legal and financial responsibilities off their shoulders.

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401(k) Tax Benefits for Business Owners

Tax strategies are important for any business, but especially for small to mid-sized businesses. 401(k) plans offer a great way to save for retirement, but it can also to a lot more for business owners.

How can a 401(k) plan impact taxes

When you contribute to a 401(k) plan, it comes out of your paycheck and placed into your 401(k) account. Those amounts are deducted from your taxable income for the year, effectively lowering your tax liability.

- Employer Contributions:
  - Giving the employees a 401(k) contribution of a match or profit-share is tax deductible for the business. Matching is typically 100% deductible unless it exceeds 25% of an employee's total income. When you file your business taxes, you can deduct all matching and profit-sharing contributions you made to employee accounts (within the IRS imposed deductibility limits).

- Owner and Executive Contributions
  - Business owners and execs can also contribute to the 401(k) plan to get access to the high contribution limits as well as important features like Roth and catch-up contributions. Owners also are allowed to receive the same matching and profit-sharing contributions.

  - Roth contributions in a 401(k) are not subject to the Roth IRA earnings and contribution limits.

- Creditor Protection
  - 401(k) Plan monies are typically protected from creditors and bankruptcies. Under 1974 ERISA Act, funds in a 401(k) plan legally belong to you once you withdraw them to use as income or roll into another account. Until then, the 401(k) funds are legally property of the plan (employer), who is only allowed to release the monies to the employee.

401(k) Plan Start-up Tax Credits

The SECURE ACT and SECURE ACT 2.0 offer tax credits for start-up 401(k) plans to incentivize small businesses to establish and maintain a 401(k) retirement plan for their employees. The tax credit is aimed at helping businesses offset some of the costs associated with setting up and maintaining the plan, making it more affordable to offer the benefit to their employees.

- Eligibility Requirements:

To qualify for the tax credits, businesses should meet the following criteria:

- Have 100 or fewer employees
- Include at least one non-highly compensated employee (someone who owns 5% or less of the business and received less than $135,000 in compensation the previous year).
- You did not sponsor a plan in the previous three years.

- The Start-up Credit:

- For Businesses with 50 or fewer employees, the available credit is:

100% of eligible start-up costs, up to the *greater* of $500; or the *lesser* of: $250 x the number of eligible non-highly compensated employees; or $5,000.

- For Businesses with 51- 100 employees, the available credit is:

50% of the eligible start-up costs, up to the *greater* of $500; or the *lesser* of: $250 x the number of eligible non-highly compensated employees; or $5,000.

EXAMPLES:

A business with 2 owners and 30 non-highly employees would be eligible for a maximum tax credit of $5,000 (even though 30 x $250 = $7500, it is capped at $5,000).

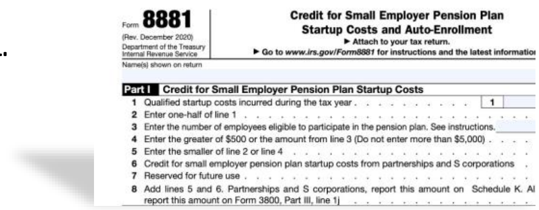
A business with 1 owner and 8 non-highly employees would be eligible for a maximum tax credit of $2,000 ($250 x 8).

A business with 2 owners and 75 non-highly employees would be eligible for a maximum tax credit of $5,000. *However, since they have more than 50 employees, they can only claim 50% of start-up costs. That means they would need to exceed $10,000 in start-up costs to claim the full $5,000. If the costs were only $6,000, they could only claim $3,000 (50%).*

401(k) Plan Start-up Tax Credits

- The timeframe available for the tax credit is each of the first three years of the plan.

- The IRS form to claim the credit is form 8881.



Form **8881**
(Rev. December 2020)
Department of the Treasury
Internal Revenue Service

Credit for Small Employer Pension Plan Startup Costs and Auto-Enrollment
► Attach to your tax return.
► Go to *www.irs.gov/Form8881* for instructions and the latest informatio

Name(s) shown on return

Part I Credit for Small Employer Pension Plan Startup Costs

1 Qualified startup costs incurred during the tax year 1
2 Enter one-half of line 1 . . . .
3 Enter the number of employees eligible to participate in the pension plan. See instructions.
4 Enter the greater of $500 or the amount from line 3 (Do not enter more than $5,000) . . . .
5 Enter the smaller of line 2 or line 4 . . . .
6 Credit for small employer pension plan startup costs from partnerships and S corporations .
7 Reserved for future use . . . .
8 Add lines 5 and 6. Partnerships and S corporations, report this amount on Schedule K. Al report this amount on Form 3800, Part III, line 1j . . . .

- Employer Contribution Tax Credit

  - A maximum credit of $1,000 per non-highly employee. Businesses with 50 or fewer employees may receive a tax credit of 100% of the employer contribution (match or profit-share) in the first two years, 75% in year three, and 50% in year four.

  - The tax credit for a business with 51 to 100 employees is based on a sliding scale. The maximum credit is still $1,000 per non-highly employee. However, the percentage is reduced by 2 points for each employee over 50. In other words, the tax credit for a business with 70 employees would only be 60% (100% – (2% x 20)) of employer contributions for the first two years, 45% (75% x 60%) for the third year, 30% (50% x 60%) for the fourth year and 15% (25% x 60%) in the fifth year.

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