

# Retirement Planning Opportunities

## Tax Credit for New Qualified Retirement Plans

### Tax Credit for Start-Up Costs for New Qualified Plans

Small businesses can receive a tax credit covering part of the costs for setting up a new employee retirement plan. The credit equals 50% of the expenses for establishing or administering an eligible employer plan including retirement-related education of employees with respect to that plan. The credit cannot be more than \$500 in any taxable year.

### Which Businesses Are Eligible for this Tax Credit?

This tax credit is available to small businesses that have set-up:

- **Any New Qualified Pension, Profit Sharing or Stock Bonus Plan with an Exempt Trust**
- **Any New SIMPLE IRA**
- **Any New SEP**

The business must have less than 100 employees with salaries of \$5,000 or more in the previous year. All eligible employer plans will be aggregated in order to determine the number of employees as well as to determine the \$500 limit on the credit.

Additionally the plan must cover at least one non-highly compensated employee.

### Who Are Highly Compensated Employees?

Highly compensated employees are employees who own 5% or employees who have earned more than \$105,000 in the previous year.

Certain family members of the 5% owners are also considered to be highly compensated employees regardless of how low their salaries are. These family members include the spouses, children, parents, grandparents and grandchildren.

The \$105,000 figure is the salary limit for 2008. It is indexed for inflation and may increase in the future.

### Which Plans Qualify as New Plans?

In order for the plan to be considered a new plan, the employer cannot have established or maintained a qualified retirement plan for substantially the same employees during the three years preceding the first taxable year in which the new plan is effective.

If the employer is part of a controlled group or affiliated service group, then no member of this group can have established or maintained a qualified plan during that three-year taxable period.

### When Can The Credit Be Claimed?

The credit may be taken for qualified costs incurred during each of the three years starting with the taxable year in which the plan became effective.

Conversely, if the employer prefers, he or she could take the credit for the year preceding the year in which the plan becomes effective and the first two years of the plan.

The employer does have the option to elect out of the credit if he or she prefers.

### Which Expenses Are Still Deductible?

This credit is a general business credit. While the qualifying expenses that are offset by this credit are not deductible, the remaining qualifying expenses that are not offset by this credit are deductible as long as they are ordinary and necessary business expenses.

### Where Can You Get Additional Information?

Please feel free to contact me if you want additional information on this tax credit.

Guardian, its subsidiaries, agents or employees do not give tax or legal advice.