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#### CLIENT REFERRAL PROGRAM:

If a client you  
recommend to  
us becomes our  
client, you can  
receive a 10%  
discount on  
annual services  
for every year  
they  
remain  
a client.



# The PRS Report

## TAX CREDITS FOR A NEW PENSION PLAN



This section of the newsletter is directed to accountants and advisors who want to encourage their clients to start a pension plan. The information laid out here should be helpful in encouraging your clients to take the necessary steps to set up a new qualified pension plan. Of course, all the usual reasons (to save for retirement, to provide a valuable benefit for employees, to get a tax deduction) need to be raised, but now with the passage of SECURE 2.0, there are two additional reasons to adopt a plan.

Beginning in the 2023 tax year, employers may be able to take credits on their tax returns to defray some (sometimes even a large chunk) of the costs new plans incur. There are two types of tax credits available, as detailed below, and these credits can be taken via Form 8881.

1. Start-up Costs Credit can be taken to defray the costs of adopting and administering a new plan (a defined benefit or cash balance plan and/or 401(k) and profit sharing plan) over the course of three years; and
2. Employer Contribution Credit can be used to defray the cost of making employer contributions to new 401(k) and Profit Sharing plans over the course of five years.

Before getting into the details of each type of tax credit, it should be understood that whatever tax credits are claimed for a new Plan, any tax deduction taken is reduced by the tax credits taken. Moreover, the credits are only available if the following conditions are satisfied:

- The employer is an eligible employer for each year that a credit is taken, that is, an employer which had less than 101 employees in the prior year whose compensation was at least \$5,000. All employees, full-time and part-time, union and non-resident aliens even if they do not meet eligibility requirements, leased employees, and self-employed individuals must all be counted even if they were employed for only part of the year.
- the employer did not sponsor another plan during the preceding three plan years which covered substantially the same employees.

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## TAX CREDITS FOR A NEW PENSION PLAN

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Below is a chart describing each of the two credits available to New Plans:

	Start-Up Costs Credit	Er Contribution Credits
Credit can be used by all types of qualified pension plans?	Yes	Limited to defined contribution plans (401(k), profit sharing)
For how many years can Credit be taken?	3	5 (Each year after 2 <sup>nd</sup> year, decreases by 25%.)
Must have NHCEs (Non-Highly Compensated Employees) to Qualify?	Yes	No
Credit Allowed for <b>Small</b> Eligible Employer (up to 50 employees)?	Up to <b>100%</b> of costs, the maximum allowed is the greater of: \$500 or the lesser of: \$250/NHCE or \$5,000	Up to \$1,000/eligible employee. Contributions for employees with FICA compensation in excess of \$100,000 (indexed) cannot be included, but contributions for <b><i>Sole Proprietors and Partners with earned income but no FICA income can be included.</i></b>
Credit Allowed for Eligible Employer (51-100 employees)?	Up to <b>50%</b> of costs, the max allowed is the greater of: \$500 or the lesser of: \$250/NHCE or \$5,000	Same as above. Deduct 2% for every employee exceeding 50 employees.
Only qualify if there are NHCEs?	Yes	No

The rules regarding how to and under what circumstance these credits can be taken are complicated. Ultimately, accountants who will be claiming these tax credits on their clients' tax returns, will be making the final determination as to whether their clients are eligible for these valuable tax credits. We, as pension professionals, are available to assist accountants and clients in the determination process.



## CASH-OUTS FOR SMALL BALANCES

For all plans which currently contain provisions for cash-outs of small balances not exceeding \$5,000, now under SECURE 2.0, that limit is \$7,000. Plan sponsors can now cash-out their former employees' vested account balances (for defined contribution plans) or vested accrued benefits (for defined benefit plans) if they do not exceed \$7,000. These cash-outs can reap some savings in administrative fees.

The deadline to amend all qualified plans for SECURE 2.0 has been extended until December 31, 2026. However, all plans must operate in accordance with SECURE 2.0 as of the relevant provisions' effective date. Some of the more than 90 SECURE 2.0 provisions are mandatory and some are optional. The cash-out provision is optional, but unless we hear from a plan sponsor that this provision is not desired, we will include it in the amendment.

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