

CASE OF THE WEEK

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Don't Forget Retirement Plan Tax Credits

Our ERISA consultants on the Columbia Management Learning Center Resource Desk regularly receive calls from financial advisors on a broad array of technical topics related to IRAs and qualified retirement plans. For example, we routinely guide Columbia Management's financial advisor partners through the rules and regulations that pertain to tax incentives for maintaining and contributing to workplace retirement plans.

A recent call with a Wells Fargo advisor in South Carolina is representative of a common inquiry regarding available tax credits for retirement plan sponsors and participants. The advisor asked, "**Since it is tax season, are there any special tax credits or deductions available for retirement plan sponsors and plan participants?**"

Highlights of Recommendations

- Yes, there are special tax credits available for both businesses that start new plans, and participants who make contributions to IRAs or workplace retirement plans. Employers and plan participants should be encouraged to discuss these tax credits with their tax professionals.
- A small employer (defined later) may be able to claim a tax credit for starting a workplace retirement plan. Details of the credit appear in IRS Publication 560 <http://www.irs.gov/pub/irs-pdf/p560.pdf>. In general, the plan start-up tax credit
 - Is available to employers with 100 or fewer employees who received at least \$5,000 in compensation in the preceding year; and have at least one participant who is a nonhighly compensated employee;
 - Covers part of the ordinary and necessary costs of starting a simplified employee pension (SEP), savings incentive match plan for employees (SIMPLE) IRA, or qualified plan;
 - 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; and
 - Is claimed by the employer by using Form 8881, *Credit for Small Employer Pension Plan Startup Costs*. <http://www.irs.gov/pub/irs-pdf/f8881.pdf>
- Retirement plan participants (including self-employed individuals) may qualify for a retirement savings contribution tax credit. Details of the credit appear in IRS Publication 590 <http://www.irs.gov/pub/irs-pdf/p590.pdf>. In general, the contribution tax credit
 - Is available to individuals who have income below a certain level;
 - Equals an amount up to \$1,000 (or \$2,000 for a married couple);
 - Relates to contributions taxpayers make to their traditional and/or Roth IRAs; or elective deferrals to a 401(k) or similar workplace retirement plan; and
 - Is claimed by a taxpayer on Form 8880, *Credit for Qualified Retirement Savings Contributions*. <http://www.irs.gov/pub/irs-pdf/f8880.pdf>

Conclusion

Every deduction and tax credit counts these days. Many employers and plan participants are unaware of the retirement plan related tax credits for which they may qualify. Financial advisors who are aware of these tax credits set themselves apart from the average advisor and, thereby, win more clients and retirement plan business. As always, the Columbia Management Learning Center is available to help.