

EMPLOYER & EMPLOYEE RETIREMENT PLAN TAX CREDITS

For **employers** who set up and maintain retirement plans, the setup costs, annual administrative costs, and retirement-related employee education costs are deductible business expenses for the employers.

The IRS also offers a **tax credit** of 50% of the first \$1,000 of these costs for each of the first 3 years when a small employer sets up a new retirement plan for its employees. The employer must have 100 or fewer employees when the plan is set up and the employer must not have had any type of retirement plan for the 3 preceding years. See the next page, IRS Form 8881, for complete details about this valuable tax credit.

For **employees** who make contributions to 401(k) plans, 403(b) plans, 457 plans, or SIMPLE IRA plans, their contributions are not subject to current Federal income taxes. This means that contributing employees pay less current Federal income taxes.

The IRS also offers a **401(k) plan saver's tax credit** for a contributing employee from 10% to 50% of the first \$2,000 of the employee's contributions, depending on the employee's adjusted gross income and filing status. See the third page English version or the fourth page Spanish version for complete details about this valuable 401(k) plan saver's tax credit. This is another great reason to save for retirement by cutting the taxes you owe even more.

**Credit for Small Employer Pension Plan
 Startup Costs**

OMB No. 1545-1810

Attachment
 Sequence No. **130**

▶ Attach to your tax return.

Name(s) shown on return		Identifying number	
1	Qualified startup costs incurred during the tax year. Do not enter more than \$1,000	1	
2	Enter one-half of line 1	2	
3	Credit for small employer pension plan startup costs from partnerships and S corporations	3	
4	Add lines 2 and 3	4	
5	Enter the smaller of line 4 or \$500. Partnerships and S corporations, report this amount on Schedule K; all others report this amount on the applicable line of Form 3800, (e.g., line 1m of the 2006 Form 3800)	5	

General Instructions

Section references are to the Internal Revenue Code.

What's New

- The tax liability limit is no longer figured on this form. Instead, it must be figured on Form 3800, General Business Credit.
- Taxpayers that are not partnerships or S corporations, and whose only source of this credit is from those pass-through entities, are not required to complete or file this form. Instead, they can report this credit directly on line 1m of Form 3800.
- The IRS will revise this December 2006 version of the form only when necessary. Continue to use this version for tax years beginning after 2005 until a new revision is issued.

Purpose of Form

Eligible small employers use Form 8881 to claim the credit for qualified startup costs incurred in establishing or administering an eligible employer plan.

The credit is allowed under section 45E and is part of the general business credit. You may elect, however, to have section 45E not apply for the tax year the credit is available by not claiming it on your tax return for that year.

How To Figure the Credit

For an eligible small employer, the credit is 50% of the qualified startup costs paid or incurred during the tax year. The credit is limited to \$500 per year for the first credit year and each of the following 2 tax years. No credit is allowed for any other tax year.

Eligible small employer. To be an eligible small employer, you must have had no more than 100 employees during the tax year preceding the first credit year who received at least \$5,000 of compensation from you during that tax year. However, you are not an eligible small employer if, during the 3 tax years preceding the first credit year, you established or maintained a qualified employer plan with respect to which contributions were made, or benefits were accrued, for substantially the same employees as are in the new qualified employer plan. See section 45E(c) for rules for controlled groups and predecessor employers.

Qualified startup costs. Qualified startup costs are expenses paid or incurred in connection with: (a) establishing or administering an eligible employer plan; or (b) the retirement-related education of employees about the plan.

Eligible employer plan. An eligible employer plan is a qualified employer plan (as defined in section 4972(d)) with at least one employee eligible to participate who is not a highly compensated employee. All eligible employer plans of the same employer are treated as one eligible employer plan.

First credit year. The first credit year generally is your tax year that includes the date that the eligible employer plan becomes effective. However, you may elect to have the preceding tax year be the first credit year, and claim the credit for qualified startup costs paid or incurred during that tax year. For example, a calendar-year eligible small employer whose eligible plan is first effective on January 1, 2007, may elect to treat 2006 as the first credit year and claim the credit on its 2006 tax return for qualified startup costs incurred in 2006.

No Deduction Allowed for Credit Amount

You must reduce your otherwise allowable deduction for startup costs by the credit amount on line 2.

Controlled Groups

For purposes of figuring the credit, all members of a controlled group of corporations (as defined in section 52(a)), all members of a group of businesses under common control (as defined in section 52(b)), and all members of an affiliated service group (as defined in section 414(m)), are treated as a single employer. As a member, compute your credit based on your proportionate share of qualified startup costs giving rise to the group's credit for small employer pension plan startup costs. Enter your share of the credit on line 2. Attach a statement showing how your share of the credit was figured, and write "See Attached" next to the entry space for line 2.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

- Recordkeeping** 5 hr., 58 min.
- Learning about the law or the form** 53 min.
- Preparing and sending the form to the IRS** 1 hr., 1 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

401(k) PLAN SAVER'S TAX CREDIT

If you make contributions to a 401(k) plan, you may be eligible for a saver's tax credit. If you are eligible, this saver's tax credit will reduce the federal income tax you pay dollar-for-dollar.

The amount of the saver's tax credit you can get is based on the 401(k) contributions you make and on your saver's tax credit rate. **The saver's tax credit ranges from 10% to 50% of the first \$2,000 of your contributions to a 401(k) plan, depending on your adjusted gross income and your filing status.** This saver's tax credit is in addition to the favorable deferral of income taxes on your pre-tax 401(k) contributions.

The 401(k) plan saver's tax credit for 2012 is available to you if you:

- are 18 or older;
- are not a full-time student;
- are not claimed as a dependent on someone else's return; and
- have adjusted gross income (shown on your tax return for the year of the credit) that does not exceed:
 - \$57,500 if you are married filing jointly,
 - \$43,125 if you are a head of household with a qualifying person, or
 - \$28,750 if you are single or married filing separately.

SAVER'S TAX CREDIT RATES

<u>Married Filing Jointly</u> <u>Adjusted Gross Income</u>	<u>Head of Household Filer</u> <u>Adjusted Gross Income</u>	<u>Single & All Other Filers</u> <u>Adjusted Gross Income</u>	<u>Applicable</u> <u>Saver's Tax Credit Rate</u>
\$34,500 or Less	\$25,875 or Less	\$17,250 or Less	50% of Contribution
\$34,501 - \$37,500	\$25,876 - \$28,125	\$17,251 - \$18,750	20% of Contribution
\$37,501 - \$57,500	\$27,126 - \$43,125	\$18,751 - \$28,750	10% of Contribution
Over \$57,500	Over \$43,125	Over \$28,750	Credit Not Available

The annual 401(k) contribution eligible for the saver's tax credit may have to be reduced by any taxable distributions from a 401(k) plan, another retirement plan, or an IRA that you or your spouse receive during the year you claim the saver's tax credit, during the 2 preceding years, or during the period after the end of the year for which you claim the saver's tax credit and before the due date for filing your return for that year. A distribution from a Roth IRA that is not rolled over is taken into account for this reduction, even if the distribution is not taxable. After these reductions, \$2,000 is the maximum individual annual 401(k) contribution eligible for the saver's tax credit.

The amount of your saver's tax credit will not change the amount of your refundable tax credits. A refundable tax credit, such as the earned income credit or the refundable amount of your child tax credit, is an amount that you would receive as a refund even if you did not otherwise owe any taxes. The amount of your saver's tax credit in any year cannot exceed the amount of tax that you would otherwise pay (not counting any refundable credits or the adoption credit) in any year. If your tax liability is reduced to zero because of other nonrefundable credits, such as the Hope Scholarship Credit, then you will not be entitled to the saver's tax credit.

CRÉDITO DE IMPUESTOS DEL AHORRADOR 401(k)

Si ud. hace contribuciones a un plan 401(k), ud. puede calificar para un crédito de impuestos del ahorrador. Si ud. califica, este crédito de impuestos del ahorrador le hara reducir los impuestos sobre ingresos que ud. tendrá que pagar dolar por dolar.

La cantidad de crédito de impuestos del ahorrador se basa en las contribuciones al plan 401(k) que ud. hace y en su tasa de crédito de impuestos del ahorrador. **La tasa de crédito de impuestos del ahorrador extiende desde un 10% a un 50% de los primeros \$2,000 en contribuciones a un plan 401(k), dependiendo en su ingreso neto ajustado y su estado civil.** Este crédito de impuestos del ahorrador es además del aplazamiento favorable de impuestos sobre los ingresos de sus contribuciones 401(k) antes de impuestos.

El crédito de impuestos del ahorrador de un plan 401(k) para el 2012 esta disponible si ud.:

- es mayor de 18 años;
- no es un estudiante de tiempo completo;
- no es declarado como dependiente en la declaración de otra persona; y
- tiene ingreso neto ajustado (demostrado en su declaración de impuestos para el año del crédito) que no sobrepase:
 - \$57,500 si es una pareja casada que se declaran juntos,
 - \$43,125 si es un jefe de familia con una persona que califica, o
 - \$28,750 si es soltero/a o una pareja casada que se declaran por separado.

TASAS DE CRÉDITO DE IMPUESTOS DEL AHORRADOR

<u>Casados Declarando Juntos</u> <u>Ingreso Neto Ajustado</u>	<u>Jefe de Familia</u> <u>Ingreso Neto Ajustado</u>	<u>Soltero u Otros Aplicantes</u> <u>Ingreso Neto Ajustado</u>	<u>Tasa de Crédito de</u> <u>Impuestos del Ahorrador</u>
\$34,500 o Menos	\$25,875 o Menos	\$17,250 o Menos	50% de Contribución
\$34,501 - \$37,500	\$25,876 - \$28,125	\$17,251 - \$18,750	20% de Contribución
\$37,501 - \$57,500	\$28,126 - \$43,125	\$18,751 - \$28,750	10% de Contribución
Más de \$57,500	Más de \$42,125	Más de \$28,750	Crédito No Disponible

La contribución 401(k) anual elegible para el crédito de impuestos del ahorrador puede ser reducida por cualquier distribución sujeta a impuestos de un plan 401(k), otro plan de retiro, o un IRA que ud. o su cónyugue reciban durante el año en el cual ud. reclame el crédito de impuestos del ahorrador, durante los 2 años que le precedan, o durante el período de tiempo después del fin de año por el cual ud. reclamó crédito de impuestos del ahorrador y antes de la fecha final para declarar impuestos para ese año. Una distribución de un Roth IRA que no sea renovada es considerada al hacer esta reducción, aún si la distribución no sea sujeta a impuestos. Después de estas reducciones, la cantidad individual máxima anual de contribución 401(k) que pueda ser elegible es de \$2,000 para el crédito de impuestos del ahorrador.

La cantidad de su crédito de impuestos del ahorrador no cambiará la cantidad de sus créditos de impuestos reembolsables. Un crédito de impuesto reembolsable, tal como el crédito de ingreso adquirido o la cantidad reembolsable de su crédito de impuesto de su/sus hijo/s, es una cantidad que ud. irá a recibir como una devolución, aún si ud. no debía impuestos de otra manera. La cantidad de su crédito de impuestos del ahorrador en cualquier año no puede ser mayor a la cantidad de impuestos que ud. tendría que pagar de otra manera (sin contra algún crédito reembolsable o el crédito de adopción) en cualquier año. Si su obligación de impuestos es reducida a cero a causa de otros créditos no reembolsables, tal como el Hope Scholarship Credit, entonces ud. no calificará para el crédito de impuestos del ahorrador.