CalSavers
RETIREMENT SAVINGS PROGRAM

For information go to: Calsavers.com

* Registration
* Eligibility
* Enrolling Employees
* Sending contributions
* Fees & costs
* Investments

Employers can register now

State law requires that California employers, who don't already offer an employer-sponsored retirement plan and who have five or more employees, either sponsor a retirement plan or participate in CalSavers. The three-year phased rollout will include staggered deadlines for registration based on employer size. All eligible employers are encouraged to join at any time prior to their registration deadline.

More than 100 Employees → **September 30, 2020**

More than 50 employees → **June 30, 2021**

5 or more employees → **June 30, 2022**

FAQ's about CalSavers:

- Penalties: $250 per employee. After 180 days penalty is $500 per employee
- Eligibility: Age 18 & 30 Days of employment for California employees
- Type of Plan: Roth IRA with $6,000 maximum contribution
- No Financial Advisor compensation allowed
- State tracking: EDD via DE9 Form
- Must be a W-2 wage earner

Credit For Small Retirement Plan Startup Costs

June 12, 2020

Congress is giving employers up to $15,000 to start a retirement plan for their employees

The newly adopted SECURE Act provides for an optional tax credit for up to three years, for qualified startup costs paid or incurred by an eligible employer, to establish an eligible employer plan. The credit is for new plans effective after 12/31/2019.

Eligible Employer

An eligible employer is an employer who had no more than 100 employees and who received at least $5,000 of compensation from the employer for the preceding year. You are not eligible if you had a plan in the preceding three years taxable years.

Eligible Employer Plan

1. A Code Section 401(a) Plan, such as a 401(k), Profit Sharing, Defined Benefit, Cash Balance, or ESOP

2. A Code §403(a) annuity

3. A SEP IRA or SIMPLE IRA

Qualified Startup Costs

The term "qualified startup costs" means any ordinary and necessary expenses of an eligible employer that are paid or incurred in connection with (a) the establishment or administration of an eligible employer plan, or (b) the retirement-related education of employees with respect to such plan. A plan must have at least one employee eligible to participate who is not a highly compensated employee in order to have "qualified startup costs." [Code §45E(d)(1) as amended by the SECURE Act 104]

Amount of Tax Credit

The credit is 50% of the employer's ordinary and necessary eligible retirement plan startup costs, up to the annual cap. The annual cap is the greater of $500, or $250 for each non-highly compensated employee who is eligible to participate in the plan up to $5,000.

The minimum tax credit each year is $500.

A non-highly compensated employee (NHCE) is an eligible plan participant earning less than $125,000.

This credit is available every year for three years up to a total of $15,000.

Example:

A plan has startup and administrative costs of $6000.   How much credit can they take? 50% of the $6000 = $3000.

To qualify for this amount let's assume the plan has 20 lower-compensated employees (HNCE) that are eligible. $250 x 20 = $5,000. They qualify for $3000 tax credit. If they had 5 NHCEs $250 x 5 = $1250. Their tax credit would be limited to $1,250.

Thereafter, perform the same calculation to determine your annual credit.

Tax Credit vs Tax Deduction

Tax credits and tax deductions both reduce your tax bill, but in very different ways.

Tax credits directly reduce the amount of tax you owe, giving you a dollar-for-dollar reduction of your tax liability. A tax credit valued at $2,500 for instance, lowers your tax bill by the corresponding $2,500.

Tax deductions reduce how much of your income is subject to taxes. Deductions lower your taxable income by the percentage of your federal income tax bracket. Under current corporation tax rules, the rate is 21%. *Note: Always check with your tax advisor for your particular situation. If you fall into the 21% tax bracket, a $2,500 deduction saves you $525. Employer's with no NHCEs may be better off with a tax deduction

The credit is taken on IRS Form 8881. We have check the form issued by the IRS and it still shows the maximum of $500 under prior rules. Considering you will not be preparing your 2020 taxes until 2021, BEI assumes we will get an up dated form in ample time.

This credit was enacted by congress because they do not want small businesses to forego 401(k) plans for their employees because of startup costs. For many small businesses we expect this credit to pay fees for the first three years the plan is in operation. After that time, you can take the tax deduction or you can have the plan pay expenses.

Note: Your business must write the check for these services, because if the fees come from plan assets you will not qualify for the tax credit.

We stand ready to help design and implement your company retirement plan. Please contact one of BEI's experienced consultants for more information.

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