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# Instructions for Form 8881



Department of the Treasury  
Internal Revenue Service

(Rev. December 2020)

## Credit for Small Employer Pension Plan Startup Costs and Auto-Enrollment

Section references are to the Internal Revenue Code unless otherwise noted.

### Future Developments

For the latest information about developments related to Form 8881 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8881](https://www.irs.gov/Form8881).

### What's New

**Increase in limit for the small employer pension plan startup costs credit.** The Further Consolidated Appropriations Act, 2020, increased the credit limit for the credit for small employer pension plan startup costs.

**New credit for small employer automatic enrollment in retirement savings.** The Further Consolidated Appropriations Act, 2020, created a new credit for small employers with an auto-enrollment option for retirement savings.

**Changes to the form.** The title of Form 8881 is changed to Credit for Small Employer Pension Plan Startup Costs and Auto-Enrollment. In addition, the form now has two parts. Part I is used to claim the credit for small employer pension plan startup costs. Part II is used to claim the credit for small employer auto-enrollment in retirement savings.

## General Instructions

### Purpose of Form

Eligible small employers use Form 8881, Part I, to claim the credit for qualified startup costs incurred in establishing or administering an eligible employer plan. The Part I credit is allowed under section 45E.

Eligible small employers can use Form 8881, Part II, to claim the credit for first including an eligible automatic contribution arrangement in an eligible employer plan. The Part II credit is allowed under section 45T.

Taxpayers, other than partnerships and S corporations, whose only source of these credits is from a partnership or S corporation, are not required to complete or file this form. Instead, they can report these credits directly on Form 3800.

### Part I. Credit for Small Employer Pension Plan Startup Costs

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 employer, the credit is 50% of the qualified startup costs paid or incurred during the tax year. The credit is limited to the greater of \$500 or the lesser of \$250 for each employee that is eligible to participate in the plan and not highly compensated (as defined in section 414(q)) or \$5,000 for the first tax year and each of the following 2 tax years. No credit is allowed for any other tax year.

**Eligible employer.** To be an eligible 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 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. See *Member of Controlled Group or Business Under Common Control* below for rules on treatment as a single employer.

**First credit year.** The first credit year is generally 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, 2020, may elect to treat 2019 as the first credit year and claim the credit on its 2019 tax return for qualified startup costs incurred in 2019.

### No Deduction Allowed for Credit Amount

You must reduce your otherwise allowable deduction for startup costs by the credit amount on line 5.

### Member of Controlled Group or Business Under Common Control

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

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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 5. Attach a statement showing how your share of the credit was figured, and write "See Attached" next to the entry space for line 5.

preceding the first credit year who received at least \$5,000 of compensation from you during that tax year.

**Eligible employer plan.** An eligible employer plan is a qualified employer plan (as defined in section 4972(d)). All eligible employer plans of the same employer are treated as one eligible employer plan. See *Member of Controlled Group or Business Under Common Control* below for rules on treatment as a single employer.

**First credit year.** The first tax year that the credit applies is your first tax year in which you or a person treated as a single employer with you first includes (or had included) an eligible automatic contribution arrangement in an eligible employer plan. See *Member of Controlled Group or Business Under Common Control* below for rules on treatment as a single employer.

## Specific Instructions

### Line 3

Enter the number of employees of the eligible employer who are not highly compensated employees and who are eligible to participate in the eligible employer plan maintained by the eligible employer.

### Member of Controlled Group or Business Under Common Control

For purposes of figuring the credit, controlled groups of corporations under section 414(b), partnerships or sole proprietorships under common control under section 414(c), and affiliated service groups under section 414(m) are treated as a single employer. In addition, leased employees described in section 414(n) are treated as employed by the employer. As a member, compute your credit based on your proportionate share of the \$500 annual credit giving rise to the group's credit for small employer automatic enrollment. Enter your share of the credit on line 9. Attach a statement showing how your share of the credit was figured, and write "See Attached" next to the entry space for line 9.

## Part II. Small Employer Auto-Enrollment Credit

The credit is allowed under section 45T and is part of the general business credit.

### How To Figure the Credit

The credit is \$500 for the first tax year that an eligible employer first includes an eligible automatic contribution arrangement (under section 414(w)(3)) in an eligible employer plan. The credit is \$500 for each of the following 2 tax years, provided that you continue to maintain the arrangement at any time during the applicable tax year. No credit is allowed for any other tax year.

**Eligible employer.** To be an eligible employer, you must have had no more than 100 employees during the tax year

**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 and business taxpayers filing this form is approved under OMB control number 1545-0074 and 1545-0123 and is included in the estimates shown in the instructions for their individual and business income tax return. The estimated burden for all other taxpayers who file this form is shown below.

<b>Recordkeeping</b> .....	2 hr.,	52 min.
<b>Learning about the law or the form</b> .....		53 min.
<b>Preparing and sending the form to the IRS</b> .....		58 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.