

# Credit for Small Employer Pension Plan Startup Costs

Department of the Treasury  
Internal Revenue Service

▶ Attach to your tax return.

Name(s) shown on return

Identifying number

**Part I Current Year Credit** (Members of controlled groups or businesses under common control, see instructions.)

1	Qualified startup costs incurred during the tax year. <b>Do not</b> enter more than \$1,000	1								
2	Enter one-half of line 1	2								
3	Form 8881 credits from pass-through entities:	3								
	<table border="1"> <tr> <td>If you are a—</td> <td>Then enter the Form 8881 credits from—</td> </tr> <tr> <td>a Shareholder</td> <td>Schedule K-1 (Form 1120S) lines 12d, 12e, or 13</td> </tr> <tr> <td>b Partner</td> <td>Schedule K-1 (Form 1065) lines 12c, 12d, or 13</td> </tr> </table>	If you are a—	Then enter the Form 8881 credits from—	a Shareholder	Schedule K-1 (Form 1120S) lines 12d, 12e, or 13	b Partner	Schedule K-1 (Form 1065) lines 12c, 12d, or 13	4		
If you are a—	Then enter the Form 8881 credits from—									
a Shareholder	Schedule K-1 (Form 1120S) lines 12d, 12e, or 13									
b Partner	Schedule K-1 (Form 1065) lines 12c, 12d, or 13									
4	Add lines 2 and 3	4								
5	<b>Current year credit.</b> Enter the <b>smaller</b> of line 4 or <b>\$500</b>	5								

**Part II Allowable Credit** (See **Who must file Form 3800** to find out if you complete Part II or file Form 3800.)

6	Regular tax before credits:			
	<ul style="list-style-type: none"> <li>Individuals. Enter the amount from Form 1040, line 41</li> <li>Corporations. Enter the amount from Form 1120, Schedule J, line 3; Form 1120-A, Part I, line 1; or the applicable line of your return</li> <li>Estates and trusts. Enter the sum of the amounts from Form 1041, Schedule G, lines 1a and 1b, or the amount from the applicable line of your return</li> </ul>	6		
7	Alternative minimum tax:			
	<ul style="list-style-type: none"> <li>Individuals. Enter the amount from Form 6251, line 35</li> <li>Corporations. Enter the amount from Form 4626, line 14</li> <li>Estates and trusts. Enter the amount from Form 1041, Schedule I, line 56</li> </ul>	7		
8	Add lines 6 and 7	8		
9a	Foreign tax credit	9a		
b	Credit for child and dependent care expenses (Form 2441, line 11)	9b		
c	Credit for the elderly or the disabled (Schedule R (Form 1040), line 24)	9c		
d	Education credits (Form 8863, line 18)	9d		
e	Credit for qualified retirement savings contributions (Form 8880, line 14)	9e		
f	Child tax credit (Form 1040, line 49)	9f		
g	Mortgage interest credit (Form 8396, line 11)	9g		
h	Adoption credit (Form 8839, line 18)	9h		
i	District of Columbia first-time homebuyer credit (Form 8859, line 11)	9i		
j	Possessions tax credit (Form 5735, line 17 or 27)	9j		
k	Credit for fuel from a nonconventional source	9k		
l	Qualified electric vehicle credit (Form 8834, line 20)	9l		
m	Add lines 9a through 9l	9m		
10	Net income tax. Subtract line 9m from line 8. If zero, skip lines 11 through 14 and enter -0- on line 15	10		
11	Net regular tax. Subtract line 9m from line 6. If zero or less, enter -0-	11		
12	Enter 25% (.25) of the excess, if any, of line 11 over \$25,000 (see instructions)	12		
13	Tentative minimum tax (see instructions):	13		
	<ul style="list-style-type: none"> <li>Individuals. Enter the amount from Form 6251, line 33</li> <li>Corporations. Enter the amount from Form 4626, line 12</li> <li>Estates and trusts. Enter the amount from Form 1041, Schedule I, line 54</li> </ul>			
14	Enter the greater of line 12 or line 13	14		
15	Subtract line 14 from line 10. If zero or less, enter -0-	15		
16	<b>Credit allowed for the current year.</b> Enter the <b>smaller</b> of line 5 or line 15 here and on Form 1040, line 52; Form 1120, Schedule J, line 6d; Form 1120-A, Part I, line 2a; Form 1041, Schedule G, line 2c; or the applicable line of your return. If line 15 is smaller than line 5, see instructions	16		

## General Instructions

Section references are to the Internal Revenue Code.

### 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 only for costs paid or incurred in tax years beginning after 2001 with respect to qualified employer plans first effective after 2001.

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 your tax year beginning in 2003 by not filing Form 8881 with your 2003 tax return.

### S Corporations and Partnerships

A partnership or S corporation that is an eligible small employer completes Part I of the form to figure the credit to pass through to its partners and shareholders. Show on Schedule K-1 each shareholder's or partner's allocable portion of the line 5 credit. Electing large partnerships must include this credit in "general credits."

### 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, 2004, may elect to treat 2003 as the first credit year and claim the credit on its 2003 tax return for qualified startup costs incurred in 2003.

### 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

All persons treated as a single employer under section 52(a), 52(b), 414(m), or 414(o) are treated as one person for purposes of the credit. If the group qualifies as an eligible small employer, the group member with the greatest startup costs figures the group credit on lines 1 and 2 and skips the rest of the form. On separate Forms 8881, each member skips line 1 and enters its

share of the group credit on line 2. Each member then completes the remaining applicable lines on its separate Form 8881 (and Form 3800, if required). Each member must also attach a statement showing how the group credit was divided among all members. The members share the credit in the same proportion as they contributed qualified startup costs.

### Additional Information

For more details, see section 45E.

## Specific Instructions

### Part I—Current Year Credit

If you paid or incurred qualified startup costs, complete lines 1 and 2. Complete line 3 for credits that were allocated to you from an S corporation or a partnership.

### Part II—Allowable Credit

The credit allowed for the current year may be limited based on your tax liability. Use Part II to figure the allowable credit unless you must file **Form 3800**, General Business Credit.

**Who must file Form 3800.** You must file Form 3800 if you have:

- A credit for small employer pension plan startup costs from a passive activity,
- More than one of the credits included in the general business credit (other than a credit from Form 8844 or 8884), or
- A carryback or carryforward of any of those credits.

See the instructions for Form 3800 to find out which credits are included in the general business credit.

#### Line 12

See section 38(c)(4) for special rules that apply to married couples filing separate returns and controlled corporate groups.

#### Line 13

Although you may not owe alternative minimum tax (AMT), you generally must still compute the tentative minimum tax (TMT) to figure your allowable credit. For a small corporation exempt from the AMT under section 55(e), enter zero. Otherwise, complete **and** attach the applicable AMT form or schedule and enter the TMT on line 13.

#### Line 16

If you cannot use all of the credit because of the tax liability limit (line 15 is smaller than line 5), carry the unused credit back one year and then forward up to 20 years. See the instructions for Form 3800 for details.

**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 average time is: **Recordkeeping**, 7 hr., 39 min.; **Learning about the law or the form**, 53 min.; **Preparing and sending the form to the IRS**, 1 hr., 3 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.

