RETIREMENT PLANS AND INCENTIVE PAY

Pay that attracts and keeps good people

Replacing a good employee costs you recruiting time, training, and everything they knew about your customers. Two tools an owner controls can help people stay: a retirement plan and well-designed incentive pay.

Why it matters

- ✓ **Candidates compare the whole offer.** A retirement plan is one of the first benefits people look for.
- ✓ **Incentive pay points effort at results.** When people share in the outcome, they pay attention to what drives it.
- ✓ **Both can be planned and budgeted.** We helped one client develop a plan around benefits and incentive compensation to attract and retain talent.

Part one: a 401(k), and the tax credits for starting one

Federal tax credits can offset much of the cost of starting a plan. Owners can save through the same plan as their employees.

CREDIT	WHO QUALIFIES	HOW MUCH
Startup costs	Employers with 100 or fewer employees who were paid at least $5,000, with at least one participant who is not highly compensated. Other conditions apply, including a look-back at prior plans.	With 50 or fewer employees, 100% of eligible startup costs. With 51 to 100, 50%. Capped each year at the greater of $500, or the lesser of $250 per eligible employee or $5,000. Available for three years.
Automatic enrollment	Eligible employers that add an automatic enrollment feature to a new or existing plan.	$500 a year for three years.
Employer contributions	Employers with 1 to 50 employees. Higher-paid employees are excluded, and different rules apply above 50 employees.	Up to $1,000 per employee: 100% of contributions in years one and two, then 75%, 50%, and 25% in years three to five.

Source: IRS, "Retirement plans startup costs tax credit," page last reviewed May 31, 2026. "Eligible employee" above means an employee who is not highly compensated and is eligible to participate.

Working out the credit

Example: the startup credit cap

An employer with 10 eligible employees: $250 x 10 = $2,500. That is less than $5,000 and more than $500, so the cap is $2,500 a year. If eligible startup costs are $1,800 in a year, the credit is $1,800. Illustration only.

You cannot deduct the same costs you claim as a credit, and each credit has conditions this page does not cover. Ask your tax preparer to confirm what your business qualifies for before you count on it.

Plan types in plain terms

PLAN TYPE	THE SHORT VERSION
Traditional 401(k)	Employer contributions are optional. The plan must pass annual tests that compare what owners and higher-paid employees save with what everyone else saves.
Safe Harbor 401(k)	The employer commits to a set contribution for employees. In return, the plan is generally treated as passing those annual tests.
Starter 401(k)	Employees save from their own pay. There is no employer contribution.

General descriptions only. Contribution limits and plan rules change each year. Confirm the details with the plan provider.

Choosing a provider

We work with 401(k) providers and can help you compare them on the things that affect your books and your time:

- ✓ Whether the plan connects to your payroll system, so contributions flow without manual entry.
- ✓ What the provider charges you, and what it charges your employees.
- ✓ How much of the administration and annual filing work the provider takes on.

We are accountants, not investment advisers, and we do not recommend investments.

Part two: incentive compensation

Incentive compensation is pay tied to results. Done well, it rewards the people who move the business forward and pays for itself. Done badly, it costs money without changing anything.

TYPE	HOW IT WORKS	WATCH FOR
Profit-based bonus	A share of company profit above a target, split among the team.	Only works if profit is measured accurately and on time.
Job or project bonus	Paid when a job comes in at or above its planned margin.	Needs job costing people trust, and a rule for quality problems.
Commission	A percentage of sales or collections.	Paying on revenue alone can reward unprofitable work.
Retention bonus	A set amount for staying through a date or a milestone.	Keeps people in seats, but does not reward results.

What a good plan has

- ✓ A measure employees can influence.
- ✓ Rules simple enough to explain in a minute.
- ✓ Payouts funded by results that exist.
- ✓ Numbers everyone trusts.
- ✓ The terms in writing.

Run the numbers first

Example: a bonus pool of 10% of profit above a $400,000 target. If profit is $500,000, the pool is 10% x $100,000 = $10,000. Illustration only.

Model the payout at a bad year, a normal year, and a great year before you announce anything.

Where we fit

We model what a plan would cost at different levels of performance, set up the tracking in your books and dashboard so payouts are calculated from numbers people trust, and handle the payroll side. Bonuses are wages, so payroll taxes and withholding apply.

Want us to look at your numbers?

Our discovery review is free, and the written findings are yours to keep. Start at **regaliahillsconsulting.com** or email **john@regaliahillsconsulting.com**.

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