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2026 TAXPAYER GUIDE

Small Business Retirement Plans

2026 Options, Tax Credits, and Planning Opportunities

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The right retirement plan can create a current tax deduction, help attract employees, and substantially increase how much a business owner can save for retirement. The key is choosing the plan that fits the business rather than simply choosing the easiest plan to open.

The best plan depends on the size of the business, employee ages and wages, the owner's compensation, expected profitability, and how much the owner wants to contribute each year.

First Question: Does Your State Require a Retirement Program?

A growing number of states require employers to either sponsor their own qualified retirement plan or participate in a state-sponsored retirement program. As of 2026, mandatory automatic-IRA programs operate in multiple states, and employee thresholds vary by state.

An important detail: these rules generally follow where the employee works, not simply where the business is incorporated. A remote employee working in another state can therefore create an unexpected registration or coverage requirement.

Even when a business already sponsors its own retirement plan, some states require the employer to register for an exemption rather than simply assume the company plan is enough.

The Four Main Retirement Plan Choices

Plan	Best Use	2026 Opportunity	Main Trade-Off
SEP-IRA	Simple; employer contributions only	Up to 25% of eligible compensation, subject to the $72,000 annual additions limit	Same contribution percentage generally applies to eligible employees
SIMPLE IRA	Low-cost employee plan	Employee deferrals generally up to $17,000, or $18,100 for certain plans	Lower ceiling and fewer design options
Safe-Harbor 401(k) + Profit Sharing	Higher owner savings; flexible plan design	Employee deferrals up to $24,500; annual additions generally up to $72,000 before catch-up	More administration, but often much stronger planning
Cash Balance / Defined Benefit	Very large contribution potential	Can allow contributions far above defined-contribution plan limits	Requires actuarial work and greater annual commitment

1. SEP-IRA

A SEP is one of the simplest retirement plans for a small business. For 2026, employer contributions may generally be made up to 25% of eligible W-2 compensation, subject to the $72,000 annual additions limit and the applicable compensation ceiling.

The SEP is easy to establish and inexpensive to maintain, but the employee cost can become significant once employees become eligible.

- If the owner contributes 20% of compensation for himself or herself, the business generally must contribute the same percentage for each eligible employee.

2. SIMPLE IRA

A SIMPLE IRA can work well for smaller employers that want an employee retirement benefit without the administrative cost of a traditional 401(k).

For 2026, employee deferrals can generally reach $17,000, or $18,100 for certain qualifying SIMPLE plans. Catch-up contributions may also be available.

- Employers generally make either a 3% matching contribution or a 2% contribution for eligible employees.
- The SIMPLE is relatively inexpensive, but its contribution limits and plan-design options are more limited than a 401(k).

3. Safe-Harbor 401(k) with Profit Sharing

For many profitable small businesses, this is where retirement planning becomes much more powerful. For 2026, employee elective deferrals can reach $24,500, with additional catch-up contributions for eligible older participants. Total annual additions are generally limited to $72,000 before applicable catch-up contributions.

A properly designed safe-harbor and profit-sharing structure may allow the owners to receive a much larger employer allocation while still satisfying the retirement-plan rules.

- Age-50 catch-up: $8,000.
- Certain participants ages 60 through 63 may qualify for an $11,250 catch-up.
- Cross-testing and permitted disparity may increase the share of employer contributions allocated to owners in the right circumstances.

4. Cash-Balance or Defined-Benefit Plan

For older owners with substantial income, a cash-balance or traditional defined-benefit plan can create dramatically larger deductions than a SEP or 401(k). These plans are especially attractive when the owners are older than most employees and the business has strong, predictable profits.

A cash-balance plan is often paired with a 401(k) and profit-sharing plan.

- These plans require actuarial services and generally cost more to establish and maintain.
- The tax savings, employee cost, and required funding commitment should be modeled before the plan is adopted.

What Is Social Security Integration?

Some qualified retirement plans can use a technique called permitted disparity, commonly called Social Security integration. The concept recognizes that Social Security benefits are weighted more heavily toward lower-paid workers, so the retirement plan may permit a somewhat higher contribution rate on compensation above a specified integration level.

For 2026, the Social Security wage base used in this planning is $184,500. This technique is not limited to large companies and may be available in plans used by relatively small businesses.

Federal Tax Credits Can Help Pay for a New Plan

Startup Cost Credit

An employer with 50 or fewer employees may qualify for a credit equal to 100% of certain qualified retirement-plan startup and administrative costs. The annual credit is generally limited to the greater of $500 or the lesser

of $250 for each eligible non-highly-compensated employee or $5,000. The credit may generally be available for the first three years of the plan.

Employer Contribution Credit

Certain small employers may also qualify for a credit of up to $1,000 per eligible employee for qualifying employer contributions. The credit generally phases down over five years: 100% in Years 1 and 2, then 75%, 50%, and 25% in Years 3 through 5. For 2026, the applicable employee compensation limitation is $110,000.

Automatic Enrollment Credit

An employer that adds a qualifying automatic-enrollment feature may qualify for an additional $500 tax credit per year for three years. This credit may be available even when the retirement plan itself is not new. Retirement-plan credits are generally claimed on Form 8881.

Important: Some startup and employer-contribution credits apply only to genuinely new plans. If the employer maintained another retirement plan covering substantially the same employees during the prior three years, the business may not qualify for those credits.

Special Warning for S Corporation Owners

Retirement-plan contributions for an S corporation shareholder are generally based on the owner's W-2 compensation. S corporation distributions are not compensation for retirement-plan purposes.

Example: An owner receives $60,000 of W-2 wages and $150,000 of S corporation distributions. Retirement-plan contributions are generally calculated using the qualifying $60,000 of wages, not the total $210,000 received from the company.

An owner who keeps W-2 wages very low to reduce payroll taxes may also unintentionally limit retirement-plan contributions. Salary, payroll taxes, retirement-plan deductions, and the overall tax benefit should be modeled together.

Three Plan Rules Employers Should Review

1. Roth Catch-Up Contributions - 2026 Rule

For 2026, an employee who is otherwise eligible to make age-50 catch-up contributions generally must make those catch-up contributions as Roth contributions if the employee had more than $150,000 of FICA wages from that same employer in 2025. The regular elective deferral may still be pre-tax if the plan permits it; the mandatory Roth treatment applies to the catch-up portion.

SIMPLE IRAs are excluded from this particular mandatory Roth catch-up rule. The $150,000 threshold is based on prior-year wages from the employer sponsoring the plan.

Planning note: The Treasury's final Roth catch-up regulations generally apply to taxable years beginning after December 31, 2026, but the underlying statutory Roth catch-up requirement applies for 2026 after the IRS transition relief expired at the end of 2025.

2. Long-Term Part-Time Employees

Employees with two consecutive years of at least 500 hours may become eligible to make elective deferrals into certain 401(k) plans. This can cause employees to become eligible sooner than many small-business owners expect.

3. Automatic Enrollment

Certain newer 401(k) plans are generally required to automatically enroll eligible employees, although exceptions apply, including for some very small employers. Employees retain the right to opt out or change their contribution rate.

What Should You Ask a Retirement-Plan Advisor?

Do not simply ask, “What retirement plan should I get?” Ask the advisor to provide an actual comparison.

- An owner-versus-employee contribution illustration showing exactly how much would be contributed for each owner and employee.
- A comparison between a basic allocation and any available cross-tested or Social Security-integrated allocation.
- A complete fee schedule stated in dollars, including plan-document fees, recordkeeping, third-party administration, actuarial services, and investment or management fees.
- A cash-balance illustration if an owner is approximately age 45 or older and the business generates significant income.

Lenny's Take

There is no single “best” retirement plan. A SEP can be excellent when there are no employees. A SIMPLE IRA can be a good low-cost employee benefit when the owner does not need a very large deduction. But once a profitable business has employees - or the owner wants to contribute $50,000, $75,000, $100,000, or more per year - the analysis should move beyond “Should I open a SEP?”

For many established businesses, a properly designed safe-harbor 401(k) with profit sharing can outperform a SEP or SIMPLE. For an older owner with substantial profits, a 401(k) combined with a cash-balance plan may create an even larger retirement contribution and tax deduction.

The key is to model owner contribution + employee cost + payroll taxes + tax deduction + plan administration cost. Only then do you know which plan actually wins.

Before You Establish or Change a Plan

- Number and ages of employees
- Employee compensation
- Owner age
- Owner W-2 compensation
- Expected business profit
- Desired annual owner contribution
- Expected employee contribution cost
- State retirement-plan requirements
- Available federal tax credits
- Administrative and actuarial fees

Retirement plans are not simply investment accounts. They are tax-planning tools, employee-benefit programs, and long-term financial commitments. The plan should be designed around the business - not the other way around.

Interested in a Retirement Plan or Want to Review Your Current Plan?

Contact our office before establishing or changing a retirement plan so we can coordinate the tax planning with your retirement-plan administrator and help determine which strategy makes sense for your business.

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Planning Note: Retirement-plan limits, tax credits, employee-eligibility rules, and state retirement mandates can change. This guide provides general educational information for 2026 and is not a substitute for reviewing your specific plan document, payroll structure, employee census, and tax situation.

Prepared for taxpayer education. Source framework: Bradford Tax Institute, “Employee Retirement Plan Coverage: 2026 Options and Credits,” October 2026; Roth catch-up rule independently verified against IRS guidance.