participation pump up workers.

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By Mike Piershale, ChFC, Kiplinger Consumer News Service (TNS).

A safe harbor 401(k) is a great way for small business owners to reward employees and keep them happy by making generous retirement contributions on their behalf that are immediately vested. And business owners know that finding and keeping good employees is one of the keys to increasing profits.

Immediate vesting means an employee doesn't have to wait a few years in order to

compensated employees.

This required testing is meant to ensure that all employees, regardless of salary or level of income, are treated equally by the plan.

Under testing rules, if non-highly compensated employees aren't putting enough into the plan, then the amount owners and higher-paid employees can contribute will be limited.

A safe harbor 401(k) allows employers to avoid the nondiscrimination testing as long as they make a contribution on behalf of their employees.

A safe harbor 401(k) requires employer contributions

In order to be considered a safe harbor 401(k), the employer must make at least one of two types of contributions on behalf of employees:

- Contribute 3% of every employee's salary regardless of whether they also contribute.
- Provide a 100% match of the first 3% of employees' contributions and 50% of the next 2% of their contributions.

As long as this Safe Harbor minimum contribution is satisfied, the employer can then defer the maximum $22,500 or $30,000 for those age 50 or older, into their own 401(k).

Safe harbor 401(k) plans can also take advantage of tax credits initially started through a law change created by the SECURE Act of 2019 and a recent law change in the 2022 SECURE Act 2.0. There are now three distinct tax credits for plan fees or

feature to a new or existing 401(k) plan. The credit is available for each of the first three years the feature is effective.

The tax credit is equal to $250 for each non-highly compensated employee who is eligible to participate in the plan with a minimum credit of $500 and a maximum credit of $5,000 for three years.

Also, if a business adds an auto-enrollment feature to its plan, it can claim a tax credit of $500 per year for three years.

Safe harbor 401(k) could be more cost-effective for a small business

While mandatory contributions to employee 401(k) accounts can be an expensive proposition for a large company, for a small business it may be more cost-effective to make retirement contributions on behalf of employees rather than deal with the more expensive and burdensome nondiscrimination testing.

Remember the most important thing the employer may get out of making these employee contributions is keeping good employees happy.

And happy employees tend to stay.

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