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Instructions for Form 8881



(Rev. December 2025)

Credits for Small Employer Pension Plan Startup Costs, Employer Contributions, Small Employer Auto-Enrollment, and Military Spouse Participation

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).

Reminders

Small employer pension plan startup costs credit. The SECURE Act 2.0 of 2022 (SECURE 2.0) provides that eligible employers with 1–50 employees are eligible for an increased small employer pension plan startup costs credit under section 45E of 100% of qualified startup costs, subject to limitation. The credit for eligible employers with 51–100 employees remains at 50% of qualified startup costs, subject to limitation. See [Small Employer Pension Plan Startup Costs Credit and Contributions Credit](#), later.

Small employer contributions credit. SECURE 2.0 added an additional startup cost credit under section 45E, available to certain eligible employers, in an amount equal to an applicable percentage of the employer's contributions (not including an elective deferral, as defined in section 402(g)(3)) to an eligible employer plan. See [Small Employer Contributions Credit](#), later.

Small employer military spouse participation credit. SECURE 2.0 added a new military spouse retirement plan eligibility credit under section 45AA, available to eligible small employers who maintain defined contribution plans with specific features that benefit military spouses. See [Small Employer Military Spouse Participation Credit](#), later.

General Instructions

Purpose of Form

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

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

Eligible small employers can use Form 8881, Part III, to claim the credit for a military spouse's participation (including for employer contributions) in an eligible defined contribution plan. The Part III credit is allowed under section 45AA.

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. Small Employer Pension Plan Startup Costs Credit and Contributions Credit

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.

Section 1 — Small Employer Pension Plan Startup Costs Credit

How To Figure the Credit

For tax years beginning after 2022, for an eligible employer with 1–50 employees, the credit is 100% of the qualified startup costs paid or incurred during the tax year. For an eligible employer with 51–100 employees, the credit remains at 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 who is eligible to participate in the plan and not highly compensated (as defined in section 414(q)) or \$5,000 for the first credit 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 who received at least \$5,000 of compensation from you during the tax year preceding the first credit 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 eligible 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 with respect to 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 with respect to the eligible employer. 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, 2025, may elect to treat 2024 as the first credit year and claim the credit for qualified startup costs paid or incurred during 2024 on its 2024 tax return.

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 section 414(m)) are treated as a single employer. As a member, compute your credit based on your proportionate share of qualifying small employer plan startup costs giving rise to your group's credit for small employer 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.

Section 2 — Small Employer Contributions Credit

How To Figure the Credit

The credit may be claimed only for tax years of an eligible employer beginning after 2022.

For an eligible employer, the credit is an applicable percentage of qualifying employer contributions, up to \$1,000 per employee, made by an eligible employer for the first tax year during which the plan becomes effective with respect to the eligible employer and the succeeding 4 tax years. The applicable percentage is 100% for the first and second years, 75% for the third year, 50% for the fourth year, and 25% for the fifth year. For any tax year, the applicable percentage (subject to the maximum \$1,000 per employee limitation) is reduced by 2% for each employee in excess of 50 employees during the preceding tax year.

Eligible employer. To be an eligible employer, you must have had no more than 100 employees who received at least \$5,000 of compensation from you during the tax year preceding the tax year during which the eligible employer plan becomes effective. However, you are not an eligible employer if during the 3 tax years preceding the tax year during which the plan becomes effective, 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 eligible employer plan. See section 45E(c) for rules for controlled groups and predecessor employers.

Qualifying employer contributions. Qualifying employer contributions include any contributions not including an elective deferral (as defined in section 402(g)(3)) by the eligible employer to an eligible employer plan, but do not include any such contribution on behalf of an employee who received wages (as defined in section 3121(a)) from the eligible employer for the tax year in excess of \$105,000.

Eligible employer plan. An eligible employer plan is a qualified employer plan (as defined in section 4972(d)) other than a defined benefit plan (as defined in section 414(j)). 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.

No Deduction Allowed for Credit Amount

You must reduce your other allowable deduction for employer contributions by the credit amount on Line 6g.

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 section 414(m)) are treated as a single employer. As a member, compute your credit based on your proportionate share of qualifying employer contributions giving rise to the group's credit for plan startup costs. Enter your share of the credit on lines 6a–6g. Attach a statement showing how your share of the credit was figured, and write "See Attached" next to the entry space for line 6g.

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 (as defined in section 414(w)(3)) in a qualified 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 preceding the first credit year who received at least \$5,000 of compensation from you during that tax year.

Qualified employer plan. A qualified employer plan is a qualified employer plan (as defined in section 4972(d)). All qualified 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.

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 small employer auto-enrollment credit. 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 III. Small Employer Military Spouse Participation Credit

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

How To Figure the Credit

The military spouse participation credit may be claimed only for tax years of an eligible small employer beginning after December 29, 2022.

For an eligible small employer, the credit is \$200 for each military spouse who is an employee of the employer and who participates in an eligible defined contribution plan of the employer at any time during the tax year, plus up to \$300 of the amount of employer contributions (not including an elective deferral, as defined in section 402(g) (3)) to the plan during the tax year on behalf of the military spouse. For each employee, the credit is limited to 3 successive tax years of the employer, beginning with the first tax year during which the employee began participating in the plan after it was adopted as or amended to be an eligible defined contribution plan.

Eligible small employer. To be an eligible small employer, you must have had no more than 100 employees during the tax year preceding the tax year for which the credit is claimed who received at least \$5,000 of compensation from you during that tax year.

Eligible defined contribution plan. An eligible defined contribution plan is any defined contribution plan (as defined in section 414(i)) of the eligible small employer under which military spouses employed by the employer are eligible to participate in the plan no later than 2 months after the military spouse begins employment and, upon such participation, are immediately eligible to receive the same amount of employer contributions under the plan that a similarly situated participant who is not a

military spouse would be eligible to receive under the plan after 2 years of service and immediately have a nonforfeitable right to the military spouse's accrued benefit derived from employer contributions under the plan. All eligible defined contribution plans of the same employer are treated as one eligible defined contribution plan. See Member of Controlled Group or Business Under Common Control below for rules on treatment as a single employer.

Military spouse. A military spouse is an employee of the eligible small employer who is not highly compensated (as defined in section 414(q)) and, as of the first date that the employee is employed or rehired by the employer, is married (as defined in section 7703) to a member of the uniformed services (as defined in U.S. Code Title 10, section 101(a)(5)) serving on active duty. For this purpose, you may rely on an employee's certification that the employee's spouse is a member of the uniformed services if such certification provides the name, rank, and service branch of the spouse.

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 maximum \$200 and \$300 annual credit per military spouse giving rise to the group's military spouse participation credit. Enter your applicable share of the credit as appropriate on line 12 and line 13. Attach a statement showing how your share of the credit was figured and write "See Attached" next to the appropriate entry space for line 12 and line 13.

Specific Instructions

Line A

Enter the number of employees of the eligible employer who received at least \$5,000 of compensation from you during the tax year preceding the first credit year that applies to the small employer plan startup costs credit.

Line 2

The computation must be based on the number of employees entered on line A.

Line 3

Enter the number of non-highly compensated employees who are eligible to participate in the eligible employer plan during the tax year for which the credit is claimed.

Line 5

Enter the smaller of line 2 or line 4.

If you are NOT calculating the credit for the employer contributions, go to line 7.

Line 6a

Enter the number of your employees during the tax year preceding the tax year for which the credit is claimed.

Line 6c

The employer contribution credit is subject to a \$1,000 limit per employee after taking into account the percentage that applies on Line 6g to the first through fifth years of the plan.

Therefore, if you have employees for whom you made employer contributions (see [Small Employer Contributions Credit](#), earlier), first determine the amount of contributions for the tax year made for each individual employee who received employer contributions of more than \$1,000 (and who are not disqualified because they received wages of more than \$105,000). For this purpose, do not include an amount greater than the amount specified below for the plan year.

If this is treated as the first or second year of the plan, do not include contributions of more than \$1,000 per employee.

If this is treated as the third year of the plan, do not include contributions of more than \$1,334 per employee.

If this is treated as the fourth year of the plan, do not include contributions of more than \$2,000 per employee.

If this is treated as the fifth year of the plan, do not include contributions of more than \$4,000 per employee.

After determining the amount for each individual employee, add the amounts together and enter the total on line 6c.

Line 12

Include only employees who participated in the eligible defined contribution plan at any time during the tax year and who have not participated in the plan at any time prior to the 2 tax years preceding the tax year. For such purpose, do not count any tax years during which the plan did not qualify as an eligible defined contribution plan.

Line 13

Include only employer contributions (not including an elective deferral, as defined in section 402(g)(3)) on behalf of an employee who meets the requirements to be included on line 12.

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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.

Recordkeeping	6 hr.	42 min.
Learning about the law or the form		53 min.
Preparing and sending the form to the IRS	1 hr.	2 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.