

Small Employer Pension Plan Startup Cost Tax Credit

Thanks to the SECURE Act, a new era begins for employers considering the implementation of 401(k) plans. Effective January 1, 2020, in order to encourage employers to establish 401(k) Plans, substantial tax credits will be available for employers with 100 or fewer employees.

For example, a Plan with 20 or more Non Highly Compensated Employees, a tax credit of \$5,000 per year would be available for 3 years! The tax credit is available to cover 50% of the implementation and administrative costs of implementing a Plan!

Here's what the rule says:

For the first credit year (year when the Plan is established) and each of the 2 taxable years immediately following the first credit year, the tax credit available is the greater of:

- \$500, or
 - The lesser of: \$250 for each NHCE who is eligible to participate in the Plan, or
 - \$5,000

Ordinary and necessary eligible costs include installation or administrative fees and costs to educate employees about their benefits and options under the plan.

The tax credit is only available when an employer is establishing a new retirement plan, including 401(k) Plans, 403(b) Plans, Profit Sharing Plans, Cash Balance Plans, etc. If the employer offered a retirement plan at any time during the previous three years which covered substantially the same employees as the new plan, the tax credit is not available. For example, an employer who offered a SIMPLE IRA in 2019 who implements a 401(k) Plan effective in 2020 for the same employees, does not qualify for the start-up tax credit for costs associated with the implementation of the 401(k) Plan.

The tax credit is not a deduction. The tax credit reduces the employer's tax liability dollar-for-dollar. If this tax credit is calculated to equal \$2,000, then the employer's tax liability is reduced by \$2,000

But wait, there's more! The SECURE Act also encourages Automatic Enrollment. For a Plan that implements Automatic Enrollment in 2020 or later, a \$500 credit is available in the year that the Automatic Enrollment is implemented and each of the next 2 years. Yes, a new Plan that implements Automatic Enrollment would be eligible for both credits!

Unlike the start-up tax credit, this \$500 tax credit is available to an employer who elects to add automatic enrollment to their existing plan and a new plan with automatic enrollment is eligible for both the start-up tax credit and this tax credits!

Go forth and establish new 401(k) Plans!