SECURE 2.0: Small Business Startup Tax Credits

Thanks to the SECURE Act 2.0, a new era begins for employers considering the implementation of many employer sponsored retirement plans!

In an attempt ease employer financial burden and encourage the establishment of 401(k), SEP and SIMPLE Plans, substantial tax credits will be available for employers -- effective tax years after December 31, 2022.

Two Different Credits; Same Requirements

Employer Contribution Credit

The Plan Cost Credit

To qualify for these credits:

- No more than 100 employees who received compensation of $5,000 or more in the proceeding year; and
- Employer didn't offer a plan covering majority of same employees within the previous 3 tax years

Employer Contribution Credit

For new 401(k), SEP and SIMPLE plans with 50 or fewer employees: The tax credit is a decreasing percentage of employer contributions for each employee earning $100,000 (indexed) or less per year (up to $1,000 annually, per employee) over the ***first five years of the plan*** following the chart below.

Year 1	Year 2	Year 3	Year 4	Year 5
100%	100%	75%	50%	25%

For new 401(k), SEP and SIMPLE plans with 51-100 employees: The same rules apply **except** the applicable yearly percentage is reduced by 2% for each employee over 50 employees

Example:

A Qualified employer has 40 employees, 38 make less than $100k, 30 of that 38 participate in the retirement plan contributing $3k a year; employer match is 50%

- Employer contributions: 50% x $3,000 (employee contributions) = $1,500 for each of the 30
- Credit calculation: 100% x $1,500 = $1,500 for each of the 30 employees, but it's capped at $1,000 each.
- **Total year 1 credit** is $30,000 out of the $45,000 total employer contributions for the 30 participating employees

SECURE 2.0: Small Business Startup Tax Credits - Continued

The Plan Cost Credit

This credit reduces the amount of federal taxes a small business may owe during the ***first three years*** of establishing a plan.

The credit covers **100%** *(50 employees or less)* **or 50%** *(51-100 employees)* of the employer's plan costs up to the annual limit of:

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

Note: The plan must have at least one NHCE participant to qualify

Example:

A Qualified employer pays $5,000 for the first year to have the plan set up. The employer has 20 eligible employees including 15 NHCEs.

- Credit calculation: $5,000 (plan costs) x 100% (fewer than 50 employees) = $5,000
- Maximum credit: 15 NHCEs x $250 = $3,750
- **Total year 1 credit** is $3,750 based on the maximum credit formula

Other things to note about the credits:

The contribution credit and cost credit are separate and distinct. Plans may receive one or both credits.

If a plan terminates after receiving tax credits, repayment of the credits is not required.

But wait.. there's more!

To help the transition of mandatory automatic enrollment for all plans (exclusions apply) by January 1, 2025, employers can earn a $500 tax credit for implementing automatic enrollment in advance!

This credit is $500 per year for the ***first three years*** the feature is included and can be combined with **The Employer Cost Credit** and **The Plan Cost Credit**.

The credit is only available to employers who had no more than 100 employees with at least $5,000 in compensation in the preceding year. Additionally, to qualify for the credit, the feature must be structured as an eligible automatic contribution arrangement (EACA).