

# PENTEGRA SECURE ACT SMART TIPS™



## New Tax Credits and Incentives for Employers

The SECURE Act has several provisions designed to expand retirement coverage. The Act includes tax credits for employers considering starting a 401(k) plan, along with tax credits for adding an automatic enrollment feature.

### Start Up Plan Credit

The Start Up Plan tax credit is available to employers with 100 or fewer employees. 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, SIMPLE IRAs, and SEP IRAs. 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.

### How does the Start Up Plan Credit work?

Employers may take a tax credit of up to \$5,000 per year, for up to three years for plan startup costs. SECURE increases the credit that was previously available by changing the calculation of the flat dollar amount limit on the credit to the greater of: (1) \$500, or (2) the lesser of: (a) \$250 for each employee who is not a highly compensated employee and who is eligible to participate, or (b) \$5,000.



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. The startup plan tax credit limited to 50% of actual expenses.

## What is the Automatic Tax Credit?

In addition, SECURE Act also creates a new tax credit of up to \$500 per year to employers to defray startup costs for new 401(k) plans and SIMPLE IRA plans that include automatic enrollment, providing a tax credit of up to \$500 for three years. The credit is also be available to employers that convert an existing plan to an automatic enrollment design.



## How Does the Automatic Enrollment Tax Credit Work?

For a plan that implements automatic enrollment, a \$500 credit is available in the year that the automatic enrollment is implemented and each of the next 2 years.



The credit is in addition to the plan start-up credit. That means a new plan that implements automatic enrollment would be eligible for both credits.

## When do the new tax credits take effect?

The tax credits take effect on January 1, 2020



## Does the new tax credit apply retroactively?

No, the start-up plan tax credit does not apply retroactively. Note that “old” tax credit—could apply to prior tax years. Unlike the startup tax credit, the automatic enrollment tax credit also applies to existing small plans that add an automatic enrollment feature to their plan. This tax credit also applies to tax years beginning after **December 31, 2019.**

**Sales Tip:** Tax credits provide an incentive for your small business clients to start new plans, and a new opportunity for you to start the conversation.



Contact your Regional Director or the Pentegra Solutions Center at [solutions@pentegra.com](mailto:solutions@pentegra.com) or 855-549-6689 for expert guidance on how to make the most of the new rules and monetize the SECURE Act.

Follow our conversation

