

# Understanding Retirement Plan Tax Credits Under SECURE 2.0

## Retirement Plan Startup Tax Credit

The **Retirement Plan Startup Tax Credit** was significantly enhanced by the **SECURE Act and SECURE 2.0 Act** to encourage businesses to establish retirement **plans, raising the maximum annual tax credit from \$500 to \$5,000.**

Tax credits may be used to offset the start-up costs of retirement plans, including 401(k) plans, profit sharing plans and cash balance plans.

The tax credit is available for the first three years that a retirement plan is in place, covering certain eligible retirement plan expenses paid by the employer. The minimum annual tax credit is \$500 and the maximum annual tax credit is the lesser of \$5,000 or \$250 multiplied by the number of non-highly compensated employees (NHCEs) who are eligible to participate in the plan.

## Amount of the Credit

If you have 50 or fewer employees who received at least \$5,000, the credit is 100% of eligible startup costs, up to the greater of:

- \$500; or
- The lesser of:
  - \$250 multiplied by the number of NHCEs who are eligible to participate in the plan, or
  - \$5,000

If you have 51-100 employees who received at least \$5,000, the credit is 50% of your eligible startup costs, up to the greater of:

- \$500; or
- The lesser of:
  - \$250 multiplied by the number of NHCEs who are eligible to participate in the plan, or
  - \$5,000.

## Eligible Employers

- Employers with **fewer than 100 employees**, each earning at least **\$5,000** in the prior year.
- You had at least one plan participant who was a NHCE
- Businesses that **have not had a retirement plan** in the past **three years**.
- Sole proprietors, partnerships and corporations

## Eligible Plan Expenses

- Startup costs eligible for the credit include:
  - **Plan setup and document fees**
  - **Third-party administrator (TPA) fees**
  - **Recordkeeping and compliance costs**
  - **Employee education costs**

## Example

- Assume an employer has **50 NHCEs**:
  - **$\$250 \times 50 \text{ NHCEs} = \$12,500$**
  - Since the max credit is **capped at \$5,000**, the employer gets **\$5,000**, if eligible expenses are at least \$10,000.
  - If eligible expenses are **\$6,000**, then  $50\% = \$3,000$ , so the tax credit is **\$3,000**.

## Additional Auto-Enrollment Tax Credit

- Employers who **add an automatic enrollment feature** can receive **an extra \$500 per year for three years**.

## New Employer Contribution Credit

- New **Employer Contribution Credit**: Businesses with **up to 50 employees** may also get a credit of **up to \$1,000 per employee** for employer contributions.

## Key Takeaways

- Small businesses can **recoup up to \$15,000** in tax credits over three years for starting a plan.
- Auto-enrollment **adds another \$1,500** in potential credits over three years.
- Employers with **50 or fewer employees** may be eligible for **100% coverage** of startup costs under SECURE 2.0.

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