

Understanding the SECURE 2.0 Auto-Enrollment Tax Credit

The **Auto-Enrollment Tax Credit** under the **SECURE 2.0 Act of 2022** ("SECURE 2.0") is a tax incentive for businesses to encourage them to adopt automatic enrollment in retirement plans by providing them with federal tax credits.

What is the Auto-Enrollment Tax Credit?

- This tax credit is designed to offset administrative costs for businesses that implement automatic enrollment in their **401(k) or SIMPLE IRA** plans
- Employers must adopt a new eligible automatic contribution arrangement ("EACA") or add one to an existing retirement plan

How Much is the Credit?

- The tax credit covers \$500 per year for the first three years the plan includes auto enrolment
- Eligible employers can receive a total of \$1500 in tax credits
- The auto-enrollment tax credit is in addition to any start-up plan tax credits that may also be available to employers

Who is Eligible?

- Employers with **100 or fewer employees** who received at least **\$5,000 in compensation** in the prior year.
- Adopt a new EACA or add one to an existing retirement plan
- The plan must include **automatic enrollment** to qualify for the credit and the terms of the EACA must be detailed in the plan document.
- Unless an employee affirmatively makes a different election, the employee must be defaulted to contribute a uniform percentage of compensation to the plan.
- The employer must provide an EACA notice.

Can This Credit Be Combined with Other Credits?

- Yes, the **Auto-Enrollment Tax Credit** can be **combined** with other credits under SECURE 2.0, such as:
 - **Startup Plan Credit** (which covers up to 100% of plan administrative costs for small businesses).
 - **Employer Contribution Credit** (which provides additional credits for employer contributions to employees' retirement accounts).

Can existing plans add auto-enrollment and take advantage of the tax credit?

- Yes, this tax credit is for new as well as existing plans.

Key Takeaways

- **Encourages Retirement Savings:** Research shows that automatic enrollment increases participation rates in workplace retirement plans.
- **Financial Incentives for Businesses:** The auto-enrollment tax credit helps cover the costs of setting up and maintaining retirement plans.

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