

# SECURE 2.0

## TAX CREDITS FOR SMALL EMPLOYER PLANS

While the original SECURE Act increased tax credits for small employer plans, SECURE 2.0 significantly increases the available tax credits—including some that could cover the costs of operating/administering a small plan for up to three years.

Here is an overview of the small employer tax credits, which are discussed in more detail below:

Size of Employer*	Start-Up Cost Tax Credit	Employer Contribution Tax Credit	Automatic Enrollment Credit
1 - 50 employees	100% of Eligible Start-up Costs	Up to 100% employer contribution for first 2 years;  75% in third year;  50% in fourth year;  25% in fifth year	\$500
51 - 100 employees	50% of Eligible Start-up Costs	Same as above, but phased out based on number of employees above 50	\$500
100+ employees	0% of costs	\$0	\$0
Notes	Available for first three tax years plan is maintained.  Maximum credit is lesser of \$5,000 or \$250 times the number of eligible non-highly compensated employees.	Available for first five tax years plan is maintained.  Credit available only for contributions for employees that make \$100,000 or less in FICA wages.  Maximum credit per employee is \$1,000.	Available for first three tax years plan offers an eligible automatic contribution arrangement.

\*Employees are based on the number of employees who made at least \$5,000 in the preceding year.

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## CREDIT FOR START-UP ADMINISTRATIVE COSTS

Certain small employers who establish a new plan are eligible for a tax credit for the first three years in which the plan is maintained.

“Eligible startup costs” includes ordinary and necessary costs to set up and administer the new plan and educate employees about the new plan. This might include document fees, advisor fees, plan documentation fees, and any other expense necessary to establish and run the plan. The costs to establish in the year prior to the plan being effective could count as the first year (establishing that as the first year for the three-year cycle).

**NOTE:** This tax credit often makes it nearly free for employers with 50 or fewer employees to start a plan.

An employer is eligible for the tax credit if the employer had no more than 100 employees making at least \$5,000 in the prior year and did not maintain a 401(a), 403, SIMPLE, or SEP plan in the three taxable years immediately preceding the tax year in which the plan is adopted. An eligible employer can take a credit as follows:

Size of Employer*	Amount of Tax Credit	Maximum Credit	Additional Notes
1 - 50 employees	100% of Eligible Start-up Costs	Lesser of \$5,000 or \$250 <i>times</i> the number of eligible non-highly compensated employees (for 2023, generally those making less than \$150,000)	<p>Must have at least one non-highly compensated employee</p> <p>Minimum credit is \$500</p> <p>Eligible for up to three tax years</p>
51 - 100 employees	50% of Eligible Start-up Costs	Lesser of \$5,000 or \$250 <i>times</i> the number of eligible non-highly compensated employees (for 2023, generally those making less than \$150,000)	<p>Must have at least one non-highly compensated employee</p> <p>Minimum credit is \$500</p> <p>Eligible for up to three tax years</p>
100+ employees	0% of costs	\$0	

*\*Employees are based on the number of employees who made at least \$5,000 in the preceding year.*

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## CREDIT FOR EMPLOYER CONTRIBUTIONS

SECURE 2.0 also added a new tax credit for small employers that provide employer contributions to a new defined contribution plan. An employer is eligible for a tax credit if the employer had no more than 100 employees making at least \$5,000 in the prior year as follows:

Years Since Plan Adoption	Tax Credit		Maximum Credit
	1-50 employees	51-100 employees	
Year of Adoption*	100% of eligible employer contribution	Same minus 2% times number of employees over 50	Lesser of actual employer contribution or \$1,000 for each employee making \$100,000 or less in FICA wages  \$0 for each employee making >\$100,000 in FICA wages
1st tax year after adoption	100% of eligible employer contribution	Same minus 2% times number of employees over 50	Lesser of actual employer contribution or \$1,000 for each employee making \$100,000 or less in FICA wages  \$0 for each employee making >\$100,000 in FICA wages
2nd tax year after adoption	75% of eligible employer contribution	Same minus 1.5% times number of employees over 50	Lesser of actual employer contribution or \$1,000 for each employee making \$100,000 or less in FICA wages  \$0 for each employee making >\$100,000 in FICA wages
3rd tax year after adoption	50% of eligible employer contribution	Same minus 1% times number of employees over 50	Lesser of actual employer contribution or \$1,000 for each employee making \$100,000 or less in FICA wages  \$0 for each employee making >\$100,000 in FICA wages
4th tax year after adoption	25% of eligible employer contribution	Same minus 0.5% times number of employees over 50	Lesser of actual employer contribution or \$1,000 for each employee making \$100,000 or less in FICA wages  \$0 for each employee making >\$100,000 in FICA wages

*\*If the employer maintained a 401(a), 403(a), SIMPLE, or SEP plan in the three taxable years immediately preceding the tax year in which the plan is adopted, the employer cannot take a deduction for the year of adoption, but is eligible for tax credits in the next four tax years*

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## CREDIT FOR AUTOMATIC ENROLLMENT

SECURE 2.0 also requires plans established after Dec. 29, 2022, to add an eligible automatic contribution arrangement (EACA) to the plan no later than the 2025 plan year. While this is an administrative complexity, the addition of a EACA feature will generate an additional tax credit for eligible small employers for the first three tax years in which the EACA feature is maintained.

Size of Employer*	Amount of Tax Credit	Additional Notes
1 - 100 employees	\$500	Eligible for up to three tax years  Unlike the start-up credit, there is no requirement that there be at least 1 non-highly compensated employee
100+ employees	\$0	

*\*Employees are based on the number of employees who made at least \$5,000 in the preceding year.*