

# TAX CREDITS FOR SMALL EMPLOYER PLANS

SECURE 2.0 significantly increases the available tax credits for small employer plans.

The following provides an overview of the credits and how they are valuable to business owners considering a new plan.

## 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.

An employer is eligible for the tax credit if it:

(1) had no more than 100 employees making at least \$5,000 in the prior year.

(2) did not maintain 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.

Size of Employer	Amount of Tax Credit	Maximum Credit	Additional Notes
1-50 employees	100% of Eligible Startup Costs	Lesser of \$5,000 or \$250 times # of eligible non-highly compensated employees	Must have at least one non-highly compensated employee
51-100 employees	50% of Eligible Startup Costs		Minimum credit is \$500
100+ employees	0% of Costs	\$0	Eligible for up to three tax years

- Employees are based on the number of employees who made at least \$5,000 in the preceding year.
- “Eligible Startup Costs” includes ordinary and necessary costs to set up, administer, 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.
- This tax credit often makes it nearly free for employers with 50 or fewer employees to start a plan.



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## CREDIT FOR EMPLOYER CONTRIBUTIONS

SECURE 2.0 added a new tax credit for small employers that provide employer contributions to a new defined contribution plan.

An employer is eligible for the tax credit if it:

(1) had no more than 100 employees making at least \$5,000 in the prior year as follows:

- 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 (regardless of how long the prior plan had been maintained).
- This provides an incredible incentive for small employers to provide employer contributions in the first five years of the plan.

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



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## CREDIT FOR AUTO ENROLLMENT

SECURE 2.0 also requires plans established after December 29, 2022, to add an eligible automatic contribution arrangement (EACA) to the plan no later than the 2025 plan year.

Size of Employer	Amount of Tax Credit	Additional Notes
1-100 employees	\$500	Eligible for up to three tax years
100+ employees	\$0	

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

Small employers can take advantage of the new tax credits starting with the taxable year that begins in 2023. Therefore, now is a great time for business owners to establish plans.



We are happy to offer our services to calculate the tax credits for your clients or prospects, even if we do not currently service the plan. Please contact me for further information.

Sincerely,  
Megan Crawford, ERPA, QPA

