above+beyond thinking
ADAMS BROWN

# SECURE ACT 2.0 TAX CREDIT GUIDE

*In recent years, the federal government has taken steps to incentivize small businesses to offer retirement plans to their employees. The Secure Act 2.0 significantly increases the available tax credits, including some that may cover the costs of operating a small plan (50 or fewer qualifying employees) for up to three years.*

## Overview of the Secure Act 2.0 employer tax credits:

| 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;<br>75% in third year;<br>50% in fourth year;<br>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.<br><br>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.<br><br>Credit available only for contributions for employees that make $100,000 or less in FICA wages.<br><br>Maximum credit per employee is $1,000. | Available for first three tax years plan offers an eligible automatic contribution arrangement. |

## What are eligible start-up costs?

They include ordinary and necessary costs to set up and administer the new plan and educate employees about the new plan. This may include:

- Document fees
- Advisor fees
- Plan documentation fees
- Any other expense necessary to establish and operate the 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 (see page 3):

| 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 times the number of eligible non-highly compensated employees (for 2023, generally those making less than $150,000) | Must have at least one non-highly compensated employee<br><br>Minimum credit is $500<br><br>Eligible for up to three tax years |
| 51 – 100 employees | 50% of Eligible Start-up Costs | Lesser of $5,000 or $250 times the number of eligible non-highly compensated employees (for 2023, generally those making less than $150,000) | |
| 100+ employees | 0% of costs | $0 | |

# Tax Credit for Employer Contributions

Secure 2.0 also added a new tax credit to reward employers for making contributions to their employees' retirement plans. It is available 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 | Reduced by 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 |
| 1st tax year after adoption | 100% of eligible employer contribution | Reduced by 2% times number of employees over 50 | |
| 2nd tax year after adoption | 75% of eligible employer contribution | Reduced by 1.5% times number of employees over 50 | |
| 3rd tax year after adoption | 50% of eligible employer contribution | Reduced by 1% times number of employees over 50 | $0 for each employee making >$100,000 in FICA wages |
| 4th tax year after adoption | 25% of eligible employer contribution | Reduced by 0.5% times number of employees over 50 | |

*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.

## Tax Credit for Automatic Enrollment

Effective for plan years after 2023, 401(k) and 403(b) plans must automatically enroll employees once they become eligible. While this is an administrative complexity, the addition of this feature will generate an additional tax credit for eligible small employers for the first three tax years.

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

These tax credits are important incentives for small businesses to offer retirement plans to their employees. They can help ensure employees have access to a secure retirement, while also providing motivation to small businesses to offer competitive retirement plans. If you think your business may qualify for these tax credits, contact an Adams Brown advisor to determine exactly how you can benefit.