# Retirement Plan Tax Credits

The following four credits were created or enhanced with the passing of the SECURE 2.0 legislation.

## 1. Start-Up Administrative Costs

A tax credit that was enhanced through SECURE 2.0 is the credit for Start-Up expenses related to the establishment of a new company sponsored retirement plan. Costs considered for this credit include any costs deemed necessary to establish and administer the new plan. These include costs associated with educating participants on the plan itself. A few considerations when determining your credit:

- Employer could not have maintained another retirement plan (401(k), SIMPLE, SEP, etc.) in previous three years before the new plan is established.
- Credit is not available if the company, related company, or predecessor company maintained a retirement plan for substantially the same employees qualifying for the credit.
- Credit is available for employers with less than 100 employees. The available credit begins to reduce once the company reaches 51 eligible employees and is completely phased out at 100.
- Credit is available for up to *three* tax years.
- Employer *must* have at least one Non-Highly Compensated Employee to take the credit.
- Minimum credit amount is $500.
- A sponsor can elect to take the credit the year immediately preceding the plan's effective date.
- An "Eligible Employee" is an employee who earned at least $5,000 in the prior year.
- This credit *does* affect the deductibility of a company's expenses. Expenses should be reduced by the amount of the credit. Any remaining unused expenses are tax deductible.

| Size of Employer | Amount of Tax Credit | Maximum Credit |
|---|---|---|
| 1-50 employees | 100% of eligible start-up costs | Lesser of $5,000 or $250 times # of eligible non-highly compensated employees |
| 51-100 employees | 50% of eligible start-up costs | |
| 100+ employees | 0% of costs | $0 |

## 2. Employer Contributions

A new credit established in SECURE 2.0 is the credit for Employer Contributions to a Defined Contribution Plan (DC). A few considerations when determining your credit:

- Credit begins with the effective year of the plan.
- Credit is available for employers with less than 100 employees. The available credit begins to reduce once the company reaches 51 eligible employees and is completely phased out at 100.
- Credit is available for up to *five* tax years.
- Amount of the credit is the lesser of $1,000 for each eligible employee or the employer contribution.
- Credit applies to any employee earning less than $100,000 in FICA wages. Employees earning over $100,000 in FICA wages *are not* eligible for any amount of the credit.
- Employer *is not* required to have a Non-Highly Compensated Employee to take the credit.
- An "Eligible Employee" is an employee who earned at least $5,000 in the prior year.
- This credit *does* affect the deductibility of a company's expenses. Expenses should be reduced by the amount of credit. Any remaining unused expenses are tax deductible.

| Years Since Plan Adoption | Amount of Tax Credit | |
|---|---|---|
| | 1-50 Employees | 51-100 Employees |
| Year of adoption | 100% of eligible employer contribution | 100% minus 2% times number of employees over 50 |
| 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 |
| 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 |

## 3. Automatic Enrollment

A $500 credit is available to plans that utilize automatic enrollment. This is available to any plan utilizing the EACA feature. A few considerations when determining your credit:

- Credit begins with the first year the EACA is in place.
- Credit is available for employers with less than 100 employees.
- Credit is available for up to *three* tax years.
- Employer *is not* required to have a Non-Highly Compensated Employee to take the credit.
- An "Eligible Employee" is an employee who earned at least $5,000 in the prior year.
- This credit *does not* affect the deductibility of a company's expenses.

| Size of Employer | Amount of Tax Credit |
|---|---|
| 1-100 employees | $500 |
| 100+ employees | $0 |

## 4. Military Spouses

For tax years beginning after December 20, 2022, a tax credit is available to certain employers who employee's spouses are members of the military. The Military Spouse Credit does not include Highly Compensated Employees. This credit does not affect the deductibility of a company's expenses and can be taken for up to *three* tax years per eligible employee. To qualify, military spouses must:

- Be eligible to participate in the company's retirement plan no later than two months after hire.
- Receive same employer contributions as other participants with two years of service.
- Be fully vested in employer contributions.

This credit applies to the tax year the spouse enters the plan and the following two years. The credit amount is:

- $200 plus the lesser of the employer contribution or $300.

Note: Years before 2023 can count against the credit period (if spouse participated in eligible DC plan), even though credit was not available.

## Comparing the Credits

| | Start-Up Administrative Costs | Employer Contributions | Automatic Enrollment | Military Spouses |
|---|---|---|---|---|
| Number of years available | 3 | 5 | 3 | 3/employee |
| Limited to new plans | Yes | Yes | No | No |
| Must have Non-Highly Compensated Employees (NHCE) | Yes | No | No | Yes |
| Credit amount limit | Based on NHCEs | $1,000/employee | $500 | $500/employee |
| Special rule for over 50 employees | Yes | Yes | No | No |
| Impacts deduction | Yes | Yes | No | No |

Note: The SECURE 2.0 tax credits are non-refundable credits. This means that non-tax paying entities (i.e., governments, nonprofits) would not be eligible to claim these credits.