

SECURE Act New Plan Federal Tax Credit for Small Employers

Effective in 2020, a federal tax credit is available for each of the first three years of a new retirement plan. There is a separate credit for 401(k) plans that add an eligible automatic contribution arrangement. These credits are available to employers with no more than 100 employees earning \$5,000 or more annually.

Part I - Start up Credit

The start-up credit is one-half of the costs paid *by the employer* to set-up and administer a new plan. It can be as much as \$5,000 per year but is limited to \$250 per non-highly compensated employee covered by the plan.

Year	Estimated Number of NHCEs	Estimated Fees Paid by Employer	Start-up Credit Amount
2020	10	\$ 1,800	\$ 900
2021	8	2,200	1,100
2022	10	2,500	1,250

Part II - Eligible Automatic Contribution Arrangement (EACA)

This \$500 tax credit is available in each of the first three years a plan offers an EACA. EACAs require the employer to automatically enroll eligible employees at a uniform contribution rate (3% of pay is commonly used) and provide an annual notice to employees. Employees may opt out of contributing. This credit is available whether plan expenses are paid by the employer or the plan itself.

Year	EACA in Plan?	EACA Credit Amount
2020	No	\$ -
2021	Yes	500
2022	Yes	500

Summary - Total Estimated Tax Credit Available in First Three Plan Years

Year	Total Credit
2020	\$ 900
2021	1,600
2022	1,750
Total	\$ 4,250

Please consult with your tax accountant. The tax credit is claimed by filing IRS Form 8881 with your business income tax return. It is recommended a separate expense category is used in your general ledger for retirement plan expenses so your accountant can easily identify the actual expenses paid.