SECURE ACT TAX CREDIT

The new tax credit for new plans

Effective in 2020, a federal tax credit is available for each of the first three years of a new retirement plan. There is an additional $500 credit for 401(k) plans that add an eligible automatic contribution arrangement (EACA). These credits are available to employers with no more than 100 employees earning $5,000 or more annually.

Part I - Tax credit for new plan startup

The tax credit for starting a new retirement plan is the lesser of one-half of the costs paid by the employer to set up and administer a new plan, limited to $250 per non-highly compensated employee (NHCE) covered by the plan, not to exceed $5,000.

Part II - Eligible Automatic Contribution Arrangement

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, applies to existing and new plans, and is in addition to the new retirement plan tax credit.

New 401(k) plan with 30 NHCEs	Plan cost	Tax credit for new plan startup	EACA tax credit	Annual costs after tax credits
Year 1	$5,200	($2,600)	($500)	$2,100
Year 2	$3,200	($1,600)	($500)	$1,100
Year 3	$3,200	($1,600)	($500)	$1,100

Please note: there is a requirement that the employer must have no retirement plan of any type for the prior three years to be eligible for the start-up plan tax credit.