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By Tom Hicks, Attorney At Law

NEW TAX CREDITS FOR SMALL EMPLOYER RETIREMENT PLAN STARTUPS

New plan startup costs have always been a major hurdle for small business owners. These tax credits started with a law change in 2019 and have been enhanced with the passage of the Secure Act and Secure Act 2.0.

There are now 3 different tax credits for plan fees or contributions paid by small businesses. Here is a summary of each to help you determine if your business is eligible and for how much. The tax credits are:

- Start-up Credit,
- Employer Contribution Credit and
- Automatic Enrollment Credit.

Start-up Tax Credit

The credit reduces the amount of taxes a small business may owe during the first 3 years of the retirement plan. An owner can claim by starting a new SEP, SIMPLE IRA, or qualified retirement plan.

For 2023 the start-up credit has been increased. It covers 100% of the employer's out-of-pocket plan costs up to the annual limit, if 50 or fewer employees. The annual limit is the greater of \$500; or \$250 multiplied by the number of non-highly compensated employees who are eligible in the plan, up to \$5,000. Plan Costs include set up and administration fees.

Employer Contribution Tax Credit

An additional credit is provided for employer contributions into a defined contribution plan equal to 100% in the year the plan is established. This credit is available for employers with 50 or fewer employees. It is capped at \$1,000 per employee and excludes contributions made for employees earning \$100,000 or more. After the first year, the credit percentage is reduced by 25%: 75% in year 2, 50% in year 3, 25% in year 4.

The contribution tax credit applies to 401(k), Profit Sharing, SEP, and SIMPLE plans along with the first three years an employer starts or joins a MEP or PEP.

Automatic Enrollment Tax Credit

Employers can also earn a tax credit for adding or, in the case of a new plan, including an automatic enrollment feature as part of their plan. The credit is \$500 per year for the first three years. It is only available to employers who had no more than 100 employees with at least \$5,000 compensation in the preceding year. This plan feature must be structured as an Eligible Automatic Contribution Arrangement (EACA).

If you believe that these tax credits may apply to your (or your client's) company, be sure to further discuss it with a qualified accountant or tax professional.

Need a New Plan for 2022 or 2023

There is still time to adopt a new retirement plan for last year. We can prepare a proposal illustrating the plans available. Complete and return our [Proposal Request Form](#) to Debbie Rath at drath@nhhicks.com.

Need Help with 2022 Administration

If you need help determining your 2022 retirement plan contributions to meet your tax filing deadline, please [contact us](#) now. We do not charge to review current plan designs or take over the administration of existing plan.

Our staff is ready to answer any questions you may have.

The Marketing Team at NH Hicks

Marketing Team

Tom Hicks	530 521-7024	Tomhicks@nhhicks.com
Debbie Rath	530 891-4975	drath@nhhicks.com
Samantha Nethington	530 891-4975	snethington@nhhicks.com
James Hicks	530 891-4975	jhicks@nhhicks.com