

September 6, 2023

By Tom Hicks, Attorney At Law

New Plans, New Tax Credits

The SECURE Act 2.0 increases incentives for small businesses to establish retirement plans. Changes were made that increase **start-up credits** and add new **contribution credits**. Employers who do not sponsor a retirement plan can take advantage of these credits providing a low or no-cost employer sponsored employee benefit.

Start-up Credit

Under the SECURE Act, employers with less than 100 employees were eligible for a three year, start-up tax credit of 50% of administrative costs. The new law increased the credit limit to 100% of qualified start up costs for new plans with up to 50 employees.

To qualify, a business must have at least one employee who is non-highly compensated (NHCE). A NHCE is someone who made less than \$135,000 in 2022 with the business and is not the business owner. The start-up credit is based on the greater of \$500 or \$250 per NHCE (capped at \$5,000) applied to 100% of the cost incurred.

Contribution Credit

This new credit was added to encourage small employers to establish retirement plans. It is based on matching or profit sharing contributions to a qualified plan provided by the employer and is only available to new plans. Eligible employers can receive up to \$1,000 tax credit employee making \$100,000 or less. Employers with up to 50 employees are eligible to receive full credit.

This credit does phase out in years three through five. During the first two years, the employer will receive the full credit. This will then decrease by 25% for the next three years. Any employer that has over 50 employees will have a reduced credit. For employers with more than 100 employees, this credit does not apply.

A tax deduction will not normally apply if the employer is using this tax credit. It is always best to review with your accountant.

In conclusion, with these new changes, employers without retirement plans should consider a plan and utilize the increased start-up credit and new contribution credit. They make it worth setting up a new plan.

If you have any questions, reach out to Tom Hicks or Debbie Rath.