

SECURE 2.0 UPDATE

401(k) Startup Tax Credits Guide

New tax credits making it more enticing for small business owners to start a 401(k) plan.



STARTUP TAX CREDIT

(up to \$5,000 for 3 years)

EMPLOYER CONTRIBUTION TAX CREDIT

(up to \$50,000 in 1st year)

AUTOMATIC ENROLLMENT CREDIT

(\$500 for 3 years)

3 Tax Credits

Many small business owners feel hesitant about starting a retirement plan because they: *

- + believe their business is too small to qualify for one (58%)
- + cannot afford a match (32%)
- + believe they are too expensive to set up and manage (24%)

Well, here's some good news. The SECURE Act 2.0 supports small business owners with tax credits to both encourage starting a new plan and covering the costs to match employee savings.

With these tax credits, business owners can confidently setup a retirement plan, save money and thrive in an ever-changing economic climate.

**The Big Three Myths Stopping Small Businesses from Adding 401(k) Benefits." ShareBuilder 401k. 10 May 2022.

Startup Tax Credit

The Startup Tax Credit is available for employers who establish a new plan to pay for start-up administrative costs. Those might include document fees, advisor fees, plan documentation fees, employee education and any other expense necessary to establish and run the plan.



1-50 Employees

100% of eligible start-up costs for 3 years.

Maximum credit is the lesser of **\$5,000** or \$250 times the number of eligible non-highly compensated employees.

This tax credit often makes it nearly free for employers with 50 or fewer employees to start a plan!

51-100 Employees

50% of eligible start-up costs for 3 years.

Maximum credit is the lesser of **\$5,000** or \$250 times the number of eligible non-highly compensated employees.

Employer Contribution Tax Credit

The Employer Contribution Tax Credit is a tax credit up to \$1,000 per employee. The credit is available to assist employers when making contributions to their employee's retirement savings contributions. The tax credit is available for the first five years of the plan. The employees must make \$100,000 or less in FICA wages and other restrictions apply.

1-50 Employees

The employer contribution tax credit is as follows:

YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Up to \$50,000 (100% credit)	Up to \$50,000 (100% credit)	Up to \$37,500 (75% credit)	Up to \$25,000 (50% credit)	Up to \$12,500 (25% credit)

51-100 Employees

Same as above, but phased out based on number of employees above 50. See your TPA for Employer Contribution Tax Credit calculation.

Automatic Enrollment Credit

The Automatic Enrollment Credit is a \$500 tax credit when a plan adds automatic enrollment.

Contact us to discuss your company and retirement plan goals.

This material does not constitute as legal or tax advice. This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements, and for more information, consult your financial professional, legal or tax advisors for guidance on your specific situation. Information as of May 2023. Other details, rules and exceptions may apply.

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