SECURE Act and Potential Tax Credits:

What You Need to Know

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by Ascensus

The SECURE Act, signed into law 12/20/2019, provides two tax credits for small employers:

- **Small Employer Automatic Enrollment Credit:** Gives a $500 per year credit for new or existing 401(k) or SIMPLE IRA plans that include certain automatic enrollment provisions.
- **Small Employer Pension Plan Startup Credit:** Increases the start-up credit (up to $5,000 per year) for any small employer that adopts a qualified plan, SEP plan, or SIMPLE plan.
- Both credits are available to employers for three tax years, beginning with the 2020 taxable year.

Small Employer Automatic Enrollment Credit

This credit is available to non-governmental, for-profit businesses that are considered small employers: those with 100 or fewer employees who received at least $5,000 of compensation from the employer for the preceding calendar year.

This credit is $500 per year for up to three years beginning with the first taxable year for which the employer includes an Eligible Automatic Contribution Agreement (EACA) in an existing or new qualified plan.

- An employer with a plan that includes only an Automatic Contribution Arrangement (ACA) does not qualify for the credit; the plan must be amended from an ACA to an EACA to take advantage of the credit. The credit also applies to a Qualified Automatic Contribution Arrangement (QACA) that meets the EACA requirements.
- Additional savings for employees: Although this separate SECURE Act provision does not create a direct savings to an employer, QACA safe harbor plans are now allowed to automatically increase employees' deferral percentages up to a maximum of 15%, increased from the current 10% cap.

Small Employer Pension Plan Start-up Credit

This credit is available to non-governmental, for-profit businesses that are considered small employers: those with 100 or fewer employees who received at least $5,000 of compensation from the employer for the preceding calendar year. An employer must start a qualified plan, SEP plan, or SIMPLE plan to qualify for the credit. The credit is available to an employer (or any predecessor employer or controlled group member) who did not maintain a plan where substantially the same employees benefitted during the three tax years immediately before the first year for which the credit is claimed.

The nonrefundable tax credit is an amount equal to 50% of the qualified start-up costs for the year. The credit amount cannot exceed the greater of:

1. $500, or
2. the *lesser of*
   - $250 for each non-highly compensated employee (NHCE) who is eligible to participate in the plan, or
   - $5,000 (see chart on following page).

Number of NHCEs	Credit Amount	Number of NHCEs	Credit Amount
1	$500	11	$2,750
2	$500	12	$3,000
3	$750	13	$3,250
4	$1,000	14	$3,500
5	$1,250	15	$3,750
6	$1,500	16	$4,000
7	$1,750	17	$4,250
8	$2,000	18	$4,500
9	$2,250	19	$4,750
10	$2,500	20	$5,000

Example: An employer has 10 NHCEs with $7,000 in start-up costs. The credit can never exceed one-half of the employer's start-up costs for the year. In this case, $3,500 is one-half of the current-year start-up costs. The credit is further determined by the dollar limitation in the statute. In this case, that limit is $2,500, which is the credit amount.

Formula	Result
Greater of 1) or 2)	
1) $500	$500
2) Lesser of a) or b)	
a) $250 x 10 NHCEs	$2,500 — Greater than 1) and less than b)
b) $5,000	$5,000
Maximum Credit	**$2,500**

The employer is eligible for the credit for three taxable years beginning with the year the plan is established and each of the two taxable years immediately following. The employer may also elect to start claiming the credit in the taxable year preceding the taxable year the plan is established. In addition, an employer who established a plan before 2020 may be eligible for the larger credit, as long as it is within the three year period.

We're here for you.

Reach out to your FuturePlan TPA consultant for support and expert guidance. We're ready to help you answer client questions and make informed decisions, connecting you with ERISA experts and providing any other expert advice you may need.