

SECURE 2.0 Act Start-Up Tax Credit Calculator for Eligible Employers¹



The SECURE 2.0 Act of 2022 makes retirement plans, like a 401(k), more accessible for small businesses. The Act expands the small employer pension plan start-up cost tax credit by providing small business owners an opportunity to lower their taxes when they start a retirement plan for their employees.

HOW IT WORKS:

- Businesses with up to 50 employees may be eligible for a tax credit to cover 100% of qualified start-up costs, capped annually at \$5,000/per year for three years.
- Businesses with 51–100 employees may be eligible for the original credit (under the SECURE Act of 2019) equal to 50% of qualified start-up costs, capped annually at \$5,000/per year for three years.

These tax credits can add up to \$15,000 over three years.

CALCULATE YOUR TAX SAVINGS WITH THE START-UP TAX CREDIT CALCULATOR

Enter values in the blue shaded fields in the calculator on the following page to determine the tax credit that applies to establishing a new retirement plan. Eligible employers within the three-year credit period may be eligible for the start-up costs credit even if the applicable tax year is not the plan's first year.

Businesses with more than 100 employees are generally not eligible for the credit.²

START-UP TAX CREDIT CALCULATOR

PLAN YEAR	YEAR 1	YEAR 2	YEAR 3
1 Total number of employees in preceding year <small>Employees are defined as those with at least \$5,000 in compensation in the preceding calendar year. For illustrative purposes, this sample assumes the total number of employees remains the same.</small>	<input type="text"/>	<input type="text"/>	<input type="text"/>
2 Credit amount (if applicable) <small>Small businesses with up to 50 employees qualify for 100% of the credit. Small businesses with more than 50 employees qualify for 50% of the credit. Generally, businesses with more than 100 employees are not eligible for the credit.</small>			
3 Total number of non-highly compensated employees (NHCEs)³ eligible to participate in the plan <small>For illustrative purposes, this sample assumes the total number of NHCEs remains the same.</small>	<input type="text"/>	<input type="text"/>	<input type="text"/>
4 Total number of NHCEs multiplied by \$250 <small>Subject to a minimum of \$500.</small>			
5 Maximum dollar amount available (the lesser of \$5,000 or item #4)			
6 Qualified start-up plan costs <small>Plan expenses include establishing and administering the plan and educating employees.</small>	<input type="text"/>	<input type="text"/>	<input type="text"/>
7 Amount of start-up costs eligible (item #2 multiplied by item #6)			
8 Potential available tax credit (the lesser of items #5 and #7)	<input type="text"/>	<input type="text"/>	<input type="text"/>

This calculator is for informational and illustrative purposes only and is not intended—nor should it be relied on—as legal, tax, or accounting advice. Each business's tax situation is unique and may be affected by other factors. Taxpayers should consult with their own competent legal, tax, or accounting advisors to determine whether they are eligible for a tax credit and to determine the specific amount of tax credit that may be available to them.

¹ An eligible employer is an employer who had 100 or fewer employees who received at least \$5,000 in compensation from the employer for the preceding calendar year (IRC Secs. 45E(c) and 408(p)(2)(C)(i)).

² Two-year grace period may apply (IRC 408(p)(2)(C)(i)(II)).


³ Plan must have one eligible employee who is not a highly compensated employee (HCE) (IRC Sec. 45E(d)(1)(B)). An HCE is an employee who satisfies the IRC Sec. 414(q) 5% owner test or compensation test. An employee who is not an HCE is an NHCE.

Note: There is a potential restriction for a new qualified employer plan if during the three-taxable year period immediately preceding the first taxable year the employer (or any predecessor employer or controlled group member) maintained a qualified employer plan that the start-up credit would have applied to (IRC sec 45E(c)(2)) (ex., an employer who previously maintained a plan, terminated it and establishes a new plan). The credit is available for three taxable years beginning with the year the plan is established and each of the two taxable years immediately following. An eligible employer may elect to start claiming the credit in the taxable year preceding the taxable year the plan is established (IRC Sec. 45E(b)(1); IRC 45E(d)(3)). These credits are claimed in IRS Form 8881. The IRS is expected to update this form for the new credits available under SECURE 2.0. Additional credits may be available. Consult a tax advisor for more information.

LEVERAGE OUR EXPERTISE

FuturePlan is committed to helping advisors and small businesses in navigating this rapidly evolving retirement plan legislation.

Contact us to learn more.

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