



Secure Act 2.0

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Tax Credits for Small Employer Plans

While the original SECURE Act increased tax credits for small employer plans, SECURE 2.0 significantly increases the available tax credits—including some that could cover the costs of operating/administering a small plan for up to three years.

Size of Employer*	Start-Up Cost Tax Credit	Employer Contribution Tax Credit	Automatic Enrollment Credit
1 - 50 employees	100% of Eligible Start-up Costs	Up to 100% employer contribution for first 2 years; 75% in third year; 50% in fourth year; 25% in fifth year	\$500
51 – 100 employees	50% of Eligible Start-up Costs	Same as above, but phased out based on number of employees above 50	\$500
100+ employees	0% of costs	\$0	\$0
Notes	Available for first three tax years plan is maintained. Maximum credit is lesser of \$5,000 or \$250 times the number of eligible non-highly compensated employees.	Available for first five tax years plan is maintained. Credit available only for contributions for employees that make \$100,000 or less in FICA wages. Maximum credit per employee is \$1,000.	Available for first three tax years plan offers an eligible automatic contribution arrangement.

*Employees are based on the number of employees who made at least \$5,000 in the preceding year.

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Credit for Start-Up Administrative Costs

Certain small employers who establish a new plan are eligible for a tax credit for the first three years in which the plan is maintained.

“Eligible startup costs” includes ordinary and necessary costs to set up and administer the new plan and educate employees about the new plan. This might include document fees, advisor fees, plan documentation fees, and any other expense necessary to establish and run the plan. The costs to establish in the year prior to the plan being effective could count as the first year (establishing that as the first year for the three-year cycle).

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

An employer is eligible for the tax credit if the employer had no more than 100 employees making at least \$5,000 in the prior year and did not maintain a 401(a), 403, SIMPLE, or SEP plan in the three taxable years immediately preceding the tax year in which the plan is adopted. An eligible employer can take a credit as follows:

Size of Employer*	Amount of Tax Credit	Maximum Credit	Additional Notes
1 - 50 employees	100% of Eligible Start-up Costs	Lesser of \$5,000 or \$250 times the number of eligible non-highly compensated employees (for 2023, generally those making less than \$150,000)	Must have at least one non-highly compensated employee Minimum credit is \$500 Eligible for up to three tax years
51 – 100 employees	50% of Eligible Start-up Costs	Lesser of \$5,000 or \$250 times the number of eligible non-highly compensated employees (for 2023, generally those making less than \$150,000)	Must have at least one non-highly compensated employee Minimum credit is \$500 Eligible for up to three tax years
100+ employees	0% of costs	\$0	

*Employees are based on the number of employees who made at least \$5,000 in the preceding year.

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Credit for Employer Contributions

SECURE 2.0 also added a new tax credit for small employers that provide employer contributions to a new defined contribution plan. An employer is eligible for a tax credit if the employer had no more than 100 employees making at least \$5,000 in the prior year as follows:

Years Since Plan Adoption	Tax Credit		Maximum Credit
	1-50 employees	51-100 employees	
Year of Adoption*	100% of eligible employer contribution	Same minus 2% times number of employees over 50	Lesser of actual employer contribution or \$1,000 for each employee making \$100,000 or less in FICA wages \$0 for each employee making >\$100,000 in FICA wages
1st tax year after adoption	100% of eligible employer contribution	Same minus 2% times number of employees over 50	Same as above
2nd tax year after adoption	75% of eligible employer contribution	Same minus 1.5% times number of employees over 50	Same as above
3rd tax year after adoption	50% of eligible employer contribution	Same minus 1% times number of employees over 50	Same as above
4th tax year after adoption	25% of eligible employer contribution	Same minus 0.5% times number of employees over 50	Same as above

*If the employer maintained a 401(a), 403(a), SIMPLE, or SEP plan in the three taxable years immediately preceding the tax year in which the plan is adopted, the employer cannot take a deduction for the year of adoption, but is eligible for tax credits in the next four tax years

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Credit for Automatic Enrollment

SECURE 2.0 also requires plans established after Dec. 29, 2022, to add an eligible automatic contribution arrangement (EACA) to the plan no later than the 2025 plan year. While this is an administrative complexity, the addition of a EACA feature will generate an additional tax credit for eligible small employers for the first three tax years in which the EACA feature is maintained.

Size of Employer*	Amount of Tax Credit	Additional Notes
1 - 100 employees	\$500	Eligible for up to three tax years Unlike the start-up credit, there is no requirement that there be at least 1 non-highly compensated employee
100+ employees	\$0	

*Employees are based on the number of employees who made at least \$5,000 in the preceding year.

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Estimated Tax Credit for Start-Up Retirement Plans

Client Name: ABC Law Firm

Start-up Tax Credit is Lesser of \$250 per NHCE or 100% of Annual Administrative Costs, Not to Exceed \$5,000.00.

Start Up and Annual Plan Expenses (A)	\$ 4,500	
Estimated # of Non-Highly Compensated Employees*	15	
\$250 Per NHCE Annual Tax Credit (B) (Minimum \$500 Credit)	\$ 3,750	Not to Exceed \$5,000
Lesser of A or B	\$ 3,750	
Tax Credit May be Taken for 3 Consecutive Years		
Total Estimated Tax Credit Available	\$ 11,250	Not to Exceed \$15,000

Please share this information with your CPA to ensure they take the appropriate tax credit on Form 8881 on your next three corporate tax return filings.

*Tax credit available is subject to change based on the annual count of non-highly compensated employees.

**Credit for Small Employer Pension Plan Startup
Costs, Auto-Enrollment, and Military Spouse Participation**

OMB No. 1545-1810

Attach to your tax return.

Go to www.irs.gov/Form8881 for instructions and the latest information.

Attachment
Sequence No. **130**

Name(s) shown on return

Identifying number

Part I Credit for Small Employer Pension Plan Startup Costs (Including Employer Contributions)

A	Enter the number of qualifying employees. See instructions		
1	Qualified startup costs incurred during the tax year	1	
2	Employers with 1-50 employees enter the amount from line 1. Employers with 51-100 employees enter 50% (0.50) of line 1		2
3	Enter the number of employees eligible to participate in the pension plan. See instructions. X \$250		3
4	Enter the greater of \$500 or the amount from line 3 (Do not enter more than \$5,000)		4
5	Enter the smaller of line 2 or line 4		5
6a	Enter the number of employees from the preceding tax year. See instructions		6a
b	Enter employer contributions made to the plan, but don't include (i) elective deferrals, (ii) contributions made to employees whose wages paid to the employee were in excess of \$100,000 and (iii) any amount of contributions to an employee to whom you made contributions of more than \$1,000		6b
c	For employees for whom you made matching and nonelective contributions of more than \$1,000, (and who are not disqualified because they meet 6b(ii) above), see the instructions for information on how to determine the amount to enter on line 6c. If you did not make this type of contributions, enter -0-		6c
d	Add lines 6b and 6c If the number of employees entered on line 6a is 50 or less, enter the amount from line 6d on line 6f. If the number of employees entered on line 6a is 51-100, continue to line 6e(1).		6d
e (1)	Subtract 50 (50.0) from the number of employees entered on line 6a		6e(1)
(2)	Multiply line 6e(1) by 2% (0.02)		6e(2)
(3)	Multiply line 6e(2) by line 6d		6e(3)
(4)	Subtract line 6e(3) from line 6d		6e(4)
f	If you did NOT complete line 6e, enter the amount from line 6d. If you completed line 6e, enter the amount from line 6e(4)		6f
g	Applicable percentages. See instructions • If this is treated as the first or second year of the plan, enter the amount from line 6f. • If this is treated as the third year of the plan, multiply line 6f by 75% (0.75). • If this is treated as the fourth year of the plan, multiply line 6f by 50% (0.50). • If this is treated as the fifth year of the plan, multiply the amount on line 6f by 25% (0.25).		6g
7	Credit for small employer pension plan startup costs from partnerships and S corporations		7
8	Add lines 5, 6g, and 7. Partnerships and S corporations, report this amount on Schedule K. All others, report this amount on Form 3800, Part III, line 1j		8

Part II Small Employer Auto-Enrollment Credit

9	Enter \$500 if an auto-enrollment option is provided for retirement savings	9
10	Small employer auto-enrollment credit from partnerships and S corporations	10
11	Add lines 9 and 10. Partnerships and S corporations, report this amount on Schedule K. All others, report this amount on Form 3800, Part III, line 1dd	11

Part III Military Spouse Participation Credit

Caution: You can't claim the credit if you had more than 100 employees in the preceding tax year.

12	Enter the number of military spouse employees participating in an eligible plan. See instructions. X \$200	12
13	Amount of contributions paid by employer for each eligible military spouse employee. Do not enter more than \$300 per employee. See instructions	13
14	Credit for small employer military spouse retirement plan from partnerships and S corporations	14
15	Add lines 12, 13, and 14. Partnerships and S corporations, report this amount on Schedule K. All others, report this amount on Form 3800, Part III, line 1ee	15

Happy to Help You Along the Way

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