



New Tax Credits for Small Employers

Updated provisions in the SECURE 2.0 Act of 2022 offer small employers affordable options to start a workplace retirement plan. And, a newly-established employer-sponsored retirement plan could bring you some pretty significant savings. Here's how.



Retirement Plan Start-up Credit

Eligible employers who adopt a new plan can claim a credit for up to 100% of start-up costs for the first 3-years. Eligible start-up costs for qualified plans include plan setup, administration, and employee education:

- 100% of start-up costs for employers with 50 or fewer employees
- 50% of start-up costs for employers with 51-100 employees
- Minimum credit: \$500 of eligible start-up costs
- Maximum credit: Lesser of \$5,000 or \$250 times the number of non-highly compensated employees



Automatic Enrollment Tax Credit

An eligible employer that adds an eligible auto-enrollment feature to a new or existing plan can claim a credit of \$500 per year for a 3-year period.



Employer Contributions Tax Credit

Employers with 50 or fewer employees get a tax credit of up to \$1,000 per employee for employer contributions made on behalf of employees making \$100,000 or less in FICA wages (*the \$100,000 income threshold will be indexed to inflation-adjusted beginning in 2024*).

1-50 employees:

- Year 1: 100%
- Year 2: 100%
- Year 3: 75%
- Year 4: 50%
- Year 5: 25%

For employers with 51-100 employees, the credit is phased out by reducing the amount of the credit by 2% per year for per employee above 50.



Do You Qualify?

The Retirement Plan Start-up Credit applies to the first three years of establishing a workplace retirement plan. You qualify to claim the credit if you:

- Have 100 or fewer employees
- Have at least one non-highly-compensated employee (NHCE) which is an employee who does not own 5% or more of the business or has received less than \$135,000 in compensation for the 2022 tax year)
- Did not sponsor a retirement plan in the three tax years prior to establishing a new workplace retirement plan

Retirement Plan Start-Up Credit Calculation

Lesser of 100% of Qualified Startup Costs or:	
Number of NHCEs*	Credit Amount
1-2	\$500
3	\$750
4	\$1,000
5	\$1,250
6	\$1,500
7	\$1,750
8	\$2,000
9	\$2,250
10	\$2,500
11	\$2,750
12	\$3,000
13	\$3,250
14	\$3,500
15	\$3,750
16	\$4,000
17	\$4,250
18	\$4,500
19	\$4,750
20 or more	\$5,000

*non-highly-compensated employees

Examples



ABC Company

- 20 employees
- 15 employees are NHCE
- Started a plan in 2023.
- Incurred \$3,500 in plan start-up costs during the year

Under the new law, the credit would be the lesser of the start-up costs (\$3,500) or \$3,750 (\$250 per NHCE). Since the actual start-up costs are less than \$3,750, the credit amount will be \$3,500.



XYZ Company

- 60 employees in 2022 (the year before establishing the plan)
- All employees make less than \$100,000 in compensation
- Company contributes \$3,000 to plan for each employee

To determine the contribution credit, multiply 60 employees by the \$1,000 maximum employer contribution credit for a total of \$60,000. Because there are 60 employees (10 more than 50), reduce the amount of the credit by multiplying the 10 employees by 2% for a total of 20%. Then multiply \$60,000 by 20% to determine the credit-reduction amount of \$12,000. The credit for year one would then be \$48,000 (\$60,000 - \$12,000). Assuming that the number of employees is unchanged, the credit will be the same for the second year of the plan. The credit would be reduced in years three through five and eliminated in year six.

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