

SECURE 2.0 ACT

Tax incentives & other enhancements for small businesses offering retirement plans

Helping small business employers sponsor & maintain retirement plans for their employees

The **SECURE 2.0 Act of 2022** was signed into law on December 29, 2022 bringing about major retirement plan changes. Among its objectives are the easing of some of the burdens of retirement plan administration. Further, there is a goal to increase the number of small employer-sponsored retirement plans while reducing some of the costs of implementation through the use of tax credits and exemptions. You can find a summary of the incentives and their respective effective dates below.



SECURE 2.0 has made it more affordable than ever for a small business to start a 401(k) plan.

Who is eligible?



These tax credits apply to qualified employer plans defined by the Internal Revenue code including: Simplified Employee Pensions (SEPs), Savings Incentive Match Plans (SIMPLEs), 401(k), and 403(a) annuity plans.



If you're a small business (one with no more than 100 employees who received at least \$5,000 for compensation from the employer for the preceding year) and you've been thinking about starting a retirement plan, or if you've already done so within the past two years, these tax credits could provide additional support.



If you do not pay taxes in a given year, you cannot take advantage of the tax credits for that year. See your tax advisor for guidance on how these credits may apply.

✓ Start-Up Credit, Enhanced (Section 102)

Section 102 of SECURE 2.0 increases the existing 3-year tax credit applicable to startup and administration costs that are paid in connection with starting a new retirement plan for small employers with 50 or fewer employees. The previous 3-year small business startup credit was 50% of the costs associated with plan startup and administration and has now increased to 100% of such costs. This credit has an annual dollar cap of \$5,000 applicable to each year of the 3-year period.

✓ Employer Contribution Tax Credit (Section 102)

There is an additional tax credit provision for small employers who sponsor defined contribution plans. This provision permits an additional credit that is a percentage of the amount of employer contributions to the plan to a maximum dollar cap of \$1,000 per participant who receives the employer contribution. The additional credit is also limited to employers with 50 or fewer employees.

The additional credit applicable percentage is:

- 100% for the first and second years
- 75% for the third year
- 50% for the fourth year
- 25% for the fifth year
- No additional credit is available after the fifth year

✓ Military Spouse Retirement Eligibility Credit (Section 112)

The Military Spouse Retirement Eligibility Credit provides a new tax credit for small employers (that is, generally employers with 100 or fewer employees) if their retirement plan includes special service eligibility and vesting provisions applicable to military spouses of active-duty service members. The required provisions include immediate eligibility within 2 months of their hire date; eligibility for any employer match or non-elective contribution upon meeting the service eligibility requirement; and 100% immediate vesting in all employer contributions made to the plan.

The amount of the credit is equal to the sum of \$200 per military spouse, plus 100% of all of the employer contributions to the plan for the benefit of each military spouse (to a maximum of \$300 and does not include employee elective deferrals), for a total maximum credit per military spouse of \$500.

✓ Credit for Small Employer Start-up Retirement Plans Participating in a MEP/PEP (Section 111)

The SECURE Act of 2019 introduced a 50% tax credit annually for three years for employers with up to 100 employees for costs incurred for starting a retirement plan, beginning with the year the plan first becomes effective. Section 111 of SECURE 2.0 was enacted to ensure that employers that start-up a plan by participating in a MEP (a multiple employer plan with multiple businesses participating in a single retirement plan) or a PEP (a pooled employer plan for employers unrelated to each other that participate in a single employer plan) would be eligible for the credit for up to 3 years based on when the employer joined the MEP or PEP.

If you've been thinking about offering a retirement plan to your employees, **use the tax credit calculators below to generate an estimate of your potential tax credits.** In addition, you should consider adding an automatic enrollment feature which is eligible for a \$500 tax credit.

Calculating the start-up tax credit

If you had 50 or fewer employees who made more than \$5,000 in the prior year **100% of the total ordinary and necessary start-up costs =**

\$ _____

If you had 51-100 employees who made more than \$5,000 in the prior year **50% of the total ordinary and necessary start-up costs =**

\$ _____

= _____

\$ _____ **A**

\$250 x # of NHCEs (compensation \$5,000 or more in the year) =

\$ _____ **B**

Insert the lower of "A" or "B" (maximum \$5,000)

\$ _____ **C**

 **Potential start-up tax credit**

Is **A** or **C** <\$500?

Yes—Insert \$500

\$ _____

No—Insert amount "**C**"

Calculating the tax credit for start-ups with employer contributions

Total annual employer contributions for all employees with FICA wages of \$100,000 or less =

\$ _____ **A**

of employees with FICA wages of \$100,000 or less =

_____ **B**

A ÷ **B**

\$ _____ **C** (max of \$1,000)

 **Potential start-up tax credit**

For employers with 50 or fewer employees:

(**C** x **B**) x the applicable percentage*

\$ _____ **D**

For employers with 51-100 employees:

of employees in excess of 50 =

_____ **E**

E x 2% =

_____ % **F**

(The applicable percentage* - **F**) x **D** =

\$ _____

*The applicable percentage is:

1st and 2nd year = 100%, 3rd year = 75%, 4th year = 50%, 5th year = 25%, 6th year = 0%

How USI Consulting Group can help

SECURE 2.0 is paving the way for more small businesses to offer a retirement plan, and it's critical for employers to strategize how they can maximize the new benefits, maintain compliance and help their employees achieve retirement readiness.

USI Consulting Group can help you navigate SECURE 2.0 provisions, evaluate the tax credits available to help offset the costs of a retirement plan and determine the best fit for your organization.

To learn more, please reach out to us at information@usicg.com.

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