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for Advisors and CPAs
January 2023

SECURE 2.0: Highlight on Small Employer Plan Start-Up Credit

December brought a lot of excitement. Among the fun: Hannukah for some, Christmas for some, and a ghost from months past for all — SECURE 2.0! We'll be doing several highlights on SECURE 2.0 provisions in the coming months. This month, we're looking at a provision that should generate lots of new 401(k) plans: the small employer plan start-up credit!

You're likely familiar with the fact that SECURE 1.0 added a tax credit for small employers that start a retirement plan. SECURE 2.0 makes two changes to the credit, both of which will be effective by the time this article hits your desk!

First, SECURE 2.0 modifies the existing start-up credit by increasing the percentage of startup costs used in calculating the credit. Before SECURE 2.0, the credit equaled 50% of an eligible employer's eligible startup costs, generally up to an annual $5,000 cap (limited by the number of non-highly compensated employees). SECURE 2.0 increases the credit to cover 100% of eligible startup costs for employers with 50 or fewer employees. The $5,000 cap and limit based on non-highly compensated employees remains. "Eligible startup costs" includes ordinary and necessary costs to set up and administer the new plan and educate employees about the new plan — therefore this change makes it nearly free for employers with 50 or fewer employees to start a plan.

Second, SECURE 2.0 adds a new credit for small employers that provide employer contributions to a new defined contribution plan. For the first five years of the plan, small employers are entitled to a tax credit for the employer contributions made to each employee who earns less than $100,000 (indexed after 2023), up to $1,000 *per employee*. In the year the plan is established and the next year the tax credit is equal to 100% of this amount. It is then phased out over the next three years: 75% of contributions up to the cap in year three, 50% of contributions up to the cap in year four, and 25% of contributions up to the cap in year five. The full credit is available to employers with 50 or fewer employees. The credit is phased out for employers with between 51 and 100 employees. This provides an incredible incentive for small employers to provide employer contributions in the first 5 years of the plan!

Small employers can take advantage of the new tax credits starting with the taxable year that begins in 2023. Therefore, now is a great time to familiarize yourself with this change and think of current clients and prospects who may benefit.

by Kelsey Mayo
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Kelsey's practice is focused in the areas of Employee Benefits and Executive Compensation. She works with business owners and HR executives to understand and manage employee benefits and executive compensation arrangements. She routinely represents clients before the Internal Revenue Service, Department of Labor, and Pension Benefit Guarantee Corporation and has extensive experience in virtually all aspects of employee benefit plans and executive compensation arrangements.

Reminders

- **January 31, 2023:** Usual deadline for providing plan participant data to plan vendors for testing. Now is a great time to make sure your clients have all data ready.
- **January 31, 2023**: Deadline for distributing Form 1099-R to plan participants who received distributions in the prior year.
- **February 28, 2023:** Deadline for filing hard copies of Form 1099-R with the IRS (if not submitted electronically).