SMALL BUSINESS RETIREMENT PLAN CREDITS

Tax credits, resulting from SECURE 2.0 legislation, may help lower the cost for some employers starting a new 401(k) plan.

Thanks to provisions in the federal tax code, certain employers with 100 or fewer employees could benefit from tax credits that offset the cost of establishing a retirement plan. Here is a summary of available credits:[1]

Employer Size[2]	Startup Cost Tax Credit	Employer Contribution Tax Credit[3]
1 to 50 employees	100% of eligible startup costs (capped at $5,000)	Tax year, inclusive of year of adoption (capped at $1,000 per employee): • Year 1 & 2: 100% • Year 3: 75% • Year 4: 50% • Year 5: 25%
51-100 employees	50% of eligible startup costs (capped at $5,000)	Same as above, however phases out based upon 51+ employees
Over 100 employees	0% of costs	$0
Other details	Available for the first three tax years plan is maintained. Minimum tax credit is $500. Maximum credit is lesser of $5,000 or $250 times the number of eligible non-highly compensated employees. Must have at least one non-highly compensated employee. Eligible expenses for the startup tax credit include a variety of costs associated with the setup and administration of the plan. Employer must not have maintained a 401(a), 403(b), SIMPLE, or SEP plan in the three taxable years immediately preceding the tax year in which the plan is adopted.	Available for the first five tax years the plan is maintained. Maximum credit is $1,000 per employee. This credit is only applicable to employer contributions made on behalf of employees earning $100,000 or less of FICA wages.

Employers with 100 employees or less who add an automatic enrollment feature to their plan may be able to claim an additional tax credit of $500 per year. This would be available for the first three tax years the plan offers an eligible automatic contribution arrangement (EACA).[1]

Through a select group of strategic partnerships, Transamerica can offer business owners a solution to set up a 401(k) plan and maximize startup tax credits! The **Greater Akron Chamber 401(k) Retirement Program Multiple Employer Plan (MEP)** gives participating employers the opportunity to offer a comprehensive retirement plan while reducing their administrative tasks and mitigating fiduciary risk.

Explore the benefits of establishing a retirement plan today!

Call: Grey Kennedy 330-535-4550

Email: Grey.Kennedy@captrust

[1] "Where Credit Is 'Due': Tax Credits for Small Employer Plans Under SECURE 2.0," asppa.org, February 2023.

[2] Defined as the number of employees who earn at least $5,000 in compensation from that employer for the prior year.

[3] If the employer maintained a 401(a), 403(b), 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.

While a multiple employer plan (MEP) arrangement offers adopting employers the ability to delegate fiduciary functions to the MEP provider, employers should be aware that they still retain fiduciary responsibility for selecting and monitoring the MEP provider. Adopting employers of a MEP must share a commonality — a connection among the adopting employers such as a trade, professional organization, or PEO — and the MEP is treated as a single plan. A violation of the qualification rules by an adopting employer would not affect the qualified status of the plan as a whole (known as the "one-bad-apple" rule or the "unified plan" rule) provided the plan document addresses how to spin-off a non-compliant employer.

Before adopting any plan, sponsors should carefully consider all of the benefits, risks, and costs associated with a plan. Information regarding retirement plans is general and is not intended as legal or tax advice. Retirement plans are complex, and the federal and state laws or regulations on which they are based vary for each type of plan and are subject to change. In addition, some products, investment vehicles, and services may not be available or appropriate in all workplace retirement plans. Plan sponsors and plan administrators may wish to seek the advice of legal counsel or a tax professional to address their specific situations.

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