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Employee Benefit Plans Alert

SECURE Act 2.0: Small Employer Pension Plan Start-Up Credits

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The SECURE Act 2.0, signed by President Biden late last year, increased incentives to encourage small business owners to establish retirement plans, making changes to the ***start-up credit*** and adding the ***contribution credit***.

By taking advantage of the tax credits, employers who currently do not maintain a retirement plan would be able to provide a low- or no-cost employer-sponsored employee benefit. Employers who are looking to attract or retain workers should review these available credits as they are effective beginning in 2023. The details follow.

Start-Up Credit

This three-year credit has been increased from 50% to 100% of plan start-up costs, up to a cap. The cap is the lesser of $5,000 or $250 times the number of eligible non-highly compensated employees (NHCEs) for employers with 50 or fewer employees and at least one NHCE. Thus, under the expanded credit, an employer with 10 NHCEs would be eligible for a start-up credit of up to $2,500, while an employer with 40 NHCEs would have a maximum $5,000 start-up credit.

For employers with 51-100 employees, the credit remains the same: 50% of eligible start-up costs. No credit is available when the number of employees reaches 100.

The SECURE Act 2.0 also expanded the credit to employers who join multiple employer plans (MEPs).

Start-up costs can consist of the ordinary and necessary costs to:

- Set up and administer the plan
- Educate your employees about the plan

It would appear the start-up costs include the creation of plan documentation and advisor fees.

Contribution Credit

This new credit was added with the intent to further encourage small employers to establish a retirement plan for their employees. The credit is based on contributions made to a qualified plan provided by small employers (i.e., an employer had no more than 100 employees making at least $5,000 in the prior year) and is only available to new plans [employer did not maintain a 401(a)/403(a), SEP or SIMPLE plan in the immediate prior three taxable years].

Eligible employers will receive up to $1,000 per employee making $100,000 or less in FICA wages. Employers with up to 50 employees are eligible to receive full credit. The credit phases out for plan years three through five. During the first two years, the employer will receive 100% of the eligible credit, which then decreases by 25% for the next three years. Employers with over 50 employees receive a reduced credit (phased out as employees increase).

The number of employees for this credit is calculated the same way as the start-up cost credit, but the calculation for the contribution credit only includes employees in the year contributions were made and the credit is only applicable to contributions made for eligible employees. An employee is considered eligible if he/she earns less than $100,000 in FICA wages for the tax year; however, this number will change in subsequent years for increases in the cost of living.

This credit does not apply to elective deferrals or defined benefit plans.

Next Steps

Employers without retirement plans should consider if the expanded start-up credit and new contribution credit, along with other credits being provided for including automatic enrollment in the plans, make it worth setting up a new retirement plan.

Contact Us

The Employee Benefit Services Group at PKF O'Connor Davies is available to assist plan sponsors in meeting the various compliance requirements applicable to their plans. We also provide a full spectrum of compliance services for qualified retirement plans, nonqualified deferred compensation plans and welfare plans. For more information, please contact your client services partner or either of the following:

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