

SECURE Act 2.0

small employer tax credit

In 2019, the SECURE Act increased the small employer tax credit by changing the calculation of the flat dollar amount limit on the credit. Up to a \$5,000 credit is available each year for the first three plan years. Effective for taxable years beginning after Dec. 31, 2022, SECURE Act 2.0 increases the available credit for certain small employers and provides a new credit based on employer contributions to the plan, such as match or nonelective contributions.

The credit for employers with **100 or fewer employees is limited to 50% of the eligible startup costs**, while the credit for employers with **50 or fewer employees is limited to 100% of eligible startup costs**. The available credit is limited to the greater of:

- 1) \$500, or
- 2) the lesser of:
 - \$250 multiplied by the number of non-highly compensated employees of the eligible employer, including related employers, who are eligible to participate in the plan, or
 - \$5,000

Eligibility for the credit is limited to **employers meeting the following requirements:**

- 100 or fewer employees, or 50 or fewer employees, for a greater credit, receiving at least \$5,000 in compensation for the preceding year.
- At least one plan participant was a non-highly compensated employee.
- In the three tax years before the first year eligible for the credit, the employees weren't substantially the same employees who received contributions or accrued benefits in another plan sponsored by the employer, a member of a controlled group that includes that employer, or a predecessor of either.

Eligible Employer¹ Plan for purposes of the credit includes:

- Qualified retirement plans under 401(a), such as profit sharing and 401(k) plans
- Annuity plan under 403(a)
- Simplified employee pension plan under 408(k)
- Simple retirement accounts under 408(p)

1. Eligible employer plan does not include those sponsored by governmental employers or tax-exempt employers



Number of NHCEs	Credit Amount
1	\$500
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	\$5,000

Additional credit available:

Credit for Employer Contributions

SECURE Act 2.0 provides a new credit based on employer contributions, excluding elective deferrals and contributions to a defined benefit plan. The full credit of up to \$1,000 per employee is available for employers with 50 or fewer employees. The credit is phased out for employers with 51 to 100 employees.

The credit is not available for any employee with FICA wages exceeding \$100,000 (indexed) in the prior year.

The credit is 100% of contributions, as limited, for the first and second plan years. The credit is reduced to 75% for the third year, 50% in the fourth year, and 25% in the fifth year.

Small Employer Automatic Enrollment Credit

A small employer may qualify for a tax credit of up to \$500 per year to defray the cost of automatic enrollment for a new 401(k) or SIMPLE IRA plan, or an existing plan adding an automatic enrollment provision, for up to three years. This credit is in addition to the start-up credit to small employers and is available for three years. The three year period begins in the first taxable year in which the plan includes an Eligible Automatic Contribution Arrangement (EACA), as defined in Section 414(w)(3).



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