

AUTOMATIC ENROLLMENT TAX CREDIT

IT PAYS TO HELP YOUR EMPLOYEES SAVE FOR RETIREMENT

The SECURE Act helps employers add an auto-enrollment feature to their retirement plan by giving them federal tax credits.

What is the auto-enrollment tax credit?

- + \$500 per year, for a maximum of \$1,500 over 3 years.
- + This auto-enrollment tax credit is in addition to any startup plan tax credits, as well as any available deductions for employer contributions.
- + The employer does not need to have to expenses associated with adding the auto-enrollment feature to claim the tax credit.

These tax benefits add up quickly to make 401(k) plans extremely affordable for small employers.

What are the requirements to receive this credit?

- + Adopt a new eligible automatic contribution arrangement ("EACA") or add one to an existing retirement plan.
- + Have no more than 100 employees who received at least \$5,000 in the preceding year.
- + Claim the tax credit only for taxable years beginning after December 31, 2019.

What are the requirements to have an EACA?

- + Unless an employee affirmatively makes a different election, the employee must be defaulted to contribute a uniform percentage of compensation to the 401(k) plan.
- + The employer must provide an EACA notice.
- + Generally, an EACA can only be added mid-year for new entrants.
- + The terms of the EACA must be described in the plan document.

Does a QACA qualify for the tax credit?

- + Yes. A qualified automatic contribution arrangement ("QACA") is a special type of EACA with specified employer contributions and other requirements. Please note that a QACA cannot be added mid-year.

In addition to the tax credit what are the benefits of having an EACA?

- + Studies have shown that employees have higher average contribution rates in 401(k) plans that include auto-enrollment as compared to plans that do not.
- + EACAs may permit employees who realize they do not want to contribute to withdraw their contributions for up to ninety days after being auto-enrolled.
- + EACAs get an extension of time to complete IRS-required nondiscrimination tests and make corrective distributions (if necessary).

Can existing plans add auto-enrollment and take advantage of the tax credit?

Yes! This tax credit is not just for new plans.