

RETIREMENT PLAN STARTUP TAX CREDIT

Tax Credits Help Pay For The Cost of Starting
Your New Retirement Plan!

The federal tax code provides a tax credit that is designed to encourage small employers to establish retirement plans. This tax credit can be used to subsidize the start-up cost of many common retirement plans, including 401(k) plans, profit sharing plans, and cash balance plans. **With the SECURE Act, the maximum annual tax credit increased from \$500 to \$5,000!**

The tax credit is available for the first three years that a retirement plan is in place, covering up to 50% of the retirement plan expenses paid by the employer. The minimum annual tax credit is \$500 and the maximum annual tax credit is the lesser of \$5,000 or \$250 multiplied by the number of non-highly compensated employees who are eligible to participate in the plan.

Maximum SECURE Act tax credit

- Lesser of
 - a. \$5,000
 - b. \$250 multiplied by the number of eligible NHCES
- Capped at 50% of the eligible retirement plan expenses

Eligible employers

- Employers with fewer than 100 employees earnings at least \$5,000 in compensation for the prior year
- Sole proprietors, partnerships and corporations
- Cannot have had a plan in the last three years
- Usually not valuable for governmental or not-for-profits

Eligible expenses include a wide variety of expenses such as plan document and setup fees, ongoing administration fees including third party administration fees, record-keeping costs and employee education costs.

Here is an example for an employer with 50 employees that establishes a new plan in 2021.

1. Employer paid expenses in 2021	
Setup fees	\$1,000
Plan document fees	\$2,500
First year TPA fees	\$2,500
Total Expenses	\$6,000
2. 50% of fees	\$3,000
3. Maximum Tax Credit Calculation	
a. 50 non-highly compensated employees x \$250	\$12,500
b. Maximum tax credit	\$5,000
c. Lesser of a. and b.	\$5,000
4. Final tax credit (3.c reduced if higher than 2. Above)	\$3,000

And, here is even more good news – if your plan includes an auto-enrollment feature, you may qualify for an additional tax credit. For more information on the start-up or auto-enrollment tax credit, please talk to your Nova marketing professional or account manager or see www.nova401k.com/tax-credits.