PA Retirement Solutions, Inc.
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Retirement Plan Start-Up Tax Credit

Further enhanced by the Setting Every Community Up For Retirement Act of 2022 (SECURE Act 2.0)

WHAT IS IT?

Small employers who establish a qualified plan, SEP, or SIMPLE plan are eligible for a tax credit of up to **100% of "qualified start-up costs"** for each of the first 3 years of the plan, **capped at $5,000**. This provision is designed to promote the establishment of retirement plans by small employers, particularly those who have either never had a plan or have not had a plan for the past 3 years. **This new credit is available for taxable years beginning after December 31, 2022**.

WHO IS ELIGIBLE FOR THE CREDIT?

An eligible employer is an employer who, for the prior calendar year, had 50 or fewer employees who received compensation in excess of $5,000. The credit is available to those employers who have not maintained another plan covering substantially the same employees for the preceding 3-tax-year period. The plan must cover at least one person who is not a Highly Compensated Employee for the credit to be available.

Employers with between 51 and 100 Employees are still eligible for a **50%** tax credit (capped at $5,000 annually), under the original Secure Act of 2019.

***NEW – Except in the case of defined benefit plans, an additional credit is provided for employer contributions. The amount of the additional credit generally will be a percentage of the amount contributed by the employer on behalf of employees up to a per-employee cap of $1,000. The full credit for employer contributions is limited to employers with 50 or fewer employees and phased out for employers with between 51 and 100 employees.**

WHAT ARE CONSIDERED QUALIFIED START UP COSTS?

Qualified start-up costs include any expenses directly related to the establishment or administration of the plan. This means the expenses paid to your Third Party Administrator for the installation of your new plan, as well as the year-end administration of the plan are eligible for the tax credit. Qualified start-up costs also include any out-of-pocket expenses attributable to retirement-related education of the employer's employees. Generally, all other out-of-pocket expenses not covered by the tax credit are fully deductible by the Employer.

WHAT IS THE AMOUNT OF THE CREDIT?

The annual credit may equal 100% of the plan's qualified start-up costs paid, up to the greater of:

1. $500, or
2. $250 times the number of Non-Highly Compensated Employees, capped at $5,000 annually.

EXAMPLE - *ABC Company has never maintained a qualified plan for its employees. ABC company establishes a 401(k) plan in 2022 covering 25 Non-Highly Compensated Eligible Employees. If qualified start-up costs are $3,500 in Year 1 to implement, plus $3,000 each year thereafter (including Year 1) for administration or other qualified expenses, the tax credit would be as follows:*

Year	Qualified Start-up Costs	Tax Credit	Remaining Deductible Expense
1	$6,500	**$5,000**	$1,500
2	$3,000	**$3,000**	n/a
3	$3,000	**$3,000**	n/a

This is not intended to be tax advice. We advise all employers to consult with a qualified tax advisor on the amount and availability of this tax credit each year applicable.