

# Small Business Tax Credits

## Two New Options for 2020



The passing of the SECURE Act means good news for many Plan Sponsors starting a retirement plan or adopting automatic enrollment.

### Small Business Tax Credit for Starting a Retirement Plan

Beginning in 2020, the SECURE Act increases the tax credits\* available to businesses with up to 100 employees, including at least one non-highly compensated employee. The previous small business \$500 tax credit for adopting a new retirement plan is now increased to \$250 multiplied by the number of non-highly compensated employees (NHCEs) eligible to participate in the plan. The tentative credit for each year may not be less than \$500 nor more than \$5,000.

The business may claim this credit, following the formula above, for up to 3 years (3 tax returns). Each year's credit is limited to 50% of the costs incurred that year to establish or administer a plan.

The first year the credit may be claimed is usually the year the new plan is effective. Although the law allows employers to claim the credit for the preceding year, this often is not a good idea because the 50% of costs incurred that earlier year could limit the earlier year credit to zero.

### Example

Louise is considering establishing a retirement plan for her consulting business in 2020. Her business has 22 employees, all of whom are non-highly compensated (not owners or owner family, and paid less than \$130,000). If she adopts a plan in 2020 and her 22 employees are eligible to participate, her business will receive a credit of 50% of the costs of establishing or administering the plan, up to \$5,000 per

year, for 2020, 2021 and 2022.

### Small Employer Auto-Enrollment Credit

An additional tax credit of \$500 per year for 3 years begins when a business includes automatic enrollment in a new plan or adds it to an existing plan. Unlike the credit for starting a new retirement plan, this credit is not limited to a percentage of costs and there is no NHCE requirement. Owner-only businesses are eligible.

A business which meets both sets of requirements above could claim both credits for three years. The effective date for both credits begins on the first Employer Tax Year starting after 12/31/2019.

### Take Advantage of Tax Savings Today

These credits are now available for the adoption of new retirement plans and for including or adding automatic enrollment to your plan.

For more information please contact your Sales Representative at JULY.

### About JULY

The professionals at JULY have more than 25 years of experience designing, installing, and operating retirement plans. We can provide you with the information and tools you need to make your plan a success.

Learn more about JULY at [www.julyservices.com](http://www.julyservices.com).

*\* Please note these important considerations:*

- *The credit is only for costs incurred by the business (not costs paid by the plan).*
- *If the sponsor already sponsors a plan and adds a second plan, no additional credit can be taken. And if the sponsor has sponsored another plan within the last 3 years, no credit is available.*