SECURE Act

TAX CREDITS FOR BUSINESS OWNERS

Take Advantage of up to $5,500 in startup credits and up to $1,000 in credits per employee by establishing a retirement plan.

Congress passed new rules in the SECURE Act that offer tax credits for small business owners.

Eligible employers are those with 100 or fewer employees who establish a new employer sponsored retirement plan. Employers who have enrolled their employees in a *state-sponsored retirement plans are not eligible* for these tax credits.

$5,000 Credit for Plan Start-Up Costs

Open a new retirement plan for you and your employees and claim a tax credit for the ordinary and necessary expenses that you paid for opening and administering an employer plan This credit is available for the first three tax years of a plan.

Who is eligible?

Businesses with 100 or fewer employees

Employer plans that are eligible for the credit include SIMPLE IRAs, SEP IRAs and 401(k)s.

How much is the credit?

For eligible employers with 50 or less employees, the credit is equivalent to the lesser of 100% of the start-up costs or $5,000 annually.

For eligible employers with 51 to 100 employees, the credit is equivalent to the lesser of 50% of the start-up costs or $5,000 annually.

$1,000 Credit for Employer Contributions

Credit equivalent to employers' contribution on behalf of each eligible employee, **up to $1,000 per employee.** Eligible employees are those making $100,000 or less.

Who is eligible?

Businesses with 100 or fewer employees

Employer plans that are eligible for the credit include SIMPLE IRAs, SEP IRAs and 401(k)s.

How much is the credit?

The calculation differs depending on whether the eligible employer sponsoring the plan has 50 or fewer employees or 51-100 employees. The credit for employers of 50 or fewer is calculated by multiplying the total dollar amount of contributions made on behalf of eligible employees by the respective percentage for each year. The same calculation is done for employers of 51 to 100 employees with a reduction factored in.

See reverse side for details.

Products issued by

National Life Insurance Company® | Life Insurance Company of the Southwest®

$1,000 Credit for Employer Contributions Cont.

Plans with 50 or Less Employees		Plans with 51 to 100 Employees
1st Year	100%	100% – 2% of the number of employees over 50
2nd Year	100%	100% – 2% of the number of employees over 50
3rd Year	75%	75% – 1.5% of the number of employees over 50
4th Year	50%	50% – 1% of the number of employees over 50
5th Year	25%	25% – 0.5% of the number of employees over 50

For example

John operates a business with seven other employees and establishes a SIMPLE IRA for the tax year. He decides to make a non-elective contribution on behalf of each of the employees that is equivalent to 2% of their respective salary. The total deductible employer contribution for the year will be $9,400 and John will have a credit of $6,200 available. John will not be able to use the credit for his portion of the contribution due to his salary being over $100,000.

	Age	Salary	2% Non Elective Contribution	Employer Contribution Credit
Owner	55	$150,000	$3,000	$0
Manager	48	$60,000	$1,200	$1,000
Clerical	49	$45,000	$900	$900
Clerical	45	$45,000	$900	$900
Sales	35	$50,000	$1,000	$1,000
Sales	30	$50,000	$1,000	$1,000
Sales	40	$50,000	$1,000	$1,000
Intern	20	$20,000	$400	$400
Total:			**$9,400**	**$6,200**

$500 Credit for Automatic Enrollment

Eligible employers that establish an employer sponsored plan with an automatic enrollment feature are eligible to claim a credit for up to three years. This feature automatically adds new employees as participants within a plan and has a percentage of their salary taken out of their paycheck and contributed into the plan.

Who is eligible?

Businesses with 100 or fewer employees that add an automatic enrollment feature to a new or existing plan. To be eligible for this credit, the feature must meet the Eligible Automatic Contribution Arrangement (EACA) requirements. More information about EACA can be found on IRS.gov

How much is the credit?

$500 annually for up to three tax years.

Tax Credit vs. Tax Deduction

Both credits and deductions are great as they each play a role in decreasing how much you will owe in taxes. But it is important to distinguish the two and recognize where they arise in the tax planning process.

Tax credits directly reduce the amount that a tax payor owes in taxes to the IRS.

Tax deductions are applied before tax credits, and they reduce how much of a tax payors income is subject to taxes. Examples include eligible business expenses, pre-tax retirement plan contributions and student loan interest.

Scan for SIMPLE and SEP IRA Plan Implementation Checklist or click here.