



# SECURE ACT

## *New Plan Tax Credits*

Under the SECURE Act, effective in 2020, an extra benefit is available for employers implementing a new retirement plan: a tax credit of up to \$5,000 per year for the first 3 years of the plan. The determination of the credit is a three-step process as demonstrated in the following example, and as explained in more detail thereafter.

| <i>Example (an Excel version of this worksheet available upon request)</i>              |           |
|---|-----------|
| <b>Step 1: Determine Actual Credit Available Prior to Limitations</b>                   |           |
| 1. Total Eligible Expenses for the year   | \$ 3,000* |
| 2. Multiply Line 1 by 50%   | \$ 1,500  |
| <b>Step 2: Determine the Maximum Credit Allowable</b>                                   |           |
| 3. Number of NHCE's Covered by the Plan   | 5         |
| 4. Multiply Line 3 by \$250   | \$ 1,250  |
| 5. Greater of Line 4 or \$500   | \$ 1,250  |
| <b>Step 3: Apply the Maximum Credit Limitation</b>                                      |           |
| 6. Lesser of Line 2 or Line 5   | \$ 1,250  |
| <i>Line 6 represents the applicable credit.</i>   |           |
| * If a credit is claimed against these expenses, the expenses may not also be deducted. |           |

**Step 1 – Determine the Actual Credit Available Prior To Limitations:** The tax credit available, prior to the limitations described below, is 50% of eligible plan expenses paid by the employer (e.g. PASI's annual administration and initial set-up fees).

**Step 2 – Determine the Maximum Credit Allowable:** The *maximum* tax credit available is equal to \$250 multiplied by the number of Non-Highly Compensated Employees (NHCE's) covered by the Plan. Plans covering 20 or more NHCE's will be eligible for the maximum credit of \$5,000 (20 NHCE's @ \$250 = \$5,000). Generally, an NHCE is a non-owner employee whose compensation is less than \$130,000 a year (subject to annual cost of living increases). Regardless, the Maximum Credit Allowable will never be less than \$500.

**Step 3 – Apply the Maximum Credit Limitation:** If 50% of expenses (as described in Step 1) exceeds the Maximum Credit Allowable (as described in Step 2) then the credit is reduced to the Maximum Credit Allowable.

**An extra benefit!** The SECURE Act also encourages *automatic enrollment*. For a Plan that implements this feature in 2020 or later, a \$500 credit is available for the first 3 years.

**Important Note:** This document is for informational purposes only and is not intended to be tax advice. The individual responsible for preparing the employer's corporate returns should be consulted regarding the availability and advisability of this credit.

Please contact PASI to discuss your options at (860) 284-6880 or [info@pasiusa.com](mailto:info@pasiusa.com).