



START-UP RETIREMENT PLAN CREDITS

Three steps to determine
eligibility and amounts



The SECURE 2.0 Act provides some great incentives for employers starting a new retirement plan, but figuring out who is eligible and which credits apply can be challenging. This worksheet will help you understand and calculate the three credits now available for start-up plans.

Sharpen your pencil. Here are the steps to follow.

STEP 1: DETERMINE IF THE EMPLOYER IS ELIGIBLE

Does the employer have more than 100 employees who earned \$5,000 or more in the prior year? Yes/No

- If an employer with 100 or fewer employees later grows above 100 employees, a grace period may apply. Speak to a tax professional familiar with the employer and the plan for details.

Is the employer tax-exempt?..... Yes/No

Has the employer sponsored a retirement plan in the past three years?..... Yes/No

- Rules about what constitutes a new plan are complex, so check with a tax professional if the employer is upgrading its plan or if there has been a merger or acquisition. Plans referred to for this step include 401(a), 403(b), SIMPLE, or SEP.

If any answer above is Yes, credits are not available. If all answers are No, move to Step 2.

STEP 2: DETERMINE IF THE PLAN IS ELIGIBLE

Does the employer have at least one employee eligible to participate who is a non-highly compensated employee (NHCE)? Yes/No

- For the 2023 plan year, NHCEs are employees who did not earn more than \$135,000 in 2022. This number is indexed for inflation. For the 2024 plan year, NHCEs are employees who did not earn more than \$150,000 in 2023.

Will the new plan be one of the following types: 401(a), 401(k), defined benefit, SIMPLE IRA, or SEP IRA? Yes/No

If both answers above are Yes, credits are available. Move to Step 3.

STEP 3: CALCULATE CREDITS

Start-up/administrative cost credits: 100% (or 50%) of eligible start-up/administrative costs, available for up to three tax years. The first credit year is generally the tax year that includes the date the eligible retirement plan becomes effective. However, you may elect to instead have the preceding tax year as the first credit year.

A. Actual start-up/administrative costs = \$_____

- Generally defined as ordinary and necessary costs to set up and administer the plan, such as document fees, advisor fees, third party administration fees, etc.

B. If 51-100 employees,¹ A x 50% = \$_____ **OR**

If 50 or fewer employees, A x 100% = \$_____

C. Number of NHCEs_____ x \$250 = \$_____

D. Greater of C and \$500 (but not more than \$5,000) \$_____

E. Credit is the lesser of B and D \$_____

Employer contribution credit: Contributions on behalf of employees whose compensation is less than \$100,000 for the year to which the contribution applies.

1 - 50 EMPLOYEES

Years 1 and 2

A. Number of employees earning less than \$100,000 _____

B. A x \$1,000 = \$_____

C. Actual employer contribution \$_____

D. Credit is lesser of B and C \$_____

Year 3

A. Number of employees earning less than \$100,000_____

B. A x \$1,000 = \$_____

C. Actual employer contribution \$_____

D. C x 75% = \$_____

E. Credit is lesser of B and D \$_____

¹Number of employees who, during the tax year preceding the first credit year, received at least \$5,000 in compensation



Year 4

- A. Number of employees earning less than \$100,000 _____
- B. $A \times \$1,000 = \$$ _____
- C. Actual employer contribution \$ _____
- D. $C \times 50\% = \$$ _____
- E. Credit is lesser of B and D \$ _____

Year 5

- A. Number of employees earning less than \$100,000 _____
- B. $A \times \$1,000 = \$$ _____
- C. Actual employer contribution \$ _____
- D. $C \times 25\% = \$$ _____
- E. Credit is lesser of B and D \$ _____

Plans with **51 - 100** eligible employees reduce available credit by 2% for each employee above 50.

Automatic enrollment credit: Applies to employers with no more than 100 employees when their new or existing plan adds automatic enrollment.² \$500

Your Transamerica representative is available to help answer your questions. Consult your legal or tax professional for more details about your specific plan and situation.

² Available for the year auto-enrollment is added and two subsequent years

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