



On Friday, December 20, 2019 the president signed the Further Consolidated Appropriations Act into Law. Tacked onto the appropriation bill were the provisions of the **Setting Every Community Up for Retirement Enhancement (SECURE) Act**. The SECURE Act is meant to encourage formation of retirement plans – especially by small employers.

Included in the SECURE Act was an expansion of the tax credit available to small employers (employers with 100 or fewer employees) who adopt a new qualified plan. Effective for plan years beginning after December 31, 2019 the

new credit is 50 percent of the plan's qualified start-up costs with a dollar limit of the greater of a or b:

- a. \$500
- b. \$250 times the number of non-highly compensated employees eligible to participate in the plan but no more than \$5,000.

The credit is available for the plan's first year and the two years immediately following.

An additional \$500 credit is available for small employer start-up plans that include an automatic enrollment provision in the plan.

NEW PLAN TAX CREDIT



Example

A small business owner sets up a new 401(k) plan covering himself and three employees. The fee to set up the plan is \$600, and the annual administration fee is \$1,260. The plan does not include an automatic enrollment feature.

The first-year credit is calculated as follows:

$$(\$600 + \$1,260) \times 50\% = \$930$$

$$\$250 \times 3 \text{ non-highly compensated employees} = \$750$$

$$\text{First year tax credit} = \$750$$

Year two there is no plan set-up fee so the credit would be calculated as follows:

$$\$1,260 \times 50\% = \$630$$

$$\$250 \times 3 \text{ non-highly compensated employees} = \$750$$

$$\text{Second year tax credit} = \$630$$

The new plan tax credit is claimed by filing IRS Form 8881 with the employer's Federal tax return.

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