BENEFIT PLANS PLUS LLC
A MEASURABLE DIFFERENCE™

Concepts on How to Leverage New SECURE Act Tax Credits

Business owners that have contemplated starting a retirement plan should definitely find the increased tax credits established by the SECURE Act very favorable, especially considering that over half the plan's service provider expenses could potentially be offset. Of course, the key component of getting the tax credits is paying at least a portion of the plan expenses out of pocket. Some plan sponsors might push back on that notion, indicating that they want the plan to absorb some if not all of the plan's expenses, but there are some significant reasons why plan sponsors should consider reevaluating that position.

The new tax credit arrangement is equal to the greater of: (1) $500, or (2) the lesser of: (a) $250 for each employee of the employer who is not a highly compensated employee and who is eligible to participate in the employer plan, or (b) $5,000. In addition, new plans that elect an automatic enrollment feature are eligible for an additional $500 tax credit. Both of these credits apply for up to three years. To illustrate the impact of the new tax credits, I have put a hypothetical example below.

Service Provider Expenses, Credits & Deductions

TPA	**$2,500**	**Flat Fee**
Advisor	**$3,000**	**Flat Fee**
Platform	**$3,000**	**Flat Fee**
Service Provider Cost	**$8,500**	
Start-Up Tax Credit	**($4,250)**	**20NHCEs @ 50% of Cost**
Auto-Enrollment Tax Credit	**($500)**	
Net Cost After Credit	**$3,750**	

As you can see above, the new tax credits brought the gross service provider cost of $8,500 all the way down to a net cost of $3,750. Remember, these cost reductions would not apply if plan assets or participant accounts pay these expenses. Here are some other major benefits/considerations in having the plan sponsor pay these expenses out of pocket:

- Plan assets and participant accounts grow at a much faster rate
- Business owners typically have the largest account balances, so they usually pay a larger portion of plan fees if a variable charge is applied to cover plan expense (which is not tax-deductible)
- It mitigates fiduciary fee liability as services providers are not being paid with plan assets
- It allows the plan sponsor to focus more on using quality providers (like BPP) as they are paying a far smaller net amount for plan services

These increased tax credits will have a significant impact on any newly established plan and are in place for plans implemented during and after the 2020 plan year. Please let BPP know if you have any questions or if we can be of any assistance in establishing a retirement plan for you or your clients!

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