

What New Tax Credits Are Available for Adding an Automatic Enrollment Feature to our Plan?

Facts

Our business currently has a retirement plan and we are considering adding automatic enrollment. We have heard that there are new tax credits available to employers who include automatic enrollment features in their plans.

Question

How does the tax credit work and are there any special requirements that would apply?

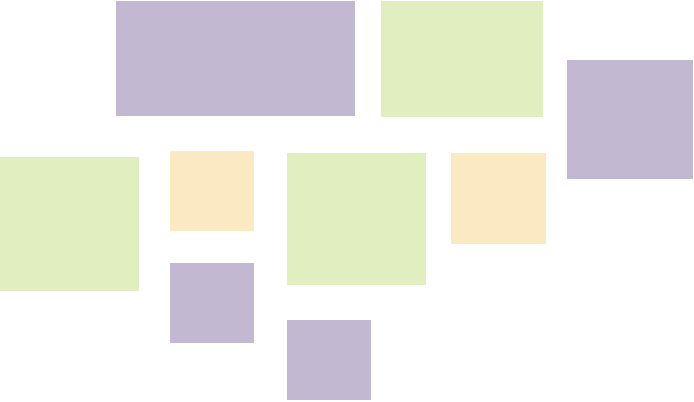
Answer

The simple answer is that if you adopt an [automatic enrollment](#) provision in any plan year that starts after December 31, 2019, you may be eligible for tax credit of \$500 per year for the first three years the plan includes auto enrollment. This credit is in addition to any other [start-up tax credits](#) for which you may be eligible.

However, there are specific eligibility requirements you must satisfy to qualify for this credit:

1. You must first add automatic enrollment in a plan year beginning after December 31, 2019. This means that if your plan included automatic enrollment in 2019 or earlier, you would not be able to claim the credit.
2. The type of automatic enrollment feature you add must be what is called an [Eligible Automatic Contribution Arrangement \(EACA\)](#).
3. The credit is only available for employers that have fewer than 100 employees with at least \$5,000 in compensation in the previous year.
4. Your plan must cover at least one non-[highly compensated employee](#).
5. If the EACA provision is removed within the first three years, there is a loss of the tax credit for the year it is removed.

The automatic enrollment tax credit will be beneficial for many small employers, but it is important to understand the nuances associated with adopting automatic enrollment and determine if it is right for you. For example, the EACA includes an extended deadline for correcting nondiscrimination tests and the ability for participants to withdraw amounts automatically withheld within a short window. However, one of the main reasons the EACA is not more widely adopted is that the provision must apply to all eligible participants, not just those newly hired.



If you are considering automatic enrollment solely to take advantage of the new tax credit, consider if the additional requirements associated with automatic enrollment, and specifically EACA, do not create more burden than the \$500 credit is worth. As always, DWC is here to help you design a plan that meets your goals and objectives.

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