

November 2011

## IRS Announces Pension Plan Limitations for Tax Year 2012

By Ilyse Schuman and J. René Toadvine

The Internal Revenue Service has released a detailed list of pension plan and other retirement-related contribution limitations for the Tax Year 2012 that were triggered by an increase in the cost-of-living index. A number of the pension plan limitations will change for 2012 because the increase in the cost-of-living index met the statutory thresholds for the adjustment. Other limitations, however, will remain unchanged.

### Key Changes for 2012

- The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased from \$16,500 to \$17,000.
- Effective January 1, 2012, the limitation on the annual benefit under a defined benefit plan under Section 415(b)(1)(A) of the Internal Revenue Code is increased from \$195,000 to \$200,000.
- The limitation for defined contribution plans under Section 415(c)(1)(A) is increased in 2012 from \$49,000 to \$50,000.
- The annual compensation limit under Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) is increased from \$245,000 to \$250,000.
- The dollar limitation under Section 416(i)(1)(A)(i) concerning the definition of key employee in a top-heavy plan is increased from \$160,000 to \$165,000.
- The limitation used in the definition of highly compensated employee under Section 414(q)(1)(B) is increased from \$110,000 to \$115,000.
- The compensation amounts under Section 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation purposes is increased from \$95,000 to \$100,000. The compensation amount under Section 1.61-21(f)(5)(iii) is increased from \$195,000 to \$205,000.
- The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified

adjusted gross incomes (AGI) between \$58,000 and \$68,000, up from \$56,000 and \$66,000 in 2011. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is \$92,000 to \$112,000, up from \$90,000 to \$110,000. For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between \$173,000 and \$183,000, up from \$169,000 and \$179,000.

- The AGI phase-out range for taxpayers making contributions to a Roth IRA is \$173,000 to \$183,000 for married couples filing jointly, up from \$169,000 to \$179,000 in 2011. For singles and heads of household, the income phase-out range is \$110,000 to \$125,000, up from \$107,000 to \$122,000. For a married individual filing a separate return who is covered by a retirement plan at work, the phase-out range remains \$0 to \$10,000.
- The AGI limit for the saver's credit (also known as the retirement savings contributions credit) for low- and moderate-income workers is \$57,500 for married couples filing jointly, up from \$56,500 in 2011; \$43,125 for heads of household, up from \$42,375; and \$28,750 for married individuals filing separately and for singles, up from \$28,250.

## Key Limits Remaining Unchanged

The dollar limitation under Section 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over remains unchanged at \$5,500. The dollar limitation under Section 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over remains unchanged at \$2,500.

- The deductible amount under Section 219(b)(5)(A) for an individual making qualified retirement contributions remains unchanged at \$5,000.
- The compensation amount under Section 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$550.
- The limitation under Section 408(p)(2)(E) regarding SIMPLE retirement accounts remains unchanged at \$11,500.

Ilyse Schuman is a Shareholder in Littler Mendelson's Washington, D.C. office, and J. René Toadvine is Office Managing Shareholder of the firm's Charlotte and Columbia offices. If you would like further information, please contact your Littler attorney at 1.888.Littler or info@littler.com, Ms. Schuman at ischuman@littler.com, or Mr. Toadvine at rtoadvine@littler.com.