



Tax Reduction Letter

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IRS Announces Pension Plan Limitations for 2012

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WASHINGTON - The Internal Revenue Service today announced cost-of-living adjustments affecting dollar limitations for pension plans and other retirement-related items for Tax Year 2012. In general, many of the pension plan limitations will change for 2012 because the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment. However, other limitations will remain unchanged. Highlights include:

- o 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.
- o The catch-up contribution limit for those aged 50 and over remains unchanged at \$5,500.
- o 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.
- o 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.
- o 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.

Below are details on both the unchanged and adjusted limitations.

Section 415 of the Internal Revenue Code provides for dollar limitations on benefits and contributions under qualified retirement plans. *Section 415 (d)* requires that the Commissioner annually adjust these limits for cost-of-living increases. Other limitations applicable to deferred compensation plans are also affected by these adjustments under *Section 415*. Under *Section 415 (d)*, the adjustments are to be made pursuant to adjustment procedures which are similar to those used to adjust benefit amounts under *Section 215 (i) (2) (A)* of the Social Security Act.

The limitations that are adjusted by reference to *Section 415 (d)* generally will change for 2012 because the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment. For example, the limitation under *Section 402 (g) (1)* on the exclusion for elective deferrals described in *Section 402 (g) (3)* will increase from \$16,500 to \$17,000 for 2012. This limitation affects elective deferrals to *Section 401 (k)* plans, *Section 403 (b)* plans, and the Federal Government's Thrift Savings Plan.

Effective January 1, 2012, the limitation on the annual benefit under a defined benefit plan under *section 415 (b) (1) (A)* is increased from \$195,000 to \$200,000.

Under *section 1.415 (d)-1 (a) (2) (ii) of the Income Tax Regulations*, the adjustment to the limitation under a defined benefit plan under *section 415 (b) (1) (B)* is determined using a special rule. This special rule takes into account the following recent history of changes in the cost-of-living indexes: (1) the cost-of-living index for the quarter ended September 30, 2009, was less than the cost-of-living index for the quarter ended September 30, 2008; (2) the cost-of-living index for the quarter ended September 30, 2010, was greater than the cost-of-living index for the quarter ended September 30, 2009, but less than the cost-of-living index for the quarter ended September 30, 2008; and (3) the cost-of-living index for the quarter ended September 30, 2011, was greater than the cost-of-living indexes for all prior periods.

For a participant who separated from service before January 1, 2010, the limitation under a defined benefit plan under *Section 415 (b) (1) (B)* for 2012 is computed by multiplying the participant's 2011 compensation limitation by 1.0327 in order to reflect changes in the cost-of-living index from the quarter ended September 30, 2008, to the quarter ended September 30, 2011. For a participant who separated from service during 2010 or 2011, the limitation under a defined benefit plan under *Section 415 (b) (1) (B)* for 2012 is computed by multiplying the participant's 2011 compensation limitation by 1.0376 in order to reflect changes in the cost-of-living index from the quarter ended September 30, 2010, to the quarter ended September 30, 2011.

The limitation for defined contribution plans under *Section 415 (c) (1) (A)* is increased in 2012 from \$49,000 to \$50,000.

The Code provides that various other dollar amounts are to be adjusted at the same time and in the same manner as the dollar limitation of *Section 415 (b) (1) (A)*. After taking into account the applicable rounding rules, the amounts for 2012 are as follows:

- The limitation under *Section 402 (g) (1)* on the exclusion for elective deferrals described in *Section 402 (g) (3)* is increased from \$16,500 to \$17,000.
- 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 dollar amount under *Section 409 (o) (1) (C) (ii)* for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period is increased from \$985,000 to \$1,015,000, while the dollar amount used to determine the lengthening of the 5-year distribution period is increased from \$195,000 to \$200,000.
- 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 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 annual compensation limitation under *Section 401 (a) (17)* for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost-of-living adjustments to the compensation limitation under the plan under *Section 401 (a) (17)* to be taken into account, is increased from \$360,000 to \$375,000.
- 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.
- The limitation on deferrals under *Section 457 (e) (15)* concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from \$16,500 to \$17,000.
- 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 Code also provides that several pension-related amounts are to be adjusted using the cost-of-living adjustment under *Section 1 (f) (3)*. After taking the applicable rounding rules into account, the amounts for 2012 are as follows:

- The adjusted gross income limitation under *Section 25B (b) (1) (A)* for determining the retirement savings contribution credit for married taxpayers filing a joint return is increased from \$34,000 to \$34,500; the limitation under *Section 25B (b) (1) (B)* is increased from \$36,500 to \$37,500; and the limitation under *Sections 25B (b) (1) (C)* and *25B (b) (1) (D)*, is increased from \$56,500 to \$57,500.
- The adjusted gross income limitation under *Section 25B (b) (1) (A)* for determining the retirement savings contribution credit for taxpayers filing as head of household is

increased from \$25,500 to \$25,875; the limitation under *Section 25B (b) (1) (B)* is increased from \$27,375 to \$28,125; and the limitation under *Sections 25B (b) (1) (C)* and *25B (b) (1) (D)*, is increased from \$42,375 to \$43,125.

- The adjusted gross income limitation under *Section 25B (b) (1) (A)* for determining the retirement savings contribution credit for all other taxpayers is increased from \$17,000 to \$17,250; the limitation under *Section 25B (b) (1) (B)* is increased from \$18,250 to \$18,750; and the limitation under *Sections 25B (b) (1) (C)* and *25B (b) (1) (D)*, is increased from \$28,250 to \$28,750.

- The deductible amount under § *219 (b) (5) (A)* for an individual making qualified retirement contributions remains unchanged at \$5,000.

- The applicable dollar amount under *Section 219 (g) (3) (B) (i)* for determining the deductible amount of an IRA contribution for taxpayers who are active participants filing a joint return or as a qualifying widow (er) is increased from \$90,000 to \$92,000. The applicable dollar amount under *Section 219 (g) (3) (B) (ii)* for all other taxpayers (other than married taxpayers filing separate returns) is increased from \$56,000 to \$58,000. The applicable dollar amount under *Section 219 (g) (7) (A)* for a taxpayer who is not an active participant but whose spouse is an active participant is increased from \$169,000 to \$173,000.

- The adjusted gross income limitation under *Section 408A (c) (3) (C) (ii) (I)* for determining the maximum Roth IRA contribution for married taxpayers filing a joint return or for taxpayers filing as a qualifying widow (er) is increased from \$169,000 to \$173,000. The adjusted gross income limitation under *Section 408A (c) (3) (C) (ii) (II)* for all other taxpayers (other than married taxpayers filing separate returns) is increased from \$107,000 to \$110,000.

The dollar amount under *Section 430 (c) (7) (D) (i) (II)* used to determine excess employee compensation with respect to a single-employer defined benefit pension plan for which the special election under *section 430 (c) (2) (D)* has been made is increased from \$1,014,000 to \$1,039,000.