



Retirement Plan Specialists, Inc.

IRS Announces Pension Plan Limitations for 2012

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:

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

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.