

IRS Announces Pension Plan Limitations for 2010

WASHINGTON -- The Internal Revenue Service today announced cost-of-living adjustments applicable to dollar limitations for pension plans and other items for Tax Year 2010.

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) will remain unchanged for 2010. This is because the cost-of-living index for the quarter ended September 30, 2009, is less than the cost-of-living index for the quarter ended September 30, 2008, and, following the procedures under the Social Security Act for adjusting benefit amounts, any decline in the applicable index cannot result in a reduced limitation. For example, the limitation under Section 402(g)(1) on the exclusion for elective deferrals described in Section 402(g)(3) will be \$16,500 for 2010, which is the same amount as for 2009. This limitation affects elective deferrals to Section 401(k) plans and to the Federal Government's Thrift Savings Plan, among other plans.

- Effective January 1, 2010, the limitation on the **annual benefit under a defined benefit plan** under Section 415(b)(1)(A) remains unchanged at **\$195,000**. For participants who separated from service before January 1, 2010, the limitation for defined benefit plans under Section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2009, by 1.0000.
- The **limitation for defined contribution plans** under Section 415(c)(1)(A) remains unchanged for 2010 at **\$49,000**.
- 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 2010 are as follows:
 - The limitation under Section 402(g)(1) on the exclusion for **elective deferrals described in Section 402(g)(3)** remains unchanged at **\$16,500**.
 - The **annual compensation limit** under Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) remains unchanged at **\$245,000**.

- The dollar limitation under Section 416(i)(1)(A)(i) concerning the **definition of key employee in a top-heavy plan** remains unchanged at **\$160,000**.
- 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** remains unchanged at \$985,000, while the dollar amount used to determine the lengthening of the 5-year distribution period remains unchanged at **\$195,000**.
- The limitation used in the **definition of highly compensated employee** under Section 414(q)(1)(B) remains unchanged at **\$110,000**.
- 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, remains unchanged at **\$360,000**.
- 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** remains unchanged at **\$16,500**.
- 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 remains unchanged at **\$95,000**. The compensation amount under Section 1.61-21(f)(5)(iii) remains unchanged at \$195,000.

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 2010 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 \$33,000 to **\$33,500**; the limitation under Section 25B(b)(1)(B) remains unchanged at \$36,000; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D), remains unchanged at \$55,500.
 - taxpayers filing as **head of household** is increased from \$24,750 to **\$25,125**; the limitation under Section 25B(b)(1)(B) remains unchanged at \$27,000; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D), remains unchanged at \$41,625.
 - **all other taxpayers** is increased from \$16,500 to **\$16,750**; the limitation under Section 25B(b)(1)(B) remains unchanged at \$18,000; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D), remains unchanged at \$27,750.

- The deductible amount under § 219(b)(5)(A) for an individual making qualified retirement contributions (**IRAs**) 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) remains unchanged at **\$89,000**. 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 \$55,000 to **\$56,000**. 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 \$166,000 to **\$167,000**.

- 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 \$166,000 to **\$167,000**. The adjusted gross income limitation under Section 408A(c)(3)(C)(ii)(II) for **all other taxpayers** (other than married taxpayers filing separate returns) remains unchanged at **\$105,000**.