

## **MOST RETIREMENT PLAN DOLLAR LIMITS ARE CHANGED FOR 2012**

The IRS has announced the 2012 cost-of-living adjustments (COLAs) for retirement plans. Most of the limits related to pension and other retirement plans, which are adjusted by reference to Code Sec. 415(d), are changed for 2012 since the increase in the cost-of-living index met the statutory thresholds which trigger their adjustment. Certain dollar limit changes keyed to Code Sec. 1(f)(3).

The following plan limits **are increased** effective January 1, 2012:

- ***Defined Benefit Plans***

The limitation on the annual benefit under a defined benefit plan is increased from \$195,000 to \$200,000. For participants who separated from service before January 1, 2010, the 100% of average high-three-years' compensation 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 participants who separated from service during 2010 or 2011, the participant's 2011 compensation limitation is multiplied 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.

- ***Defined contribution plans***

The limit on the annual additions to a participant's defined contribution account is increased from \$49,000 to \$50,000.

- ***Annual compensation limit***

The maximum amount of annual compensation which can be taken into account for various qualified plan purposes, is increased from \$245,000 to \$250,000.

- ***Elective deferrals***

The Code Sec. 402(g)(1) limit on the exclusion for elective deferrals described is increased from \$16,500 to \$17,000.

- ***Deferred compensation plans***

The limit on deferrals under Code Sec. 457(e)(15), concerning deferred compensation plans of state and local governments and tax-exempt organizations, is increased from \$16,500 to \$17,000.

- **Key employee in top-heavy plan**

The dollar limit relating to the definition of key employee in a top-heavy plan is increased from \$160,000 to \$165,000.

- **ESOP five-year distribution period**

The dollar amount for determining the maximum account balance in an employee stock ownership plan (ESOP) subject to a five-year distribution period is increased from \$985,000 to \$1,015,000, while the dollar amount used to determine the lengthening of the five-year distribution period is increased from \$195,000 to \$200,000.

- **Highly compensated employee**

The dollar limit used in defining a highly compensated employee is increased from \$110,000 to \$115,000.

- **Government plans**

The annual compensation limitation for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed COLAs to the plan's compensation limit to be taken into account, is increased from \$360,000 to \$375,000.

- **Control employee**

The employee compensation amounts used in the definition of "control employee" for purposes of the auto commuting rule is increased from \$95,000 to \$100,000; and the compensation amount is increased from \$195,000 to \$205,000.

The following plan limits **are unchanged**:

- **Catch-up contributions**

The dollar limit for catch-up contributions to an applicable employer plan other than a plan described for individuals aged 50 or over is \$5,500. The dollar limit for catch-up contributions to an applicable employer plan described for individuals aged 50 or over remains at \$2,500.

- **SEPs**

The compensation limit (amount of compensation above which an employee who meets other requirements must be able to participate in the employer's SEP plan) remains at \$550.

- **SIMPLE accounts**

The maximum amount of compensation an employee may elect to defer for a

SIMPLE plan remains at \$11,500.

The following plan limits calculated **are increased**:

- ***Excess employee compensation for purposes of determining installment acceleration amounts***

The limit used to determine excess employee compensation for single-employer defined benefit plans for which the special election has been made is increased from \$1,014,000 to \$1,039,000.

- ***IRA and Roth IRA income limits***

- **Modified Adjusted Gross Income (MAGI) limits for making contributions to Roth IRAs.**

The maximum annual contribution which can be made to a Roth IRA is phased out for taxpayers with MAGI over certain levels for the tax year. For taxpayers filing joint returns, the otherwise allowable contributions to a Roth IRA will be phased out ratably for 2012 for MAGI between \$173,000 and \$183,000 (up from between \$169,000 and \$179,000 for 2011). For single taxpayers and heads of household, it will be phased out ratably for MAGI between \$110,000 and \$125,000 (up from \$107,000 and \$122,000 for 2011). For married taxpayers filing separate returns, the otherwise allowable contribution will continue to be phased out ratably for MAGI between \$0 and \$10,000 (same as for 2011).

- **MAGI limits for making deductible contributions by active plan participants to traditional IRAs.**

In general, an individual who isn't an active participant in certain employer-sponsored retirement plans, and whose spouse isn't an active participant, may make an annual deductible cash contribution to an IRA up to the lesser of: (1) a statutory dollar limit (for 2012, \$5,000, increased to \$6,000 for those age 50 or older), or (2) 100% of the compensation which is includible in gross income for that year. If the individual (or his spouse) is an active plan participant, the deduction phases out over a specified dollar range of MAGI.

For taxpayers filing joint returns, the otherwise allowable deductible contribution will be phased out ratably for 2012 for MAGI between \$92,000 and \$112,000 (up from \$90,000 and \$110,000 for 2011).

For 2012, for single taxpayers and heads of household, the otherwise allowable deductible contribution will be phased out ratably for MAGI between \$58,000 and \$68,000 (up from \$56,000 and \$66,000 for 2011). For married taxpayers filing separate returns, the otherwise allowable deductible contribution will continue to be phased out ratably for MAGI between \$0 and \$10,000 (same as for 2011).

For a married taxpayer who is not an active plan participant but whose spouse is such a participant, the otherwise allowable deductible contribution will be phased out ratably for 2012 for MAGI between \$173,000 and \$183,000 (up from between \$169,000 and \$179,000 for 2011).

■ **Saver's credit AGI amounts**

For tax years beginning in 2012, an eligible lower-income taxpayer can claim a non-refundable tax credit for the applicable percentage (50%, 20%, or 10%, depending on filing status and AGI) of up to \$2,000 of his qualified retirement savings contributions, as follows:

● **Joint filers:**

\$0 to \$34,500, 50%; \$34,500 to \$37,500, 20%; and \$37,500 to \$57,500, 10% (no credit if AGI is above \$57,500).

● **Heads of households:**

\$0 to \$25,875, 50%; \$25,875 to \$28,125, 20%; and \$28,125 to \$43,125, 10% (no credit if AGI is above \$43,125).

● **All other filers:**

\$0 to \$17,125, 50%; \$17,125 to \$18,750, 20%; and \$18,750 to \$28,750, 10% (no credit if AGI is above \$28,750).

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