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2012 DOLLAR LIMITS FOR RETIREMENT PLANS

The Internal Revenue Service (“IRS”) has announced cost-of-living adjustments to the dollar limits for tax-qualified retirement plans and individual retirement accounts, for calendar year 2012. The Internal Revenue Code (“Code”) imposes dollar limitations on benefits and contributions under tax-qualified retirement plans, and on contributions to individual retirement accounts. These limitations are adjusted annually to reflect cost-of-living increases, if any, pursuant to adjustment procedures which are similar to those used to adjust Social Security benefit amounts. 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.

Some of the more significant limitations for retirement plans, and for individual retirement accounts, are as follows:

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	2011	2012
Maximum Pre-tax Contribution by Employees to 401(k), 403(b) and 457(f) plans (without Catch-Up)	\$16,500	\$17,000
Maximum Pre-tax Catch-Up Contribution by Employees to 401(k), 403(b) and 457(e) plans	\$5,500	\$5,500
Defined Benefit Maximum	\$195,000	\$200,000*
Defined Contribution Maximum	\$49,000	\$50,000
Highly Compensated Employee Compensation	\$110,000	\$115,000
Includable Compensation Limit	\$245,000	\$250,000
Key Employee Compensation (for “top heavy” plans)	\$160,000	\$165,000
Maximum Individual Retirement Account Contribution (without Catch-Up)	\$5,000	\$5,000
Maximum Individual Retirement Account Catch-Up Contribution	\$1,000	\$1,000

**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.*

Additional highlights are as follows:

- 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.

Other dollar amounts and applicable adjustments, if any, are as follows:

- 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 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 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). These dollar amounts and applicable adjustments, if any, 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 \$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.

If you have any questions, please contact any member of our firm.

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