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## CLIENT ADVISORY

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### 2016 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 2016. 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, the retirement plan and individual retirement account limitations will not change for 2016 because the increase in the cost-of-living index did not meet the statutory thresholds that trigger their adjustment. However, other limitations will change because the increase in the index did meet the statutory thresholds. Some of the more significant limitations are as follows:

	2015	2016
Maximum Pre-tax Contribution by Employees to 401(k), 403(b) and 457(f) plans (without Catch-Up)	\$18,000	<b>\$18,000</b>
Maximum Pre-tax Catch-Up Contribution by Employees to 401(k), 403(b) and 457(e) plans	\$6,000	<b>\$6,000</b>
Defined Benefit Maximum*	\$210,000	<b>\$210,000</b>
Defined Contribution Maximum	\$53,000	<b>\$53,000</b>
Highly Compensated Employee Compensation	\$120,000	<b>\$120,000</b>
Includable Compensation Limit	\$265,000	<b>\$265,000</b>
Key Employee Compensation (for “top heavy” plans)	\$170,000	<b>\$170,000</b>
Maximum Individual Retirement Account Contribution (without Catch-Up)	\$5,500	<b>\$5,500</b>
Maximum Individual Retirement Account Catch-Up Contribution	\$1,000	<b>\$1,000</b>

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Below are details on other adjusted and unchanged 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 Secretary of the Treasury 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 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 2016 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 \$18,000.

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 \$1,070,000, while the dollar amount used to determine the lengthening of the 5-year distribution period remains unchanged at \$210,000.

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 \$395,000.

The compensation amount under Section 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$600.

The limitation under Section 408(p)(2)(E) regarding SIMPLE retirement accounts remains unchanged at \$12,500.

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 \$18,000.

The compensation amount under Section 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation remains unchanged at \$105,000. The compensation amount under Section 1.61-21(f)(5)(iii) remains unchanged at \$215,000.

The Code provides that the \$1,000,000,000 threshold used to determine whether a multiemployer plan is a systematically important plan under Section 432(e)(9)(H)(v)(III)(aa) is adjusted using the cost-of-living adjustment provided under Section 432(e)(9)(H)(v)(III)(bb). After taking the applicable rounding rule into account, the threshold used to determine whether a multiemployer plan is a systematically important plan under section 432(e)(9)(H)(v)(III)(aa) is increased in 2016 from \$1,000,000,000 to \$1,012,000,000.

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 2016 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 \$36,500 to \$37,000; the limitation under Section 25B(b)(1)(B) is increased from \$39,500 to \$40,000; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$61,000 to \$61,500.

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 \$27,375 to \$27,750; the limitation under Section 25B(b)(1)(B) is increased from \$29,625 to \$30,000; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$45,750 to \$46,125.

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 \$18,250 to \$18,500; the limitation under Section 25B(b)(1)(B) is increased from \$19,750 to \$20,000; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$30,500 to \$30,750.

The deductible amount under Section 219(b)(5)(A) for an individual making qualified retirement contributions remains unchanged at \$5,500.

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 \$98,000. The applicable dollar amount under Section 219(g)(3)(B)(ii) for all other taxpayers (other than married taxpayers filing separate returns) remains unchanged at \$61,000. The applicable dollar amount under Section 219(g)(3)(B)(iii) for a married individual filing a separate return is not subject to an annual cost-of-living adjustment and remains \$0. 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 \$183,000 to \$184,000.

The adjusted gross income limitation under Section 408A(c)(3)(B)(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 \$183,000 to \$184,000. The adjusted gross income limitation under Section 408A(c)(3)(B)(ii)(II) for all other taxpayers (other than married taxpayers filing separate returns) is increased from \$116,000 to \$117,000. The applicable dollar amount under Section 408A(c)(3)(B)(ii)(III) for a married individual filing a separate return is not subject to an annual cost-of-living adjustment and remains \$0.

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 \$1,101,000 to \$1,106,000.

\*For a participant who separated from service before January 1, 2016, the limitation for defined benefit plans under Section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2015, by 1.0011.

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

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