

Benefit Insights

IRS Increases 401(k) Contribution Limits



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THE IRS ANNOUNCED its retirement plan benefits and 401(k) contribution limits for 2020.

Below are some key changes for 2020:

- **Limit on annual benefit for defined benefit plans:** The limit on the annual benefit under a defined benefit plan increased from \$225,000 to \$230,000.
- **Limit on annual addition for defined contribution plans:** The limit for defined contribution plans increased from \$56,000 to \$57,000.
- **Limit on exclusion for elective deferrals:** The limit on elective salary deferrals into 401(k), 403(b), and 457 plans increased from \$19,000 to \$19,500.
- **Annual compensation limit:** The annual compensation limit under 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) increased from \$280,000 to \$285,000.
- **Key employees in top-heavy plans:** The dollar amount under 416(i)(1)(A)(i) concerning who is a “key employee” in a top-heavy plan increased from \$180,000 to \$185,000.
- **Highly compensated employees:** The limit used to define a “highly compensated employee” under 414(q)(1)(B) increased from \$125,000 to \$130,000.
- **Catch-up contributions:** The catch-up contribution limit for employees aged 50 and over in 401(k), 403(b), and 457(b) plans or a Simplified Employer Pension (SEP) increased from \$6,000 to \$6,500 for 2020. The dollar limit for catch-up contributions to an applicable employer plan described in 401(k)(11) or 408(p) for individuals aged 50 or over remains unchanged at \$3,000.
- **SIMPLE contribution limit:** The limit regarding SIMPLE retirement accounts increased from \$13,000 to \$13,500.
- **Deductible for qualified retirement contributions:** The deductible amount for an individual making qualified retirement contributions remains at \$6,000.

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Additional changes:

- **Maximum account balance in employee stock ownership:** The amount under 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period increased from \$1,130,000 to \$1,150,000. The dollar amount used to determine the lengthening of the 5-year distribution period increased from \$225,000 to \$230,000.
- **Governmental plans:** The annual compensation limit for eligible participants in certain governmental plans increased from \$415,000 to \$425,000.
- **Simplified employee pensions:** The compensation amount for simplified employee pensions (SEPs) was unchanged at \$600.
- **Gratuitous transfer of securities:** The limit on the qualified gratuitous transfer of qualified employer securities to an employee stock ownership plan remains at \$50,000.
- **Control employees for fringe benefits:** The compensation amount under § 1.61-21(f)(5)(i) for defining a “control employee” for fringe benefit valuation purposes increased from \$110,000 to \$115,000. The compensation amount under § 1.61-21(f)(5)(iii) increased from \$225,000 to \$230,000.
- **Limits on longevity annuity contract premiums:** The dollar limit on premiums paid with respect to a qualifying longevity annuity contract under § 1.401(a)(9)-6, A-17(b)(2)(i) increased from \$130,000 to \$135,000.
- **Threshold for systemically important multiemployer plans:** The threshold used to determine whether a multiemployer plan is systemically important under 432(e)(9)(H)(v)(III)(aa) increased from \$1,097,000,000 to \$1,135,000,000.

Retirement savings contribution limits:

- **Married taxpayers filing jointly:** The adjusted gross income limit under 25B(b)(1)(A) for determining the retirement savings contributions credit for married taxpayers filing a joint return increased from \$38,500 to \$39,000. The limit under 25B(b)(1)(B) increased from \$41,500 to \$42,500, and the limit under 25B(b)(1)(C) and 25B(b)(1)(D) increased from \$64,000 to \$65,000.
- **Head of household:** The adjusted gross income limit under 25B(b)(1)(A) for determining the retirement savings contributions credit for taxpayers filing as head of household increased from \$28,875 to \$29,250. The limit under 25B(b)(1)(B) increased from \$31,125 to \$31,875, and the limit under 25B(b)(1)(C) and 25B(b)(1)(D) increased from \$48,000 to \$48,750.
- **All other taxpayers:** The adjusted gross income limit under 25B(b)(1)(A) for determining the retirement savings contributions credit for all other taxpayers increased from \$19,250 to \$19,500. The limit under 25B(b)(1)(B) increased from \$20,750 to \$21,250, and the limit under 25B(b)(1)(C) and 25B(b)(1)(D) increased from \$32,000 to \$32,500.

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Phase-out Ranges

The IRS increased the income ranges for eligibility to make deductible contributions to traditional IRAs, Roth IRAs contributions, and to claim the Saver's Credit.

IRA

- **Single and head of household:** For single or a head of household taxpayers covered by a workplace retirement plan, the phase-out range is \$65,000-\$75,000, up from \$64,000-\$74,000.
- **Married taxpayers with covered spouse:** For married couples filing jointly, where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is \$104,000-\$124,000, up from \$103,000-\$123,000.
- **Married taxpayers not covered:** For an IRA contributor who is not covered under a workplace plan and is married to someone who is covered, the phase-out range is \$196,000-\$206,000, increased from \$193,000-\$203,000.
- **Married taxpayer filing separately:** For a married individual filing a separate return, the phase-out range is not subject to an adjustment and remains \$0 to \$10,000.

Roth IRA

- **Single and heads of household:** For single taxpayers and heads of household, the income phase-out range is \$124,000-\$139,000, up from \$122,000-\$137,000.
- **Married couples filing jointly:** For married couples filing jointly, the adjusted gross income phase-out range for taxpayers making contributions to a Roth IRA increased from \$193,000-\$203,000 to \$196,000-\$206,000.
- **Married filing separately:** For a married individual filing a separate return, the phase-out range is not subject to an adjustment and remains \$0 to \$10,000.

Saver's Credit

- **Married filing jointly:** The adjusted gross income limit for married taxpayers filing jointly is \$65,000.
- **Single and heads of household:** The adjusted gross income limit for single taxpayers and heads of household is \$48,750.
- **Married filing separately:** The adjusted gross income limit for married taxpayers filing separately is \$32,500.

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