

2010 Cost of Living Adjustments

On October 15, 2009, the Internal Revenue Service released Information Release 2009-94, announcing cost-of-living adjustments applicable to dollar limitations for pension plans and other items for tax year 2010. The IRS announcement covers the increased dollar limits due to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), as well as cost of living adjustments to dollar limits not addressed by EGTRRA.

The 2010 dollar limits are as follows:

<u>Limit</u>	<u>2009</u>	<u>2010</u>
<p>401(k)/403(b)/Existing SARSEP Elective Deferral Limit The limitation on cumulative elective deferrals to a 401(k), 403(b) tax deferred annuity and simplified employee pension in a tax year as coordinated under Internal Revenue Code (IRC) Section 402(g)(1).</p>	\$16,500	\$16,500
<p>SIMPLE Retirement Accounts Compensation taken into account that an employee may elect to defer under a SIMPLE retirement plan described in IRC Section 408(p)(2).</p>	\$11,500	\$11,500
<p>Traditional or Roth IRA Contributions The lesser of 100% of earned income or the year's applicable dollar limit.</p>	\$5,000	\$5,000
<p>Simplified Employee Pensions (SEPs) and Keogh Plans The contribution limit for the self-employed and on behalf of their employees and Keogh plans for the self-employed is the lesser of 25% of compensation or the year's applicable dollar limit.</p>	\$49,000	\$49,000
<p>457 Deferral Limits The limitation on deferrals to 457 plans under IRC Section 457(e)(15). EGTRRA amended this contribution limitation under an eligible 457 deferred compensation plan to be the lesser of 100% of includible compensation or the year's applicable dollar limit.</p>	\$16,500	\$16,500
<p>Defined Contribution Plan 415 Dollar Limit The dollar limitation for annual additions under defined contribution plans under IRC Section 415(c)(1)(A). EGTRRA amended this limitation on annual additions, which is the lesser of \$40,000 (as adjusted for inflation) or 100% of compensation.</p>	\$49,000	\$49,000
<p>Defined Benefit Plans The maximum dollar limitation for annual benefits under defined benefit plans under IRC Section 415(b)(1)(A). EGTRRA amended this limitation for annual benefits to the lesser of \$160,000 (as adjusted for inflation) or 100% of the participant's average compensation for his high 3 years.</p>	\$195,000	\$195,000
<p>Age 50+ Catch-up Limits for 401(k), 403(b), and Governmental 457 Plans The special catch-up available for individuals at least 50 years old in the respective calendar year and make eligible pre-tax contributions to 401(k), 403(b) and governmental 457 plans.</p>	\$5,500	\$5,500
<p>Age 50+ Catch-up Limits for SIMPLE Plans The special catch-up is available for individuals who are at least 50 years old in the respective calendar year and make eligible pre-tax contributions to a SIMPLE plan.</p>	\$2,500	\$2,500

Age 50+ Catch-up Limits for IRA's	\$1,000	\$1,000
The special catch-up is available for individuals who are at least 50 years old in the respective calendar year and make contributions to Traditional or Roth IRAs.		
403(b) Catch-up Limit	\$3,000	\$3,000
The special catch-up election for eligible employees participating in a 403(b) tax deferred annuity who have had at least 15 years of service with an educational organization, hospital, home health agency, health and welfare service agency, church or convention or association of churches.		
<i>Note: This additional 403(b) catch-up of up to \$3,000 per year cannot exceed cumulatively \$15,000 over the lifetime of the 403(b) participant per IRC Section 402(g)(7).</i>		
457 Catch-up Limit	\$16,500	\$16,500
The special catch-up election for employees participating in an eligible 457 deferred compensation who have elected the special catch-up available in the three years prior to the year of normal retirement age for a total contribution double the annual maximum.		
<i>Note: This limit is not available if the participant is currently using age 50+ catch-up limit.</i>		
Compensation Limit for Nongovernmental Plan Sponsors	\$245,000	\$245,000
The annual limit of compensation that may be taken into account for contribution purposes in accordance with IRC Section 401(a)(17).		
Compensation Limit for Governmental Plan Sponsors	\$360,000	\$360,000
The annual limit of compensation that may be taken into account for contribution purposes in accordance with IRC Section 401(a)(17).		
Compensation for SEPs	\$550	\$550
Compensation taken into account to determine eligibility for simplified employee pensions (SEPs).		
Definition of Key Employee		
The compensation threshold used for determining key employees under IRC Section 416(i)(1)(B)		
• More than 5% owners	\$1	\$1
• Officers	\$160,000	\$160,000
• More than 1% owners	\$150,000	\$150,000
Definition of Highly Compensated Employees		
The compensation threshold used for determining highly compensated employees under IRC Section 414(q)(1)(B).		
	\$110,000	\$110,000
The Social Security Administration also released its cost of living adjustments.		
Taxable Wage Base		
Maximum amount of earnings subject to payroll tax.	\$106,800	\$106,800

This material was created to provide accurate and reliable information on the subjects covered. It is not intended to provide specific legal, tax or other professional advice. The services of an appropriate professional should be sought regarding your individual situation.

Disclosure:

These materials are not intended to be used to avoid tax penalties and were prepared to support the promotion or marketing of the matters addressed in this document. The taxpayer should seek advice from an independent tax advisor.