



Tax Reduction Letter

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IR-2016-141

IRS Announces 2017 Pension Plan Limitations; 401(k) Contribution Limit Remains Unchanged at \$18,000 for 2017

WASHINGTON — The Internal Revenue Service today announced cost-of-living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2017.

The IRS today issued technical guidance detailing these items in Notice 2016-62.

Highlights of changes for 2017

The income ranges for determining eligibility to make deductible contributions to traditional Individual Retirement Arrangements (IRAs), to contribute to Roth IRAs, and to claim the saver's credit all increased for 2017.

Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. If during the year either the taxpayer or their spouse was covered by a retirement plan at work, the deduction may be reduced, or phased out, until it is eliminated, depending on filing status and income. (If neither the taxpayer nor their spouse is covered by a retirement plan at work, the phase-outs of the deduction do not apply.) Here are the phase-out ranges for 2017:

For single taxpayers covered by a workplace retirement plan, the phase-out range is \$62,000 to \$72,000, up from \$61,000 to \$71,000.

For married couples filing jointly, where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is \$99,000 to \$119,000, up from \$98,000 to \$118,000.

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 \$186,000 and \$196,000, up from \$184,000 and \$194,000.

For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.

The income phase-out range for taxpayers making contributions to a Roth IRA is \$118,000 to \$133,000 for singles and heads of household, up from \$117,000 to \$132,000. For married couples filing jointly, the income phase-out range is \$186,000 to \$196,000, up from \$184,000 to \$194,000. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.

The income limit for the saver's credit (also known as the retirement savings contributions credit) for low- and moderate-income workers is \$62,000 for married couples filing jointly, up from \$61,500; \$46,500 for heads of household, up from \$46,125; and \$31,000 for singles and married individuals filing separately, up from \$30,750.

Highlights of limitations that remain unchanged from 2016

The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains unchanged at \$18,000.

The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains unchanged at \$6,000.

The limit on annual contributions to an IRA remains unchanged at \$5,500. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains \$1,000.

Detailed description of adjusted and unchanged limitations

Section 415 of the Internal Revenue Code (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 following adjustment procedures similar to those used to adjust benefit amounts under Section 215(i)(2)(A) of the Social Security Act.

Effective January 1, 2017, the limitation on the annual benefit under a defined benefit plan under Section 415(b)(1)(A) is increased from \$210,000 to \$215,000. For a participant who separated from service before January 1, 2017, the limitation for defined benefit plans under Section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2016, by 1.0112.

The limitation for defined contribution plans under Section 415(c)(1)(A) is increased in 2017 from \$53,000 to \$54,000.

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 2017 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 annual compensation limit under Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) is increased from \$265,000 to \$270,000.

The dollar limitation under Section 416(i)(1)(A)(i) concerning the definition of key employee in a top-heavy plan is increased from \$170,000 to \$175,000.

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 is increased from \$1,070,000 to \$1,080,000, while the dollar amount used to determine the lengthening of the 5-year distribution period is increased from \$210,000 to \$215,000.

The limitation used in the definition of highly compensated employee under Section 414(q)(1)(B) remains unchanged at \$120,000.

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 \$6,000. 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 \$3,000.

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, is increased from \$395,000 to \$400,000.

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 limitation under Section 664(g)(7) concerning the qualified gratuitous transfer of qualified employer securities to an employee stock ownership plan remains unchanged at \$45,000.

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 dollar limitation on premiums paid with respect to a qualifying longevity annuity contract under Section 1.401(a)(9)-6, A-17(b)(2)(i) of the Income Tax Regulations remains unchanged at \$125,000.

The Code provides that the \$1,000,000,000 threshold used to determine whether a multiemployer plan is a systemically 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 systemically important plan under Section 432(e)(9)(H)(v)(III)(aa) remains unchanged for 2017 at \$1,012,000,000.

The Code also provides that several retirement-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 2017 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 remains unchanged at \$37,000; the limitation under Section 25B(b)(1)(B) remains unchanged at \$40,000; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$61,500 to \$62,000.

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 remains unchanged at \$27,750; the limitation under Section 25B(b)(1)(B) remains unchanged at \$30,000; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$46,125 to \$46,500.

The adjusted gross income limitation under Section 25B(b)(1)(A) for determining the retirement savings contribution credit for all other taxpayers remains unchanged at \$18,500; the limitation under Section 25B(b)(1)(B) remains unchanged at \$20,000; and the limitation under Sections 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$30,750 to \$31,000.

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) increased from \$98,000 to \$99,000. The applicable dollar amount under Section 219(g)(3)(B)(ii) for all other taxpayers who are active participants (other than married taxpayers filing separate returns) increased from \$61,000 to \$62,000. If an individual or the individual's spouse is an active participant, 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 \$184,000 to \$186,000.

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 \$184,000 to \$186,000. 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 \$117,000 to \$118,000. 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 \$1,106,000 to \$1,115,000.