

IRS RELEASES 2010 COLA LIMITS

Each fall, retirement plan professionals await the annual Internal Revenue Service (IRS) cost-of-living adjustments (COLAs) in preparation for the next tax year. These annual adjustments keep retirement plan limits from falling behind in terms of economic value. COLAs impact numerous aspects of retirement plan operations - from contribution and deduction limits to nondiscrimination testing. The 2010 tax year adjustments were released in the form of An IRS News Release on October 15, 2009 (IR-2009-94). Most of the 2010 COLA amounts remained the same as the previous year and are listed in the chart below.

In addition to the COLA increases listed in the chart, a number of other adjustments relating to Savers Credits, Deductible IRA contributions, Roth IRA contribution eligibility will be of interest to financial professionals. These changes are summarized following the chart.

Now that the COLA limits for 2010 are available, retirement plan professionals should review their plan and participant communications to ensure any reference to the amounts listed below are properly applied (e.g., enrollment kits, marketing brochures, transaction forms, etc.). This is also a good time to confirm that organizations providing service to your clients' retirement arrangements will have any adjustments completed before the start of the next tax year.

The IRS reminds qualified plan sponsors that they should not seek a new determination letter for plan amendments made solely to adjust plan limits for the 2010 COLAs.

COLA Increases 2006-2010

Code Section	2010	2009	2008	2007	2006
Annual Compensation Limit Sec. 401(a)(17) Sec. 404(l)	245,000	245,000	230,000	225,000	220,000
Elective Deferrals Sec. 402(g)(1)	16,500	16,500	15,500	15,500	15,000
SEP Minimum Compensation Sec. 408(k)(2)(C)	550	550	500	500	450
SEP Maximum Compensation 408(k)(3)(C)	245,000	245,000	230,000	225,000	220,000
SIMPLE Maximum Contributions Sec. 408(p)(2)(E)	11,500	11,500	10,500	10,500	10,000

ESOP Limits	985,000	985,000	935,000	915,000	885,000
Sec. 409(o)(1)(C)	195,000	195,000	185,000	180,000	175,000
HCE Threshold	110,000	110,000	105,000	100,000	100,000
Sec. 414(q)(1)(B)					
Catch-up Contributions – Employer Plans	5,500	5,500	5,000	5,000	5,000
Sec. 414(v)(2)(B)(i)					
Age 50 Catch-up Contributions – SIMPLE Plans	2,500	2,500	2,500	2,500	2,500
Sec. 414(v)(2)(B)(ii)					
Annual Benefit Limit - Defined Benefit Plan	195,000	195,000	185,000	180,000	175,000
Sec. 415(b)(1)(A)					
Annual Additions – Defined Contribution	49,000	49,000	46,000	45,000	44,000
Sec. 415(c)(1)(A)					
Key Employee	160,000	160,000	150,000	145,000	140,000
Sec. 416(i)(1)(A)(i)					
Deferral Limits – State/Local Government & Tax Exempt Plans	16,500	16,500	15,500	15,500	15,000
Sec. 457(e)(15)					
Control Employee – Fringe Benefits	95,000	95,000	90,000	90,000	85,000
Sec. 1.61-21(f)(5)(i)					
Control Employee – Fringe Benefits	195,000	195,000	185,000	180,000	175,000
Sec. 1.61-21(f)(5)(iii)					
Taxable Wage Base	106,800	106,800	102,000	97,500	94,200

Savers Credit for Retirement Savings Contributions

The earnings threshold for low to moderate income Americans eligible for tax savings for retirement contributions were increased to

- Married individuals filing separately and single individuals with adjusted gross (AGI) incomes (AGIs) up to \$27,750 (remains unchanged for 2010)
- Married couples, filing jointly with AGIs up to \$55,500 (remains unchanged for 2010)
- Head of household with AGIs up to \$41,625 (remains unchanged for 2010).

The maximum credit remains at \$1,000 (\$2,000 if filing jointly).

Deductible IRA Earnings Limit – Code Sec. 219(g)(3)(B)(i)

The maximum adjusted gross income (AGI) for married individuals filing jointly who are active participants in a retirement arrangement and wish to make a deductible IRA contribution in 2010 remains unchanged at \$89,000. For other taxpayers (other than married taxpayers filing separate returns), the limit is \$56,000 (increased from \$55,000 in 2009).

Roth IRA Earnings Limit – Code Sec. 408A(c)(3)(C)(ii)(I)

The maximum adjusted gross income (AGI) for married individuals filing jointly that wish to make a Roth IRA contribution in 2010 is \$167,000 (increased from \$166,000 in 2009). For other taxpayers (other than married taxpayers filing separate returns) the limit remains unchanged at \$105,000.
