

# HR-E Alert

## IRS Announces Pension Plan Limitations for 2006

October 14, 2005

The Internal Revenue Service today announced cost-of-living adjustments applicable to dollar limitations on benefits and contributions to qualified retirement plans and other items for tax year 2006 under Section 415 of the Internal Revenue Code.

### Cost-of-Living limits for 2006

Effective January 1, 2006, the limitation on the annual benefit under a defined benefit plan under Section 415(b)(1)(A) is increased from \$170,000 to \$175,000. For participants who separated from service before January 1, 2006, the limitation for defined benefit plans under section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2005, by 1.0383.

The limitation for defined contribution plans under section 415(c)(1)(A) is increased from \$42,000 to \$44,000.

The Internal Revenue 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). These dollar amounts and the adjusted amounts are as follows:

The annual compensation limit under Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) is increased from \$210,000 to \$220,000.

The dollar limitation under Section 416(i)(1)(A)(i) concerning the definition of key employee in a top-heavy plan is increased from \$135,000 to \$140,000.

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 \$850,000 to \$885,000, while the dollar amount used to determine the lengthening of the 5-year distribution period is increased from \$170,000 to \$175,000.

The limitation used in the definition of highly compensated employee under Section 414(q)(1)(B) is increased from \$95,000 to \$100,000.

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 \$315,000 to \$325,000.

The compensation amount under Section 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$450.

The compensation amounts under Section 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation purposes remains unchanged at \$85,000. The compensation amount under Section 1.61-21(f)(5)(iii) is increased from \$170,000 to \$175,000.

The limitation under Section 408(p)(2)(E) regarding SIMPLE retirement accounts remains unchanged at \$10,000.

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### **Qualified Plan Limitations Adjustments Required By EGTRRA**

The Code, as amended by the Economic Growth and Tax Relief Act of 2001 (EGTRRA), specifies the applicable dollar amount for a particular year for certain limitations. These applicable dollar amounts are as follows:

The limitation under Section 402(g)(1) on the exclusion for elective deferrals described in Section 402(g)(3) is increased from \$14,000 to \$15,000.

The limitation on deferrals under Section 457(e)(15) concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from \$14,000 to \$15,000.

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 408(p) for individuals aged 50 or over is increased from \$4,000 to \$5,000. 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 408(p) for individuals aged 50 or over is increased from \$2,000 to \$2,500.

### **Other Developments and Information**

In addition to its announcement of the 2006 qualified plan limits, the Department of Treasury also has published various other pieces of guidance affecting employment, employee benefit, and fringe benefit tax guidance recently. For example, on October 11, 2005, the Internal Revenue Service published proposed rules providing guidance on employer comparable contributions to Health Savings Accounts (HSAs). Other recent developments include guidance concerning guidance about special employee benefit plan relief and guidance relating to the Gulf Coast Hurricanes Katrina and Rita. If you have questions about this or other concerns relating to your human resources, employee benefit, insurance or other operations, or to request information about upcoming programs or alerts, please contact: Cynthia Marcotte Stamer, P.C., Member, Glast, Phillips & Murray, P.C., 2200 One Galleria Tower, 13355 Noel Road, LB 48, Dallas, Texas 75240. Telephone (972) 419-7188. E-mail [cstamer@gpm-law.com](mailto:cstamer@gpm-law.com).

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