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# Torrillo & Associates

Benefit Plan Audit Specialists

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**401(k) Contribution Limit  
Increases to \$19,500 for  
2020; Catch-Up Limit Rises to  
\$6,500**



The Internal Revenue Service announced that employees in 401(k) plans will be able to contribute up to \$19,500 next year. The IRS announced this contribution limit and other changes in [Notice 2019-59](#), posted on IRS.gov. This guidance provides cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2020.

### Highlights of changes for 2020

The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased [from \\$19,000](#) to \$19,500.

The catch-up contribution limit for employees aged 50 and over who participate in these plans is increased from \$6,000 to \$6,500.

The contribution limit regarding SIMPLE retirement accounts for 2020 is increased to \$13,500, up from \$13,000 for 2019.

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 2020.

Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. If during the year either the taxpayer or his or her 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 his or her 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 2020:

- For single taxpayers covered by a workplace retirement plan, the phase-out range is \$65,000 to \$75,000, up from \$64,000 to \$74,000.
- For married couples filing jointly, where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is \$104,000 to \$124,000, up from \$103,000 to \$123,000.
- 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 \$196,000 and \$206,000, up from \$193,000 and \$203,000.

- 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 \$124,000 to \$139,000 for singles and heads of household, up from \$122,000 to \$137,000. For married couples filing jointly, the income phase-out range is \$196,000 to \$206,000, up from \$193,000 to \$203,000. 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 \$65,000 for married couples filing jointly, up from \$64,000; \$48,750 for heads of household, up from \$48,000; and \$32,500 for singles and married individuals filing separately, up from \$32,000.

### **Highlights of Limitations that Remain Unchanged from 2019**

The contribution limit on annual contributions to an IRA remains unchanged at \$6,000. 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 (the 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 § 415. Under § 415(d), the adjustments are to be made under adjustment procedures similar to those used to adjust benefit amounts under § 215(i)(2)(A) of the Social Security Act.

### **Cost-of-Living Adjusted Limits for 2020**

Effective January 1, 2020, the limitation on the annual benefit under a defined benefit plan under § 415(b)(1)(A) is increased from \$225,000 to \$230,000. For a participant who separated from service before January 1, 2020, the participant's limitation under a defined benefit plan under § 415(b)(1)(B) is computed by multiplying the participant's compensation

limitation, as adjusted through 2019, by 1.0176.

**The contribution limit for defined contribution plans under § 415(c)(1)(A) is increased in 2020 from \$56,000 to \$57,000.**

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 § 415(b)(1)(A). After taking into account the applicable rounding rules, the amounts for 2020 are as follows:

**The limitation under § 402(g)(1) on the exclusion for elective deferrals described in § 402(g)(3) is increased from \$19,000 to \$19,500.**

**The annual compensation limit under §§ 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) is increased from \$280,000 to \$285,000.**

The dollar limitation under § 416(i)(1)(A)(i) concerning the definition of “key employee” in a top-heavy plan is increased from \$180,000 to \$185,000.

The dollar 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 is increased from \$1,130,000 to \$1,150,000, while the dollar amount used to determine the lengthening of the 5-year distribution period is increased from \$225,000 to \$230,000.

The limitation used in the definition of “highly compensated employee” under § 414(q)(1)(B) is increased from \$125,000 to \$130,000.

**The dollar limitation under § 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in § 401(k)(11) or § 408(p) for individuals aged 50 or over is increased from \$6,000 to \$6,500. The dollar limitation under § 414(v)(2)(B)(ii) 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.**

The annual compensation limitation under § 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 § 401(a)(17) to be taken into account, is

increased from \$415,000 to \$425,000.

The compensation amount under § 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$600.

The limitation under § 408(p)(2)(E) regarding SIMPLE retirement accounts is increased from \$13,000 to \$13,500.

The limitation on deferrals under § 457(e)(15) concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from \$19,000 to \$19,500.

The limitation under § 664(g)(7) concerning the qualified gratuitous transfer of qualified employer securities to an employee stock ownership plan remains unchanged at \$50,000.

The compensation amount under § 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of “control employee” for fringe benefit valuation purposes is increased from \$110,000 to \$115,000. The compensation amount under § 1.61-21(f)(5)(iii) is increased from \$225,000 to \$230,000.

The dollar limitation on premiums paid with respect to a qualifying longevity annuity contract under § 1.401(a)(9)-6, A-17(b)(2)(i) of the Income Tax Regulations is increased from \$130,000 to \$135,000.<sup>1</sup>

The Code provides that the \$1,000,000,000 threshold used to determine whether a multiemployer plan is a systemically important plan under § 432(e)(9)(H)(v)(III)(aa) is adjusted using the cost-of-living adjustment provided under § 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 § 432(e)(9)(H)(v)(III)(aa) is increased from \$1,097,000,000 to \$1,135,000,000.

The Code also provides that several retirement-related amounts are to be adjusted using the cost-of-living adjustment under § 1(f)(3). After taking the applicable rounding rules into account, the amounts for 2020 are as follows:

The adjusted gross income limitation under § 25B(b)(1)(A) for determining

the retirement savings contributions credit for married taxpayers filing a joint return is increased from \$38,500 to \$39,000; the limitation under § 25B(b)(1)(B) is increased from \$41,500 to \$42,500; and the limitation under §§ 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$64,000 to \$65,000.

The adjusted gross income limitation under § 25B(b)(1)(A) for determining the retirement savings contributions credit for taxpayers filing as head of household is increased from \$28,875 to \$29,250; the limitation under § 25B(b)(1)(B) is increased from \$31,125 to \$31,875; and the limitation under §§ 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$48,000 to \$48,750.

The adjusted gross income limitation under § 25B(b)(1)(A) for determining the retirement savings contributions credit for all other taxpayers is increased from \$19,250 to \$19,500; the limitation under § 25B(b)(1)(B) is increased from \$20,750 to \$21,250; and the limitation under §§ 25B(b)(1)(C) and 25B(b)(1)(D) is increased from \$32,000 to \$32,500.

The deductible amount under § 219(b)(5)(A) for an individual making qualified retirement contributions remains unchanged at \$6,000.

The applicable dollar amount under § 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) is increased from \$103,000 to \$104,000. The applicable dollar amount under § 219(g)(3)(B)(ii) for all other taxpayers who are active participants (other than married taxpayers filing separate returns) is increased from \$64,000 to \$65,000. If an individual or the individual's spouse is an active participant, the applicable dollar amount under § 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 § 219(g)(7)(A) for a taxpayer who is not an active participant but whose spouse is an active participant is increased from \$193,000 to \$196,000.

Accordingly, under § 219(g)(2)(A), the deduction for taxpayers making contributions to a traditional IRA is phased out for single individuals and heads of household who are active participants in a qualified plan (or another retirement plan specified in § 219(g)(5)) and have adjusted gross incomes (as defined in § 219(g)(3)(A)) between \$65,000 and \$75,000, increased

from between \$64,000 and \$74,000.

For married couples filing jointly, if the spouse who makes the IRA contribution is an active participant, the income phase-out range is between \$104,000 and \$124,000, increased from between \$103,000 and \$123,000. For an IRA contributor who is not an active participant and is married to someone who is an active participant, the deduction is phased out if the couple's income is between \$196,000 and \$206,000, increased from between \$193,000 and \$203,000. For a married individual filing a separate return who is an active participant, the phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.

The adjusted gross income limitation under § 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 \$193,000 to \$196,000. The adjusted gross income limitation under § 408A(c)(3)(B)(ii)(II) for all other taxpayers (other than married taxpayers filing separate returns) is increased from \$122,000 to \$124,000. The applicable dollar amount under § 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.



Accordingly, under § 408A(c)(3)(A), the adjusted gross income phase-out range for taxpayers making contributions to a Roth IRA is \$196,000 to \$206,000 for married couples filing jointly, increased from \$193,000 to \$203,000. For singles and heads of household, the income phase-out range is \$124,000 to \$139,000, increased from \$122,000 to \$137,000. For a married individual filing a separate return, the phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.



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## Who We Are

Torrillo & Associates, LLC specializes in employee benefit plan audits including 401k audits, 403b audits, pension plan audits, and other retirement plan audits. We are licensed in 10 states including Pennsylvania, New Jersey, Delaware, New York and Florida. We are also able to practice in additional states that have passed firm mobility.

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