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RETIREMENT PLAN/IRA CONTRIBUTION LIMITATIONS  

November 14, 2012  
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(NOTE: A Saver’s Credit under Section 25B – a maximum of $1,000 – may be available to an individual whose AGI does not exceed $57,500 (for 2012) or $59,000 (for 2013), or a lesser amount if not married filing jointly, and who contributes elective contributions to an IRA, SIMPLE IRA, SARSEP, or 401(k) Plan.)

A. Individual Retirement Vehicles (The deadline to open and contribute to an IRA or a Roth IRA for 2012 will be April 15, 2013.)

- Individual Retirement Account/Annuity (Sections 219 and 408)
  1. Basic Dollar Limitation: $5,000 in 2012; $5,500 – in 2013
  2. Age 50 or Over Catch-up Amount: $1,000 – in 2012 and 2013
  3. Cannot exceed taxpayer’s compensation includible in income, and cannot be made by taxpayer age 70-1/2 by year-end.
  4. Limits may be lower if taxpayer is covered by another qualified plan (including a SEP or a SIMPLE IRA). Then:

    MARRIED FILING JOINTLY: The deductions phase out once AGI goes over $80,000 (as adjusted for increases in the cost of living).

    - Phase-out Range: $92,000 to $112,000 – in 2012
    - Phase-out Range: $95,000 to $115,000 – in 2013

    Exception: If taxpayer does not participate but his spouse does, the deduction is phased out as couple’s joint AGI rises from $173,000 to $183,000 (in 2012) and from $178,000 to $188,000 (in 2013).

    SINGLE TAXPAYERS AND HEAD OF HOUSEHOLD: The deductions phase out once AGI goes over $50,000 (as adjusted for increases in the cost of living).
Phase-out Range: $58,000 to $68,000 – in 2012
Phase-out Range: $59,000 to $69,000 – in 2013

**MARRIED FILING SEPARATELY:** The deductions phase out once AGI goes over 0 (same cutback if married and only spouse participates).

Phase-out Range: $0 to $10,000 – in 2012 and 2013

5 Spousal IRAs are allowed where only one spouse works. A married taxpayer who files a joint return can contribute to an IRA covering his nonworking spouse. In effect:

- an additional contribution of $5,000 (in 2012) or $5,500 (in 2013) is available,
- provided there is sufficient compensation and the phase-out limits do not apply.

6. Nondeductible contributions to an IRA can be made (Section 408(o)):

- to the extent the AGI limitations reduce the deductible amount, or
- if a taxpayer elects to treat an otherwise deductible contribution as nondeductible.

- **Roth IRA (Section 408A)**

1. Basic Dollar Limitation: $5,000 – in 2012; $5,500 – in 2013

2. Age 50 or Over Catch-up Amount: $1,000 – in 2012 and 2013

3. Cannot exceed taxpayer’s compensation includible in income.

4. There is also a limit based on AGI (applicable even if taxpayer or spouse do not participate in another qualified plan):

**MARRIED FILING JOINTLY:** The deductions phase out once AGI goes over $150,000 (as adjusted for increases in the cost of living).

Phase-out Range: $173,000 to $183,000 – in 2012
Phase-out Range: $178,000 to $188,000 – in 2013

**SINGLE TAXPAYERS AND HEAD OF HOUSEHOLD:** The deductions phase out once AGI goes over $95,000 (as adjusted for increases in the cost of living).
Phase-out Range: $110,000 to $125,000 – in 2012
Phase-out Range: $112,000 to $127,000 – in 2013

_MARRIED FILING SEPARATELY_: The deductions phase out once AGI goes over 0.

Phase-out Range: $0 to $10,000 – in 2012 and 2013

5. Spousal Roth IRAs are allowed and generally double the contribution limitations.

6. If the limits are used under an IRA, they cannot be used for a Roth IRA.

B. **Employer Sponsored Vehicles: Basic Salary Reduction Limitations**

(These salary reduction opportunities are available for 2013 -- except that, in general, action under a SIMPLE IRA or SIMPLE 401(k) Plan is required during the last 60 days of 2012.)

- **SIMPLE IRA (Section 408(p)) – Not an ERISA Plan; Employer Contributions Required**

  (These are for employers with not more than 100 employees who earned at least $5,000 in the prior year, and which do not maintain another qualified plan, including a SEP.)

  **S I M P L E = Savings Incentive Match Plan for Employees**

  1. Basic Dollar Limitation: $11,500 – in 2012; $12,000 – in 2012

  2. Age 50 or Over Catch-up Amount: $2,500 – in 2012 and 2013

  3. Does not preclude contributions to a Roth IRA.

- **Grandfathered Salary Reduction Simplified Employee Pensions -- SARSEP (Section 408(k)) – Not an ERISA Plan; Employer Contributions Required**

  1. Basic Dollar Limitation: $17,000 – in 2012; $17,500 – in 2013

  2. Age 50 or Over Catch-up Amount: $5,500 – in 2012 and 2013

  3. No salary reduction contributions are permitted if there were more than 25 eligible employees in the prior year.

  4. SARSEPs, 401(k) Plans and 403(b) Plans share the limits (Sections 402(g) and 414(v)).
5. Does not preclude contributions to a Roth IRA.

- **Section 401(k) Plans (including SIMPLE 401(k) Plans)** – Employer Contributions may be Required
  
  1. Basic Dollar Limitation: $17,000 – in 2012; $17,500 – in 2013

   UNLESS: A SIMPLE 401(k) plan is adopted; then the limit is like the SIMPLE IRA limit ($11,500 in 2012; $12,000 in 2013).

  2. Age 50 or Over Catch-up Amount: $5,500 – in 2012 and 2013

   UNLESS: A SIMPLE 401(k) plan is adopted; then the limit is like the SIMPLE IRA limit ($2,500 in 2012 and 2013).

  3. The limitations must be shared with other salary reduction programs.

  4. Employers may permit employee to make post-tax Roth contributions instead of pre-tax contributions.

**C. Employer Sponsored Vehicles: General Contribution Limitations**

New 2012 calendar year plans cannot be established after 2012, but discretionary contributions to existing plans may be made by due date of employer’s tax return for 2012. *(A small employer credit for start-up costs may be available under Section 45E; to an employer eligible to establish a SIMPLE IRA.)*

- **SIMPLE IRA (Section 408(p))** – Not an ERISA Plan

  1. Employer must match non-catch-up employee contributions (the basic limitation is up to 3% of compensation, but it can go as low as 1% in two out of five years), OR

  2. Employer must make a non-elective contribution of 2% of compensation for employees earning at least $5,000.

  3. Compensation in excess of $200,000, adjusted for increases in the cost of living, cannot be taken into account when determining the 2% contribution, but it must be taken into account under the 3% option.

    CURRENT LIMIT: $250,000 – in 2012; $255,000 – in 2013

- **Simplified Employee Pensions and Grandfathered Salary Reduction Simplified Employee Pensions – SEPs and SARSEPs (Section 408(k))** – Not ERISA Plans
1. Contributions cannot discriminate in favor of the high paid. They go to individual IRAs.

2. Plan must cover each employee who is age 21, was employed during at least 3 of prior 5 years, and earns at least $550 (in 2012 and 2013).

3. Benefits are based on compensation up to $200,000 (adjusted for increases in the cost of living).

   CURRENT LIMIT: $250,000 – in 2012; $255,000 – in 2013

4. Cap is lesser of 25% of compensation or $40,000 (adjusted for increases in the cost of living) (Section 402(h)(2)).

   CURRENT LIMIT: $50,000 – in 2012; $51,000 – in 2013

5. The deduction limit is 25% of compensation for all defined contribution plans (Section 404(h)).

• **Profit Sharing and 401(k) Plans**

  1. Contributions cannot discriminate in favor of high paid.

  2. Benefits are based on compensation up to $200,000, adjusted for increases in the cost of living.

     CURRENT LIMIT: $250,000 – in 2012; $255,000 – in 2013

  3. Benefits are limited to the lesser of 100% of compensation or $40,000, adjusted for increases in the cost of living.

     CURRENT LIMIT: $50,000 – in 2012; $51,000 – in 2013

  4. The $40,000 limit is shared with other defined contribution plans, including SEPs, and it limits both employer and employee contributions.

  5. The deduction limit is 25% of compensation of all participants or, if greater (in the case of a SIMPLE 401(k) Plan), amount employer must contribute to the SIMPLE 401(k) Plan.

     UNDER A SIMPLE 401(k) PLAN:

     Employer must match non-catch-up employee contributions (the basic limitation is up to 3% of compensation, OR
Employer must make a non-elective contribution of 2% of compensation for employees earning at least $5,000.

This written outline is not intended or written to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. [The foregoing legend has been affixed pursuant to U.S. Treasury Regulations governing tax practice.]