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New Benefit Limits for 2007

By [B. David Joffe](#)

The Internal Revenue Service has announced the cost-of-living adjustments applicable to dollar limitations for retirement plans for 2007. They are as follows:

- The limitation on the exclusion for elective deferrals, which applies to 401(k) plans and 403(b) annuities, is increased from \$15,000 to \$15,500. The limitation on deferrals under Code Section 457 deferred compensation plans of state and local governments and tax-exempt organizations is also increased from \$15,000 to \$15,500.
- The annual addition limitation for defined contribution plans is increased from \$44,000 to \$45,000. For defined benefit plans, the limitation on the annual benefit amount is increased from \$175,000 to \$180,000.
- The annual compensation limit on maximum compensation that may be considered is increased from \$220,000 to \$225,000. The dollar limitation for a key employee in a top-heavy plan is increased from \$140,000 to \$145,000.
- For employee stock ownership plans, the dollar amount for determining the maximum account balance subject to a 5-year distribution period is increased from \$885,000 to \$915,000, while the dollar amount used to determine the lengthening of the 5-year distribution period changes from \$175,000 to \$180,000.
- The annual compensation limitation for eligible participants in certain governmental plans that allowed cost-of-living adjustments to the compensation limitation under the plan to be taken into account is increased from \$325,000 to \$335,000.
- The \$10,000 limitation for SIMPLE retirement accounts changes to \$10,500, and the \$450 compensation amount for simplified employee pensions (SEPs) changes to \$500.

The following limits remain unchanged for 2007:

- The limitation used in the definition of highly compensated employee remains at \$100,000.
- The dollar limitation for catch-up contributions to an applicable employer plan for individuals aged 50 or over remains at \$5,000 (\$2,500 for a SIMPLE plan).

Lastly, the Social Security Administration has announced that the taxable wage base for computing the Social Security tax (OASDI) in 2007 rises to \$97,500 from \$94,200--an increase of 3.3%.

Other cost-of-living changes will be announced later including the 2007 limits for health savings accounts and the monthly reimbursement limits for qualified transportation fringe benefit plans.

If you have any questions regarding this article, or any related issue, please contact one of the attorneys on the Boulton Cummings [Employee Benefits and Executive Compensation](#) Team listed below:

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