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New Benefit Limits for 2008

by **B. David Joffe**



The Internal Revenue Service has announced the cost-of-living adjustments applicable to dollar limitations for retirement plans for 2008. They are as follows:

- The limitation used in the definition of “highly compensated employee” changes from \$100,000 to \$105,000.
- The annual addition limitation for defined contribution plans is increased from \$45,000 to \$46,000. For defined benefit plans, the limitation on the annual benefit amount is increased from \$180,000 to \$185,000.
- The annual compensation limit on maximum compensation that may be considered is increased from \$225,000 to \$230,000. The dollar limitation for a “key employee” in a top-heavy plan is increased from \$145,000 to \$150,000.
- For employee stock ownership plans, the dollar amount for determining the maximum account balance subject to a 5-year distribution period is increased from \$915,000 to \$935,000, while the dollar amount used to determine the lengthening of the 5-year distribution period changes from \$180,000 to \$185,000.
- 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 \$335,000 to \$345,000.

The following limits remain unchanged for 2008:

- The limitation on the exclusion for elective deferrals, which applies to 401(k) plans and 403(b) annuities, remains at \$15,500. The limitation on deferrals under Code Section 457 deferred compensation plans of state and local governments and tax-exempt organizations also remains at \$15,500.
- The limitation for catch-up contributions to an applicable employer plan for individuals aged 50 or over remains at \$5,000 (\$2,500 for SIMPLE arrangements).
- The contribution limitation for SIMPLE arrangements remains at \$10,500, and the compensation amount requirement for Simplified Employee Pensions (SEPs) remains at \$500.

As a related matter, there are also increases in several pension-related amounts such as the adjusted gross income limitation for determining the retirement savings contribution credit, the deductible amount of an IRA contribution, and the maximum Roth IRA contribution. Also, the Social Security Administration separately has announced that the taxable wage base for computing the Social Security tax (OASDI) in 2008 rises to \$102,000 from \$97,500, an increase of approximately 4.6%.

If you have any questions regarding the changes in the benefit limits for 2008, please contact one of the

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