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IRS Announces Employee Benefits Limits for 2016

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The Internal Revenue Service has recently announced whether there will be cost-of-living adjustments applicable to dollar limitations for retirement plans (and other items) for 2016. Many of the limitations will not change for 2016 because the increase in the cost-of-living index did not meet the statutory thresholds that trigger their adjustment.

I. Retirement Plans

Some of the annual limits for 2016 (and the current limits for 2015) are as follows: **2016 2015** Elective Deferral Limit (for Internal Revenue Code ("Code") Section 401(k), 403(b), 457(b)(2), 457(c), and SARSEP plans) - excluding catch-up contributions **\$18,000 \$18,000** Elective Deferral Limit for SIMPLE plans **\$12,500 \$12,500** Catch-up Contribution Limit for Code Section 401(k), 403(b), 457(b) and SARSEP plans **\$6,000 \$6,000** Catch-up Contribution Limit for SIMPLE plans **\$3,000 \$3,000** Annual limitation for *defined contribution* plans under Code Section 415 **\$53,000 \$53,000** Annual limitation for *defined benefit* plans under Code Section 415 **\$210,000 \$210,000** Maximum compensation limit **\$265,000 \$265,000** Minimum dollar threshold to be considered highly compensated employee ("HCE") based on compensation **\$120,000 \$120,000** Minimum dollar threshold for an officer of the employer to be considered a key employee for top heavy plans **\$170,000 \$170,000** Maximum Social Security taxable earnings (OASDI only) **\$118,500 \$118,500** Maximum Medicare taxable earnings (HI only) **No Limit(i) No Limit** Minimum compensation amount to be eligible for coverage under SEP **\$600 \$600**

(i) The Medicare tax rate is 1.45% on wages (for employees) and 2.90% on self-employment income (for self-employed individuals). However, the Patient Protection and Affordable Care Act imposes an additional .9% Medicare tax on wages and self-employment income for tax years beginning after December 31, 2012. The additional tax applies to individuals with compensation

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in excess of certain threshold amounts (\$200,000 for single taxpayers, \$250,000 for married taxpayers filing a joint return, and \$125,000 for married couples filing separate returns). The new Medicare tax rate on wages and self-employment income in excess of the threshold amounts is 2.35% for employees and 3.8% for self-employed individuals.

II. Health Savings Accounts (HSAs)

The new annual HSA (and High Deductible Health Plan (HDHP)) limits for 2016 (and the current limits for 2015) are as follows:

2016	2015	HSA Contribution Limits:	Self-only	\$3,350	\$3,350	Family	\$6,750	\$6,650	Catch-up
		(for individuals age 55 or older)		\$1,000	\$1,000				
			HDHP Minimum Deductible:			Self-Only	\$1,300		
						Family	\$2,600	\$2,600	
			HDHP Out-of-Pocket Expense Limit (Deductibles, co-payments and other amounts, but not premiums)(2):						
						Self-Only	\$6,550	\$6,450	Family
							\$13,100	\$12,900	

(2) The HDHP out of pocket maximums for HSA/HDHP plans are lower than the Patient Protection and Affordable Care Act ("ACA") out of pocket maximums. For 2016, the ACA's out of pocket maximum is \$6,850 for self-only coverage and \$13,700 for family coverage. Employers offering HSA/HDHP plans will need to ensure they satisfy the lower Internal Revenue Service HDHP out of pocket maximums.

III. Health Flexible Spending Accounts

The annual limit for 2016 for employee contributions to a health flexible spending account will remain the same as the 2015 annual limit - \$2,550.

If you have questions regarding the Internal Revenue Service limits or other employee benefits matters, please contact your regular Butzel Long attorney, a member of the Butzel Long Employee Benefits Practice Group, or the author of this e-mail news alert.

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