

1997 Pension Plan Limitations¹

Notice 96-55

Section 415 of the Internal Revenue Code provides for dollar limitations on benefits and contributions under qualified plans. Section 415 also requires that the Commissioner annually adjust these limits for cost-of-living increases. Other limitations applicable to deferred compensation plans are also affected by these adjustments.

Effective January 1, 1997, the limitation for the annual benefit under § 415(b)(1)(A) for defined benefit plans is increased from \$120,000 to \$125,000. For participants who separated from service before January 1, 1997, the limitation for defined benefit plans under § 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 1996 by 1.0294. The limitation for defined contribution plans under § 415(c)(1)(A) remains unchanged at \$30,000.

The Code provides that various other dollar amounts are to be adjusted at the

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same time and in the same manner as the dollar limitation of § 415(b)(1)(A) is adjusted. These dollar amounts and the adjusted amounts are as follows:

The special limitation for qualified police or firefighters under § 415(b)(2)-(G) is increased from \$66,000 to \$70,000.

The limitation on the exclusion for elective deferrals under § 402(g)(1) remains unchanged at \$9,500.

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 \$690,000 to \$710,000, while the dollar amount used to determine the lengthening of the 5-year distribution period is increased from \$135,000 to \$140,000.

The threshold amount under § 4980A(c)(1)(B) regarding excess distributions is increased from \$155,000 to \$160,000.

The limitation used in the definition of highly compensated employee under § 414(q)(1)(B), as amended by the Small Business Job Protection Act of 1996, is \$80,000.

The annual compensation limit under §§ 401(a)(17) and 404(l) is increased from \$150,000 to \$160,000.

The compensation amount under § 408(k)(2)(C) regarding simplified employee pension plans (SEPs) remains unchanged at \$400. The compensation amount under § 408(k)(3)(C) for SEPs is increased from \$150,000 to \$160,000.

The compensation amount under § 408(p)(2)(A) regarding simple retirement accounts, as added by § 1421 of the Small Business Job Protection Act of 1996, is \$6,000.

The limitation on deferrals under § 457(b)(2) and (c)(1) concerning eligible deferred compensation plans of state and local governments and of tax-exempt organizations remains unchanged at \$7,500.

Administrators of defined benefit or defined contribution plans that have received favorable determination letters should not request new determination letters solely because of yearly amendments to adjust maximum limitations in the plans.