CIRMA News & Alerts
Employment Practices Liability

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IRS Issues 2018 COLAs

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In Notice 2017-64, the Internal Revenue Service has announced the cost-of-living adjustments (COLAs) being made to various limitations applicable to retirement plans for 2018. Some of those limitations have increased, and some remain unchanged. The major limitations that were announced are as follows:

- **Elective deferrals (to 401(k), 403(b) and 457(b) plans).** The limit on elective deferral contributions for 2018 is increased to **$18,500** from this year's **$18,000**.
- **Catch-up elective deferrals.** The limitation on "catch-up" elective deferral contributions for individuals who reach age 50 by December 31, 2018 remains unchanged at **$6,000**. (Other "catch up" contributions, such as to IRAs or to SIMPLE 401(k) plans, also remain unchanged at their 2017 levels.)
- **Overall limitation for defined contribution plans.** The dollar limitation on annual additions to participants' accounts under defined contribution plans for limitation years ending in 2018 is increased to **$55,000** from the current **$54,000**. (This does not include "catch up" elective deferrals made by participants who have reached age 50.)
- **Maximum benefit under defined benefit plans.** The maximum benefit under defined benefit plans for limitation years ending in 2018 is increased to **$220,000**, from the current **$215,000**. In addition, for purposes of computing the 100%-of-compensation limit for participants who separated from service before 2018, the participant's compensation limit calculated through 2017 is increased by **1.96%** (i.e., multiplied by **1.0196**).
- **Annual compensation limit.** The limitation on compensation that may be taken into account under a plan (*e.g.,* for calculating contributions and benefits, for performing discrimination testing, etc.) is increased to **$275,000** for plan years beginning in 2018, from the current **$270,000**.
- **IRAs.** Although the contribution limitations themselves have not changed, the thresholds and phase-out ranges for deductibility of IRA contributions and for eligibility to make Roth IRA contributions have all increased slightly. For example, an unmarried individual's ability to contribute to a Roth IRA for 2018 will phase out between **$120,000** and **$135,000** of adjusted gross income (up from the current range of **$118,000-$133,000**).
- **ESOP five-year distribution period.** The maximum account balance in an employee stock ownership plan subject to a five-year distribution period is increased for 2018 to **$1,105,000**, from the current **$1,080,000**, while the dollar amount used to determine the lengthening of the distribution period is increased to **$220,000** from **$215,000**.
- **Highly compensated employee.** The indexed components of the definitions of "highly compensated employee" and "key employee" (*e.g.,* **$120,000** and **$175,000** compensation thresholds, respectively) remain unchanged for plan years ending in 2018.

The rest of the actions taken by the Notice can be seen in the copy of the Notice linked below.

In addition, in Revenue Procedure 2017-58, the IRS last week announced increases to several additional benefits-related limitations.

- **Flexible Spending Accounts.** The limit on voluntary salary-reduction contributions to Health FSAs is increased to **$2,650** for 2018, up from **$2,600**.
- **Qualified Transportation.** The monthly limits on transit passes and on qualified parking are each increased to **$260**, up from **$255**.
- **Adoption Assistance.** The exclusion for employer-provided adoption assistance is increased for 2018 to **$13,840** (up from **$13,570**), and phases out at adjusted gross incomes between **$207,580** and **$247,580**.
- **Qualified Small Employer Health Reimbursement Account.** The total amount of payments and reimbursements under an arrangement for 2018 cannot exceed **$5,050** (or **$10,250** for family coverage) in order for the arrangement to qualify as a QSEHRA (up from this year's **$4,950/$10,000**).

Previously, the 2018 FICA taxable wage base had been announced as **$128,700**, up from this year's **$127,200**.

The Notice and the Revenue Procedure that are described above can be found on the IRS website at https://www.irs.gov/pub/irs-drop/n-17-64.pdf and https://www.irs.gov/pub/irs-drop/rp-17-58.pdf, respectively.

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