Retirement Contribution Limits Increase for 2015

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- Contribution limits will be increasing for employer-based retirement accounts, though they will be unchanged for Traditional and Roth IRAs in 2015.

The IRS announced recently that the contribution limits to employer-based retirement accounts, such as 401(k) accounts, will increase in the New Year, but remain unchanged for Traditional and Roth IRAs. Annual contribution limits are adjusted when the annual increase in the consumer price index meets statutory thresholds. Given the current low inflationary environment, the thresholds were not met to allow for increases in 2015 contribution limits for Traditional and Roth IRA accounts.

Employer-Sponsored Accounts

As indicated above, the amount that you may contribute to an employer-sponsored retirement account will increase for 2015. For 401(k), 403(b), and 457 plans, offered by corporate, non-profit, and government employers, respectively, the maximum you may contribute via payroll deduction to such plans will increase from $17,500 to $18,000 annually.

If you will be 50 years of age or older by December 31, 2015, you may contribute an additional $6,000 in 2015 (also known as the "catch-up" provision), an increase of $500 from 2014. Consequently, if you will be at least 50 years of age during 2015, you may contribute a total of $24,000 to an employer-sponsored retirement account versus $23,000 in 2014. Contributions to your employer-sponsored retirement account, when made on a pre-tax basis, have the benefit of lowering your taxable income (and thus your taxes), as well as assisting in saving for your retirement.

For those with SIMPLE IRAs, the maximum annual contribution has also increased for 2015 to $12,500 from $12,000. The "catch-up" provision has grown to $3,000 from $2,500 for those individuals over 50.

IRA Accounts

For Traditional and Roth IRAs, you will be able to contribute up to $5,500 as your 2015 tax year contribution (unchanged from this year) until April 15, 2016. If you will be at least 50 years old at any time during 2015, you may contribute an additional $1,000, an amount which is unchanged from 2014. To qualify to make an IRA contribution, your taxable compensation must be equal to or greater than the contribution you wish to make.

In addition, to contribute to a Roth IRA, you must be income eligible. To make the full contribution to which you are otherwise entitled, your modified adjusted gross income (MAGI) during 2015 must be $116,000 or less as a single filer and $183,000 or less as a married individual, filing jointly. If your MAGI is between $116,000 and $131,000 as a single filer, or between $183,000 and $193,000 as a married individual, filing jointly, you are entitled to make a prorata contribution to a Roth and a Traditional IRA as long as your total contribution does not exceed the applicable limit.

If your MAGI exceeds the upper end of the applicable MAGI range, then you may contribute up to the allowed maximum to a Traditional IRA. You must be less than 70½ years old to contribute to a Traditional IRA.

Under current law, if you do not qualify to contribute directly to a Roth IRA because your MAGI exceeds the allowed limits, you may contribute to a Traditional IRA and then convert the contribution (and other retirement assets, if you desire) to a Roth IRA, subject to limitations and possible taxes, which are beyond the scope of this article.

One other difference between Roth and Traditional IRAs is worth noting. Contributions to a Roth IRA cannot be used as a deduction to reduce the income taxes you pay, while contributions to a Traditional IRA may or may not be used as a deduction. Whether or not a Traditional IRA contribution can be deducted is dependent on your income level and whether you or your spouse participates in an employer-sponsored retirement plan.