

Eye on Washington Regulatory Update

IRS Announces 2020 Benefit Plan Contribution and Pension Plan Limits

On November 6, 2019, the Internal Revenue Service (IRS) announced via Revenue Procedure 2019-44 the dollar limitation for 2020 on employee salary reductions for contributions to health flexible spending accounts; the monthly limitation regarding the aggregate fringe benefits exclusion amount for transportation in a commuter highway vehicle and any transit pass; and the maximum amount that can be excluded from an employee's gross income for the amounts paid for qualified adoption expenses furnished pursuant to an adoption assistance program.

It also announced via Notice 2019-59 the cost of living adjustments applicable to dollar limitations for pension plans and other items for tax year 2020.

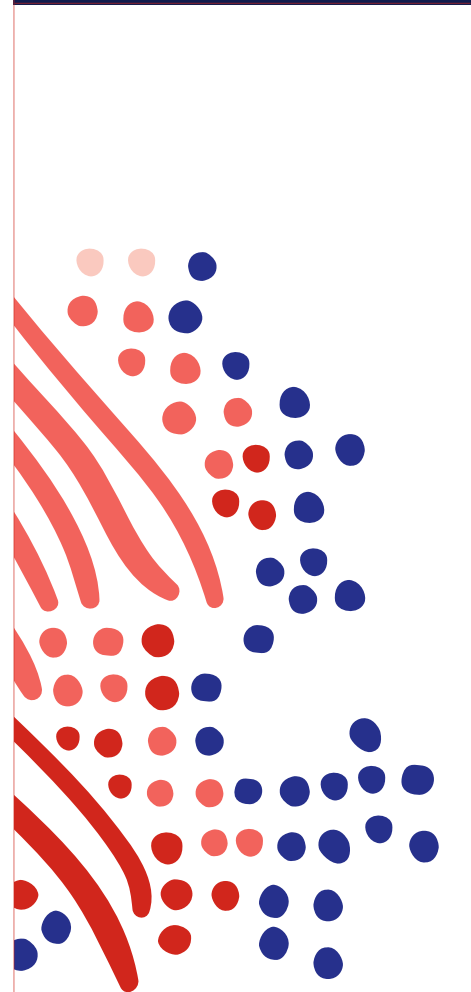
Health Flexible Spending Accounts

The 2020 maximum employee salary reduction contribution to a health flexible spending account will increase to \$2,750. This is a \$50 increase from the 2019 limit of \$2,700. The Affordable Care Act (ACA) had limited employee salary reductions for contributions to health flexible spending accounts to \$2,500 per employee, but allowed that the limit may be adjusted annually for inflation in increments of \$50.

The \$2,750 limit applies to both full-purpose and limited-purpose health flexible spending accounts. However, an employer is not required to adopt the maximum amount allowed in its plan design and may choose to allow an amount less than \$2,750. The \$2,750 limit applies only to employee salary reduction contributions during the benefit plan year and does not impact employer-paid contributions or, if offered, contributions made as a result of the balance carryover option. If an employer provides flex credits that employees may elect to receive either as cash or as a taxable benefit, those flex credits are treated as employee salary reduction contributions and count toward the \$2,750 limit.

The dependent care spending account maximum is set by statute and is not subject to inflation-related adjustments. Consequently, the 2020 dependent care spending account maximum continues to be limited to the smallest of the following amounts:

- \$5,000 if the employee is married and filing a joint return or if the employee is a single parent (\$2,500 if the employee is married but filing separately);
- the employee's "earned income" for the year; or
- the spouse's "earned income," if the employee is married at the end of the taxable year.



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Qualified Transportation/Parking Benefits

Transportation

The monthly limitation regarding the aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass is increased to \$270 for 2020. This is a \$5 increase over the 2019 limit of \$265.

Parking

The monthly limitation regarding the fringe benefit exclusion amount for qualified parking is increased to \$270 for 2020. This is a \$5 increase over the 2019 limit of \$265.

Adoption Assistance Programs

The maximum amount that can be excluded from an employee's gross income for the amounts paid or expenses incurred by an employer for qualified adoption expenses furnished pursuant to an adoption assistance program for other adoptions by the employee in 2020 is \$14,300. This is an increase of \$220 over the 2019 maximum.

Summary of Changes to Contribution Limits

	2019	2020
Health Flexible Spending Accounts	\$2,700/plan year	\$2,750/plan year
Qualified Transportation	\$265/month	\$270/month
Parking Benefits	\$265/month	\$270/month
Adoption Assistance Programs	\$14,080/year	\$14,300/year

For a copy of Revenue Procedure 2019-44, click on the link provided below.

<https://www.irs.gov/pub/irs-drop/rp-19-44.pdf>

Pension Plan Limits

A summary of the 2020 pension limitations as compared to 2019 are as follows:

Plan Maximum Contribution Limits	2019	2020
Section 401(k) Plan or SAR SEP	\$19,000	\$19,500
Section 403(b) Plan	\$19,000	\$19,500
Section 408(p)(2)(E) SIMPLE Plan Contributions	\$13,000	\$13,500
Section 457(e)(15) Limit	\$19,000	\$19,500

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Plan Maximum Contribution Limits	2018	2019
Section 415 Limit for:		
Defined Contribution Plans	\$56,000	\$57,000
Defined Benefit Plans	\$225,000	\$230,000
Highly Compensated Employees Section 414(q)(1)(B)	\$125,000	\$130,000
Key Employee Section 416(i)(1)(A)(i)	\$180,000	\$185,000
Includible Compensation –		
Section 401(a)(17)	\$280,000	\$285,000
SEP Compensation	\$280,000	\$285,000
SEP Earnings Threshold	\$600	\$600
Limited Governmental Plans (pre 7/1/93)	\$415,000	\$455,000
Section 409 Employee Stock Ownership Plan –		
Subject to Five-Year Distribution Period		
Maximum Balance	\$1,130,000	\$1,150,000
Amount Used to Determine the Lengthening of the Five-Year Period	\$225,000	\$230,000

The 2020 dollar limitation under Section 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan, other than a plan described in Section 401(k)(11) or Section 408(p) for individuals age 50, is increased from \$6,000 to \$6,500.

The 2020 dollar limitation under Section 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or Section 408(p) for individuals age 50 or over remains unchanged at \$3,000.

For a copy of Notice 2019-59, click on the link provided below.

<https://www.irs.gov/pub/irs-drop/n-19-59.pdf>

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