

Eye on Washington Regulatory Update



IRS Announces 2021 Benefit Plan Contribution and Pension Plan Limits

On October 26, 2020, the Internal Revenue Service (IRS) announced, via Revenue Procedure 2020-45, the dollar limitation for 2021 on employee salary reductions for contributions to health flexible spending accounts; the monthly limitation regarding the aggregate fringe benefit 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 2020-79, the cost-of-living adjustments applicable to dollar limitations for pension plans and other items for tax year 2021.

Health Flexible Spending Accounts

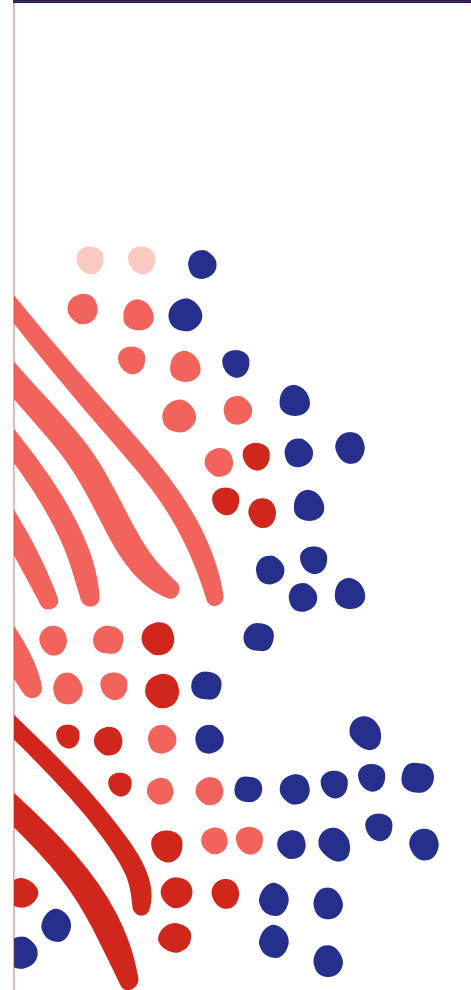
The 2021 maximum employee salary reduction contribution to a health flexible spending account will remain at \$2,750. The Affordable Care Act (ACA) had limited employee salary reductions for contributions to health flexible spending accounts to \$2,500 per employee, but allowed that the limit may be 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.

If the cafeteria plan permits the carryover of unused amounts, the maximum carryover amount is \$550.

The dependent care spending account maximum is set by statute and is not subject to inflation-related adjustments. Consequently, the 2021 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.



Eye on Washington Regulatory Update

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 will remain at \$270 for 2021.

Parking

The monthly limitation regarding the fringe benefit exclusion amount for qualified parking will remain at \$270 for 2021.

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 2021 is \$14,440. This is an increase of \$140 over the 2020 maximum.

Summary of Changes to Contribution Limits

	2020	2021
Health Flexible Spending Accounts	\$2,750/plan year	\$2,750/plan year
Qualified Transportation	\$270/month	\$270/month
Parking Benefits	\$270/month	\$270/month
Adoption Assistance Programs	\$14,300/year	\$14,440/year

For a copy of Revenue Procedure 2020-45, click on the link provided below.

<https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>

Pension Plan Limits

A summary of the 2021 pension limitations, as compared to 2020, are as follows:

Plan Maximum Contribution Limits	2020	2021
Section 401(k) Plan or SAR SEP	\$19,500	\$19,500
Section 403(b) Plan	\$19,500	\$19,500
Section 408(p)(2)(E) SIMPLE Plan Contributions	\$13,500	\$13,500
Section 457(e)(15) Limit	\$19,500	\$19,500
Section 415 Limit for:		
Defined Contribution Plans	\$57,000	\$58,000
Defined Benefit Plans	\$230,000	\$230,000
Highly Compensated Employees Section 414(q)(1)(B)	\$130,000	\$130,000
Key Employee Section 416(i)(1)(A)(i)	\$185,000	\$185,000
Includible Compensation		
Section 401(a)(17)	\$285,000	\$285,000
SEP Compensation	\$285,000	\$290,000
SEP Earnings Threshold	\$600	\$650
Limited Governmental Plans (pre 7/1/93)	\$425,000	\$430,000
Section 409 Employee Stock Ownership Plan Subject to 5-Year Distribution Period		
Maximum Balance	\$1,150,000	\$1,165,000
Amount Used to Determine the Lengthening of the 5-Year Period	\$230,000	\$230,000

The 2021 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 remains at \$6,500. The 2021 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 2020-79, click on the link provided below.

<https://www.irs.gov/pub/irs-drop/n-20-79.pdf>

Eye on Washington

Regulatory Update

ADP Compliance Resources

ADP maintains a staff of dedicated professionals who carefully monitor federal and state legislative and regulatory measures affecting employment-related human resource, payroll, tax and benefits administration, and help ensure that ADP systems are updated as relevant laws evolve. For the latest on how federal and state tax law changes may impact your business, visit the ADP Eye on Washington Web page located at www.adp.com/regulatorynews.

ADP is committed to assisting businesses with increased compliance requirements resulting from rapidly evolving legislation. Our goal is to help minimize your administrative burden across the entire spectrum of employment-related payroll, tax, HR and benefits, so that you can focus on running your business. This information is provided as a courtesy to assist in your understanding of the impact of certain regulatory requirements and should not be construed as tax or legal advice. Such information is by nature subject to revision and may not be the most current information available. ADP encourages readers to consult with appropriate legal and/or tax advisors. Please be advised that calls to and from ADP may be monitored or recorded.

If you have any questions regarding our services, please call 855-466-0790.