IRS Announces 2016 Benefit Plan Contribution Limits

On October 21, 2015, the Internal Revenue Service (IRS) announced via Revenue Procedure 2015-53 the dollar limitation 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.

Health Flexible Spending Accounts
The 2016 maximum employee salary reduction contribution to a health flexible spending account will remain the same as in 2015, specifically $2,550. 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.

What this means for employers: While the $2,550 limit applies to both full-purpose and limited-purpose health flexible spending accounts, an employer is not required to adopt the maximum amount allowed in its plan design and may choose to allow an amount less than $2,550. The $2,550 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 $2,550 limit.

The dependent care spending account maximum is set by statute and is not subject to inflation-related adjustments. Consequently, the 2016 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.

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 remains at $130. There is no increase from the 2015 limit.

Parking
The monthly limitation regarding the fringe benefit exclusion amount for qualified parking is increased to $255. This is a $5 increase over the 2015 limit of $250 per month.

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 by the employee in 2016 is $13,460. This is an increase of $60 over the 2015 maximum.
Summary of Changes to 2015 Contribution Limits

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
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<tbody>
<tr>
<td>Health Flexible Spending Accounts</td>
<td>$2,550/year</td>
<td>$2,550/year</td>
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<tr>
<td>Qualified Transportation Parking Benefits</td>
<td>$130/month</td>
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<tr>
<td>Adoption Assistance Programs</td>
<td>$13400/year</td>
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<tr>
<td>401(k) Plan Limit</td>
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<td>401(k) Catch Up Limit</td>
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<td>Social Security Wage Base</td>
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For a copy of Revenue Procedure 2015-53 please click on the link provided below.


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