2025 IRA, RETIREMENT PLAN CONTRIBUTION LIMITS AND SOCIAL SECURITY NEWS

Elective Contributions to IRAs, 401(k)s and Other Qualified Plans

On November 1, 2024, the IRS announced new limits for IRA, pension and other contributions for 2025. For the most part, the limits increased from 2024 because there was a rise in the cost-of-living index.

- The maximum limit for contributions to IRAs remains the same at $7,000 for 2025.
- If you are age 50 or older, you can contribute a maximum of $8,000 to an IRA for 2025, the same as for 2024. You can make contributions to your IRA for 2025 up until April 15, 2026.
- Elective deferral (contribution) limits to 401(k), 403(b) and 457(b) plans for 2025 increase to $23,500, up from $23,000 for 2024.
- The catch-up contribution limits to 401(k), 403(b) and 457(b) plans for 2025, for those age 50 and over, remains the same as 2024 at $7,500, for a total maximum contribution of $31,000 for 2025. However, a new provision allows for those who are ages 60 to 63 to make a catch-up contribution of $11,250 for 2025, for a total of $34,750. Those who are age 64, or older, are limited to the $7,500 catch-up amount.

Traditional IRA contribution amounts, for participants in employer plans, remain the same at $7,000 for 2025 and are phased out for 2025 as follows:

- For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is, the deduction for 2025 is phased out if the couple's joint income is between $236,000 to $246,000, up from $230,000 to $240,000 for 2024.
- The AGI phaseout range for taxpayers making Roth IRA contributions for 2025 is similarly increased: $236,000 to $246,000 for married couples filing jointly, up from $230,000 to $240,000 for 2024. For single filers and heads of household, the income phaseout range for 2025 is $150,000 to $165,000, up from $146,000 to $161,000 for 2024.

The deduction for taxpayers making contributions to a traditional IRA is phased out for 2025 as follows:

- For singles and heads of household, covered by a workplace retirement plan, the income phaseout increases to between $79,000 to $89,000 for 2025, up from $77,000 to $87,000 for 2024.
- For married couples filing jointly, in which the spouse making the IRA contribution is covered by a workplace retirement plan, the income phaseout range increases to between $126,000 to $146,000 for 2025, up from $123,000 to $143,000 for 2024.
- For a married individual filing separately, who is covered by a workplace retirement plan, the phaseout range is not subject to an annual cost-of-living adjustment and remains at $0 to $10,000 for 2025.

There are no income limits for converting a traditional IRA into a Roth IRA account. However, there may be income tax consequences depending on your income tax bracket and other factors.

Benefit Plan Contribution Limits: If you participate in a company plan, some of the limits for 2025 increase from 2024 as follows:

- The maximum amount that an individual can contribute to a defined contribution plan for 2025, through both employer and employee contributions, increases to the lesser of (i) 25% of the employee’s total compensation, or (ii) $70,000, up from $69,000 for 2024. The annual benefit limit for 2025 that can be funded in a defined benefit pension plan increases to $280,000, up from $275,000 for 2024.
- For participants in a Simplified Employee Pension (SEP) plan, the minimum compensation threshold remains the same as 2024 at $750.
- The limitation for 2025 SIMPLE retirement accounts increases to $16,500, up from $16,000 for 2024. For those age 50 or older, the maximum contribution is $20,000 for 2025.
- The maximum annual compensation that can be taken into account in 2025, for retirement plan purposes, increases to $350,000, up from $345,000 for 2024.
- The compensation threshold for determining a highly compensated employee (HCE) for 2025 increases to $160,000, up from $155,000 for 2024.
- The limit used in the definition of a “key” employee in a “top-heavy” plan for 2025 increases to $230,000, up from $220,000 for 2024.

The maximum deferral for participants in the Federal government’s Thrift Savings Plans and Tax Sheltered Annuities for 2025 increases to $23,500, up from $23,000 for 2024.

For those age 50 or older, the maximum deferral is $31,000 for 2025, up from $30,500 for 2024.

SECURE ACT of 2019 and SECURE 2.0 ACT of 2022 (signed into law on December 20, 2019; Revised by IRS Notices October 10, 2022, December 29, 2022 and July 14, 2023)

Beginning January 1, 2020, there are substantial changes in the required minimum distribution (RMD) rules for inherited IRA's and other retirement plans [401(k), 403(b), etc.]. In general, there is a new 10-year limit to pay out the entire inherited retirement account balance(s). As a result of confusion in the interpretation of the SECURE ACT of 2019, the IRS has issued new proposed regulations which state that there is an inherited IRA/401K, etc. annual RMD distribution requirement, where the entire account(s) must be distributed by the end of the 10th year after the decedent's year of death. The 50% penalty, lowered to 25% for 2023 and after, for not taking RMDs from inherited IRA/401K, etc., will not be imposed for 2021, 2022, 2023 and 2024. The rules for inherited IRA/401K, etc. RMDs, for 2025 and after, require annual RMD distributions.

Since the Internal Revenue Service did not require inherited beneficiary RMD's for 2021 through 2024, the first RMD must be withdrawn by December 31, 2025, using the IRS Single Life Expectancy Table I. The deferred 2021 through 2024 RMD's did not extend the final distribution date of the beneficiary account, which must be fully distributed by the end of the 10th year after the decedent's death.

There are exceptions to the 10-year rule for a surviving spouse, minor children, disabled beneficiaries and others, which allow a longer payout period.

In addition, the SECURE ACT of 2019 increased the maximum age that required minimum distributions (RMDs) must begin from 70 ½ to 72 years old, for those persons who were not 70 ½ by December 31, 2019. The SECURE 2.0 ACT of 2022 further increased the maximum age that RMDs must begin from 72 to 73 years old, for those persons who were not 70 ½ by December 31, 2019. If any required RMD is not taken by the end of the tax year, the undistributed required portion is subject to a 50% penalty, lowered to 25% for 2023 and after. Further, if the deficit in the RMD distribution is corrected by the end of the second year beginning after the missed tax year, the penalty is only 10%. There are many other provisions in the SECURE ACT of 2019, the SECURE 2.0 ACT of 2022 and the proposed revised rules, which cannot be covered in this article.

For 2025 and after, all required minimum distribution rules are in effect. If you are subject to RMD requirements for 2025, you must take the distribution(s) before December 31, 2025.

A Note About Social Security Wages and Self Employment Income

The Social Security Administration (SSA) announced that the 2025 social security and self-employment maximum taxable wage base increases to $176,100, up from $168,600 for 2024.

- This wage base applies only to the 6.2% “Old Age and Survivors Disability Insurance” (OASDI) portion of FICA payroll taxes. The employer also contributes an additional matching 6.2%.
- The additional 1.45% Medicare (“HI” or “health insurance”) portion of FICA payroll taxes is not capped at the first $176,100 of wages, but instead is applied to all wages paid to an employee. The employer also contributes an additional matching 1.45%.
- Self-employed persons pay a total of 15.3% of self-employment earnings, comprised of 12.4% for OASDI (up to the wage base limit) and 2.9% for Medicare health insurance (no earnings limit).
- High earners (singles and heads of household with Medicare wages above $200,000 and married couples filing jointly with Medicare wages above $250,000) will pay an additional 0.9% Medicare tax on their wages in excess of these thresholds.
- Self-employed persons are also subject to this additional 0.9% Medicare tax on their earned income in excess of the thresholds. If an individual, or married couple, have both wages and self-employment income, the 0.9% tax is imposed on the combined income in excess of the limits.

Social Security benefits and “Supplemental Security Income (SSI)” benefits will increase by 2.5% in 2025, as they are tied into increases in the Consumer Price Index.

The Medicare Part B premiums, which are typically deducted from social security benefits, will increase to $185.00 per month in 2025, up from $174.70 in 2024.

Also, if your modified adjusted gross income, as reported on your 2023 tax return, exceeds certain thresholds, the 2025 Medicare Part B premium can increase to between $259.00 and $628.90 per month, instead of the $185.00 for the lowest Medicare adjusted gross income brackets (joint-$212,000; single-$106,000; or less).

The highest rate applies to Social Security beneficiaries whose incomes exceed joint-$750,000; single-$500,000.

Social Security beneficiaries in Medicare Part D prescription drug coverage plans, whose modified adjusted gross income exceeds the same thresholds that apply to Part B premiums, will also pay a monthly adjustment amount of between $13.70 to $85.80. These extra amounts added to your Medicare Part B and D premiums is called an Income Related Monthly Adjustment Amount (IRMAA).

For 2025, the annual Medicare Part B deductible increases to $257, up from $240 for 2024.

Please feel free to contact Brian J. Parker, CPA if you have any questions or concerns about your taxes, accounting, retirement savings, estate planning or business planning.

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