

AMERICAN PAYROLL ASSOCIATION
Compliance Update

IRS Announces Limited Changes in 2010 Amounts for Standard Deduction, Transportation Fringes, and Earned Income Credit

The IRS has released inflation-adjusted tables for 2010 reflecting no changes in many of the items reported because the Consumer Price Index remained flat over the past year [Rev. Proc. 2009-50, 10-15-09].

Standard deduction and personal exemption

The standard deduction amounts for 2010 remain unchanged at \$11,400 for married couples filing jointly or surviving spouses and \$5,700 for single taxpayers and married taxpayers filing separately, while increasing to \$8,400 for heads of households (\$8,350 in 2009). The personal exemption amount for 2010 is \$3,650, unchanged from 2009.

Qualified transportation fringes

The amounts that may be excluded from gross income for employer-provided "qualified transportation fringe benefits" for 2010 are as follows: \$230 per month for "transportation in a commuter highway vehicle and any transit pass" (unchanged from 2009), and \$230 per month for "qualified parking" (unchanged).

Earned income credit

For 2010, the Earned Income Credit for employees with one qualifying (dependent) child is 34% of the first \$8,970 of earned income, for a maximum of \$3,050 (\$3,043 in 2009). For employees with two qualifying children, the EIC is 40% of the first \$12,590 of earned income, for a maximum of \$5,036 (\$5,028 in 2009). For employees with three or more qualifying children, the EIC is 45% of the first \$12,590 of earned income, for a maximum of \$5,666 (\$5,657 in 2009), and for employees with no qualifying children, the EIC is 7.65% of \$5,980, for a maximum of \$457 (unchanged from 2009). Married employees filing jointly who earn less than \$40,545 in 2010 (\$35,535 for single employees) and who have at least one qualifying child can receive advance payments of their EIC of up to \$1,830 (\$1,826 in 2009) spread out over their pay periods during the year.

Foreign earned income exclusion

For 2010, the maximum foreign earned income exclusion amount under IRC §911(b)(2)(D)(i) is \$91,500 (\$91,400 in 2009). The maximum foreign housing cost exclusion amount under IRC §911(c)(2) is \$12,810 (\$12,796 in 2009).

Pension Plan Limits Will Remain the Same in 2010

The IRS has announced the cost-of-living adjustments (COLAs) applicable to dollar limits on benefits and contributions under qualified retirement plans, as well as other items, for tax year 2010. While the cost-of-living index actually decreased from 9-30-08 to 9-30-09, the IRS said that the 2010 limits will be the same as those in effect for 2009 [IR-2009-094, 10-15-09].

- The limitation on the exclusion for elective deferrals under §402(g)(1) (e.g., §401(k) and §403(b) plans) is unchanged at \$16,500.
- The limit on annual additions to defined contribution plans under §415(c)(1)(A) is unchanged at \$49,000.
- For limitation years ending after December 31, 2009, the limit on the annual benefit under a defined benefit plan contained in §415(b)(1)(A) is unchanged at \$195,000.
- The annual compensation limit under §401(a)(17) and §404(l) is unchanged at \$245,000.
- The compensation amount under §408(p)(2)(E) regarding elective deferrals to SIMPLE retirement accounts is unchanged at \$11,500.
- The limitation under §457(e)(15) concerning elective deferrals to deferred compensation plans of state and local governments and tax-exempt organizations (§457(b) plans) is unchanged at \$16,500.
- The limitation under §416(i)(1)(A)(i) concerning the definition of "key employee" in a top-heavy plan is unchanged at \$160,000.
- The limitation under §414(v)(2)(B)(i) for catch-up contributions to §401(k), 403(b), and 457(b) plans for individuals age 50 or over is unchanged at \$5,500; the limitation under §414(v)(2)(B)(ii) for catch-up contributions to

an employer's SIMPLE plan for individuals age 50 or over remains unchanged at \$2,500.

- The limitation used in the definition of "highly compensated employee" under §414(q)(1)(B) is unchanged at \$110,000.
- The compensation amount under §408(k)(2)(C) regarding simplified employee pensions (SEPs) is unchanged at \$550.
- The compensation amount under federal regulation §1.61-21(f)(5)(i), concerning the definition of "control employee" for fringe benefit purposes, is unchanged at \$95,000. The compensation amount under §1.61-21(f)(5)(iii) is unchanged at \$195,000.

Don't let the IRS slap your company with employment tax penalties. Protect your organization's compliance with **APA's Preparing for Year-End and 2010** course. [Register today.](#)