IRS

Retirement topics: 401(k) and profit-sharing plan contribution limits

Two annual limits apply to contributions:

1. A limit on employee elective salary deferrals. Salary deferrals are contributions an employee makes, in lieu of salary, to certain retirement plans:
   - 401(k) plans
   - 403(b) plans
   - SARSEP IRA plans (Salary Reduction Simplified Employee Pension Plans)
   - SIMPLE IRA plans (Savings Incentive Match Plans for Employees)

2. An overall limit on contributions to a participant's account. The limit applies to the total of:
   - elective deferrals (but not catch-up contributions)
   - employer matching contributions
   - employer nonelective contributions
   - allocations of forfeitures

Deferral limits for 401(k) plans

The limit on employee elective deferrals (for traditional and safe harbor plans) is:

- $23,000 ($22,500 in 2023, $20,500 in 2022, $19,500 in 2021 and 2020; and $19,000 in 2019), subject to cost-of-living adjustments

Generally, you aggregate all elective deferrals you made to all plans in which you participate to determine if you have exceeded these limits. If a plan participant's elective deferrals are more than the annual limit, find out how you can correct this plan mistake.

Deferral limits for a SIMPLE 401(k) plan

The limit on employee elective deferrals to a SIMPLE 401(k) plan is:

- $16,000 ($15,500 in 2023, $14,000 in 2022, $13,500 in 2021 and 2020; and $13,000 in 2019)

- This amount may be increased in future years for cost-of-living PDF adjustments

Plan-based restrictions on elective deferrals

- Your plan's terms may impose a lower limit on elective deferrals
- If you are a manager, owner, or highly compensated employee, your plan might need to limit your deferrals to pass nondiscrimination tests

Catch-up contributions for those age 50 and over

If permitted by the 401(k) plan, participants age 50 or over at the end of the calendar year can also make catch-up contributions. You may contribute additional elective salary deferrals of:

- $7,500 in 2023 and 2024, $6,500 in 2022, 2021 and 2020 and $6,000 in 2019 - 2015 to traditional and safe harbor 401(k) plans
- $3,500 in 2023 and 2024, $3,000 in 2022 - 2015 to SIMPLE 401(k) plans
- These amounts are subject to cost-of-living PDF adjustments

You don't need to be "behind" in your plan contributions in order to be eligible to make these additional elective deferrals.

Catch-ups for participants in plans of unrelated employers

If you participate in plans of different employers, you can treat amounts as catch-up contributions regardless of whether the individual plans permit those contributions. In this case, it is up to you to monitor your deferrals to make sure that they do not exceed the applicable limits.

Example: If Joe Saver, who's over 50, has only one employer in 2020 and participates in that employer's 401(k) plan, the plan would have to permit catch-up contributions before he could defer the maximum of $26,000 for 2020 (the $19,500 regular limit for 2020 plus the $6,500 catch-up limit for 2020). If the plan didn't permit catch-up contributions, the most Joe could defer would be $19,500. However, if Joe participates in two 401(k) plans, each maintained by an unrelated employer, he can defer a total of $26,000 even if neither plan has catch-up provisions. Of course, Joe couldn't defer more than $19,500 under either plan and he would be responsible for monitoring his own contributions.

The rules relating to catch-up contributions are complex and your limits may differ according to provisions in your specific plan. You should contact your plan administrator to find out whether your plan allows catch-up contributions and how the catch-up rules apply to you.

Treatment of excess deferrals

You have an excess deferral if the total of your elective deferrals to all plans is more than the deferral limit for the year. Notify your plan administrator before April 15 of the following year that you would like the excess deferral amount, adjusted for earnings, to be distributed to you from the plan. The April 15 date is not tied to the due date for your return.

Excess withdrawn by April 15. If you exceed the deferral limit for 2020, you must distribute the excess deferrals by April 15, 2021.

- Excess deferrals for 2020 that are withdrawn by April 15, 2021, are includable in your gross income for 2020.
- Earnings on the excess deferrals are taxed in the year distributed.

The distribution is not subject to the additional 10% tax on early distributions.

Excess not withdrawn by April 15. If you don't take out the excess deferral by April 15, 2021, the excess, though taxable in 2020, is not included in your cost basis in figuring the taxable amount of any eventual distributions from the plan. In effect, an excess deferral left in the plan is taxed twice, once when contributed and again when distributed. Also, if the entire deferral is allowed to stay in the plan, the plan may not be a qualified plan.

Reporting corrective distributions on Form 1099-R. Corrective distributions of excess deferrals (including any earnings) are reported to you by the plan on Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

Overall limit on contributions

Total annual contributions (annual additions) to all of your accounts in plans maintained by one employer (and any related employer) are limited. The limit applies to the total of:

- elective deferrals (but not catch-up contributions)
- employer matching contributions
- employer nonelective contributions
- allocations of forfeitures

The annual additions paid to a participant's account cannot exceed the lesser of:

1. 100% of the participant's compensation, or
2. $69,000 ($76,500 including catch-up contributions) for 2023; $66,000 ($73,500 including catch-up contributions) for 2023; $61,000 ($67,500 including catch-up contributions) for 2022; $58,000 ($64,500 including catch-up contributions) for 2021; and $57,000 ($63,500 including catch-up contributions).

However, an employer's deduction for contributions to a defined contribution plan (profit-sharing plan or money purchase pension plan) cannot be more than 25% of the compensation paid (or accrued) during the year to eligible employees participating in the plan (see Employer Deduction in Publication 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans).

There are separate, smaller limits for SIMPLE 401(k) plans.

Example 1: In 2020, Greg, 46, is employed by an employer with a 401(k) plan, and he also works as an independent contractor for an unrelated business and sets up a solo 401(k). Greg contributes the maximum amount to his employer's 401(k) plan for 2020, $19,500. He would also like to contribute the maximum amount to his solo 401(k) plan. He is not able to make further elective deferrals to his solo 401(k) plan because he has already contributed his personal maximum, $19,500. He would also like to contribute the maximum amount to his solo 401(k) plan.

Greg is not able to make further elective salary deferrals to his solo 401(k) plan because he has already contributed his personal maximum, $19,500, to his employer's plan. However, he has enough earned income from his business to contribute the overall maximum for the year, $57,000. Greg can make a nonelective contribution of $57,000 to his solo 401(k) plan. This $57,000 limit is not reduced by the elective deferrals Greg made under his employer's plan because the limit on annual additions applies to each plan separately.

Example 2: In **Example 1**, if Greg were 52 years old and eligible to make catch-up contributions, he could contribute an additional $6,500 of elective deferrals for 2020. His catch-up contribution could be split between the plans in any proportion he chooses. Or, Greg may contribute the full $6,500 catch-up contribution to his solo 401(k) plan, making a total contribution of $63,500 for 2020. This is because, although he made nonelective contribution to his solo 401(k) plan up to the maximum of $57,000, the $57,000 limit is not reduced by the elective deferral catch-up contributions.

Compensation limit for contributions

Remember that annual contributions to all of your accounts maintained by one employer (and any related employer) - this includes elective deferrals, employee contributions, employer matching and discretionary contributions and allocations of forfeitures, to your accounts, but not including catch-up contributions - may not exceed the lesser of 100% of your compensation or $69,000 for 2024 ($66,000 for 2023, $61,000 for 2022, $58,000 for 2021 and $57,000 for 2020). This limit increases to $76,500 for 2024 ($73,500 for 2023; $67,500 for 2022; $64,500 for 2021; and $63,500 for 2020 if you include catch-up contributions. In addition, the amount of your compensation that can be taken into account when determining employer and employee contributions is limited to $345,000 for 2024 ($330,000 for 2023; $305,000 for 2022; $290,000 for 2021, $285,000 for 2020).

Additional resources

- 401(k) plans
- Contribution limits if you're in more than one plan
- When compensation exceeds the annual limits - deferrals and matching
- 401(k) plan catch-up contribution eligibility
- Publication 560, Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)
- Publication 525, Taxable and Nontaxable Income PDF

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