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Puerto Rico Treasury Department Issues Guidance on Retirement Plans Limits for 2013 and IRS Announces Increase in Social Security Wage Base for 2013

Puerto Rico Retirement Plans Limits

As required by the Puerto Rico Internal Revenue Code of 2011, as amended (PR Code), the Puerto Rico Secretary of the Treasury issued Circular Letter No. 12-08 announcing the key pension limits for 2013. For plans qualified only in Puerto Rico (PR-Only Plans), and for plans qualified both in Puerto Rico and the U.S. (dual-qualified plans), the limits on elective deferrals, annual benefits, annual contributions and plan compensation all will increase. However, after-tax and catch-up contributions limits, and the highly compensated employee threshold, will remain unchanged for 2013. The chart below reflects the key limits.

	2012	2013
1081.01(d) Elective Deferrals – PR-Only Plans	\$13,000	\$15,000
1081.01(d) Elective Deferrals – Dual-Qualified Plans and Federal Government Thrift Plan ¹	17,000	17,500
Catch-up Contributions – PR-Only Plans and Dual-Qualified Plans	1,500	1,500
Catch-up Contributions – Federal Government Thrift Plan	5,500	5,500
After-Tax Contributions – All Plans	10% of the employee’s aggregate compensation during time employee is a plan participant	10% of the employee’s aggregate compensation during time employee is a plan participant
Annual Limitation on Compensation	250,000	255,000
Annual Benefit Limitation on DB Benefits	200,000	205,000
Annual Contribution Limitation on DC Plan Contributions	50,000	51,000
Highly Compensated Employee Threshold	115,000	115,000

¹ Total annual aggregate contributions to qualified retirement plans and Puerto Rico deductible individual retirement accounts (IRA) by Puerto Rico participants in dual qualified plans cannot exceed the sum of the PR Code annual limit on elective deferrals for participants in Puerto Rico- only qualified plans and the PR Code annual limit on deductible contributions to an IRA (i.e., \$18,000 and \$20,000, in 2012 and 2013, respectively).

Social Security Wage Base

The Federal Insurance Contributions Act (FICA) is fully applicable in Puerto Rico. Consequently, wages paid to residents of Puerto Rico are subject to Social Security and Medicare taxes. Recently, the U.S. Internal Revenue Service (IRS) announced (IR 2012-77) that the Social Security wage base will increase in 2013 – going from \$110,100 to \$113,700. The employee rate of Medicare tax is scheduled to increase from 1.45% to 2.35% for higher income taxpayers, generally single taxpayers with Adjusted Gross Income (AGI) of at least \$200,000, and married persons filing jointly with AGI of at least \$250,000. The rate increase applies to wages at or above these thresholds.

CL 12-18 (in Spanish) is available at: <http://www.hacienda.gobierno.pr/downloads/pdf/cartas/12-08.pdf>.

IR 2012-77 is available at: <http://www.groom.com/assets/attachments/IR-2012-77.pdf>.

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