



The "Total" Advisor

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2016 Changes to Tax Benefits and Retirement Plan Limits

The IRS has [announced](#) several inflation adjustments that affect tax-related items for employers and employees. Items that may be of particular interest for tax year 2016 include:

- **Limit on Health Flexible Spending Arrangement (FSA) Contributions.** The annual dollar limit on employee contributions to employer-sponsored health FSAs **remains unchanged at \$2,550.**
- **Small Business Health Care Tax Credit.** The maximum amount of the small business health care tax credit is phased out based on the employer's number of full-time equivalent employees in excess of 10 (unchanged) and the employer's **average annual wages in excess of \$25,900** (up from \$25,800 for 2015).
- **Qualified Transportation Fringe Benefits.** The monthly limit on the value of the fringe benefit exclusion for transportation in a commuter highway vehicle and any transit pass **remains unchanged at \$130.** The monthly limit for qualified parking **increases to \$255** (up from \$250 for 2015).
- **Earned Income Credit.** The maximum Earned Income Credit amount is **\$6,269** for taxpayers filing jointly who have 3 or more qualifying children (up from a total of \$6,242 for tax year 2015).

Separately, the agency released [cost-of-living adjustments](#) affecting dollar limitations for retirement plans and related items for tax year 2016. Highlights include:

- **The contribution limit for employees who participate in 401(k), 403(b), and most 457 plans remains unchanged at \$18,000.**
 - The **catch-up contribution limit** for those aged 50 and over also remains unchanged at **\$6,000.**
- **The limit on annual contributions to an individual retirement arrangement (IRA) remains unchanged at \$5,500.**

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Visit our [Employee Benefits](#) section to learn more about retirement planning and the tax consequences of various employer-provided fringe benefits.

Proposed Rules Implement Supreme Court's Same-Sex Marriage Decision for Federal Tax Purposes

New [proposed rules](#) provide that a marriage of two individuals--whether of the same sex or the opposite sex--will be recognized for federal tax purposes if that marriage is recognized by **any state**, possession, or territory of the United States. The proposed rules implement the U.S. Supreme Court decision issued in June to reflect that **same-sex couples can now marry in all states and that all states will recognize these marriages.**



The proposed rules **will apply to all federal tax provisions where marriage is a factor**, including filing status, claiming personal and dependency exemptions, taking the standard deduction, employee benefits, contributing to an IRA, and claiming the earned income tax credit or child tax credit. However, **registered domestic partnerships, civil unions, or similar relationships not denominated as marriage under state law would not be treated as marriage for federal tax purposes.**

Employers with questions on how to proceed regarding the administration of employee benefits for same-sex couples (or other applicable employment laws) are advised to review the [proposed rules](#) in their entirety and contact a knowledgeable employment law attorney.

For more information on same-sex marriage laws specific to your state, go to our [State Laws](#) section, click on your state, and select "Same-Sex Relationships" from the left-hand navigation menu.

Holiday Bonus Know-How: 3 Guidelines for Employers

The end of the year is a traditional time for recognizing employees' contributions to your business. Whether you choose to give your employees a raise, a bonus, or a nonmonetary reward, it's important to let your employees know that you appreciate their hard work.



Choosing a Reward

While bonuses and pay raises are popular choices, there are plenty of other ways to show your appreciation. Be creative and consider other types of rewards such as a catered appreciation lunch, offering a paid shorter workday of the employee's choosing, or throwing a holiday or end-of-year party. Even a gesture of personally thanking employees for a job well done can go a long way towards keeping your team engaged and motivated.

Guidelines for Giving Rewards

Remember that even the best intentions can subject a company to liability if the employer is not careful. Consider the following tips to help you stay on track when rewarding your employees:

1. **Be careful.** Employers can generally decide whether or not to give employees a bonus or raise, but be careful about making any verbal or written commitments--even a casual mention of a bonus or raise could be construed as binding. And remember to check with your accountant or a financial professional about the tax implications of any rewards you plan to give.
2. **Be clear.** Communicate your company's reward policy to employees by including it in your new hire orientation materials or benefits package, and remind them of your policy when it's time to conduct performance reviews.
3. **Be objective.** When it comes to assessing eligibility for a pay increase or other benefits, ensure fairness and consistency by using a standard grading system to measure employee performance. Remember to document your reasons for offering a particular reward, including specific examples of performance.

Also keep in mind that [federal nondiscrimination laws](#) require that bonuses be provided on a nondiscriminatory basis. This means the eligibility criteria for bonuses must be applied in a nondiscriminatory way, and eligible employees must receive bonuses in nondiscriminatory amounts. (States may have their own requirements, so be sure to review your state's nondiscrimination laws.)

Check out our section on [Motivating Employees](#) for more ideas on rewarding your team members.

Applicable Dollar Amount for Calculating PCORI Fee Adjusted for Inflation

The IRS has issued [guidance](#) which increases the applicable dollar amount used to determine the Patient-Centered Outcomes Research Institute (PCORI) fee. For plan years ending on or after October 1, 2015 and before October 1, 2016, **the fee is \$2.17** (multiplied by the average number of lives covered under the plan).



Background

PCORI fees are imposed on plan sponsors of [applicable self-insured health plans](#) for each plan year ending on or after October 1, 2012 and before October 1, 2019. The fees support research to evaluate and compare health outcomes and the clinical effectiveness of certain medical treatments, services, procedures, and drugs.

For plan years ending on or after October 1, 2014 and before October 1, 2015, the fee for an employer sponsoring an applicable self-insured plan is \$2.08 multiplied by the average number of lives covered under the plan. Details on how to determine the average number of lives covered under a plan, as well as various examples, are included in [final regulations](#).

Fee Increase

Pursuant to IRS [Notice 2015-60](#), for plan years ending on or after October 1, 2015 and before October 1, 2016, **the fee is \$2.17** (multiplied by the average number of lives covered under the plan).

For plan years ending on or after October 1, 2016 and before October 1, 2019, the fee will be further adjusted to reflect inflation in National Health Expenditures (which will be published in future IRS guidance).

Our [PCORI Fees for Self-Insured Plans](#) section features additional information on calculating and paying the fee.

No Social Security Benefit Increase for 2016

The Social Security Administration has [announced](#) that monthly Social Security and Supplemental Security Income (SSI) benefits **will remain the same in 2016**.



The Social Security Act provides for an automatic increase in Social Security and SSI benefits if there is an increase in inflation as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). As determined by the Bureau of Labor Statistics, there was no increase in the CPI-W from the third

quarter of 2014 to the third quarter of 2015. **Therefore, under existing law, there can be no cost-of-living adjustment (COLA) in 2016.**

Other adjustments that would normally take effect based on changes in the national average wage index also will not take effect in January 2016. Since there is no COLA, **the maximum amount of earnings subject to the Social Security tax remains at \$118,500 for 2016.**

A [fact sheet](#) is available with more information on 2016 Social Security and SSI rates. Additional information regarding [how the COLA is calculated](#) is also available.

To learn more about Social Security benefits, please visit our section on [Social Security](#).

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