

Puerto Rico IRA Contribution Limits Now Tied to USIRC §219(b)(5): Backdoor Effect on Elective Deferrals to Dual Qualified Retirement Plans

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Puerto Rico IRA Limits

On September 22, 2025, the Governor of Puerto Rico enacted into Act No. 179-2025 the Senate Bill No. 494 (“Act”), to increase the longstanding annual contribution limit of \$5,000 (per taxpayer) for Puerto Rico Individual Retirement Accounts (“PR IRAs”), as provided under §1033.15(a)(7) of the Puerto Rico Internal Revenue Code of 2011 (“PRIRC”).

For taxable years beginning in 2025 and thereafter, the maximum annual contribution limit to a PR IRA is determined by reference to the maximum limit established under §219(b)(5)(A) of the U.S. Internal Revenue Code of 1986 (“USIRC”), as annually modified for cost-of living adjustments by the U.S. Internal Revenue Service (“IRS”). As announced in IRS Notices 2024-80 and 2025-67, the deductible amounts under USIRC § 219(b)(5)(A) are \$7,000 for 2025 and \$7,500 for 2026.

The Act provides that contribution limits set forth in the PR IRA governing documents are automatically modified without the need to amend such documents or notify a change to the Puerto Rico Treasury Department (“PR Treasury”).

Effect on Dual Qualified Plans

By virtue of the Act, the maximum annual elective deferral cap of \$20,000 applicable to a Puerto Rico resident employee participating in a dual qualified retirement plan (a plan qualified under both the USIRC and the PRIRC) is increased to \$22,000 for 2025 and \$22,500 for 2026. This new limit applies to each Puerto Rico participant of a dual qualified retirement plan subject to the annual elective deferral limit under the PRIRC, which cap consists of the sum of:

1. The annual elective deferral limit applicable to a Puerto Rico only qualified plan (e., \$15,000 for 2025 and 2026); and

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2. The annual contribution limit to a PR IRA (e., \$7,000 for 2025 and \$7,500 for 2026).

Although this is a positive attempt to grant Puerto Rico employees the same retirement and tax benefits granted to the U.S. employees under the USIRC, the new elective deferral limits for dual qualified plans for the years 2025 and 2026 are still below the maximum elective deferral caps of \$23,500 for 2025 and \$24,500 for 2026, as set forth by the IRS under the USIRC.

Despite the clear language of the Act, we strongly recommend sponsors/administrators of dual qualified plans to wait for the PR Treasury to formally publish the applicable annual pension limits for 2026 (and any clarification regarding the year 2025) before implementing any changes to elective deferral limits for Puerto Rico resident participants. Under the PRIRC, the Secretary of the PR Treasury will notify the annual Puerto Rico pension limits applicable through regulation, circular letter or administrative determination after the IRS has published the USIRC limitations.

Puerto Rico employees participating in a retirement plan qualified only under the PRIRC continue to be subject to the annual elective deferrals limit of \$15,000, as provided under the PRIRC. However, they will be able to increase their annual contributions to a PR IRA, as provided by the Act.

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