



IRC 403(b)/ 457 Outreach Program

Internal Revenue Service

Partnership for Compliance

Tax Sheltered Annuities



403(b) & Voluntary Compliance

- ✓ Examinations – 403(b)/457
 - Focused and directed – work plan
 - Consistent approach
- ✓ Customer Education and Outreach
- ✓ Correction Program
 - EPCRS: Rev. Procedure 2001-17



Measurement of Efforts Changes in Behavior

- ✓ Employers – Pro-active Involvement
- ✓ More use of full service vendors
- ✓ Use of hold harmless agreements
- ✓ Providers – Enhanced Service



The Primary Defects

- ✓ From:
 - Exams
 - Walk-Ins
- ✓ The new law – how will it help?
- ✓ EGTRRA – born June 2001



Maximum Exclusion Allowance

- ✓ Excesses
- ✓ EGTRRA
 - No more MEA
 - No more catch-ups



Maximum Exclusion Allowance - The Biggest Change

- ✔ Started in 1958
- ✔ Ended in 2001
- ✔ Beginning 1-1-2002 no more computation



Employer Allocations – 415 Excesses

- ✓ Lesser of 25% of compensation or \$35,000
- ✓ EGTRRA
 - Lesser of 100% of includible compensation or \$40,000
 - Higher limits = less defects



Compensation Caution

- ▼ Compensation = Old definition of includible compensation = Most recent one year period of service



Uncorrected Elective Deferral Excesses

- ✓ Salary reductions of $> \$10,500$
- ✓ EGTRRA : $\$11,000 - \$15,000$
- ✓ Age 50 or older add $\$1,000 - \$5,000$
- ✓ Higher limits = less defects
- ✓ Potential in 2006
 - $\$20,000$ of elective deferrals



Elective Non-Discrimination

- ▼ Defect – Failing to provide universal availability of salary reduction opportunities
- ▼ EGTRRA – No change



Violation of Access Restrictions

- ✓ Taking distributions
 - Before age 59 ½
 - Before leaving service
 - Etc.

- ✓ EGTRRA – No change



Anticipated 457 Defects

- ✓ 457(b) dollar excesses $>$ \$8,500
 - (includes electives and non-electives)
- ✓ Excesses due to 457(b)/403(b) coordinated limits
- ✓ EGTRRA – dollar limit raised
 - \$11,000 - \$15,000 + age 50 extra \$'s
- ✓ Coordination limits repealed



2006 Potential Deferral

▼ 403(b) + 457(b) Up to:

\$43,000



EGTRRA Effective Date

- ✓ Years after 12/31/2001
- ✓ Exception:
 - Defined benefits amount previously excludible for MEA computation – gone after 12/31/1999
- ✓ Caution: Exam realities



But There's More...

**Additional EGTRRA
Tax-Sheltered Annuity
Highlights:**



Purchase of Past Service Credits

- ✓ In-service asset transfers to state-defined benefit plans:
 - from:
 - 403(b)
 - 457(b)



Aggregation of Multi-Plan Limits

- ✓ 415 employer allocations – combining 403(b) and 401(a) plans
- ✓ When: Participant's control of organization



Separation from Service

Now:

- ✓ Severance of employment
- ✓ Same desk rule gone



After Leaving Service

- ✓ Employer contributions for participant for up to five years after leaving service



Expanded Portability

- ✓ New 403(b), 457(b) (governmental plans) rollover rights
- ✓ But remember :
 - No access = No rollover



EPCRS - Corrections

- ✓ Revenue Procedure 2001-17
 - SCP } Employers
 - VCT }
 - VC Group – Providers
 - Audit CAP
- ✓ Not Applicable to 457



EGTRRA & Corrections

- ✓ MEA Excesses
- ✓ Administrative Procedures

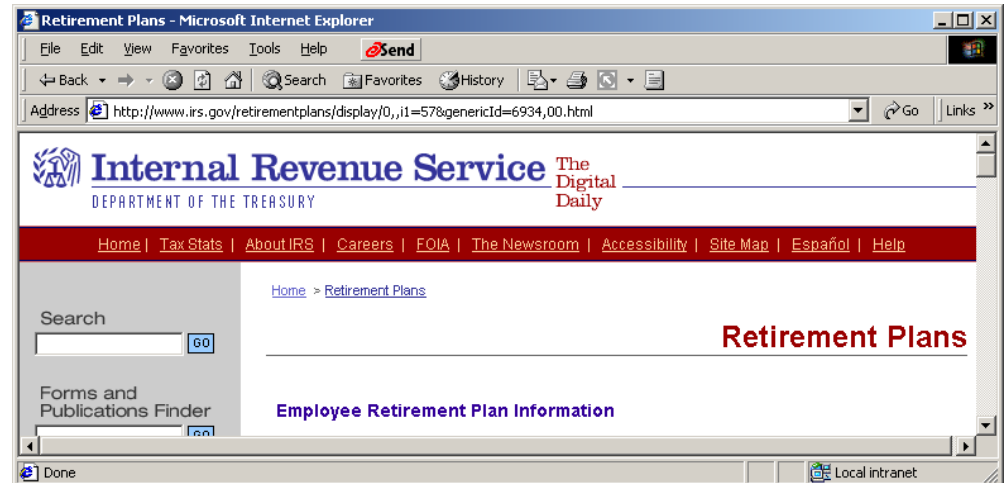


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IRC 403(b)
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