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Tax-Sheltered Annuity Plans (403(b) Plans)

For Employees of Public Schools and Certain Tax-Exempt Organizations

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Contents

Important Changes for 2001

Amounts previously excludable. Amounts previously excludable for purposes of figuring your maximum exclusion allowance (MEA) does not include contributions to a defined benefit plan. See chapter 3.

Increase in limit on annual additions. For 2001, the limit on annual additions, is the lesser of $35,000, or 25% of your compensation. This is an increase from the lesser of $30,000, or 25% of your compensation. See chapter 4.

Increase in limit on contributions to 403(b) plan and 457 plan. For 2001, the general limit on contributions in the same year to both a 403(b) plan and a 457 plan is the lesser of $8,500 or one-third of your includible compensation. This is an increase from the lesser of $8,000 or one-third of your includible compensation. See chapter 8.

Important Changes for 2002

Maximum amount contributable (MAC). For tax years beginning after 2001, your MAC is the lesser of the limit on annual additions, or the limit on elective deferrals. See chapter 9.

Repeal of the maximum exclusion allowance (MEA). For tax years beginning after 2001, you will not need to figure your MEA to determine the maximum amount that can be contributed to your 403(b) account (your MAC). See chapter 9.

Repeal of the minimum exclusion allowance for church employees. For tax years beginning after 2001, church employees can no longer use the minimum exclusion allowance to figure the maximum amount that can be contributed to a 403(b) account. See chapter 9.

Repeal of the alternative limits on annual additions. For tax years beginning after 2001, the year of separation from service limit, the any year limit, and the overall limit can no longer be used to figure the limit on annual additions. See chapter 9.

Repeal of the coordination rules between 403(b) plans and 457 plans. For tax years beginning after 2001, in the year you contribute to both a 403(b) plan and a 457 plan, you do not reduce the maximum deferral limit of the 457 plan by the amount of contributions made to your 403(b) account. If you contribute to a 457 plan in 2002, see your plan administrator for contribution limits. See chapter 9.

Increase in the limit on annual additions. For tax years beginning after 2001, the limit on annual additions under the general rule is the lesser of $40,000 or 100% of your includible compensation for your most recent year of service. This is an increase from the lesser of $35,000, or 25% of your compensation for the limitation year. See chapter 9.

Increase in the limit on elective deferrals. For 2002, the limit on elective deferrals has been increased from $10,500 to $11,000. See chapter 9.

Includible compensation used to determine your limit on annual additions. For tax years beginning after 2001, when figuring the limit on annual additions you will use includible compensation for your most recent year of service and not your compensation for the limitation year. See chapter 9.

Includible compensation after a termination from service. For tax years beginning after 2001, your includible compensation for your most recent year of service will not include amounts received from a former employer after the fifth year following the year in which your employment is terminated. See chapter 9.

Includible compensation for foreign missionaries. For tax years beginning after 2001, if you are a foreign missionary, your includible compensation does not include contributions made by the church during the year to your 403(b) account. See chapter 9.

CAUTION *As this publication was being prepared for print, Congress was considering legislation that would allow foreign missionaries to include contributions made by the church during the year to your 403(b) account in includible compensation.*

Catch-up contributions for persons age 50 or over. If you are age 50 or over, you may be permitted to make additional ***catch-up contributions***, of up to $1,000 to your 403(b) plan for 2002. See chapter 10.

Credit for elective deferrals. For tax years beginning after 2001, you may be eligible to take a percentage of your actual elective deferrals as a credit. For more information, see Publication 553, *Highlights of 2001 Tax Changes*.

Exception to rollover rules. For distributions after 2001, the IRS may waive the 60-day rollover period if the failure to waive such requirement would be against equity or good conscience, including cases of casualty, disaster, or other events beyond the reasonable control of the individual. See chapter 12.

Direct trustee-to-trustee transfers. If you make a direct trustee-to-trustee transfer after 2001 from your governmental 403(b) account to a defined benefit governmental plan, it may not be included in your gross income. For more information, see chapter 12.

Rollover options. For distributions after 2001, you can roll over, tax free, money and other property that would otherwise be taxable from an eligible retirement plan to a 403(b) plan. For more information, see Publication 575.

Additionally, you can roll over, tax free, money and other property that would otherwise be taxable from a 403(b) plan to an eligible retirement plan. For more information see chapter 12.

Rollovers by the surviving spouse. If you are the surviving spouse of a 403(b) plan participant, you can roll over distributions made after 2001 from your spouse's 403(b) plan to an eligible retirement plan. For more information see chapter 12.

Important Reminders

Includible compensation. Your includible compensation for your most recent year of service includes the value of qualified transportation fringe benefits received from your employer. See chapter 3.

Compensation. Your compensation for purposes of figuring your limit on annual additions, for 2001, includes the value of qualified transportation fringe benefits received from your employer. See chapter 4.

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling **1–800–THE–LOST (1–800–843–5678)** if you recognize a child.

Introduction

This publication can help you better understand the tax rules that apply to your 403(b) (tax-sheltered annuity) plan.

In this publication you will find information to help you:

- Determine the maximum amount that can be contributed to your 403(b) account in the current year,
- Determine the maximum amount that could have been contributed to your 403(b) account in the previous year,
- Identify excess contributions,
- Determine the contribution limits for years in which contributions are made to both a 403(b) plan and a 457 plan, and
- Understand the basic rules for distributions and rollovers from 403(b) accounts.

This publication does not provide specific information on the following topics.

- Distributions from 403(b) accounts. This is covered in Publication 575, *Pension and Annuity Income.*
- Rollovers. This is covered in Publication 590, *Individual Retirement Arrangements (IRAs).*

How to use this publication. This publication is organized into chapters to help you find information easily.

Chapter 1 answers questions frequently asked by 403(b) plan participants.

Chapters 2 through 8 explain the rules and terms you need to know to figure the maximum amount that could have been contributed to your 403(b) account for 2001.

Chapter 9 explains how to determine the maximum amount that can be contributed to your 403(b) account (your MAC) for 2002. Chapter 9 explains recent changes and provides examples to assist you in figuring your MAC for 2002.

Chapter 10 explains the requirements for the new catch-up contributions.

Chapter 11 provides general information on the prevention and correction of excess contributions to your 403(b) account.

Chapter 12 provides general information on distributions and rollovers.

Chapter 13 provides blank worksheets that you will need to accurately and actively participate in your 403(b) plan. Filled-in samples of most of these worksheets can be found throughout this publication.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

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We respond to many letters by telephone. Therefore, it would be helpful if you would include your area code and daytime phone number in your correspondence.

Useful Items

You may want to see:

Publication

- ❏ **517** Social Security and Other Information for Members of the Clergy and Religious Workers
- ❏ **575** Pension and Annuity Income
- ❏ **590** Individual Retirement Arrangements (IRAs)

Form (and Instructions)

- ❏ **W–2** Wage and Tax Statement
- ❏ **1099–R** Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
- ❏ **5330** Return of Excise Taxes Related to Employee Benefit Plans

1.

403(b) Plan Basics

This chapter introduces you to 403(b) plans and accounts. Specifically, the chapter answers the following questions.

- What is a 403(b) plan?
- Who can participate in a 403(b) plan?
- Who can set up a 403(b) account?
- How can contributions be made to my 403(b) account?
- Do I report contributions on my tax return?
- How much can be contributed to my 403(b) account?

What is a 403(b) Plan?

A 403(b) plan, also known as a tax-sheltered annuity (TSA) plan, is a retirement plan for certain employees of public schools, employees of certain tax-exempt organizations, and certain ministers.

Individual accounts in a 403(b) plan can be any of the following types.

- An annuity contract, which is a contract provided through an insurance company,
- A custodial account, which is an account invested in mutual funds, or
- A retirement income account set up for church employees. Generally, retirement income accounts can invest in either annuities or mutual funds.

Note. Throughout this publication, wherever the term ***403(b) account*** is used, it refers to any one of these funding arrangements, unless otherwise specified.

What are the Benefits of Contributing to a 403(b) Plan?

There are three benefits to contributing to a 403(b) plan.

- The first benefit is that you do not pay tax on the contributions in the year they are made. You do not pay tax on them until you begin making withdrawals from the plan, usually after you retire. Contributions to a 403(b) plan are either excluded or deducted from your income.
- The second benefit is that earnings and gains on amounts in your 403(b) account are not taxed until you withdraw them.
- The third benefit is that for years beginning after 2001, you may be eligible to take a credit for elective deferrals contributed to your 403(b) account. For more information, see Publication 553.

Excluded. If an amount is excluded from your income, it is not included in your total wages on your Form W-2. This means that you do not report the excluded amount on your tax return.

Deducted. If an amount is deducted from your income, it is included with your other wages on your Form W-2. You report this amount on your tax return, but you are allowed to subtract it when figuring the amount of income on which you must pay tax.

Who Can Participate in a 403(b) Plan?

Any eligible employee can participate in a 403(b) plan.

Eligible employees. The following employees are eligible to participate in a 403(b) plan.

- Employees of tax-exempt organizations established under section 501(c)(3) of the Internal Revenue Code. These organizations are usually referred to as ***section 501(c)(3) organizations*** or simply ***501(c)(3) organizations***.
- Certain employees of public school systems. These are employees involved in the day-to-day operations of a school.
- Employees of cooperative hospital service organizations.
- Civilian faculty and staff of the Uniformed Services University of the Health Sciences (USUHS). (Contributions made after 1979 for the benefit of faculty and staff of USUHS are subject to the rules described in this publication.)
- Employees of public school systems organized by Indian tribal governments.
- Certain ministers (explained next).

Ministers. The following ministers are eligible employees for whom a 403(b) account can be established.

1) Ministers employed by section 501(c)(3) organizations.
2) Self-employed ministers. A self-employed minister is treated as employed by a tax-exempt organization that is a qualified employer.
3) Ministers (chaplains) who meet all three of the following requirements.
   a) They are employed by organizations that are not section 501(c)(3) organizations.
   b) They function as ministers in their day-to-day professional responsibilities with their employers.
   c) They do not share common religious bonds with their employers.

Note. Throughout this publication, the term ***chaplain*** will be used to mean ministers described in the third category in the list above.

Example. A minister employed as a chaplain by a state-run prison and a chaplain in the United States Armed Forces are eligible employees because their employers are not section 501(c)(3) organizations, they are employed as ministers, and their employers do not share their religious affiliation.

Who Can Set Up a 403(b) Account?

You cannot set up your own 403(b) account. Only employers can set up 403(b) accounts. A self-employed minister cannot set up a 403(b) account for his or her benefit. If you are a self-employed minister, only the organization (denomination) with which you are associated can set up an account for your benefit.

How Can Contributions Be Made to My 403(b) Account?

Generally, only your employer can make contributions to your 403(b) account. However, some plans will allow you to make after-tax contributions (defined later).

The following types of contributions can be made to 403(b) accounts.

1) **Elective deferrals**. These are contributions made under a salary reduction agreement. This agreement allows your employer to withhold money from your paycheck to be contributed directly into a 403(b) account for your benefit. You do not pay tax on these contributions until you withdraw them from the account.
2) **Nonelective contributions** . These are employer contributions that are not made under a salary reduction agreement. You do not pay tax on these contributions until you withdraw them from the account. Nonelective contributions include matching contributions, discretionary contributions, and mandatory contributions from your employer.
3) **After-tax contributions**. These are contributions you make with funds that you must include in income on your tax return. A salary payment on which income tax has been withheld is a source of these contributions. If your plan allows you to make after-tax contributions, they are not excluded from income and you cannot deduct them on your tax return.
4) **A combination** of any of the three contribution types listed above.

Self-employed minister. If you are a self-employed minister, you are considered both an employee and an employer, and you can contribute to a retirement income account for your own benefit.

Do I Report Contributions on My Tax Return?

Generally, you do not report contributions to your 403(b) account on your tax return. Your employer will report contributions on your Form W-2. Elective deferrals will be shown in box 12 and the ***Retirement plan*** box will be checked. If you are a self-employed minister or chaplain, see the discussions below.

Self-employed ministers. If you are a self-employed minister, you must report the total contributions as a deduction on your tax return. Deduct your contributions on line 29 of Form 1040.

Chaplains. If you are a chaplain and your employer does not exclude contributions made to your 403(b) account from your earned income, you may be able to take a deduction for those contributions on your tax return.

However, if your employer has agreed to exclude the contributions from your earned income, you will not be allowed a deduction on your tax return.

If you can take a deduction, enter your contributions on line 32 of Form 1040. Write ***403(b)*** on the dotted line next to line 32.

How Much Can Be Contributed to My 403(b) Account?

There are limits on the amount of contributions that can be made to your 403(b) account each year. If contributions made to your 403(b) account are more than these contribution limits, penalties may apply.

Chapters 2 through 8 provide information on how to determine the amount that can be contributed to your 403(b) account for 2001.

Chapters 9 and 10 provide information on figuring the amount that can be contributed to your 403(b) account in 2002.

CAUTION *If you contributed to both a 403(b) plan and a 457 plan in 2001, the information discussed in chapters 2 through 7 does not apply to you. You will need to read Chapter 8,* Contributing to Both a 403(b) Plan and a 457 Plan.

Worksheets are provided in chapter 13 to help you determine the maximum amount that can be contributed to your 403(b) account each year. Chapter 11, *Excess Contributions,* describes steps you can take to prevent excess contributions and to get an excess contribution corrected.

2.

Maximum Amount Contributable (MAC) for 2001

CAUTION *This chapter applies only to 2001. The rules for determining MAC for 2002 are explained under* Maximum Amount Contributable (MAC) *in chapter 9.*

Throughout this publication, the limit on the amount that can be contributed to your 403(b) account for any year is referred to as your maximum amount contributable (MAC). This chapter:

- Introduces the components of your MAC for 2001,
- Tells you how to figure your MAC for 2001, and
- Tells you when to figure your MAC.

CAUTION *If in 2001, you contributed to both a 403(b) plan and a 457 plan, the information discussed in this chapter does not apply to you. You will need to read chapter 8.*

Components of Your MAC

Generally, before you can determine your MAC for 2001, you must first figure the three components of your MAC. The three components of your MAC for 2001 are the:

- Maximum exclusion allowance (MEA) (chapter 3),
- Limit on annual additions (chapter 4), and
- Limit on elective deferrals (chapter 5).

How Do I Figure My MAC?

Generally, contributions to your 403(b) account for 2001 are limited to the least of:

- The MEA,
- The limit on annual additions, or
- The limit on elective deferrals.

Depending upon the type of contributions made to your 403(b) account, only two of the limits may apply to you for 2001.

General contribution limits. If all of the contributions made to your 403(b) account were elective deferrals (salary reductions), you will need to figure all three of the limits listed above. Your MAC is the least of the three limits.

Only nonelective contributions. If all of the contributions made to your 403(b) account were nonelective contributions, you will need to figure only the MEA and the limit on annual additions. Your MAC is the lesser of these two limits.

Elective deferrals and nonelective contributions. If the contributions made to your 403(b) account were a combination of both elective deferrals and nonelective contributions, you will need to figure all three of the limits listed above. Your MAC is the lesser of your MEA or your limit on annual additions.

However, you need to figure the limit on elective deferrals to determine whether the amount contributed to your 403(b) account is more than that limit. For information on the limit on elective deferrals, see chapter 5.

Alternative limits. If you were an employee of certain tax-exempt organizations, you may be eligible to figure your MAC for 2001 using the following limits.

- An alternative limit (explained in Chapter 6, *Alternative Limits for Annual Additions*).
- An increased limit on elective deferrals (explained in Chapter 5, *Limit on Elective Deferrals*).

You may be able to use the limits listed above if you were an eligible employee (described in chapter 1) of one of the following organizations.

- An educational organization.
- A hospital.
- A home health service agency.
- A health and welfare service agency.
- A church, convention, or association of churches.

Church employees. In addition to the alternative limits and the increased limit on elective deferrals, certain church employees may be able to figure the components of MAC using different methods. See Chapter 7, *Ministers and Church Employees*.

Worksheets. Worksheets are available in chapter 13 to help you figure your MAC.

When Should I Figure My MAC?

At the beginning of 2002, you should refigure your 2001 MAC based on your actual compensation for 2001. This will allow you to determine if the amount that has been contributed to your 403(b) account for 2001 has exceeded the allowable limits and, in some cases, avoid penalties and additional taxes. See chapter 11.

Generally, you should figure your MAC for the current year at the beginning of each tax year using a conservative estimate of your compensation. If your compensation changes during the year, you should refigure your MAC based on a revised conservative estimate. By doing this, you will be able to determine if contributions to your 403(b) account should be increased or decreased for the year.

3.

Maximum Exclusion Allowance (MEA)

The maximum exclusion allowance (MEA) has been repealed for years beginning after 2001. When figuring your MAC for 2002 and later years, you will not use MEA.

The maximum exclusion allowance (MEA) is the first component of MAC for 2001. Your MEA is the limit on the amount of contributions your employer could make to your 403(b) account for 2001.

You need to figure your MEA separately for each employer who has established a 403(b) account for your benefit. When figuring your MEA, do not mix the information of one employer with the information of another employer.

More than one account, same employer. *If during 2001, you have two or more 403(b) accounts maintained by the same employer, figure only one MEA for all 403(b) accounts maintained by that employer because they are considered one account.*

More than one employer. *If more than one employer contributed to a 403(b) account for you, you must figure a separate MEA for each employer.*

MEA formula. To figure your MEA you will need to understand the following concepts.

- Years of service.
- Includible compensation for your most recent year of service.
- Amounts previously excludable.

Your MEA is ***20% of your includible compensation for your most recent year of service*** multiplied by your ***years of service***, and then reduced by ***amounts previously excludable***.

You can use Worksheet A, *Maximum Exclusion Allowance (MEA),* in chapter 13, to figure your MEA.

Church employees. If you are a church employee, you may be able to use different rules when figuring your MEA. For more information, see chapter 7.

Years of Service

The first step in figuring your MEA is to determine your ***years of service***. How you figure your years of service depends on whether you were a full-time or a part-time employee, whether you worked for the full year or only part of the year, and whether you have worked for your employer for an entire year.

You must figure years of service for each year during which you worked for the employer who is maintaining your 403(b) account.

If more than one employer maintains a 403(b) account for you in the same year, you must figure years of service separately for each employer.

Definition

Your years of service are the total number of years you have worked for the employer maintaining your 403(b) account as of the end of the year.

Figuring Your Years of Service

Take the following rules into account when figuring your years of service.

Status of employer. Your years of service include only periods during which your employer was a qualified employer. Your plan administrator can tell you whether or not your employer was qualified during all your periods of service.

Service with one employer. Generally, you cannot count service for any employer other than the one who maintains your 403(b) account.

Church employee. If you are a church employee, treat all of your years of service with related church organizations as years of service with the same employer. For more information about church employees, see chapter 7 if you are figuring your MAC for 2001. If you are figuring your MAC for 2002, see chapter 9.

Self-employed ministers. If you are a self-employed minister, your years of service include full and part years in which you have been treated as employed by a tax-exempt organization that is a qualified employer.

Less than one year of total service. Your years of service cannot be less than one year. If at the end of your tax year, you have less than one year of service (including service in any previous years), figure your MEA as if you have one year.

Total years of service. When figuring years of service, figure each year individually and then add the individual years of service to determine your total years of service, ending with the year for which the MEA is being calculated. The total years of service will be used when figuring your MEA.

Example. The annual work period for full-time teachers employed by ABC Public Schools is September through December and February through May. Marsha began working with ABC schools in September 1997. She has always worked full time for each annual work period. At the end of 2001, Marsha had 4.5 years of service with ABC Public Schools, as shown in Table 3-1.

Table 3-1. **Marsha's Years of Service**

Note: *This table shows how Marsha figures her years of service, as explained in the previous example.*

Year	Period Worked	Portion of Work Period	Years of Service
1997	Sept.—Dec.	.5 year	.5 year
1998	Feb.—May	.5 year	1 year
	Sept.—Dec.	.5 year	
1999	Feb.—May	.5 year	1 year
	Sept.—Dec.	.5 year	
2000	Feb.—May	.5 year	1 year
	Sept.—Dec.	.5 year	
2001	Feb.—May	.5 year	1 year
	Sept.—Dec.	.5 year	
Total years of service			**4.5 years**

To figure your years of service, you must analyze each year individually and determine whether you worked full time for the full year or something other than full time. When determining whether you worked full time or something other than full time, you use your employer's annual work period as the standard.

Employer's annual work period. Your employer's annual work period is the usual amount of time an individual working full time in a specific position is required to work. Generally, this period of time is expressed in days, weeks, months, or semesters and can span two calendar years.

Example. All full-time teachers at ABC Public Schools are required to work both the September through December semester and the February through May semester. Therefore, the annual work period for full-time teachers employed by ABC Public Schools is September through December and February through May. Teachers at ABC Public Schools who work both semesters in the same calendar year are considered working a full year of service in that calendar year.

Full-Time Employee for the Full Year

Count each full year during which you were employed full time as one year of service. In determining whether you were employed full time, compare the amount of work you were required to perform with the amount of work normally required of others who held the same position with the same employer and who generally received most of their pay from the position.

How to compare. You can use any method that reasonably and accurately reflects the amount of work required. For example, if you are a teacher, you can use the number of hours of classroom instruction as a measure of the amount of work required.

In determining whether positions with the same employer are the same, consider all of the facts and circumstances concerning the positions, including the work performed, the methods by which pay is determined, and the descriptions (or titles) of the positions.

Example. An assistant professor employed in the English department of a university will be considered a full-time employee if the amount of work that he or she is required to perform is the same as the amount of work normally required of assistant professors of English at that university who get most of their pay from that position.

If no one else works for your employer in the same position, compare your work with the work normally required of others who held the same position with similar employers or similar positions with your employer.

Full year of service. A full year of service for a particular position means the usual annual work period of anyone employed full time in that general type of work at that place of employment.

Example. If a doctor works for a hospital 12 months of a year except for a one-month vacation, the doctor will be considered as employed for a full year if the other doctors at that hospital also work 11 months of the year with a one-month vacation. Similarly, if the usual annual work period at a university consists of the fall and spring semesters, an instructor at that university who teaches these semesters will be considered as working a full year.

Other Than Full Time for the Full Year

If, during any year, you were employed full time for only part of your employer's annual work period, part time for the entire annual work period, or part time for only part of the work period, your year of service for that year is a fraction of your employer's annual work period.

Full time for part of the year. If, during a year, you were employed full time for only part of your employer's annual work period, figure the fraction for that year as follows.

- The numerator (top number) is the number of weeks, months, or semesters you were a full-time employee.
- The denominator (bottom number) is the number of weeks, months, or semesters considered the normal annual work period for the position.

Example. Jason was employed as a full-time instructor by a local college for the 4 months of the 2000 spring semester (February 2000 through May 2000). The annual work period for the college is 8 months (February through May and July through October). Given these facts, Jason was employed full time for part of the annual work period and provided $1/2$ of a year of service. Jason's years of service computation for 2000 is as follows.

$$\frac{\text{Number of months Jason worked}}{\text{Number of months in annual work period}} = \frac{4}{8} = \frac{1}{2}$$

Part time for the full year. If, during a year, you were employed part time for the employer's entire annual work period, you figure the fraction for that year as follows.

- The numerator (top number) is the number of hours or days you worked.
- The denominator (bottom number) is the number of hours or days required of someone holding the same position who works full time.

Example. Vance teaches one course at a local medical school. He teaches 3 hours per week for two semesters. Other faculty members at the same school teach 9 hours per week for two semesters. The annual work period of the medical school is two semesters. An instructor teaching 9 hours a week for two semesters is considered a full-time employee. Given these facts, Vance has worked part time for a full annual work period. Vance has completed $1/3$ of a year of service, figured as shown below.

$$\frac{\text{Number of hours per week Vance worked}}{\text{Number of hours per week considered full time}} = \frac{3}{9} = \frac{1}{3}$$

Part time for part of the year. If, during any year, you were employed part time for only part of your employer's annual work period, you figure your fraction for that year by multiplying two fractions.

Figure the first fraction as though you had worked full time for part of the annual work period. The fraction is as follows.

- The numerator (top number) is the number of weeks, months, or semesters you were a full-time employee.
- The denominator (bottom number) is the number of weeks, months, or semesters considered the normal annual work period for the position.

Figure the second fraction as though you had worked part time for the entire annual work period. The fraction is as follows.

- The numerator (top number) is the number of hours or days you worked.
- The denominator (bottom number) is the number of hours or days required of someone holding the same position who works full time.

Once you have figured these two fractions, multiply them together to determine the fraction representing your partial year of service for the year.

Example. Maria, an attorney, teaches a course for one semester at a law school. She teaches 3 hours per week. The annual work period for teachers at the school is two semesters. All full-time instructors at the school are required to teach 12 hours per week. Based on these facts, Maria is employed part time for part of the annual work period. Her year of service for this year is determined by multiplying two fractions. Her computation is as follows.

Maria's first fraction:

$$\frac{\text{Number of semesters Maria worked}}{\text{Number of semesters in annual work period}} = \frac{1}{2}$$

Maria's second fraction:

$$\frac{\text{Number of hours Maria worked per week}}{\text{Number of hours per week considered full time}} = \frac{3}{12} = \frac{1}{4}$$

Maria would multiply these fractions to obtain the fractional year of service:

$1/2 \times 1/4 = 1/8$.

Includible Compensation for Your Most Recent Year of Service

For 2002, you will need to figure your includible compensation for your most recent year of service for purposes of figuring your limit on annual additions as discussed in Chapter 9.

After you have figured your years of service, the next step in figuring your MEA is determining your includible compensation for your most recent year of service. When figuring includible compensation for your most recent year of service, do not mix compensation or service of one employer with compensation or service of another employer.

Most Recent Year of Service

Your most recent year of service is your last full year of service, ending on the last day of your tax year that you worked for the employer that maintains a 403(b) account on your behalf. To figure your most recent year of service, you will need to understand the rules discussed under *Years of Service*, earlier.

When determining your includible compensation, for purposes of figuring your MEA, keep in mind that your most recent year of service may not be the same as your employer's most recent annual work period. This can happen if your tax year is not the same as your employer's annual work period.

Tax year different from employer's annual work period. If your tax year is not the same as your employer's annual work period, your most recent year of service is made up of parts of at least two of your employer's annual work periods.

Example. A professor who reports her income on a calendar-year basis is employed on a full-time basis by a university that operates on an academic year (October through May). For purposes of figuring her MEA for 2001, the professor's most recent year of service consists of her service performed during January through

May of 2001 and her service performed during October through December of 2001.

Figuring Your Most Recent Year of Service

To figure your most recent year of service, begin by determining what constitutes a full year of service for your position. A full year of service is equal to full-time employment for your employer's annual work period.

After identifying a full year of service, begin counting the service you have provided for your employer starting with the service provided in the current year. To help you count your years of service, follow the rules discussed under *Figuring Your Years of Service*, earlier.

Part-time or employed only part of year. If you are a part-time employee, or a full-time employee who is employed for only part of the year, your most recent year of service consists of your service this year and your service for as many previous years as is necessary to total one full year of service. You add up your most recent periods of service to determine your most recent year of service. First, take into account your service during the year for which you are figuring the MEA (the limit on annual additions for 2002). Then add your service during your next preceding tax year, and years before that, until your total service equals one year of service.

Example. You were employed on a full-time basis during the months July through December 1999 (1/2 year of service), July through December 2000 (1/2 year of service), and October through December 2001 (1/4 year of service). Your most recent year of service for purposes of computing your MEA for 2001 is the total of your service during 2001 (1/4 year of service), your service during 2000 (1/2 year of service), and your service during the months October through December 1999 (1/4 year of service).

Not yet employed for one year. If, at the close of the year, you have not yet worked for your employer for one year (including time you worked for the same employer in earlier years), use the period of time you have worked for the employer as your most recent year of service.

Includible Compensation

After identifying your most recent year of service, the next step is to identify the includible compensation associated with that full year of service.

Includible compensation is not the same as income included on your tax return. Compensation is a combination of income and benefits received in exchange for services provided to your employer.

Generally, includible compensation is the amount of income and benefits:

- Received from the employer who maintains your 403(b) account, and
- That you must include in income.

You determine the amount you must include in income without taking into account the foreign earned income exclusion.

Includible compensation ***does*** include the following amounts.

- Elective deferrals (employer's contributions made on your behalf under a salary reduction agreement).
- Amounts contributed or deferred by your employer under a section 125 cafeteria plan.
- Amounts contributed or deferred, at the election of the employee, under an eligible section 457 nonqualified deferred compensation plan (state or local government or tax-exempt organization plan).
- Wages, salaries, and fees for personal services earned with the employer maintaining your 403(b) account.
- Income otherwise excluded under the foreign earned income exclusion.
- The value of qualified transportation fringe benefits.

Includible compensation ***does not*** include the following items.

1) Your employer's contributions to your 403(b) account.
2) Compensation earned while your employer was not an eligible employer.
3) Your employer's contributions to a qualified plan that:
   a) Are on your behalf, and
   b) You can exclude from income.
4) Contributions that are more than your MEA.
5) The cost of incidental life insurance.

Note. If you are a church employee or a foreign missionary, figure includible compensation for 2001 using the method explained in chapter 7. For information on figuring includible compensation for 2002 see chapter 9.

Cost of Incidental Life Insurance

Includible compensation does not include the cost of incidental life insurance.

Note. If all of your 403(b) accounts invest only in mutual funds, then you have no incidental life insurance.

If you have an annuity contract, a portion of the cost of that contract may be for incidental life insurance. If so, the cost of the insurance is taxable to you in the year contributed and is considered part of your basis when distributed. Your employer will include the cost of your insurance as taxable wages in box 1 of Form W-2.

Not all annuity contracts include life insurance. Contact your plan administrator to determine if your account includes incidental life insurance. If it does, you will need to figure the cost of life insurance each year the policy is in effect.

Figuring the cost of incidental life insurance. If you have determined that part of the cost of your annuity contract is for an incidental life insurance premium, you will need to determine the amount of the premium and subtract it from your includible compensation.

To determine the amount of the life insurance premiums you will need to know the following information.

- The value of your life insurance contract, which is the amount payable upon your death.
- The cash value of your life insurance contract at the end of the tax year.
- Your age on your birthday nearest the beginning of the policy year.
- Your current life insurance protection under an ordinary retirement income life insurance policy, which is the amount payable upon your death minus the cash value of the contract at the end of the year.

Example. Your new contract provides that your beneficiary will receive $10,000 if you should die anytime before retirement. Your cash value in the contract at the end of the first year is zero. Your current life insurance protection for the first year is $10,000 ($10,000 minus 0).

The cash value in the contract at the end of year two is $1,000, and the current life insurance protection for the second year is $9,000 ($10,000 – $1,000).

You can use Worksheet B in chapter 13 to determine the cost of your life insurance.

The one-year cost of the protection can be calculated by using Figure 3-1, *Uniform One-Year Term Premiums for $1,000 Life Insurance Protection*. The premium rate is determined according to your age on your birthday nearest the beginning of the policy year.

Figure 3-1. **Uniform One-Year Term Premiums for $1,000 Life Insurance Protection**

[Based on Table 38, U.S. Life Table and Actuarial Table (U.S. Government Printing Office, Washington, D.C. – 1946), and $2\frac{1}{2}$% interest.]

Age	Cost	Age	Cost
15	$1.27	49	$8.53
16	1.38	50	9.22
17	1.48	51	9.97
18	1.52	52	10.79
19	1.56	53	11.69
20	1.61	54	12.67
21	1.67	55	13.74
22	1.73	56	14.91
23	1.79	57	16.18
24	1.86	58	17.56
25	1.93	59	19.08
26	2.02	60	20.73
27	2.11	61	22.53
28	2.20	62	24.50
29	2.31	63	26.63
30	2.43	64	28.98
31	2.57	65	31.51
32	2.70	66	34.28
33	2.86	67	37.31
34	3.02	68	40.59
35	3.21	69	44.17
36	3.41	70	48.06
37	3.63	71	52.29
38	3.87	72	56.89
39	4.14	73	61.89
40	4.42	74	67.33

41	4.73	75	73.23
42	5.07	76	79.63
43	5.44	77	86.57
44	5.85	78	94.09
45	6.30	79	102.23
46	6.78	80	111.04
47	7.32	81	120.57
48	7.89		

Note. *If the current published premium rates per $1,000 of insurance protection charged by an insurer for individual one-year term life insurance premiums available to all standard risks are lower than those in the preceding table, you can use the lower rates for figuring the cost of insurance in connection with individual policies issued by the same insurer.*

Example. Lynne Green and her employer enter into a 403(b) plan that will provide her with a $500 a month annuity upon retirement at age 65. The agreement also provides that if she should die before retirement, her beneficiary will receive the greater of $20,000 or the cash surrender value in the life insurance contract. Using the facts presented we can determine the cost of Lynne's life insurance protection as shown in Table 3-2.

Table 3-2. Worksheet B. Cost of Life Insurance

Note: *Use this worksheet to figure the cost of incidental life insurance included in your annuity contract. This amount will be used to figure includible compensation for your most recent year of service.*

1. Enter the value of the contract (amount payable upon your death)	$ 20,000.00
2. Enter the cash value in the contract at the end of the year	$ 0
3. Subtract line 2 from line 1. This is the **value of your current life insurance protection** .	$ 20,000.00
4. Enter your age on your birthday nearest the beginning of the policy year	44
5. Enter the 1-year term premium for $1,000 of life insurance based on your age (Figure 3-1) .	$ 5.85
6. Divide line 3 by **$1,000** .	$ 20
7. Multiply line 6 by line 5. This is the **cost of your incidental life insurance**	$ 117.00

Lynne's employer has included $117 for the cost of the life insurance protection in her current year's income. When figuring her includible compensation for this year, Lynne will subtract $117.

Example. Lynne's cash value in the contract at the end of the second year is $1,000. In year two, the cost of Lynne's life insurance is calculated as shown in Table 3-3.

Table 3-3. Worksheet B. Cost of Life Insurance

Note: *Use this worksheet to figure the cost of incidental life insurance included in your annuity contract. This amount will be used to figure includible compensation for your most recent year of service.*

1. Enter the value of the contract (amount payable upon your death)	$ 20,000.00
2. Enter the cash value in the contract at the end of the year. . . .	$ 1,000.00
3. Subtract line 2 from line 1. This is the **value of your current life insurance protection**	$ 19,000.00
4. Enter your age on your birthday nearest the beginning of the policy year	45
5. Enter the 1-year term premium for $1,000 of life insurance based on your age. (Figure 3-1)	$ 6.30
6. Divide line 3 by **$1,000**	$ 19
7. Multiply line 6 by line 5. This is the **cost of your incidental life insurance**. . . .	$ 119.70

In year two, Lynne's employer will include $119.70 in her current year's income. Lynne will subtract this amount when figuring her includible compensation.

Figuring Includible Compensation for Your Most Recent Year of Service

You can use Worksheet C in chapter 13 to determine your includible compensation for your most recent year of service.

Example. Floyd has been periodically working full time for a local hospital since September 1998. He needs to figure his MEA for 2001. The hospital's normal annual work period for employees in Floyd's general type of work runs from January to December.

During the periods that Floyd was employed with the hospital, the hospital has always been eligible to provide a 403(b) plan to employees. Additionally, the hospital has never provided the employees with a 457 deferred compensation plan, transportation benefits, or a cafeteria plan.

Floyd has never worked abroad. There is no life insurance provided under the plan and contributions to Floyd's account have never been more than his MEA.

Table 3-4 shows the service Floyd provided to his employer, his compensation for the periods worked and his elective deferrals. The increase between 2000 and 2001 is due to new skills.

Table 3-4. Floyd's Compensation

Note: *This table shows information Floyd will use to figure includible compensation for his most recent year of service.*

Year	Years of Service	Taxable Wages	Elective Deferrals
2001	6/12 of a year	$42,000	$2,000
2000	4/12 of a year	$16,000	$1,650
1999	4/12 of a year	$16,000	$1,650

Before Floyd can figure his MEA, he must figure includible compensation for his most recent year of service.

Because Floyd did not work for the entire year in 2001, his most recent year of service will include the time he worked in 2001 plus time he worked in earlier years until the time he worked for the hospital totals one year. If the total is less than one year, Floyd will treat it as if it were one year. He figures his most recent year of service shown in the following list.

- Time worked in 2001 is 6/12 of a year.
- Time worked in 2000 is 4/12 of a year. All of this time will be used to determine Floyd's most recent year of service.
- Time worked in 1999 is 4/12 of a year. Floyd only needs 2 months of the 4 months he worked in 1999 to have enough time to total one full year. Because he needs only one-half of the actual time he worked, Floyd will use only one-half of his income earned during that period to calculate wages that will be used in figuring his includible compensation.

Using the information provided in Table 3-4, wages for Floyd's most recent year of service are $66,000 ($42,000 + $16,000 + $8,000) and his includible compensation for his most recent year of service is figured as shown in Table 3-5.

Amounts Previously Excludable

To figure your MEA for 2001, you must know the amounts previously excludable from your income.

Amounts previously excludable are the total of all contributions for retirement benefits made for you by your employer that you excluded from your gross income in prior years. Amounts previously excludable do not include amounts excluded for 2001.

Amounts previously excludable include contributions in earlier years by your employer to:

- Your 403(b) account,
- A qualified annuity plan or a qualified pension, profit-sharing plan, or stock bonus trust,
- A qualified bond-purchase plan,

Table 3-5. **Worksheet C. Includible Compensation for Your Most Recent Year of Service***

Note: *Use this worksheet to figure includible compensation for your most recent year of service.*

1.	Enter your includible wages from the employer maintaining your 403(b) account for your most recent year of service	$ 66,000
2.	Enter elective deferrals for your most recent year of service	$ 4,475
3.	Enter amounts contributed or deferred by your employer under a cafeteria plan for your most recent year of service	$ 0
4.	Enter amounts contributed or deferred by your employer to your 457 account for your most recent year of service	$ 0
5.	Enter the value of qualified transportation benefits you received from your employer	$ 0
6.	Enter your foreign earned income exclusion for your most recent year of service	$ 0
7.	Add lines 1, 2, 3, 4, 5, and 6	$ 70,475
8.	Enter the cost of incidental life insurance that is part of your annuity contract for your most recent year of service	$ 0
9.	Enter compensation that was **both:**	
	• Earned during your most recent year of service, and	
	• Earned while your employer was not qualified to maintain a 403(b) plan	$ 0
10.	If using this worksheet for 2001, enter contributions that are more than your MEA. Otherwise, enter zero (0)	$ 0
11.	Add lines 8, 9, and 10	$ 0
12.	Subtract line 11 from line 7. This is your **includible compensation for your most recent year of service**	$ 70,475

**Use estimated amounts if figuring includible compensation before the end of the year.*

- A retirement plan under which the contributions originally were excludable by you only because your rights to the contributions were forfeitable when made, and which also were excludable by you when your rights became nonforfeitable. (This does not apply to contributions to purchase an annuity contract if your employer was an exempt organization when the contributions were made.),
- An eligible section 457 deferred compensation plan, even if maintained by a separate employer, or
- Excess contributions made to your 403(b) account that are more than your limit on annual additions.

For 2001, contributions to a defined benefit plan do not have to be treated as amounts previously excludable. Your employer can tell you if any contributions were made on your behalf to a defined benefit plan.

Figuring MEA for 2001

You need to figure MEA separately for each employer who contributed to a 403(b) account for your benefit. When figuring your MEA, do not include amounts contributed, compensation, or years of service for one employer with those for another employer. Special rules apply to church employees, as explained in chapter 7.

The following example shows how to figure MEA. The facts presented in this example will also be used in examples in chapters 4 and 5.

Example

Jerry has been working full time for a local hospital since the beginning of July 1997. Except for 1997, when he worked for one half of the hospital's annual work period, Jerry has worked for the hospital's entire annual work period. Jerry's includible wages (box 1 of Form W-2) from the hospital are shown in the following chart.

1997	$16,000
1998	32,000
1999	32,000
2000	35,000
2001	35,000

Jerry's employer has set up a 403(b) account for him. In this account, Jerry has chosen to invest 8% of his salary each year in mutual funds through payroll reductions. For 2001, this is $2,800. Jerry is not using an alternative limit on annual additions.

Figure Jerry's years of service. The first thing Jerry will need to do is figure his years of service. In 1997, Jerry worked 1/2 of the year for his employer. For the years 1998 through 2001, Jerry has been a full-time employee for each of the hospital's entire annual work periods.

Jerry's years of service at the end of 2001 total 4.5 years.

Figure Jerry's includible compensation. The second thing for Jerry to figure is his includible compensation for his most recent year of service. Before he can do this, he must identify his most recent year of service. Jerry is a full-time employee who works the entire annual work period. Jerry's most recent year of service is 2001. Jerry figures his includible compensation as shown in Table 3-6.

Figure Jerry's amounts previously excludable. Jerry's next step is to figure his amounts previously excludable. The 8% contributions made through a salary reduction agreement equal $9,200.

Jerry's MEA. Using the figures for years of service, includible compensation, and amounts previously excludable, Jerry can now use Worksheet A to figure his MEA as shown in Table 3-7.

Figuring Jerry's MAC

Jerry's MEA for 2001 is $24,820. However, this is not the maximum amount that can be contributed to his 403(b) account. To determine his MAC, Jerry will need to figure his limit on annual additions (chapter 4) and his limit on elective deferrals (chapter 5).

Table 3-6. **Worksheet C. Includible Compensation for Your Most Recent Year of Service***

Note: *Use this worksheet to figure includible compensation for your most recent year of service.*

1.	Enter your includible wages from the employer maintaining your 403(b) account for your most recent year of service	$ 35,000
2.	Enter elective deferrals for your most recent year of service	$ 2,800
3.	Enter amounts contributed or deferred by your employer under a cafeteria plan for your most recent year of service	$ 0
4.	Enter amounts contributed or deferred by your employer to your 457 account for your most recent year of service	$ 0
5.	Enter the value of qualified transportation benefits you received from your employer	$ 0
6.	Enter your foreign earned income exclusion for your most recent year of service	$ 0
7.	Add lines 1, 2, 3, 4, 5, and 6	$ 37,800
8.	Enter the cost of incidental life insurance that is part of your annuity contract for your most recent year of service	$ 0
9.	Enter compensation that was **both:**	
	• Earned during your most recent year of service, and	
	• Earned while your employer was not qualified to maintain a 403(b) plan	$ 0
10.	If using this worksheet for 2001, enter contributions that are more than your MEA. Otherwise, enter zero (0)	$ 0
11.	Add lines 8, 9, and 10	$ 0
12.	Subtract line 11 from line 7. This is your **includible compensation for your most recent year of service**	$ 37,800

Use estimated amounts if figuring includible compensation before the end of the year.

Table 3-7. **Worksheet A. Maximum Exclusion Allowance (MEA)**

Note: *Use this worksheet to figure your MEA.*

1.	Enter your **includible compensation for your most recent year of service**	$ 37,800.00
2.	Percentage limit	20%
3.	Multiply line 1 by line 2	$ 7,560.00
4.	Enter your **years of service** as of the end of 2001	4.5
5.	Multiply line 3 by line 4	$ 34,020.00
6.	Enter your **amounts previously excludable** (prior years contributions)	$ 9,200.00
7.	Subtract line 6 from line 5. This is your **MEA**	$ 24,820.00

4.

Limit on Annual Additions for 2001

This chapter applies only to contributions made in 2001. For the rules on figuring the limit on annual additions for 2002, see chapter 9.

The second component of MAC for 2001 is the limit on annual additions. This is a limit on the total contributions (elective deferrals, nonelective deferrals, and after-tax contributions) that could have been made to your account for 2001. You can figure the limit on annual additions using either of the following.

- The general rule, or
- An alternative limit.

This chapter will discuss figuring the limit on annual additions using the general rule. For information on the alternative limits, see chapter 6.

Under the general rule, the limit on annual additions is the lesser of:

- $35,000, or
- 25% of your compensation for your limitation year.

Generally, your limitation year is the calendar year. However, you can elect to change your limitation year to any consecutive 12-month period. To do this, attach a statement to your individual income tax return for the year you make the change.

You can use Worksheet D in chapter 13 to figure your limit on annual additions under the general rule.

More than one 403(b) account. *If you contributed to more than one 403(b) account you must combine the contributions made to all 403(b) accounts on your behalf by your employer.*

Participation in a qualified plan. *If you participated in a 403(b) plan and a qualified plan, you must combine contributions made to your 403(b) account with contributions to a qualified plan and simplified employee pensions of all corporations, partnerships, and sole proprietorships in which you have more than 50% control.*

Figuring the Limit on Annual Additions

To figure the limit on annual additions under the general rule, you will need to determine what is and is not compensation. Generally, compensation *includes:*

- Wages, salaries, and fees for personal services with the employer maintaining the plan, even if excludable as foreign earned income,
- Certain taxable accident and health insurance payments,
- Moving expense payments or reimbursements paid by your employer, if such payments are not deductible by you,
- The value of nonqualified stock options granted to you that are includible in your gross income in the year granted,
- Elective deferrals,
- Amounts contributed or deferred (at your election) by your employer under a cafeteria plan or an eligible section 457 plan, and
- The value of qualified transportation fringe benefits.

Generally, compensation ***does not include:***

- Contributions toward a TSA contract (other than elective deferrals),
- Contributions toward a deferred compensation plan if, before applying the limit on employer contributions, the contributions are not taxable,
- Distributions from a deferred compensation plan,
- Proceeds from the disposition of stock acquired under a qualified stock option, and
- Certain other amounts that are excludable from your income, such as group term life insurance premiums that are not taxable.

Note. Compensation for purposes of the limit on annual additions for 2001 is not the same as includible compensation discussed in chapter 3.

Worksheet E. *Compensation Calculation – Limit on Annual Additions*, in chapter 13, can help you figure your compensation for the limit on annual additions.

Table 4-1. **Worksheet E. Compensation Calculation—Limit on Annual Additions**

Note: *Use this worksheet to figure compensation that will be used to figure your limit on annual additions.*

1.	Enter your wages, salaries, and fees for personal services with the employer who maintains your 403(b) account	$ 35,000
2.	Enter taxable accident and health insurance payments	$ 0
3.	Enter nondeductible moving expense payments or reimbursements paid by your employer	$ 0
4.	Enter the value of nonqualified stock options that are includible in your gross income in the year received	$ 0
5.	Enter elective deferrals (payroll reductions)	$ 2,800
6.	Enter amounts contributed by your employer to a cafeteria plan on your behalf	$ 0
7.	Enter amounts contributed at your election by your employer to an eligible 457 plan on your behalf	$ 0
8.	Enter the value of any qualified transportation fringe benefits	$ 0
9.	Add lines 1 through 8. This is your **compensation** for the year	$ 37,800

Example

Using the same facts presented in the last *Example* in chapter 3, Jerry is now ready to figure the second component of his MAC, the limit on annual additions.

Figure Jerry's compensation. The first step in determining the limit on annual additions is to figure compensation. Jerry's compensation is shown in Table 4-1.

Figure Jerry's limit on annual additions. After determining compensation, Jerry is now ready to figure the limit on annual additions.

Jerry's limit on annual additions is $9,450 as shown in Table 4-2.

Figuring Jerry's MAC

Jerry has figured both his MEA and his limit on annual additions. To figure his MAC for 2001, Jerry must figure his limit on elective deferrals. This limit is explained in chapter 5.

Table 4-2. **Worksheet D. Limit on Annual Additions for 2001**

Note: *Use this worksheet to figure your limit on annual additions, which is the second component of your MAC.*

1.	Enter your total **compensation** for the year	$ 37,800
2.	Compensation limit	25%
3.	Multiply line 1 by line 2	$ 9,450
4.	**Maximum**	$ 35,000
5.	Enter the lesser of line 3 or line 4. This is your **limit on annual additions**	$ 9,450

5.

Limit on Elective Deferrals

Important Changes for 2002

Increase in the limit on elective deferrals. Effective for years beginning in 2002, the limit on elective deferrals has been increased from $10,500 to $11,000.

Credit for elective deferrals. Effective for years beginning after 2001, you may be eligible to take a percentage of your actual elective deferrals as a credit. For more information, see Publication 553.

CAUTION *You can use this chapter to determine your limit on elective deferrals for 2001 and 2002.*

The final component of MAC is the limit on elective deferrals. This is a limit on the amount of contributions that can be made to your account through a salary reduction agreement.

A ***salary reduction agreement*** is an agreement between you and your employer allowing for a portion of your compensation to be directly invested in a 403(b) account on your behalf. You can enter into more than one salary reduction agreement during a year.

This chapter discusses:

- The general limit on elective deferrals, and
- The 15-year rule, an increased limit on elective deferrals.

CAUTION ***More than one 403(b) account.*** *If, for any year elective deferrals are contributed to more than one 403(b) account for you (whether or not with the same employer), you must combine all the elective deferrals to determine whether the total is more than the limit for that year.*

403(b) plan and another retirement plan. *If, during the year, contributions in the form of elective deferrals are made to other retirement plans on your behalf, you must combine all of the elective deferrals to determine if they are more than your limit on elective deferrals. The limit on elective deferrals applies to amounts contributed to:*

- *401(k) plans, to the extent excluded from income,*
- *Section 501(c)(18) plans created before June 25, 1959, to the extent excluded from income,*
- *SIMPLE Plans,*
- *Simplified employee pension (SEP) plans, and*
- *All 403(b) plans.*

General Limit

Under the general limit on elective deferrals, the most that can be contributed to your 403(b) account through a salary reduction agreement for 2001 is $10,500. The limit for 2002 is $11,000. This limit applies without regard to community property laws.

Excess elective deferrals. If the amount contributed is more than the allowable limit, you must include the excess in your gross income for the year contributed. This is explained in chapter 11.

15-Year Rule

If you have at least 15 years of service with a public school system, hospital, home health service agency, health and welfare service agency, church, or convention or association of churches (or associated organization), and you are an eligible employee (as described in chapter 1), the limit on elective deferrals to your 403(b) account is the least of:

- $3,000,
- $15,000, reduced by increases to the general limit you were allowed in earlier years because of this rule, or
- $5,000 times the number of your years of service for the organization, minus the total elective deferrals made by your employer on your behalf for earlier years.

If you qualify for the 15-year rule, your elective deferrals under this limit can be as high as $13,500 for 2001 and $14,000 for 2002.

Excess elective deferrals. If the amount contributed is more than the allowable limit, you must include the excess in your gross income for the year contributed. This is explained in chapter 11.

Figuring the Limit on Elective Deferrals

Worksheet F in chapter 13 can be used to figure the limit on elective deferrals.

Example

Based on the rules in chapters 3 and 4, Jerry has figured his MEA and his limit on annual additions. The last component needed before he can determine his MAC for 2001 is the limit on elective deferrals.

Figuring Jerry's limit on elective deferrals. Jerry has been employed with his current employer for less than 15 years. He is not eligible for the special 15-year increase. Therefore, his limit on elective deferrals is $10,500, as shown in Table 5-1.

Figuring Jerry's MAC

Jerry has determined his MEA to be $24,820. His limit on annual additions is $9,450 and his limit on elective deferrals is $10,500. Based on this, the maximum amount that could have been contributed to a 403(b) account on Jerry's behalf in 2001 is $9,450, the least of the three limits.

All three components are pulled together in Table 5-2.

Table 5-1. **Worksheet F. Limit on Elective Deferrals**

Note: *Use this worksheet to figure your limit on elective deferrals, which is the last component of your MAC.*

1.	**Maximum contribution** • For 2001, enter $10,500 • For 2002, enter $11,000 **NOTE:** If you have at least 15 years of service with a qualifying organization, complete lines 2 through 12; if not, enter (0) on line 11 and go to line 12.	$ 10,500
2.	Amount per years of service	$ 5,000
3.	Enter your years of service	
4.	Multiply line 2 by line 3	$
5.	Enter the total of all elective deferrals made by your employer on your behalf for earlier years	$
6.	Subtract line 5 from line 4; if zero or less, enter (0)	$
7.	Maximum increase in limit for long service	$ 15,000
8.	Enter all prior year increases to the general limit for long service	$
9.	Subtract line 8 from line 7	$
10.	**Maximum additional contributions**	$ 3,000
11.	Enter the least of lines 6, 9, or 10. This is the increase in limit for long service	$ 0
12.	Add lines 1 and 11. This is your **limit on elective deferrals**	$ 10,500

Table 5-2. **Worksheet 1. Maximum Amount Contributable (No Alternatives) for 2001**

Note: *Use this worksheet to figure your MAC if you are not using an alternative limit on annual additions. If you are using an alternative limit, you must use Worksheet 2, 3, or 4.*

	Part I. Maximum Exclusion Allowance (MEA)		
1.	Enter your **includible compensation for your most recent year of service**	$ 37,800.00	
2.	Percentage limit	20%	
3.	Multiply line 1 by line 2	$ 7,560.00	
4.	Enter your **years of service** as of the end of 2001	4.5	
5.	Multiply line 3 by line 4	$ 34,020.00	
6.	Enter your **amounts perviously excludable** (prior years' contributions)	$ 9,200.00	
7.	Subtract line 6 from line 5. This is your **MEA**		$ 24,820.00
	Part II. Limit on Annual Additions		
8.	Enter your total **compensation** for 2001	$ 37,800.00	
9.	Compensation limit	25%	
10.	Multiply line 8 by line 9	$ 9,450.00	
11.	**Maximum**	$ 35,000.00	
12.	Enter the lesser of line 10 or line 11. This is your **limit on annual additions**		$ 9,450.00
	Caution: If you had only elective deferrals, complete Part III and figure your MAC using line 25. Do not complete line 26. If you had only nonelective contributions, skip Part III and figure MAC using line 26. If you had both elective deferrals and nonelective contributions, stop here and go to Worksheet 5.		
	PART III. Limit on Elective Deferrals		
13.	**Maximum contributions**		$ 10,500.00
	NOTE: If you have at least 15 years of service with a qualifying organization, complete lines 14 through 24; if not, enter (0) on line 23 and go to line 24.		
14.	Amount per years of service	$ 5,000.00	
15.	Enter your years of service		
16.	Multiply line 14 by line 15	$	
17.	Enter the total of all elective deferrals made by your employer on your behalf for earlier years	$	
18.	Subtract line 17 from line 16; if zero or less, enter (0).	$	
19.	Maximum increase in limit for long service	$ 15,000.00	
20.	Enter all prior year increases to the general limit for long service	$	
21.	Subtract line 20 from line 19	$	
22.	**Maximum additional contributions**	$ 3,000.00	
23.	Enter the least of lines 18, 21, or 22. This is the increase in the limit for long service		$ 0
24.	Add lines 13 and 23. This is your **limit on elective deferrals.** Complete line 25		$ 10,500.00
	PART IV. Maximum Amount Contributable (MAC)		
25.	Enter the least of lines 7, 12, or 24. This is your **MAC** for 2001		$ 9,450.00
26.	Enter the lesser of line 7 or line 12. This is your **MAC** for 2001		$

6.

Alternative Limits on Annual Additions

This chapter applies only to contributions made in 2001. For years beginning after 2001, the alternative limits on annual additions have been repealed. For information on figuring your limit on annual additions for 2002, see chapter 9.

Certain employees can choose to increase their MAC by electing an alternative limit on annual additions. There are three alternative limits.

- The year of separation from service limit.
- The any year limit.
- The overall limit.

This chapter will discuss the following topics.

- Who is eligible to use an alternative limit.
- Each of the alternative limits.
- How to elect an alternative limit.

The general limit on annual additions is discussed in chapter 4.

Effect of election. Generally, the election to use either the any year limit or the year of separation from service limit allows you to exclude from gross income a larger amount of employer contributions than would have been allowed under the general rule that limits employer contributions to 25% of your compensation. If you elect to use the overall limit, you may be able to exclude a larger amount because you can disregard the MEA that would otherwise apply.

Excess contributions. If employer contributions were included in your income for a tax year because they exceeded any of these alternative limits for that year, the excess reduces the amount of your MEA for later years, even though the excess has already been included in your income.

Who is Eligible to Use an Alternative Limit

If you were an eligible employee (as described in chapter 1) of one of the following organizations, you can use an alternative limit on annual additions.

- Public schools or public school systems.
- Hospitals.
- Home health service agencies.
- Health and welfare agencies.
- Churches or church-related organizations.

You can elect any one of the three alternative limits, but with certain restrictions. For example, you cannot make more than one election per employer and, once an election is made, it is irrevocable and another alternative limit cannot be selected in a subsequent year. However, you can still choose to apply the general rule in any year.

Additionally, certain employees of churches or church-related organizations might be eligible for other special elections that can be used to figure MAC. See chapter 7.

Year of Separation From Service Limit

If you have not elected to use an alternative limit in a prior year, you can use the year of separation from service limit for the limitation year that ends with or within the year you stopped working for the employer who maintained your 403(b) account. If you elect this limit, you use a different method to figure your MEA and your limit on annual additions.

Changes to the MEA. If you elect the year of separation from service limit, you figure your MEA taking into account only your last 10 years of service with the employer who maintained your 403(b) account and only amounts excludable during your last 10 years of service with that employer.

If you do not have 10 years with your employer, your years of service is the actual amount of years you do have with your employer. Your amount previously excludable is the total contributions excluded in previous years plus any excess contributions for those years that were more than your limit on annual additions.

Changes to the limit on annual additions. Under the year of separation from service limit, your limit on annual additions is the lesser of:

- 35,000, or
- Your MEA.

Figuring MAC using the year of separation from service limit.

If you have elected the year of separation from service limit, use Worksheet 2 to figure your MAC.

Any Year Limit

If you have not elected to use another alternative limit in an earlier year, you can use the any year limit on annual additions.

Changes in the limit on annual additions. Your limit on annual additions under the any year limit is the least of:

- $15,000,
- $4,000 plus 25% of your includible compensation for the year in which the limitation year ends, or
- Your MEA for the year in which the limitation year ends.

Figuring MAC using the any year limit. You can use Worksheet 4 to figure your MAC using the any year limit.

Overall Limit

If you have not elected to use another alternative limit in a prior year, you can use the overall limit.

If you elect the overall limit, you must combine employer contributions to your 403(b) plan with all employer contributions to qualified plans to determine if the limit on annual additions has been exceeded. Additionally, in the year that you use the overall limit, you do not figure the MEA.

Figuring MAC using the overall limit. You can use Worksheet 3 to figure your MAC using the overall limit.

How To Elect an Alternative Limit

You make the election to use an alternative limit on annual additions by figuring your tax using that limit. The election is considered made only if use of the alternative limit is needed to support the exclusion from income shown on your income tax return.

Election is irrevocable. If you elect to use an alternative limit, you cannot change the election.

One election allowed. If you elect one of the alternative limits, you cannot elect to have any of the other alternative limits apply for 2001 for any 403(b) contract purchased for you by the employer.

If in a previous year, you have elected either the any year limit or the overall limit, that limit is the only alternative limit you can use in 2001 to figure your limit on annual additions.

Example. Janice is employed as a teacher. In 1999, she used the any year limit. In 2000 and 2001, if Janice is working for the same employer, she can use only the general rule or the any year limit on annual additions.

Amending a return to take advantage of an alternative limit. You can amend an earlier year's tax return to elect an alternative limit on annual additions.

Generally, you must file an amended return by the later of the following.

- 3 years from the date you filed your original return for the year.
- 2 years from the time you paid your tax for that year.

A return filed early is considered filed on the due date.

If you amend an earlier year's return to elect an alternative limit and use of that limit increases your tax for that year, any additional tax due to the use of the alternative limit is not treated as an underpayment of tax for the penalty for failure to pay estimated income tax.

7. Ministers and Church Employees

This chapter applies only to 2001. Changes for 2002 are explained under Ministers and Church Employees in chapter 9.

Self-employed ministers and church employees are eligible to participate in 403(b) plans. In general, self-employed ministers and church employees follow the rules explained in chapters 2 through 6. Generally, their MAC for 2001 is the least of the following amounts.

- Maximum exclusion allowance (MEA).
- Limit on annual additions.
- Limit on elective deferrals.

Although, in general, the same rules apply, there are changes in how the MEA and the limit on annual additions is calculated. This chapter will explain those changes.

Who is a church employee? A church employee is anyone who is an employee of a church or a convention or association of churches, including an employee of a tax-exempt organization controlled by or associated with a convention or association of churches.

Maximum Exclusion Allowance (MEA)

For most church employees, the MEA is figured without any changes. However, if your adjusted gross income was less than $17,000 (figured without regard to community property laws), you can exclude from income a minimum exclusion allowance. The minimum exclusion allowance is the lesser of:

- $3,000, or
- Your includible compensation for your most recent year of service.

Changes to Includible Compensation

Includible compensation is figured differently for foreign missionaries and self-employed ministers.

Self-employed minister. If you were a self-employed minister, you are treated as an employee of a tax-exempt organization that is a qualified employer. Your includible compensation is your net earnings from your ministry minus the contributions made to the retirement plan on your behalf and the deduction for one-half of the self-employment tax.

Foreign missionary. If you were a foreign missionary in 2001, your includible compensation includes contributions made by the church during the year to your 403(b) account.

You were a foreign missionary if you were either a lay person or a duly ordained, commissioned, or licensed minister of a church and you met both of the following requirements.

- You were an employee of a church or convention or association of churches.
- You were performing services for the church outside the United States.

Changes to Years of Service

Generally, only service with the employer who maintains your 403(b) account can be counted when figuring your MEA. If you are a church employee, treat all of your years of service with related church organizations as years of service with one employer.

If, during your church career, you transfer from one organization to another within the church or to an associated organization, treat all this service as service with a single employer. When these organizations make contributions to your 403(b) account, treat them as made by the same employer.

Self-employed minister. If you are a self-employed minister, your years of service include full and part years during which you were self-employed.

Limit on Annual Additions

Generally, as a church employee, you can figure your limit on annual additions under either the general limit or (for years before 2002) one of the alternative limits.

You can also elect an increased amount for the limit on annual additions. Under this election, you can increase your limit on annual additions to $10,000 a year. Total contributions over your lifetime under this election cannot be more than $40,000. You cannot use this special election in the year you elect the year of separation from service limit.

Excess contributions. Generally, the same rules that apply to other participants regarding contribution limits also apply to you. If you are a church employee who figures your MAC using the minimum exclusion allowance and your contributions are more than your limit on annual additions, your excess contributions are the amount that is more than the minimum exclusion allowance. For more information on excess contributions, see chapter 11.

8. Contributing to Both a 403(b) Plan and a 457 Plan

This chapter does not apply to years beginning after 2001. If in 2002 you contributed to a 457 plan, see your plan administrator for information on figuring your allowable 457 contributions.

This chapter will help participants figure the maximum amount that can be contributed in 2001 to both a 403(b) account and a 457 account.

403(b) plan contributions only. *If, in 2001, you were eligible to participate in both a 457 plan and a 403(b) plan but you chose to contribute only to the 403(b) plan, the discussions in this chapter do not apply to you. Read chapters 2 through 6 to determine your MAC for 2001.*

457 plan contributions only. *If in 2001, you were eligible to participate in both a 457 plan and a 403(b) plan, but you chose* ***not*** *to defer any compensation under the 403(b) plan, you will need to contact your plan administrator to determine your 457 plan limits.*

Definition of 457 plan. A 457 plan is a nonqualified, deferred compensation plan established by state and local governments and tax-exempt employers. In many cases, employers that allow employees to participate in 403(b) plans also offer 457 plans to their employees.

Before 2002, if you participated in both a 403(b) plan and a 457 plan, the 457 plan limits applied to the total combined contributions under both plans. This means that the total contributed to both your 403(b) account and your 457 account for the year could not be more than the 457 plan limits.

Contribution Limits

The maximum amount that could be contributed is determined using either the general limit or the catch-up limit.

General Limit

Under the general limit, the most that could be contributed to your 403(b) account and your 457 account combined is the lesser of the following amounts:

- $8,500, or
- One-third of your includible compensation.

This limit is reduced by elective deferrals under a 401(k) plan, SEP plan, or a SIMPLE IRA.

Includible Compensation

Includible compensation under a 457 plan is ***not*** the same as includible compensation under a 403(b) plan.

Generally, includible compensation for a 457 plan is the taxable wages on your Form W-2 from the employer who set up the 457 account on your behalf.

Contributions to a 403(b) plan, 457 plan, 401(k) plan, or a SEP plan, made in the current year, are not part of your includible compensation.

Example. Sylvia is employed by a local school district. In 2001, her compensation was $24,000. Sylvia had $6,000 contributed to her 457 account through a salary reduction agreement. Her includible compensation is $18,000 ($24,000 – $6,000).

Catch-Up Limit

Under the catch-up limit, contributions for the last 3 years prior to your employer's normal retirement age can be more than the general limit.

Normal retirement age. Your employer's normal retirement age is generally set by the plan. If no normal retirement age has been specified in the plan, then your normal retirement age is the latest of:

- Age 65, or
- The latest age specified in your employer's basic pension plan.

Maximum contribution. Under the catch-up limit, the most that can be contributed to your 457 account for a year is the lesser of:

1) $15,000, or
2) The sum of the following two amounts:
   a) The general limit for the year for which you are figuring the catch-up limit, plus
   b) The unused portion of the general limit in prior years.

Add the unused portion of the general limit only for prior years in which all three of the following requirements were met.

- The year began after 1978.
- You were eligible to participate in the 457 plan during the year.
- The general limit applied to contributions made to your account for the year.

403(b) contributions only. If you were eligible to participate in both a 457 plan and a 403(b) plan during 2001 and you chose to contribute only to a 403(b) plan, contributions to your 403(b) account are taken into consideration in applying the 457 catch-up limit.

If, for each year that you were eligible to participate in both a 457 plan and a 403(b) plan, you elected to defer the maximum amount, through elective deferrals to your 403(b) account, you cannot use the catch-up limit. However, if you did not defer the maximum each year, you may have unused contributions and therefore be eligible to use the catch-up limit.

Example. Although eligible to participate in both a 457 plan and a 403(b) plan, Jessica has only contributed to a 403(b) plan and has deferred the maximum amount each year. Jessica is now within 3 years of her employer's normal retirement age and wants to take advantage of the 457 catch-up limit and defer $15,000. Jessica has contributed the maximum amount allowable under the 403(b) plan so she has no unused contributions and cannot use the catch-up limit.

However, if Jessica had deferred nothing under the 457 plan and $2,500 under the 403(b) plan, she would have unused contributions, and would therefore be eligible to use the 457 catch-up limit.

Excess 457 Contributions

If there are excess contributions in the year you contribute to both a 457 plan and a 403(b) plan, the contributions are considered excess 457 contributions.

If you have an excess 457 contribution, contact your plan administrator.

9.

Figuring MAC for 2002

Several changes have been made to how you determine the maximum amount that can be contributed to your 403(b) account (your MAC) for 2002. Among these changes are the:

- Repeal of the maximum exclusion allowance (MEA),
- Repeal of the minimum exclusion allowance for certain church employees,
- Repeal of the coordination rules between 403(b) plans and 457 plans,
- Repeal of the alternative limits on annual additions,
- Changes in how the limit on annual additions is figured, and
- Increase in the limit on elective deferrals.

This chapter explains the new rules you need to figure your MAC for 2002 and can help you use them.

Beginning in 2002, in addition to your MAC, you may be able to make catch-up contributions to your 403(b) account. See chapter 10.

Some of the distribution and rollover requirements for 403(b) plan participants also changed. See chapter 12.

Maximum Amount Contributable (MAC)

For tax years beginning after 2001, **the maximum exclusion allowance (MEA)** has been repealed.

Generally, your MAC for 2002 is the lesser of:

- The limit on annual additions, or
- The limit on elective deferrals.

Depending on the type of contributions made to your 403(b) account in 2002, only one of the limits may apply to you.

Elective deferrals only. If in 2002, all of the contributions made to your 403(b) account are elective deferrals, you will need to figure both the limit on annual additions and the limit on elective deferrals. Your MAC is the lesser of the two limits.

Nonelective contributions. If in 2002, all of the contributions made to your 403(b) account are nonelective contributions, you will need to figure only your limit on annual additions.

Elective deferrals and nonelective deferrals. If in 2002, the contributions made to your 403(b) account are a combination of both elective deferrals and nonelective contributions, you will need to figure both the limit on elective deferrals and the limit on annual additions. Your MAC is your limit on annual additions.

However, you will need to figure your limit on elective deferrals to determine whether the amount contributed to your 403(b) account is more than your allowable limit.

Limit on Annual Additions

The first component of MAC for 2002 is the limit on annual additions. This is a limit on the total contributions that can be made to your account each year. Before 2002, you could have figured your limit on annual additions using either the general rule or one of three alternative limits on annual additions.

However, for years beginning after 2001, you cannot use the any year limit, the year of separation from service limit, or the overall limit to figure your limit on annual additions. You can only use the general rule.

Under the general rule for 2002, your limit on annual additions is the lesser of:

- $40,000, or
- 100% of includible compensation for your most recent year of service.

CAUTION

More than one 403(b) account. *If you contributed to more than one 403(b) account you must combine the contributions made to all 403(b) accounts on your behalf by your employer.*

Participation in a qualified plan. *If you participated in a 403(b) plan and a qualified plan, you must combine contributions made to your 403(b) account with contributions to a qualified plan and simplified employee pensions of all corporations, partnerships, and sole proprietorships in which you have more than 50% control.*

Note. In previous years, your compensation for your limitation year was used to figure your limit on annual additions. However, beginning in 2002, you will use includible compensation for your most recent year of service to figure your limit on annual additions.

Includible Compensation for Your Most Recent Year of Service

Note. If you are a foreign missionary or a church employee, see *Ministers and Church Employees*, later, for information on your includible compensation.

Includible compensation for your most recent year of service is a combination of the amount of income and benefits you receive from the employer who contributes to your 403(b) account that you must include in your income for your last full year of service ending no later than the last day of your tax year.

Your includible compensation does not include any amount received from a former employer after the fifth year following the year in which your employment is terminated.

To figure includible compensation for your most recent year of service, you will need to identify:

- Your most recent year of service, and
- Your compensation associated with your most recent year of service.

Chapter 3 instructs you on how to figure your includible compensation for your most recent year of service.

You can use Worksheet C in chapter 13 to determine your includible compensation for your most recent year of service.

Limit on Elective Deferrals

The limit on elective deferrals is a limit on the amount of contributions that can be made to your account through a salary reduction agreement (defined in chapter 5). Generally, the rules for your limit on elective deferrals are the same for 2002 as they were for 2001. The rules for 2001 are explained in chapter 5.

Under the general limit on elective deferrals the most that can be contributed to your 403(b) account through a salary reduction agreement for 2002 is $11,000. This limit applies without regard to community property laws. If you qualify for the 15-year rule, your limit on elective deferrals for 2002 can be as high as $14,000. Both the general limit and the 15-year rule are explained in chapter 5.

Example

In 2001, Jerry's MAC was $9,450. He now needs to determine his MAC for 2002. Jerry expects to be a full-time employee for all of 2002. Jerry projects that his includible wages (box 1 of Form W-2) will be $39,000 in 2002. He has decided to have 10% of his salary contributed to his 403(b) account through payroll reductions. Jerry also has decided to have all contributions invested in mutual funds.

Jerry's employer does not contribute funds to a cafeteria plan or 457 account on his behalf. His employer does give him a monthly transportation subsidy of $65. The subsidy began January 2002.

Figuring Jerry's includible compensation. To determine his MAC, Jerry must first figure his limit on annual additions. The first thing Jerry needs to determine before figuring his limit on annual additions is his includible compensation for his most recent year of service. Jerry's includible compensation is $43,680.00, as shown on Table 9-1.

Figuring Jerry's limit on annual additions. Using his includible compensation for his most recent year of service, Jerry figures his limit on annual addition. His limit on annual additions for 2002, is $40,000, as shown on Table 9-2.

Figuring Jerry's limit on elective deferrals. The last component needed before he can determine his MAC for 2002 is his limit on elective deferrals.

Jerry has been employed with his current employer for less than 15 years. He is not eligible for the special 15-year increase. Therefore, his limit on elective deferrals is $11,000, as shown in Table 9-3.

Figuring Jerry's MAC for 2002. Jerry has determined his limit on annual additions to be $40,000 and his limit on elective deferrals to be $11,000. His MAC for 2002 is the lesser of the two. Since only elective deferrals were contributed to Jerry's 403(b) account. Jerry's MAC for 2002 is $11,000.

Jerry's MAC can be figured using Worksheet 7, *Maximum Amount Contributable (MAC) for 2002*, as shown in Table 9-4.

Ministers and Church Employees

For 2002, self-employed ministers and church employees who participate in 403(b) plans generally follow the same rules as other 403(b) plan participants.

This means that if you are a self-employed minister or a church employee, your MAC for 2002 is the lesser of your:

- Limit on annual additions, or
- Limit on elective deferrals.

The rules for figuring your limit on annual additions for 2002 are explained below under *Limit on annual additions*. To figure your limit on elective deferrals for 2002, follow the rules explained earlier in this chapter under *Limit on Elective Deferrals.*

Limit on annual additions. If you are a self-employed minister or a church employee, your limit on annual additions for 2002 generally is the lesser of:

- $40,000, or
- 100% of your includible compensation for your most recent year of service.

When figuring your includible compensation for your most recent year of service, do not include employer contributions to your 403(b) account, even if you are a foreign missionary.

CAUTION *As this publication was being prepared for print, Congress was considering legislation that would allow foreign missionaries to include these contributions as includible compensation. For more information see, your plan administrator.*

Increased limit. You can also elect an increased amount for the limit on annual additions. Under this election, you can increase your limit on annual additions to $10,000 a year. Total contributions over your lifetime under this election cannot be more than $40,000.

Years of service. For years beginning after 2001, you will figure your years of service separately for each employer.

CAUTION *As this publication was being prepared for print, Congress was considering legislation that would allow church employees to treat all years of service with related church organizations as years of service with one employer. For more information, see your plan administrator.*

Contributions to Both a 403(b) Plan and a 457 Plan

A 457 plan is a nonqualified, deferred compensation plan established by state and local governments and tax-exempt governments and tax-exempt employers.

For years beginning after 2001, participation in a 457 plan has no effect on contributions made to your 403(b) plan.

If you are contributing to a 457 plan, see your plan administrator for more information.

Table 9-1. **Worksheet C. Includible Compensation for Your Most Recent Year of Service***

Note: *Use this worksheet to figure includible compensation for your most recent year of service.*

1.	Enter your includible wages from the employer maintaining your 403(b) account for your most recent year of service	$ 39,000
2.	Enter elective deferrals for your most recent year of service	$ 3,900
3.	Enter amounts contributed or deferred by your employer under a cafeteria plan for your most recent year of service	$ 0
4.	Enter amounts contributed or deferred by your employer to your 457 account for your most recent year of service	$ 0
5.	Enter the value of qualified transportaion benefits you received from your employer	$ 780
6.	Enter your foreign earned income exclusion for your most recent year of service	$ 0
7.	Add lines 1, 2, 3, 4, 5, and 6	$ 43,680
8.	Enter the cost of incidental life insurance that is part of your annuity contract for your most recent year of service	$ 0
9.	Enter compensation that was **both:** • Earned during your most recent year of service, • Earned while your employer was not qualified to maintain a 403(b) plan	$ 0
10.	If using this worksheet for 2001, enter contributions that are more than your MEA. Otherwise, enter zero (0)	$ 0
11.	Add lines 8, 9, and 10	$ 0
12.	Subtract line 11 from line 7. This is your **includible compensation for your most recent year of service**	$ 43,680

**Use estimated amounts if figuring includible compensation before the end of the year.*

Table 9-2. **Worksheet G. Limit on Annual Additions for 2002**

Note: *Use this worksheet to figure your limit on annual additions, which is the first component of your MAC.*

1.	Enter your includible compensation for your most recent year of service	$43,680
2.	**Maximum**	$40,000
3.	Enter the lesser of line 1 or line 2. This is your **limit on annual additions**	$40,000

Table 9-3. **Worksheet F. Limit on Elective Deferrals**

Note: *Use this worksheet to figure your limit on elective deferrals, which is the last component of your MAC.*

1.	**Maximum contribution** • For 2001, enter $10,500 • For 2002, enter $11,000 **Note:** If you have at least 15 years of service with a qualifying organization, complete lines 2 through 12. If not, enter (0) on line 11, and go to line 12.	$ 11,000
2.	Amount per years of service	$ 5,000
3.	Enter your years of service	
4.	Multiply line 2 by line 3	$
5.	Enter the total of all elective deferrals for prior years made for you by the qualifying organization	$
6.	Subtract line 5 from line 4, if zero or less, enter (0)	$
7.	Maximum increase in limit for long service	$ 15,000
8.	Enter all prior year increases in the limit for long service	$
9.	Subtract line 8 from line 7	$
10.	**Maximum additional contributions**	$ 3,000
11.	Enter the least of lines 6, 9, or 10. This is the **increase in the limit for long service**	$ 0
12.	Add lines 1 and 11. This is your **limit on elective deferrals**	$ 11,000

Table 9-4. **Worksheet 7. Maximum Amount Contributable (MAC) for 2002**

Note: *Use this worksheet to figure your MAC for 2002.*

Part I. Limit on Annual Additions

1.	Enter your **includible compensation for your most recent year of service**	$ 43,680	
2.	**Maximum**	$ 40,000	
3.	Lesser of line 1 or line 2. This is your **limit on annual additions**		$ 40,000

Caution: If you had only nonelective contributions, skip Part II and enter the amount from line 3 on line 16. If you had both elective deferrals and nonelective contributions, stop here and go to Worksheet 5 to figure your limit on nonelctive contributions.

Part II. Limit on Elective Deferrals

4.	**Maximum contribution**		$ 11,000

Note: If you have at least 15 years of service with a qualifying organization, complete lines 5 through 15. If not, enter (0) on line 14 and go to line 15.

5.	Amount per years of service	$ 5,000	
6.	Enter your years of service		
7.	Multiply line 5 by line 6	$	
8.	Enter the total of all elective deferrals for prior years made for you by the qualifying organization	$	
9.	Subtract line 8 from line 7. If zero or less, enter (0)	$	
10.	Maximum increase in limit for long service	$ 15,000	
11.	Enter all prior year increases in the limit for long service	$	
12.	Subtract line 11 from line 10	$	
13.	**Maximum additional contributions**	$ 3,000	
14.	Enter the least of lines 9, 12, or 13. This is your **increase in the limit for long service**		$ 0
15.	Add lines 4 and 14. This is your **limit on elective deferrals**		$ 11,000

Part III. Maximum Amount Contributable

16.	Enter the lesser of lines 3 or 15. This is your **MAC**		$ 11,000

10.

Catch-Up Contributions

The most that can be contributed to your 403(b) account after 2001 is the lesser of your limit on annual additions or your limit on elective deferrals.

If you are age 50 or older before the end of the plan year, you may also be able to make additional **catch-up contributions**. These additional contributions cannot be made with after-tax employee contributions.

You are eligible to make catch-up contributions if:

- You have reached age 50 before the close of the plan year (see your plan administrator to determine the close of your plan year), and
- The maximum amount of elective deferrals that can be made to your 403(b) account have been made for the plan year.

The maximum amount of catch-up contributions for 2002, is the lesser of

- $1,000, or
- Your includible compensation minus your actual deferrals for the year.

Catch-up contributions do not affect your MAC. Therefore, the maximum amount that you are allowed to have contributed to your 403(b) account is your MAC plus your allowable catch-up contribution.

You can use Worksheet H in chapter 13 to figure your catch-up contributions.

11.

Excess Contributions

If your actual contributions are greater than your MAC, you have an excess contribution. Excess contributions can result in income tax, additional taxes, and penalties. The effect of excess contributions depends on the type of excess contribution. This chapter discusses excess contributions to your 403(b) account.

Preventing Excess Contributions

To prevent excess contributions, you should figure your MAC at the beginning of each year using a reasonable estimate of compensation. If, at any time during the year, your employment status or your compensation changes, you should refigure your MAC using a revised estimate of compensation.

How Do I Know If I Have Excess Contributions?

At the end of the year or the beginning of the next year, you should refigure your MAC based on your actual compensation and actual contributions made to your account.

If the actual contributions to your account are greater than your MAC, you have excess contributions.

Worksheet 6. *Calculation of Excess 403(b) Contributions* for 2001, can be used to figure the amount, if any, of excess contributions and help you identify the type of excess contribution. Worksheet 6 is in chapter 13.

What Happens If I Have Excess Contributions?

Certain excess contributions in a 403(b) account can be corrected. The effect of an excess 403(b) contribution will depend on the type of excess contribution.

Types of excess contributions. If, after checking your actual contributions, you determine that you have an excess, the first thing is to identify the type of excess that you have. Excess contributions to a 403(b) account are categorized as either an:

- Excess amount, or
- Excess deferral.

Excess Amount

An excess amount is a contribution that is more than your MEA or your limit on annual additions.

Amounts in excess of MEA. Amounts that are more than your MEA will be included in your income in the year of the excess contribution.

Note. There is no MEA for years beginning after 2001.

Amounts in excess of limit on annual additions. In the year that your contributions are more than your limit on annual additions, the excess amount will be included in your income.

Amounts in excess of the limit on annual additions that are due to elective deferrals may be distributed if the excess contributions were made for any one of several reasons, including:

- A reasonable error in determining the amount of elective deferrals that could be made under the limit on annual additions, or
- A reasonable error in estimating your compensation.

Excess Deferral

An excess deferral is the amount that is more than your limit on elective deferrals. To determine your limit on elective deferrals, see chapter 5.

Your employer's 403(b) plan may contain language permitting it to distribute excess deferrals. If so, it may require that, in order to get a distribution of excess deferrals, you either notify the plan of the amount of excess deferrals or designate a distribution as an excess deferral. The plan may require that the notification or designation be in writing and may require that you certify or otherwise establish that the designated amount is an excess deferral. A plan is not required to permit distribution of excess deferrals.

Correction of excess deferrals during year. If you have excess deferrals for a year, a corrective distribution may be made only if both of the following conditions are satisfied.

- You or your employer designate the distribution as an excess deferral to the extent you have excess deferrals for the year.
- The correcting distribution is made after the date on which the excess deferral was made.

Correction of excess deferrals after the year. If you have excess deferrals for a year, you may receive a corrective distribution of the excess deferral no later than April 15 of the following year. The plan can distribute the excess deferral (and any income allocable to the excess) no later than April 15 of the year following the year the excess deferral was made.

Tax treatment of excess deferrals. If the excess deferral is distributed no later than April 15, it is included in your income in the year contributed and the earnings on the excess deferral will be taxed in the year distributed.

Example. William's MAC for 2000 was $10,500. All of William's contributions were made through salary reductions. He contributed $11,500 in 2000, an excess deferral of $1,000. He notified his plan administrator and his employer of the excess contribution on March 15, 2001, and the excess deferral was distributed on April 13, 2001. Because the excess deferral was distributed before April 15, 2001, the excess deferral will be included in his income for 2000, and any earnings on the excess is included in his income in the year they are distributed.

If you do not receive a distribution of excess elective deferrals by April 15 of the year following the year it is contributed, it will be included in your earned income in the year contributed and in the year distributed.

Example. Assume that, in the previous example, a distribution of the excess deferral was not made to William by April 15, 2001. Because the distribution was not made timely, the excess deferral will be taxed in 2000 (the year contributed) and again in the year the excess deferral is distributed. The earnings on the distribution will be taxed in the year they are distributed.

Excise Taxes

If your 403(b) account invests in mutual funds, and you exceed either your limit on annual additions or your MEA, you may be subject to a 6% excise tax on the excess contribution. The excise tax does not apply to funds in an annuity account or to excess deferrals.

You must pay the excise tax each year in which there are excess contributions in your account. Excess contributions can be corrected by contributing less than the applicable limit in later years or by making permissible distributions.

You cannot deduct the excise tax.

Permissible distributions. A permissible distribution is a distribution that can be made when one of the following events occurs.

- You reach age 59½.
- You have a severance from employment.
- You die.
- You become disabled.
- In the case of salary reduction contributions, you encounter financial hardship.

Reporting requirement. You must file Form 5330 if there has been an excess contribution to a custodial account and that excess has not been corrected.

12.

Distributions and Rollovers

Important Changes for 2002

Exception to rollover rules. Effective for distributions after 2001, the IRS may waive the 60-day rollover period if the failure to waive such requirement would be against equity or good conscience, including cases of casualty, disaster, or other events beyond the reasonable control of the individual.

Direct trustee-to-trustee transfers. If you make a direct trustee-to-trustee transfer after 2001 from your governmental 403(b) account to a defined benefit governmental plan, it may not be included in your gross income.

Rollover options Effective for distributions after 2001, you can roll over, tax free, money and other property that would otherwise be taxable from an eligible retirement plan to a 403(b) plan. For more information, see Publication 575.

Additionally, you can roll over, tax free, money and other property that would otherwise be taxable from a 403(b) plan to an eligible retirement plan.

Rollovers by the surviving spouse. If you are the surviving spouse of a 403(b) plan participant, you can roll over distributions made after 2001 from your spouse's 403(b) plan to an eligible retirement plan.

Distributions

Generally, a distribution cannot be made from a 403(b) account until the employee:

- Reaches age $59\frac{1}{2}$,
- Has a severance from employment,
- Dies,
- Becomes disabled, or
- In the case of salary reduction contributions, encounters financial hardship.

In most cases, the payments you receive or that are made available to you under your 403(b) account are taxable in full as ordinary income. In general, the same tax rules apply to distributions from 403(b) plans that apply to distributions from other retirement plans. These rules are explained in Publication 575. Publication 575 also discusses the additional tax on early distributions from retirement plans.

Minimum Required Distributions

You must receive all, or at least a certain minimum, of your interest accruing after 1986 in the 403(b) plan by April 1 of the calendar year following the later of the calendar year in which you become age $70\frac{1}{2}$ or the calendar year in which you retire.

Check with your employer, plan administrator, or provider to find out whether this rule also applies to pre-1987 accruals. If not, a minimum amount of these accruals must begin to be distributed by the later of the end of the calendar year in which you reach age 75 or April 1 of the calendar year following retirement, whichever is later. For each year thereafter, the minimum distribution must be made by the last day of the year. If you do not receive the required minimum distribution, you are subject to a nondeductible 50% excise tax on the difference between the required minimum distribution and the amount actually distributed.

For more information on minimum distribution requirements and the additional tax that applies if too little is distributed each year, see Publication 575.

No Special 10-Year Tax Option

A distribution from a 403(b) plan does not qualify as a lump-sum distribution. This means you cannot use the special 10-year tax option to calculate the taxable portion of a 403(b) distribution. For more information, see Publication 575.

Transfer of Interest in 403(b) Contract

If you transfer all or part of your interest from a 403(b) account to another 403(b) account, the transfer is tax free. However, this treatment applies only if the transferred interest is subject to the same or stricter distribution restrictions. This rule applies regardless of whether you are a current employee, a former employee, or a beneficiary of a former employee.

Transfers that do not satisfy this rule are plan distributions and are generally taxable as ordinary income.

Tax-free transfers for certain cash distributions. A tax-free transfer may also apply to a cash distribution of your 403(b) account from an insurance company that is subject to a rehabilitation, conservatorship, insolvency, or similar state proceeding. To receive tax-free treatment, you must do all of the following.

- Reinvest the cash in an annuity contract or account issued by another insurance company.
- Withdraw all the cash to which you are entitled in full settlement of your contract rights or the maximum permitted by the state.
- Reinvest the cash distribution into another annuity contract or account issued by another insurance company or single custodial account not later than 60 days after you receive the cash distribution.
- Assign all future distribution rights to the new contract or account for investment in that contract or account if you received an amount that is less than what you are entitled to because of state restrictions.
- Reinvest in an annuity contract or account subject to the same or stricter distribution restrictions as the original contract.

In addition to the preceding requirements, you must provide the new insurer with a written statement containing all of the following information:

- The gross amount of cash distributed under the old contract.
- The amount of cash reinvested in the new contract.
- Your investment in the old contract on the date you receive your first cash distribution.

Also, you must attach the following items to your timely filed income tax return in the year you receive the first distribution of cash.

1) A copy of the statement you gave the new insurer.
2) A statement that includes:
    a) The words ***ELECTION UNDER REV. PROC. 92-44***,
    b) The name of the company that issued the new contract, and
    c) The new policy number.

Direct trustee-to-trustee transfer. If you make a direct trustee-to-trustee transfer after December 31, 2001, from your governmental 403(b) account to a defined benefit governmental plan, it may not be includible in gross income.

The transfer amount is not includible in gross income if it is made to:

- Purchase permissive service credits, or
- Repay contributions and earnings that were previously refunded under a forfeiture of service credit under the plan, or under another plan maintained by a state or local government employer within the same state.

Permissive service credit. Permissive service credit means credit for a period of service recognized by your defined benefit governmental plan, only if you voluntarily contribute to your 403(b) plan an amount that does not exceed the amount necessary to fund the benefit attributable to the period of service and that is in addition to the regular employee contribution, if any, under the plan.

Tax-Free Rollovers

You can generally roll over tax free all or any part of a distribution from a 403(b) plan to a traditional IRA or an eligible retirement plan. The most you can roll over is the amount that, except for the rollover, would be taxable. The rollover must be completed by the 60th day following the day on which you receive the distribution. For information on eligible retirement plans, see Publication 575.

Hardship exception to rollover rules. For years beginning after 2001, the IRS may waive the 60-day rollover period if the failure to waive such requirement would be against equity or good conscience, including cases of casualty, disaster, or other events beyond the reasonable control of the individual.

Rollovers to and from 403(b) plans. Effective for distributions after 2001, you can roll over, tax free, all or any part of a distribution from an eligible retirement plan to a 403(b) plan. Additionally, you can roll over, tax free, all or any part of a distribution from a 403(b) plan to an eligible retirement plan. For information on eligible retirement plans, see Publication 575.

If after you roll over money and other property from a 403(b) plan to an eligible retirement plan, you take a distribution from that plan, you will not be eligible to receive the capital gain treatment or the special averaging treatment for the portion of the rollover attributable to the distribution from the 403(b) plan.

For more information on rollovers and eligible retirement plans, see Publication 575.

Eligible retirement plans. The following are considered eligible retirement plans.

- Individual retirement arrangements.
- Qualified plans.
- 403(b) plans.
- 457 plans.

Nonqualifying distributions. You cannot roll over tax free:

- Minimum distributions (generally required to begin at age 70½),
- Substantially equal payments over your life or life expectancy,
- Substantially equal payments over the joint lives or life expectancies of your beneficiary and you,
- Substantially equal payments for a period of 10 years or more, or
- Hardship distributions.

Direct rollovers for 403(b) plan distributions. You have the option of having your 403(b) plan make the rollover directly to the IRA or new plan. Before you receive a distribution, your plan will give you information on this. It is generally to your advantage to choose this option because your plan will not withhold tax on the distribution if you choose it.

Withholding. If you ***receive*** a distribution that qualifies to be rolled over, the payer must withhold 20% of it for taxes (even if you plan to roll the distribution over). You cannot choose to have no withholding unless you elect the direct rollover option.

Distribution received by you. If you receive a distribution that qualifies to be rolled over, you can roll over all or any part of the distribution. Generally, you will receive only 80% of the distribution because 20% must be withheld. If you roll over only the 80% you receive, you must pay tax on the 20% you did not roll over. You can replace the 20% that was withheld with other money within the 60-day period to make a 100% rollover.

Voluntary deductible contributions. For tax years 1982 through 1986, employees could make deductible contributions to a 403(b) plan under the individual retirement arrangement (IRA) rules instead of deducting contributions to a traditional IRA.

If you made voluntary deductible contributions to a 403(b) plan under these traditional IRA rules, the distribution of all or part of the accumulated deductible contributions may be rolled over assuming it otherwise qualifies as a distribution you can roll over. Accumulated deductible contributions are the deductible contributions plus income and gain allocable to the contributions, minus expenses and losses allocable to the contributions, and minus distributions from the contributions, income, or gain.

Excess employer contributions. The portion of a distribution from a 403(b) plan transferred to a traditional IRA that was previously included in income as excess employer contributions (discussed earlier) is not an eligible rollover distribution.

Its transfer does not affect the rollover treatment of the eligible portion of the transferred amounts. However, the ineligible portion is subject to the traditional IRA contribution limits and may create an excess IRA contribution subject to a 6% excise tax (see chapter 1 of Publication 590).

Qualified Domestic Relations Order. You may be able to roll over tax free all or any part of an eligible rollover distribution from a 403(b) plan that you receive under a qualified domestic relations order (QDRO). If you receive the interest in the 403(b) plan as an employee's spouse or former spouse under a QDRO, all of the rollover rules apply to you as if you were the employee. You can roll over your interest in the plan to a traditional IRA or another 403(b) plan. For more information on the treatment of an interest received under a QDRO, see Publication 575.

Spouses of deceased employees. If you are the spouse of a deceased employee, you can roll over the qualifying distribution attributable to the employee. You can make the rollover to any eligible retirement plan. You cannot roll it over to a Roth IRA.

If after you roll over money and other property from a 403(b) plan to an eligible retirement plan, you take a distribution from that plan, you will not be eligible to receive the capital gain treatment or the special averaging treatment for the distribution.

Second rollover. If you roll over a qualifying distribution to a traditional IRA, you can, if certain conditions are satisfied, later roll the distribution into another 403(b) plan. For more information, see *IRA as a holding account (conduit IRA) for rollovers to other eligible plans*, in Publication 590.

Frozen deposits. The 60-day period usually allowed for completing a rollover is extended for any time that the amount distributed is a frozen deposit in a financial institution. The 60-day period cannot end earlier than 10 days after the deposit ceases to be a frozen deposit.

A frozen deposit is any deposit that on any day during the 60-day period cannot be withdrawn because:

1) The financial institution is bankrupt or insolvent, or
2) The state where the institution is located has placed limits on withdrawals because one or more banks in the state are (or are about to be) bankrupt or insolvent.

Gift Tax

If, by choosing or not choosing an election, or option, you provide an annuity for your beneficiary at or after your death, you may have made a taxable gift equal to the value of the annuity.

Joint and survivor annuity. If the gift is an interest in a joint and survivor annuity where only you and your spouse have the right to receive payments, the gift will generally be treated as qualifying for the unlimited marital deduction.

More information. For information on the gift tax, see Publication 950, *Introduction to Estate and Gift Taxes.*

13. Worksheets

Chapter 3 introduced you to the term maximum amount contributable (MAC). Generally, your MAC for 2001 is the least of your:

- Maximum exclusion allowance (chapter 3),
- Limit on annual additions (chapter 4 for the general rule or chapter 6 for alternative limits), or
- Limit on elective deferrals (chapter 5).

Worksheets 1 through 4 in this chapter pull all three of these components together to help you figure your MAC for 2001.

For 2002, MAC is generally the lesser of your limit on annual additions or your limit on elective deferrals. Chapter 9 has information on figuring your MAC for 2002. Worksheet 7 in this chapter can help you figure your MAC for 2002.

Figuring MAC

After completing the worksheets, you should maintain them with your 403(b) records for that year. Do not attach them to your tax return. At the end of the year or the beginning of the next year, you should compare your estimated compensation figures with your actual figures.

If your compensation is the same as, or more than, the projected amounts and the calculations are correct, then you should simply file these worksheets with your other tax records for the year.

If your compensation was lower than your estimated figures, you will need to check the amount contributed during the year to determine if contributions are more than your MAC.

When Should I Figure MAC?

At the beginning of each year, you should figure your MAC using a conservative estimate of your compensation. Should your income change during the year, you should refigure your MAC based on a revised conservative estimate. By doing this, you will be able to determine if contributions to your 403(b) account should be increased or decreased for the year.

Figuring MAC for the Current Year

If you are figuring your MAC for the current year, you should use a conservative estimate of your compensation.

If you can figure your MAC for 2001 using one of the three alternative limits, you should figure your MAC using both the selected alternative limit and the general limit.

CAUTION

Before selecting an alternative limit, read Chapter 6, Alternative Limits on Annual Additions.

Checking the Previous Year's Contributions

At the beginning of the following year, you should refigure your MAC based on your actual earned income.

At the end of the current year or the beginning of the next year, you should check your contributions to be sure you did not exceed your MAC. This means refiguring your limit based on your actual compensation figures for the year. This will allow you to determine if the amount contributed is more than the allowable amounts, and possibly avoid additional taxes.

Available Worksheets

The following worksheets have been provided to help you figure components of your MAC.

- Worksheet A. Maximum Exclusion Allowance (MEA).
- Worksheet B. Cost of Life Insurance.
- Worksheet C. Includible Compensation for Your Most Recent Year of Service.
- Worksheet D. Limit on Annual Additions for 2001.
- Worksheet E. Compensation Calculation — Limit on Annual Additions.
- Worksheet F. Limit on Elective Deferrals.
- Worksheet G. Limit on Annual Additions for 2002.
- Worksheet H. Catch-Up Contributions.

Worksheets 1 through 5, and 7 will help you figure MAC. Worksheet 6 will help your determine if you have excess contributions.

- Worksheet 1. Maximum Amount Contributable (No Alternatives) for 2001.
- Worksheet 2. Year of Separation From Service Limit.
- Worksheet 3. Overall Limit.
- Worksheet 4. Any Year Limit.
- Worksheet 5. Limit on Nonelective Contributions.
- Worksheet 6. Calculation of Excess 403(b) Contributions for 2001.
- Worksheet 7. Maximum Amount Contributable (MAC) for 2002.

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Worksheet A. **Maximum Exclusion Allowance (MEA)**

Note: *Use this worksheet to figure your MEA.*

1.	Enter your **includible compensation for your most recent year of service**	$______
2.	Percentage limit	20%
3.	Multiply line 1 by line 2	$______
4.	Enter your **years of service** as of the end of 2001	______
5.	Multiply line 3 by line 4	$______
6.	Enter your **amounts previously excludable** (prior years' contributions)	$______
7.	Subtract line 6 from line 5. This is your **MEA**	$______

Worksheet B. **Cost of Life Insurance**

Note: *Use this worksheet to figure the cost of incidental life insurance included in your annuity contract. This amount will be used to figure includible compensation for your most recent year of service.*

1.	Enter the value of the contract (amount payable upon your death)	$______
2.	Enter the cash value in the contract at the end of the year	$______
3.	Subtract line 2 from line 1. This is the **value of your current life insurance protection**	$______
4.	Enter your age on your birthday nearest the beginning of the policy year	______
5.	Enter the 1-year term premium for $1,000 of life insurance based on your age. (Figure 3-1)	$______
6.	Divide line 3 by **$1,000**	$______
7.	Multiply line 6 by line 5. This is the **cost of your incidental life insurance**	$______

Worksheet C. **Includible Compensation for Your Most Recent Year of Service***

Note: *Use this worksheet to figure includible compensation for your most recent year of service.*

1.	Enter your includible wages from the employer maintaining your 403(b) account for your most recent year of service	$______
2.	Enter elective deferrals for your most recent year of service	$______
3.	Enter amounts contributed or deferred by your employer under a cafeteria plan for your most recent year of service	$______
4.	Enter amounts contributed or deferred by your employer to your 457 account for your most recent year of service	$______
5.	Enter the value of qualified transportation fringe benefits you received from your employer	$______
6.	Enter your foreign earned income exclusion for your most recent year of service	$______
7.	Add lines 1, 2, 3, 4, 5, and 6	$______
8.	Enter the cost of incidental life insurance that is part of your annuity contract for your most recent year of service	$______
9.	Enter compensation that was **both:** • Earned during your most recent year of service, and • Earned while your employer was not qualified to maintain a 403(b) plan	$______
10.	If using this worksheet for 2001, enter contributions that are more than your MEA. Otherwise, enter zero (0)	$______
11.	Add lines 8, 9, and 10	$______
12.	Subtract line 11 from line 7. This is your **includible compensation for your most recent year of service**	$______

**Use estimated amounts if figuring includible compensation before the end of the year.*

Worksheet D. **Limit on Annual Additions for 2001**

Note: *Use this worksheet to figure your limit on annual additions, which is the second component of your MAC.*

1.	Enter your total **compensation** for the year	$
2.	Compensation limit	25%
3.	Multiply line 1 by line 2	$
4.	**Maximum**	$ 35,000
5.	Enter the lesser of line 3 or line 4. This is your **limit on annual additions**	$

Worksheet E. **Compensation Calculation—Limit on Annual Additions**

Note: *Use this worksheet to figure compensation that will be used to figure your limit on annual additions.*

1.	Enter your wages, salaries, and fees for personal services with the employer who maintains your 403(b) account	$
2.	Enter taxable accident and health insurance payments	$
3.	Enter nondeductible moving expense payments or reimbursements paid by your employer	$
4.	Enter the value of nonqualified stock options that are includible in your gross income in the year received	$
5.	Enter elective deferrals (payroll reductions)	$
6.	Enter amounts contributed by your employer to a cafeteria plan on your behalf	$
7.	Enter amounts contributed at your election by your employer to an eligible 457 plan on your behalf	$
8.	Enter the value of any qualified transportation fringe benefits	$
9.	Add lines 1 through 8. This is your **compensation** for the year	$

Worksheet F. **Limit on Elective Deferrals**

Note: *Use this worksheet to figure your limit on elective deferrals, which is the last component of your MAC.*

1.	**Maximum contribution** • For 2001, enter $10,500 • For 2002, enter $11,000 **Note:** If you have at least 15 years of service with a qualifying organization, complete lines 2 through 12; if not, enter (0) on line 11 and go to line 12.	$
2.	Amount per years of service	$ 5,000
3.	Enter your years of service	
4.	Multiply line 2 by line 3	
5.	Enter the total of all elective deferrals made by your employer on your behalf for earlier years	$
6.	Subtract line 5 from line 4; if zero or less, enter (0)	$
7.	Maximum increase in limit for long service	$ 15,000
8.	Enter all prior year increases to the general limit for long service	$
9.	Subtract line 8 from line 7	$
10.	**Maximum additional contributions**	$ 3,000
11.	Enter the least of lines 6, 9, or 10. This is the **increase in limit for long service**	$
12.	Add lines 1 and 11. This is your **limit on elective deferrals**	$

Worksheet G. **Limit on Annual Additions for 2002**

Note: *Use this worksheet to figure your limit on annual additions, which is the first component of your MAC*

1.	Enter your includible compensation for your most recent year of service	$
2.	**Maximum**	$ 40,000
3.	Enter the lesser of line 1 or line 2. This is **your limit on annual additions**	$

Worksheet H. **Catch-Up Contributions**

Note: *If you are age 50 or older, use this worksheet to figure your catch-up contributions*

1.	Maximum catch-up contributions	$ 1,000.00
2.	Enter your includible compensation for your most recent year of service	$
3.	Enter your elective deferrals	$
4.	Subtract line 3 from line 2	$
5.	Enter the lesser of line 1 or line 4. This is your **catch-contributions**	$

Worksheet 1. **Maximum Amount Contributable (No Alternatives) for 2001**

Note: *Use this worksheet to figure your MAC if you are not using an alternative limit on annual additions. If you are using an alternative limit, you must use Worksheet 2, 3, or 4.*

	Part I. Maximum Exclusion Allowance (MEA)		
1.	Enter your **includible compensation for your most recent year of service**	$	
2.	Percentage limit	20%	
3.	Multiply line 1 by line 2	$	
4.	Enter your **years of service** as of the end of 2001		
5.	Multiply line 3 by line 4	$	
6.	Enter your **amounts perviously excludable** (prior years' contributions)	$	
7.	Subtract line 6 from line 5. This is your **MEA**		$
	Part II. Limit on Annual Additions		
8.	Enter your total **compensation** for 2001	$	
9.	Compensation limit	25%	
10.	Multiply line 8 by line 9	$	
11.	**Maximum**	$ 35,000	
12.	Enter the lesser of line 10 or line 11. This is your **limit on annual additions**		$
	Caution: If you had only elective deferrals, complete Part III and figure your MAC using line 25. Do not complete line 26. If you had only nonelective contributions, skip Part III and figure MAC using line 26. If you had both elective deferrals and nonelective contributions, stop here and go to Worksheet 5.		
	PART III. Limit on Elective Deferrals		
13.	**Maximum contributions**		$ 10,500
	NOTE: If you have at least 15 years of service with a qualifying organization, complete lines 14 through 24; if not, enter (0) on line 23 and go to line 24.		
14.	Amount per years of service	$ 5,000	
15.	Enter your years of service		
16.	Multiply line 14 by line 15	$	
17.	Enter the total of all elective deferrals made by your employer on your behalf for earlier years	$	
18.	Subtract line 17 from line 16; if zero or less, enter (0).	$	
19.	Maximum increase in limit for long service	$ 15,000	
20.	Enter all prior year increases to the general limit for long service	$	
21.	Subtract line 20 from line 19	$	
22.	**Maximum additional contributions**	$ 3,000	
23.	Enter the least of lines 18, 21, or 22. This is the increase in the limit for long service		$
24.	Add lines 13 and 23. This is your **limit on elective deferrals.** Complete line 25		$
	PART IV. Maximum Amount Contributable (MAC)		
25.	Enter the least of lines 7, 12, or 24. This is your **MAC** for 2001		$
26.	Enter the lesser of line 7 or line 12. This is your **MAC** for 2001		$

Worksheet 2. **Year of Separation From Service Limit**

Note: *Use this worksheet to figure your MAC if you are using the year of separation from service limit.*

Part I. Maximum Exclusion Allowance (MEA)

1.	Enter your **includible compensation for your most recent year of service**	$	
2.	Percentage limit	20%	
3.	Multiply line 1 by line 2	$	
4.	Enter your **years of service** (limited to 10 years) as of the end of 2001		
5.	Multiply line 3 by line 4	$	
6.	Enter your **amounts previously excludable** during the last 10 years (including prior years' excess contributions)	$	
7.	Subtract line 6 from line 5. This is your **MEA**		$

Part II. Limit on Annual Additions

8.	**Maximum**		$ 35,000

Caution: If you had only elective deferrals, complete Part III and figure your MAC using line 21. Do not complete line 22. If you had only nonelective contributions, skip Part III and figure MAC using line 22. Do not complete line 21. If you had both elective deferrals and nonelective contributions, stop here and go to Worksheet 5.

Part III. Limit on Elective Deferrals

9.	**Maximum contribution**		$ 10,500

NOTE: If you have at least 15 years of service with a qualifying organization, complete lines 10 through 20; if not, enter (0) on line 19 and go to line 20.

10.	Amount per years of service	$ 5,000	
11.	Enter your years of service		
12.	Multiply line 10 by line 11	$	
13.	Enter the total of all elective deferrals made by your employer on your behalf for earlier years	$	
14.	Subtract line 13 from line 12; if zero or less, enter (0)	$	
15.	Maximum increase in limit for long service	$ 15,000	
16.	Enter all prior year increases in the limit for long service	$	
17.	Subtract line 16 from line 15	$	
18.	**Maximum additional contributions**	$ 3,000	
19.	Enter the least of lines 14, 17, or 18. This is the increase in limit for long service		$
20.	Add lines 9 and 19. This is your **limit on elective deferrals.** Complete line 21		$

Part IV. Maximum Amount Contributable (MAC)

21.	Enter the least of lines 7, 8, or 20. This is your **MAC** for 2001		$
22.	Enter the lesser of line 7 or line 8. This is your **MAC** for 2001		$

Worksheet 3. **Overall Limit**

Note: *Use this worksheet to figure your MAC if you are using the overall limit.*

	Part I. Limit on Annual Additions		
1.	Enter your total **compensation** for 2001	$	
2.	Compensation limit	25%	
3.	Multiply line 1 by line 2	$	
4.	**Maximum**		$ 35,000
5.	Enter the lesser of line 3 or line 4. This is your **limit on annual additions**		$
	Caution: If you had only elective deferrals, complete Part II and figure your MAC using line 18. If you had only nonelective contributions, skip Part II and enter the amount from line 5 on line 19. If you had both elective deferrals and nonelective contributions, stop here and go to Worksheet 5.		
	Part II. Limit on Elective Deferrals		
6.	**Maximum contribution**		$ 10,500
	NOTE: If you have at least 15 years of service with a qualifying organization, complete lines 7 through 17; if not, enter (0) on line 16 and go to line 17.		
7.	Amount per years of service	$ 5,000	
8.	Enter your years of service		
9.	Multiply line 7 by line 8	$	
10.	Enter the total of all elective deferrals made by your employer on your behalf for earlier years	$	
11.	Subtract line 10 from line 9; if zero or less, enter (0)	$	
12.	Maximum increase in limit for long service	$ 15,000	
13.	Enter all prior year increases to the general limit for long service	$	
14.	Subtract line 13 from line 12	$	
15.	**Maximum additional contributions**	$ 3,000	
16.	Enter the least of lines 11, 14, or 15. This is the increase in limit for long service		$
17.	Add lines 6 and 16. This is your **limit on elective deferrals.** Complete line 18		$
	Part III. Maximum Amount Contributable (MAC)		
18.	Enter the lesser of lines 5 or 17. This is your **MAC** for 2001		$
19.	Enter the amount from line 5. This is your **MAC** for 2001		$

Worksheet 4. **Any Year Limit**

Note: *Use this worksheet to figure your MAC if you are using the any year limit.*

	Part I. Maximum Exclusion Allowance (MEA)		
1.	Enter your **includible compensation for your most recent year of service**	$	
2.	Percentage limit	20%	
3.	Multiply line 1 by 2	$	
4.	Enter your **years of service** as of the end of 2001		
5.	Multiply line 3 by line 4	$	
6.	Enter your **amounts previously exludable** (prior years' contributions)	$	
7.	Subtract line 6 from line 5. This is your **MEA**		$
	Part II. Limit on Annual Additions		
8.	Enter your total **compensation** for 2001	$	
9.	**Compensation limit**	25%	
10.	Multiply line 8 by line 9	$	
11.	**Additional amount**	$ 4,000	
12.	Add lines 10 and 11. This is a tentative limit	$	
13.	**Maximum**	$ 15,000	
14.	Enter the least of lines 7, 12, or 13. This is your **limit on annual additions**		$
	Caution: If you had only elective deferrals, complete Part III and figure your MAC using line 27. Do not complete line 28. If you had only nonelective contributions, skip Part III and enter the amount from line 14 on line 28. Do not complete line 27. If you had both elective deferrals and nonelective contributions, stop here and go to Worksheet 5.		
	Part III. Limit on Elective Deferrals		
15.	**Maximum contribution**		$ 10,500
	NOTE: If you have at least 15 years of service with a qualifying organization, complete lines 16 through 26; if not, enter (0) on line 25 and go to line 26.		
16.	Amount per years of service	$ 5,000	
17.	Enter your years of service		
18.	Multiply line 16 by line 17	$	
19.	Enter the total of all elective deferrals made by your employer on your behalf for earlier years	$	
20.	Subtract line 19 from line 18; if zero or less, enter (0)	$	
21.	Maximum increase in limit for long service	$ 15,000	
22.	Enter all prior year increases to the general limit for long service	$	
23.	Subtract line 22 from line 21	$	
24.	**Maximum additional contributions**	$ 3,000	
25.	Enter the least of lines 20, 23, or 24. This is your increase in limit for long service		$
26.	Add lines 15 and 25. This is your **limit on elective deferrals**. Complete line 27		$
	Part IV. Maximum Amount Contributable (MAC)		
27.	Enter the lesser of lines 14 or 26. This is your **MAC** for 2001		$
28.	Enter the amount from line 14. This is your **MAC** for 2001		$

Worksheet 5. **Limit on Nonelective Contributions**

Note: *Use this worksheet to figure your limit on nonelective contributions for years in which you have both nonelective contributions and elective deferrals. Before completing this worksheet, unless you are using the overall limit, figure your MEA and your limit on annual additions using Worksheet 1, 2, 4, or 7. If you are using the overall limit, figure your limit on annual additions using Worksheet 3 before completing this worksheet.*

1. Enter your **MEA.** If you used:
- Worksheet 1, 2, or 4—This is the amount from line 7 of the worksheet.
- Worksheet 3 or 7—Leave this line blank and go on to line 2. $ ____________

2. Enter your **limit on annual additions.** If you used:
- Worksheet 1—This is the amount from line 12 of that worksheet.
- Worksheet 2—This is the amount from line 8 of that worksheet.
- Worksheet 3—This is the amount from line 5 of that worksheet.
- Worksheet 4—This is the amount from line 14 of that worksheet.
- Worksheet 7—This is the amount from line 3 of that worksheet. $ ____________

3. If you used Worksheet 1, 2, or 4, enter the lesser of line 1 or line 2 of this worksheet. If you used Worksheet 3 or 7 enter the amount from line 2 of this worksheet . $ ____________

4. Enter the amount of your actual **elective deferrals** (defined in chapter 1) for the year . . . . $ ____________

5. Subtract line 4 from line 3. If zero (0) or less, enter zero (0). This is the maximum amount of **nonelective contributions** that can be contributed to a 403(b) account on your behalf for the year. $ ____________

Worksheet 6. **Calculation of Excess 403(b) Contributions for 2001**

Note: *Use this worksheet to figure excess contributions to your 403(b) account for 2001.*

Part I. Excess Contributions

1. Enter the actual amount contributed to your 403(b) account for the year . . . $ ______
2. Enter your MAC for the year (from Worksheet 1, 2, 3, or 4) . . . . $ ______
3. Subtract line 2 from line 1. If zero or less, enter zero (0). This amount is your excess contribution. If you entered zero, you do not have excess contributions, *stop here* . . . . $ ______

Part II. Excess Deferrals

4. Enter the actual amount of elective deferrals contributed to your 403(b) account for the year . . . . $ ______
5. Enter the total amount of elective deferrals contributed, for the year, to a 401(k) plan, a section 501(c)(18) plan (created before June 25, 1959), a SIMPLE plan, and a SEP plan, on your behalf . . . . $ ______
6. Add line 4 and line 5 . . . . $ ______
7. Enter your limit on elective deferrals (from Worksheet F) . . . . $ ______
8. Subtract line 7 from line 6. If zero or less, enter zero (0). . . . . $ ______
   - If you entered zero, you do not have an excess deferral. Continue to line 9.
   - If you entered more than zero, this is your excess deferral. See *Excess Deferral* in chapter 11, for actions you should take and continue to line 9.

Part III. Excess Amount

9. Enter the nonelective contributions made to your account . . . . $ ______
10. Enter your after-tax contributions. . . . . $ ______
11. Enter your elective deferrals . . . . $ ______
12. Enter amounts contributed, on your behalf, to a qualified plan or a SEP plan of all corporations, partnerships, and sole proprietorships in which you had more than 50% control, for the year . . . . $ ______
13. Add lines 9, 10, 11, and 12 . . . . $ ______
14. Enter your limit on annual additions (from Worksheet D) . . . . $ ______
15. Subtract line 14 from line 13. If zero or less, enter zero (0) . . . . $ ______
    - If you entered zero, you do not have excess annual additions. Continue to line 16.
    - If you entered more than zero, this is your excess annual additions. See *Amount in excess of limit on annual additions* in chapter 11 for actions you should take and continue to line 16.
16. Add lines 9, 10, and 11. $ ______
17. Enter your MEA (from Worksheet A) . . . . $ ______
18. Subtract line 17 from line 16. If zero or less, enter zero (0) . . . . $ ______
    - If you entered zero, you do not have an excess MEA.
    - If you entered more than zero, this is your excess MEA. See *Amount in excess of MEA* in chapter 11 for actions you should take.

Worksheet 7. **Maximum Amount Contributable (MAC) for 2002**

Note: *Use this worksheet to figure your MAC for 2002.*

Part I. Limit on Annual Additions

1.	Enter your **includible compensation for your most recent year of service**	$	
2.	**Maximum**	$ 40,000	
3.	Lesser of line 1 or line 2. This is your limit on annual additions		$

Caution: If you had only nonelective contributions, skip Part II and enter the amount from line 3 on line 16. If you had both elective deferrals and nonelective contributions, stop here and go to Worksheet 5 to figure your limit on nonelctive contributions.

Part II. Limit on Elective Deferrals

4.	**Maximum contribution**		$ 11,000

Note: If you have at least 15 years of service with a qualifying organization, complete lines 5 through 15. If not, enter (0) on line 14 and go to line 15.

5.	Amount per years of service	$ 5,000	
6.	Enter your years of service	$	
7.	Multiply line 5 by line 6	$	
8.	Enter the total of all elective deferrals for prior years made for you by the qualifying organization	$	
9.	Subtract line 8 from line 7. If zero or less, enter (0)	$	
10.	Maximum increase in limit for long service	$ 15,000	
11.	Enter all prior year increases in the limit for long service	$	
12.	Subtract line 11 from line 10	$	
13.	**Maximum additional contributions**	$ 3,000	
14.	Enter the least of lines 9, 12, or 13. This is your **increase in the limit for long service**		$
15.	Add lines 4 and 14. This is your **limit on elective deferrals**		$

Part III. Maximum Amount Contributable

16.	Enter the lesser of lines 3 or 15. This is your **MAC**		$

14. How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1–877–777–4778.**
- Call the IRS at **1–800–829–1040.**
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1–800–829–4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS.*

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services.* It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

Personal computer. With your personal computer and modem, you can access the IRS on the Internet at **www.irs.gov**. While visiting our web site, you can:

- Find answers to questions you may have.
- Download forms and publications or search for forms and publications by topic or keyword.
- View forms that may be filled in electronically, print the completed form, and then save the form for recordkeeping.
- View Internal Revenue Bulletins published in the last few years.
- Search regulations and the Internal Revenue Code.
- Receive our electronic newsletters on hot tax issues and news.
- Get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at **ftp.irs.gov**.

TaxFax Service. Using the phone attached to your fax machine, you can receive forms and instructions by calling **703–368–9694.** Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

For help with transmission problems, call the FedWorld Help Desk at **703–487–4608.**

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1–800–829–3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1–800–829–1040.**
- *Employee plan assistance.* If you own a business and have questions about starting a pension plan, an existing plan, or filing Form 5500, call our **Tax Exempt/ Government Entities Customer Service** at**1–877–829–5500**. Assistance is available Monday through Friday from 8:00 a.m. to 9:30 p.m. EST. If you have questions about an individual retirement arrangement (IRA), call **1–800–829–1040**.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1–800–829–4059** to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call **1–800–829–4477** to listen to pre-recorded messages covering various tax topics.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

Walk-in. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county governments, credit unions, and office supply stores have an extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Find the address that applies to your part of the country.

- **Western part of U.S.:**
  Western Area Distribution Center
  Rancho Cordova, CA 95743–0001
- **Central part of U.S.:**
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  P.O. Box 8903
  Bloomington, IL 61702–8903
- **Eastern part of U.S. and foreign addresses:**
  Eastern Area Distribution Center
  P.O. Box 85074
  Richmond, VA 23261–5074

CD-ROM. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM,* and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms and instructions.
- Popular tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1–877–233–6767** or on the Internet at **www.irs.gov.** The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *Small Business Resource Guide,* is an interactive CD-ROM that contains information important to small businesses. It is available in mid-February. You can get one free copy by calling **1–800–829–3676** or visiting the IRS web site at **www.irs.gov.**

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