Part I.

Section 412. --- Minimum Funding Standards

Rev. Rul. 2000-20

PURPOSE

This revenue ruling provides questions and answers relating to the establishment and maintenance of certain amortization bases under § 412(b) of the Internal Revenue Code (the “Code”), as amended by § 1521(c) of the Taxpayer Relief Act of 1997 (“TRA ‘97").

BACKGROUND

Section 412 of the Code imposes minimum funding requirements with respect to defined benefit and money purchase pension plans. Under § 412(a), a plan will have satisfied the minimum funding requirements for a plan year if as of the end of the plan year, the plan does not have an accumulated funding deficiency in the funding standard account. Section 412(b)(1) provides that each plan to which § 412 applies shall establish and maintain a funding standard account. Sections 412(b)(2) and (3) provide for charges and credits to the funding standard account.

Section 412(c)(7) provides a full funding limitation for defined benefit plans for purposes of the minimum funding requirements. Section 412(c)(7)(A)(i)(I) provides that one component of the full funding limitation is the applicable percentage of current liability (including the expected increase in current liability due to benefits accruing during the plan year). Section 412(c)(6)(A) provides for a credit to the funding standard account for contributions that would be required but for the full funding limitation.

Prior to TRA ‘97, the current liability component of the full funding limitation was 150 percent of current liability (including the expected increase in current liability due to benefits accruing during the plan year), and § 412(c)(7)(D)(iii) provided that the Secretary may provide for the treatment under § 412 of contributions that would be required to be made under the plan but for the provisions of § 412(c)(7)(A)(i)(I).

Section 1521(c)(1) of TRA ‘97 added § 412(b)(2)(E) to the Code to provide that contributions that would have been required under § 412 but for the provisions of § 412(c)(7)(A)(i)(I) are to be amortized over a 20 year period. Section 1521(c)(3) of TRA ‘97 repealed § 412(c)(7)(D)(iii) of the Code. Section 1521(d)(1) of TRA ‘97 provides that the amendments made by § 1521 apply to plan years beginning after December 31, 1998.

Section 1521(d)(2) of TRA ‘97 provides that the unamortized balance (as of the close of the plan year preceding the plan’s first plan year beginning in 1999) of any amortization base established under § 412(c)(7)(D)(iii) of the Code (prior to its repeal by § 1521(c)(3) of TRA ‘97) is amortized in equal annual installments (until fully amortized) over a period of years equal to the excess of (A) 20 years, over (B) the number of years since the amortization base was established.

QUESTIONS AND ANSWERS RELATING TO § 412(b)(2)(E) OF THE CODE

Q-1. How are contributions that would have been required under § 412 but for the provisions of § 412(c)(7)(A)(i)(I) treated?

A-1. In general, for purposes of § 412, an amortization base is established for contributions that would have been required under § 412 but for the provisions of § 412(c)(7)(A)(i)(I). The amortization base is established for the plan year following the plan year for which the contributions would have been required under § 412 but for the provisions of §412(c)(7)(A)(i)(I). For amortization bases that were established for plan years beginning before January 1, 1999, the amortization period is 10 years. For amortization bases established for plan years beginning after December 31, 1998, the amortization period is 20 years. Any such amortization base is maintained in the same manner as other amortization bases established under § 412. No corresponding amortization base is established for purposes of § 404.

Q-2. How are amortization bases described in Q&A-1 that were established for plan years beginning before January 1, 1999, treated for the first plan year beginning after December 31, 1998?

A-2. In general, under § 1521(d)(2) of TRA ‘97, the remaining amortization period for any amortization base described in Q&A-1 that was established for plan years beginning before January 1, 1999, (“existing 10-year base”) is increased as of the first plan year beginning after December 31, 1998, by adding 10 to the number of years that was otherwise remaining in the amortization period, provided that the amortization base has not been combined with other amortization bases. For the first plan year beginning after December 31, 1998, the amortization charge for such existing 10-year base is redetermined as the amount necessary to amortize the unamortized balance (as of the close of the plan year preceding the plan’s first plan year beginning in 1999) in equal annual installments (until fully amortized) over this increased amortization period. Thereafter, these amortization bases are maintained in the same manner as other amortization bases established under § 412 of the Code.

Q-3. Are there any special rules with respect to funding methods that do not provide for amortization bases?

A-3. Yes. If the funding method does not provide for amortization bases, no amortization base is established for plan years beginning after December 31, 1998, for contributions that would have been required under § 412 but for the provisions of § 412(c)(7)(A)(i)(I). Also, except as provided in Q&A-4, existing 10-year bases are treated as fully amortized for the first plan year beginning after December 31, 1998. For purposes of this revenue ruling, a funding method does not provide for amortization bases if the funding method is a spread gain method that does not use an unfunded liability in determining the normal cost. A spread gain method is any funding method that does not directly calculate an accrued liability. See Rev. Rul. 81-13, 1981-1 C.B. 229, for whether a funding method directly calculates an accrued liability.

Q-4. Is there a transition rule for the first plan year beginning after December 31, 1998, for plans using a funding method that does not provide for amortization bases?

A-4. Yes, as an optional transition rule, for plans using a funding method described in Q&A-3, any existing 10-year bases may be continued for the first plan year beginning after December 31, 1998, but the amortization period is increased as described in Q&A-2. Furthermore, in such a case, a new 20-year amortization base as described in Q&A-1 is permitted to be established for that plan year. However, in any event, if the transition rule described in this Q&A-4 is used for the first plan year beginning after December 31, 1998, the existing 10-year bases (and any amortization base described in Q&A-1 established for that plan year) are treated as fully amortized pursuant to Q&A-3 for the next plan year.

DRAFTING INFORMATION

The principal author of this revenue ruling is James Holland of the Tax Exempt and Government Entities Division. For further information concerning this revenue ruling, call (202) 622-6076 between 2:30 and 3:30 Eastern time (not a toll free number) Monday through Thursday. Mr. Holland’s number is (202) 622-6730 (also not a toll free number).