Tax Exempt and Government Entities
EMPLOYEE PLANS DIVISION

403(b)
Tax-Sheltered
Annuities for

Participants

A 403(b) plan is a retirement plan offered by public schools and 501(c)(3) tax-exempt organizations. You can only obtain a 403(b) annuity or custodial account* under your employer's 403(b) plan. These annuities are funded by your elective salary deferrals, employer contributions or a combination of both.

403(b) plans offer significant tax advantages for participants:

- contributions and earnings are tax-deferred (in a traditional 403(b) annuity),
- earnings on after-tax Roth contributions may be tax-free,
- you may be eligible for a saver's credit on your individual tax return, and
- you can carry your annuity with you when you change employers or retire.

Be Aware of Common Mistakes

As a participant in a 403(b) plan, you need to be familiar with the tax rules governing your 403(b) annuity so you can:

- maximize your retirement benefits,
- comply with the law, and
- avoid additional taxes and penalties.

*Unless otherwise stated, references to 403(b) annuities in this publication will generally also apply to 403(b) custodial accounts.

403(b)

403(b) Plans Highlights

Plan Feature	403(b) Requirements
Eligible participants	all common-law employees of public school systems and 501(c)(3) organizations
General contribution limits	▪ for elective deferrals ▪ $18,000 (in 2017, indexed for inflation) ▪ for employer and employee contributions ▪ $54,000 (for 2017, indexed for inflation), or ▪ 100% of includible compensation, if less
15-years-of-service catch-up contributions*	▪ available for certain employers (such as schools, hospitals, churches) ▪ employee must have 15 years of service ▪ limited to least of: ▪ $3,000, ▪ $15,000 less previously excluded special catch-ups, or ▪ $5,000 multiplied by years of service minus previously excluded deferrals
Age-50 catch-up contributions	additional $6,000 (in 2017, indexed for inflation)
Loans	▪ available, if both the plan and your specific annuity permit ▪ $50,000 limit for all loans at any time ▪ payments at least quarterly ▪ term of no more than 5 years (except for purchase of main home) ▪ reasonable rate of interest
Other distributions	▪ hardship, if both the plan and your specific annuity permit ▪ domestic relations order
Timing of distributions	▪ elective deferrals are available generally upon: ▪ death, ▪ age 59½, ▪ severance from employment, or ▪ disability, and no later than the later of age 70½ or retirement ▪ employer contributions may be available earlier if provided in the plan and your annuity (but not if the funds are held in a custodial account)
Rollovers	▪ permitted to and from other retirement plans (such as a 401(k), other 403(b)) and IRAs ▪ must satisfy eligible distribution rules
Trustee-to-trustee transfer	▪ transfers to another 403(b) plan are permitted ▪ in-service transfers to purchase service credit in government defined benefit plans are permitted

***Note:** The special 403(b) 15-years-of-service catch-up is included in the general limit, but the age-50 catch-up is excluded from this limit. Catch-up contributions must be applied first to the 15-years-of-service catch-up, if available, before being applied to the age-50 catch-up. See irs.gov/retirement for examples of how the ordering works.

403(b) Tax-Sheltered Annuity Plans

Common Mistakes

It's important to know the tax rules that apply to a 403(b) plan to help you get the maximum benefit from your plan.

The IRS commonly finds mistakes in 403(b) plans in these areas:

Universal availability. If a 403(b) plan allows any employee to make elective deferrals, it must allow all employees the same opportunity. Certain groups of employees may be excluded, such as those normally working fewer than 20 hours per week (less than 1,000 hours per year), students performing certain service, employees who are eligible for elective deferrals under another plan of their employer and non-resident aliens. Employers must notify employees of their eligibility to make an initial or change an existing deferral election at least once a year.

Contribution limits and catch-ups. Contributions must stay under the applicable general, age 50 catch-up and 15-years-of-service catch-up contribution limits. Any excess elective deferrals must be returned by the following April 15th to avoid additional taxes and penalties.

Depositing elective deferrals. Your employer must send your deferrals to your annuity issuer as soon as is reasonable for proper plan administration (but no later than 15 days following the month you would have been paid).

Rollovers. You're permitted to roll over any part of your otherwise taxable eligible distribution from a 403(b) annuity into another 403(b) annuity, a 457(b) plan, a traditional IRA or other eligible retirement plan. Likewise, if permitted by the 403(b) annuity, you may roll over your otherwise taxable distributions from another retirement plan into your 403(b) annuity.

Loans. Loans may be available under the 403(b) plan and your 403(b) annuity. If you default on your loan or it fails other conditions, the IRS may treat your loan as a taxable distribution. Your loan may continue to accrue interest until you're eligible for a distribution to pay the loan back. If you're under age 59½ when your loan is deemed a distribution, a 10% additional tax may apply.

Hardship. Hardship distributions may be permitted under your 403(b) plan and your 403(b) annuity. Hardships must be because of an immediate and heavy financial need. If you take a hardship distribution, most plans require you to stop making deferrals for six months.

Contributions after you leave employment. Plans may allow for elective deferrals and/or employer contributions after you separate from service.

- **Elective deferrals.** If your plan permits, you may defer — up to your annual deferral limit — your unpaid regular pay and unused accrued vacation and sick pay, if done before the end of the calendar year you leave employment, or within 2½ months after leaving, if later.

- **Employer contributions.** If your plan permits, your employer may contribute up to the combined annual employer and employee contribution limit for you for up to five years following the end of the year you left employment. (Note: You can't elect to receive this money in cash instead of deferring it in your 403(b) account.) These employer contributions must end upon your death.

Moving funds while you're still working.

- **Exchanges within the same plan.** For these to occur, the 403(b) plan must permit you to move funds from one approved annuity issuer to another. In addition, the new annuity issuer must agree to share information with your employer.
- **Plan-to-plan movement of funds.** For this to occur, both 403(b) plans must permit the movement of the funds.

As a participant, you need to be aware of these common mistakes. By helping your employer to correct mistakes timely, you can avoid additional taxes and penalties that may affect both you and your employer.

To Learn More...

For assistance or information on retirement plan tax-related issues:

- visit www.irs.gov/retirement – See
  - "Choosing a retirement plan," then:
    - "Types of Retirement Plans," then "403(b) Plans"
    - "Retirement Plans FAQs," then "403(b) Tax-Sheltered Annuity Plans"
- call 877-829-5500 – Tax Exempt and Government Entities Customer Account Services

The following publications cover 403(b) annuities:

- Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans) For Employees of Public Schools and Certain Tax-Exempt Organizations
- Publication 575, Pension and Annuity Income
- Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs)
- Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs)
- Publication 4483, 403(b) Tax-Sheltered Annuity Plans for Sponsors
- Publication 4546, 403(b) Plan Checklist

Download these publications at www.irs.gov/retirement.

Publication 4482 (Rev. 8-2017) Catalog Number 47242K
Department of the Treasury **Internal Revenue Service**
www.irs.gov