

Employee Benefit Plans

Explanation No. 11 Employee and Matching Contributions

Note:

Plans submitted during the Cycle A submission period must satisfy the applicable changes in plan qualification requirements listed in Section IV of Notice 2015-84, 2015-52 I.R.B.1 (the 2015 Cumulative List).

This publication contains copies of:
Form 8799, Worksheet 11
Form 9416, Deficiency Checksheet 11

These forms are included as examples only and should not be completed and returned to the Internal Revenue Service.

The purpose of Worksheet Number 11 (Form 8799) and this explanation is to identify major problems that relate to plans providing for employee and/or matching contributions (a “401(m) plan”).

Generally a “Yes” answer to a question on the worksheet indicates a favorable conclusion, while a “No” answer signals a problem concerning plan qualification. This rule may be altered by specific instructions for a given question. Please explain any “No” answer in the space provided on the worksheet.

The sections cited at the end of each paragraph of this explanation are, except as otherwise noted, to the Internal Revenue Code and the final Income Tax Regulations.



The technical principles in this publication may be changed by future regulations or guidelines.

I. Applicability

Section 401(m) of the Code contains special nondiscrimination requirements relating to the amount of employee contributions and employer matching contributions under a plan. A plan will fail to satisfy the general nondiscrimination requirements under section 401(a)(4) unless it satisfies the special nondiscrimination requirements of section 401(m).

401(m)(1)

1.401(m)-1(a)

Defined Contribution Plans

(i) A plan is subject to the requirements of section 401(m) if it provides for employee or matching contributions. For purposes of section 401(m), an “employee contribution” includes any contribution that is designated or treated as an after-tax contribution (other than Roth elective contributions described in section 402A of the Code and Explanation #12) and that is allocated to an individual account to which attributable earnings and losses are allocated, including contributions to the defined contribution portion of a plan described in section 414(k). In addition, employee contributions include (i) employee contributions to a qualified cost of living arrangement under section 415(k)(2)(B), whether or not allocated to an individual account to which attributable earnings and losses are allocated; (ii) employee contributions applied to the purchase of life insurance protection or survivor benefit protection under a defined contribution plan; and (iii) employee contributions to a section 403(b) annuity contract. Employee contributions do not include repayment of loans, buy-backs of benefits, rollovers or transfers from other plans, or Roth elective contributions.

A matching contribution is any employer contribution (including discretionary contributions) made on behalf of an employee on account of an elective deferral or an employee contribution to the plan. Matching contributions thus include employer contributions conditioned on the employee’s elective or employee contribution even if the amount of the employer’s contribution is not determined with reference to the amount of the elective or employee contribution. Forfeitures allocated on the basis of elective, employee or matching contributions are also matching contributions under section 401(m). Except for certain administrative considerations, a contribution is not treated as a matching contribution if it is contributed: 1) before the employee contribution, if the match relates to employee contributions; or 2) before the deferral election is made or before the performance of services with respect to which the deferral is made, if the match relates to elective deferrals. For plan years beginning before 2002, any employer contribution which is used to satisfy the top-heavy minimum contribution requirements of section 416(c)(2) is not a matching contribution for the purposes of section 401(m), regardless of whether it is allocated on the basis of elective or employee contributions.

(ii) Section 401(k) of the Code applies a special nondiscrimination test (the actual deferral percentage, or ADP, test) to elective contributions (deferrals) under a qualified cash or deferred arrangement (CODA). Elective contributions (including Roth elective contributions) are treated as employer contributions and are not tested under section 401(m). (However, also see Part II, below, regarding the use of elective contributions to satisfy section 401(m).) A CODA that would otherwise fail the ADP test because of excess elective contributions by highly compensated employees may satisfy the test by recharacterizing the excess contributions as employee contributions.

These recharacterized amounts are subject to the nondiscrimination test of section 401(m). (Note that a plan with a CODA may not limit employee contributions to those resulting from recharacterization. See Worksheet #12.)

401(m)(4), 416(c)(2)(A)

1.401(m)-1(a)(2), and (3)

Defined Benefit Plans: Employee contributions generally do not include contributions to a defined benefit plan unless these contributions are allocated to a separate account as described above, such as voluntary employee contributions. The following employee contributions are deemed contributed to a defined contribution plan and are thus subject to the requirements of section 401(m):

1. Employee contributions to the defined contribution portion of a plan described in section 414(k);

2. Employee contributions to a qualified cost of living arrangement described in section 415(k)(2)(B).

401(m)(4)

1.401(m)-1(a)(3)

II. Discrimination

a. (i) and (ii). A plan which provides for employee or matching contributions must satisfy the actual contribution percentage (ACP) test set forth in section 401(m)(2)(A) of the Code. A governmental plan (within the meaning of section 414(d)) and a collectively bargained plan are treated as satisfying this test. For calendar years beginning after December 31, 1996, a plan with matching contributions is deemed to satisfy the ACP test if it contains, and complies in operation with, “SIMPLE” provisions (see Code section 401(m)(10)) or, for plan years after 12/31/98, “Safe Harbor CODA” provisions (see Code section 401(m)(11) and Part VII of this Explanation), or, for plan years after 12/31/2007, Qualified Automatic Contribution Arrangement (QACA) provisions (see Code section 401(m)(12) and Part VIII of this Explanation). The three types of provisions just mentioned can only be in CODAs meeting the requirements for such provisions. Thus, Worksheet #12 must be completed if this plan contains such provisions. (See also Parts IX, X, and XI of Explanation #12.) For plan years beginning after December 31, 1996, the ACP test compares the average of the actual amounts contributed for the plan year, as a percentage of compensation, on behalf of the eligible highly compensated employees to the average of the actual amounts contributed, again as a percentage of compensation, on behalf of the eligible nonhighly compensated employees for the prior year. The plan year being tested is sometimes referred to as the “testing year,” and this method of performing the ACP test, the “prior year testing method.”

(See explanation V.c. for the definition of compensation.) The ACP test is computed by first separately calculating the actual contribution ratios (“ACRs”) of each eligible employee and then averaging the ratios of all eligible employees in the highly compensated and nonhighly compensated groups. The individual ratios as well as the group percentages must be calculated to the nearest one-hundredth of one percent. The average percentage contributed on behalf of the eligible highly compensated employees may not exceed the greater of:

- 1) 1.25 times the average of the ratios for the eligible nonhighly compensated employees for the prior plan year, or
- 2) The lesser of a) two times the average of the ratios for the eligible nonhighly compensated employees for the prior plan year, or b) two plus the average of the ratios for the eligible nonhighly compensated employees for the prior plan year.

Example:

Ee	Comp.	Ee Contrib.	Match.Contrib.	ACR	ACP
A.	\$100,000	\$3,650	\$1,825	5.48%	
B.	\$90,000	\$2,100	\$1,050	3.50%	4.37%
C.	\$80,000	\$2,200	\$1,100	4.13%	
D.	\$20,000	\$1,000	\$500	7.50%	
E.	\$10,000	\$0	\$0	0.00%	.50%
F.	\$10,000	\$0	\$0	0.00%	

(D, E, and F are nonhighly compensated employees, and the figures shown for them in this table are for the prior plan year.) Under the ACP test, the employer must compare the ACP of the eligible highly compensated employees (A, B, and C) to the ACP of the eligible nonhighly compensated employees for the prior plan year, using the formulas above to determine whether 1) or 2) is met.

- 1) $2.50 \times 1.25 = 3.13$. Since 4.37 is greater than 3.13, Test 1) is not met.
- 2) $2.50 \times 2 = 5.00$, $2.50 + 2 = 4.50$; 4.50 is the lesser of the two. Since 4.37 is less than 4.50, Test 2) is met and the plan passes the ACP test.

For the first plan year a plan is subject to section 401(m), the employer can elect, by so providing in the plan, to use either 3 percent as the ACP of the nonhighly compensated employees or the ACP for that first plan year. This election is not available if the plan is a “successor plan,” i.e., at least half the eligible employees under the plan were eligible under another section 401(m) plan of the employer in the prior year.

If elected by the employer, by so providing in the plan, the ACP test can be applied by comparing the current plan year’s ACP for highly compensated employees with the current, rather than the prior, plan year’s ACP for nonhighly compensated employees. This method of ACP testing is called the “current year testing method.” Note that the plan must specify whether the prior year or the current year testing method will be used. If the employer has elected to use the current year testing method, switching to prior year testing can only be done if the plan meets the requirements for changing to prior year testing set forth in Regs. section 1.401(m)-2(c)(1)(ii). Generally, a plan can switch from current year testing to prior year testing only if 1) the employer has been involved in a merger, acquisition or similar transaction, and as a result, plans using different testing methods are maintained; and 2) the plan has used current year testing for the past 5 years. A plan can be amended anytime to use the current year testing method for a future plan year.

The plan must provide that it will meet the ACP test (unless it contains SIMPLE provisions, or safe harbor CODA provisions or QACA provisions and satisfies the ACP safe harbor related to such provision). However, in lieu of stating the ACP test, the plan may incorporate by reference the provisions of section 401(m)(2) and the regulations thereunder. The following discussion summarizes the principal requirements of these regulations. A plan that sets forth the ACP test in lieu of incorporating it by reference must describe the test in a manner which satisfies these requirements, including whether it is using the current or prior year testing method and, if using the prior year testing method, whether 3 percent or the first plan year’s ACP is to be used for the nonhighly compensated employees for the first testing year.

*401(a)(5)(G), 401(m)(2)(A), 401(m)(9), (10), (11) and (12)
1.401(m)-1(b), (c), -2(b), -3 and -4*

b.

(i) **Eligible Employees.** The actual contribution ratios of all eligible employees must be taken into account in determining whether a plan satisfies the ACP test. An eligible employee is any employee who is directly or indirectly eligible to make an employee contribution or to receive an allocation of matching contributions. If employee contributions are required as a condition of participation, an employee who would be a participant but for the failure to make the required contribution is considered an eligible employee for the ACP test. Also considered as an eligible employee is an employee whose right to make employee contributions or receive matching contributions has been suspended under the terms of the plan because of a distribution, loan, or an election not to participate in the plan, and an employee who may receive no annual additions because of the limits of section 415. However, an employee who makes a one-time election, upon first becoming eligible under any 401(m) plan of the employer, to not make employee contributions or receive matching contributions for the duration of his or her employment with the employer will not be considered an eligible employee for purposes of section 401(m). Eligible employees who make no employee contributions and who receive no matching contributions have an actual contribution ratio of 0% and these employees may not be excluded from the ACP test even though they may not be participants in the plan. For plan years beginning after 12/31/98, if an employer elects to apply section 410(b)(4)(B) (relating to the exclusion of employees

not meeting the statutory minimum age and service requirements), in determining whether the plan meets section 410(b)(1), the plan may provide that, in determining whether the plan meets the ACP test, all eligible employees (other than HCEs) who have not met the minimum age and service requirements of section 410(a)(1)(A) (age 21 and 1 year of service) are excluded.

401(m)(5)

1.401(m)-2(a)(1)(iii) and -5

(ii) Contributions Taken Into Account. In running the ACP test for a plan year, an employee contribution will be taken into account if it is paid to the trust during the plan year. If an employee pays the contribution to an agent of the plan (such as the employer's payroll officer), the contribution will be considered paid to the trust at the time it is paid to the agent provided it is transmitted to the trust within a reasonable period. For example, an employee contribution that is withheld from an employee's December 31 paycheck will be considered contributed to the plan in December even though the payroll officer does not transmit it to the plan until January. (Note that Department of Labor regulations at 29 CFR 2510.3-102 require that money withheld from an employee's paycheck be deposited into the plan as of the earliest date such money can be segregated from the employer's general assets but not later than the 15th business day after the month the money was withheld. A proposed amendment to the regulations was published on February 29, 2008, providing a 7-business-day safe harbor for plans with less than 100 participants.)

An excess contribution to a CODA that is recharacterized as an employee contribution will be taken into account for the ACP test in the plan year in which the contribution would have been received in cash if there had not been an election to defer.

A matching contribution will be taken into account for the ACP test for a given plan year only if 1) it is made on account of the employee's elective or employee contributions for that plan year, 2) it is allocated to the employee's account as of any date within that plan year, and 3) it is paid to the trust no later than the last day of the 12th month immediately following that plan year.

In addition, a nonhighly compensated employee's (NHCE's) matching contribution cannot be taken into account for the ACP test to the extent it exceeds the greatest of the following:

- 1) 5 percent of the employee's compensation;
- 2) the employee's matched contributions (elective deferrals, employee contributions or both); and
- 3) the product of twice the lowest matching rate of at least half the nonhighly compensated employees that made matched contributions for the year and the employee's matched contributions. An employee's matching rate is the matching contributions made for such employee divided by that employee's matched contributions, except that if the matching rate is not the same for all levels of an employee's matched contributions, the employee is deemed to have made matched contributions equal to 6 percent of compensation.

For example, assume a plan provides a match of \$2 for every \$1 of an employee's elective contributions that do not exceed 4 percent of compensation, and the plan's NHCE data for a year

Ee	Compensation	Deferral	Match	% of comp
A	\$10,000	\$0	\$0	\$500
B	\$10,000	\$1,000	\$800	\$500
C	\$20,000	\$1,000	\$1,600	\$1,000
D	\$30,000	\$0	\$0	\$1,500
E	\$60,000	\$1,000	\$2,000	\$3,000

B and E's matches can be counted in the ADP test because they are either less than 5 percent of compensation or less than the employee's deferral. C's match exceeds 5 percent of compensation and the amount of deferral, so it can only be counted if it does not exceed the product of 1) twice the lowest matching rate given to at least two of employees B, C and E and 2) C's \$1,000 of deferrals. Since the matching rate changes (the rate is lower for deferrals above 4 percent of compensation), employees B, C and E are deemed to have made deferrals of 6 percent, producing matching rates of 1.33 (800/600), 1.33 (1,600/1,200) and 0.56 (2,000/3,600), respectively. Since B and C have a matching rate of 1.33, \$1,330 (1.33 x \$1,000) of C's matching contribution can be counted because it does not exceed the product of twice the matching rate of at least half the nonhighly compensated employees (B and C) who made deferrals and C's deferrals.

A matching contribution which does not meet all of these requirements will not be tested under section 401(m). Instead, the contribution must independently satisfy section 401(a)(4) for the plan year of allocation as if it were the only employer allocation for that plan year. (See also 1.(a). (ii).)

Matching contributions that are forfeited to meet the ACP test or because they relate to excess deferrals, excess contributions (see Worksheet #12), excess aggregate contributions (see IV.b., below) or default elective contributions that are distributed under Code section 414(w) (see Worksheet #12, Part XII) are not counted in the ACP test.

Under certain circumstances, an employer may treat elective contributions to a cash or deferred arrangement (i.e., elective deferrals)

and certain nonelective contributions (i.e., qualified nonelective contributions, or QNECs) as matching contributions for purposes of the ACP test. If the terms of the plan provide for this, then Part III. of the worksheet should also be completed.

401(m)(3)

1.401(m)-2(a)(4) and (5)

(iii) and (iv) Aggregation. If an employer maintains more than one plan which is subject to the ACP limits of section 401(m), the following aggregation rules apply. When two or more plans are treated as a single plan for purposes of section 401(a)(4) or 410(b) (other than the average benefits test under section 410(b)(2)(A)(ii)), all employee and matching contributions are treated as made under a single plan for purposes of the ACP test as well as for purposes of sections 401(a)(4) and 410(b). Two or more plans subject to section 401(m) may be permissively aggregated if the aggregated plans satisfy the ACP test. Plans may not be permissively aggregated unless they have the same plan year and use the same testing method (either all current or all prior). In this case, the aggregated plans are treated as a single plan for purposes of sections 401(a)(4) and 410(b). After the effective date of the final 401(k) and 401(m) regulations, an ESOP may be aggregated with a non-ESOP for purposes of the ACP (and ADP) test, only. Notwithstanding the foregoing, a plan covering collective bargaining unit employees may not be aggregated with one that does not cover such employees. In addition the following single plans must be separated into component plans and tested separately: 1) plans which benefit employees covered by a collective bargaining agreement and employees covered under another, or no, collective bargaining agreement; 2) plans covering employees of two or more qualified separate lines of business (unless the special rule for employer-wide plans in section 1.414(r)-1(c)(2)(ii) of the regulations apply); and 3) plans covering employees of more than one employer not pursuant to a collective bargaining agreement. However, an employer may elect to treat two or more collective bargaining agreements as one collective bargaining agreement, so that employees covered under different collective bargaining agreements will be treated as if covered under a single plan. This election can only be made if the combinations are reasonable and reasonably consistent from year to year.

When plans are combined, or plan eligibility is changed, and the employer is using the prior year testing method, the ACP for nonhighly compensated employees is the sum of the ACPs of the employer's plans these employees were in during the preceding year, with each such plan's preceding year ACP reduced to reflect the proportion of nonhighly compensated employees from that plan in the present plan.

Example:

In Year 1, an employer had three plans subject to section 401(m), with the average ACPs for nonhighly compensated employees being 2, 3 and 4 percent. In Year 2, the plans are properly combined, resulting in one plan with 400 eligible nonhighly compensated employees: 200 from the 2-percent plan and 100 from each of the other two plans. Using the prior year testing method for Year 2, the ACP is 2.75. $[(2 \times 200/400) + (3 \times 100/400) + (4 \times 100/400) = 2.75]$

Repeated plan amendments to inflate the ACP of highly compensated employees could cause the plan to fail the nondiscrimination requirement of Code section 401(m), even if the ACP test is passed.

Whenever a highly compensated employee is eligible under more than one plan of the same employer subject to section 401(m), this employee's actual contribution ratio is calculated by treating all the plans subject to section 401(m) as one plan. This rule does not apply to employees who are not highly compensated. Also, this rule does not apply in the case of contributions to plans that may not be aggregated (unless the reason they can't be aggregated is inconsistent testing methods (prior versus current year) or different plan years). Note that a plan may not be restructured to satisfy the ACP test.

401(m)(2)(B)

1.401(m)-1(b)(4), -2(a)(3)(ii) and -2(c)(4)

(v) Use of Relevant Plan Years The plan must use the proper plan years when determining the ACPs of the highly compensated employees and of the nonhighly compensated employees. As described in II.a., above, if the plan is using the prior year testing method, the ACP of highly compensated employees for a testing year is determined using current plan year (testing year) data while the ACP for nonhighly compensated employees is determined using prior plan year data. Whether an eligible employee is in the highly compensated or nonhighly compensated group, or both, is based on his or her status in the current and prior plan years. Similarly, if the plan is using the current year testing method, the ACPs of both highly compensated employees and nonhighly compensated employees (and their identity as one or the other) for a testing year are determined using current plan year (testing year) data.

401(m)(2)

c. In addition to satisfying the ACP test, a plan that provides for employee or matching contributions must make such contributions available to employees on a nondiscriminatory basis. The determination of whether a rate of matching contributions is discriminatory is made only after the plan has made corrective distributions of amounts in excess of the ACP test (as well as the ADP test that applies to a cash or deferred arrangement). (See explanation IV.b.) However, some formulas for employee or matching contributions may be, per se, discriminatory, e.g., where the availability of employee or matching contributions is limited to employees with compensation in excess of the integration level under the plan.

A plan is required to satisfy section 401(a)(4) with respect to the availability of benefits, rights, and features under the plan, including the right to make each level of employee contributions and to receive each level of matching contributions. To satisfy this availability requirement, a benefit, right or feature must be available to a group of employees that satisfies section 410(b).

401(a)(4)

1.401(a)(4)-4

1.401(m)-1(a)(1)(ii)

III. Elective Contributions And Qualified Nonelective Contributions (Qnecs)

A plan which includes a qualified cash or deferred arrangement (CODA) is subject to the requirements of section 401(k) of the Code. (See Worksheet #12.) Section 401(k) includes an actual deferral percentage (ADP) test which is identical to the ACP test except that elective contributions (i.e., CODA deferrals) are substituted for employee and matching contributions. Under certain circumstances an employer may elect to treat certain matching contributions as elective contributions in performing the ADP test. Matching contributions that are eligible to be treated as elective contributions are referred to as qualified matching contributions (QMACs). A QMAC is a matching contribution that is both fully vested when it is made to the plan and subject to certain distribution restrictions applicable to elective contributions regardless of whether it is actually taken into account for the ADP test. Matching contributions do not violate the “fully vested when made to the plan” requirement if they may be forfeited because the contributions on which they were based were excess deferrals, excess contributions, excess aggregate contributions, or default contributions withdrawn under an eligible automatic contribution arrangement (EACA). QMACs that an employer takes into account for the ADP test are disregarded in performing the ACP test. Thus it is possible that a plan which provides for matching contributions may not have to satisfy the ACP test, e.g., where the only matching contributions are QMACs that the employer makes solely to satisfy the ADP test. An employer may also, under certain circumstances, take into account for the ADP test qualified nonelective contributions (QNECs). QNECs are any employer contributions, other than matching contributions, which are not subject to employee election, are fully vested when made to the plan, and are subject to the distribution restrictions that apply to elective contributions. A plan must provide a definite allocation formula for QNECs. On the 401(m) side, the employer may, under certain circumstances described in section 1.401(m)-2(a)(6) of the regulations, treat as matching contributions for the ACP test elective contributions under a CODA and QNECs.

The practice of targeting QNECs at nonhighly compensated employees with the least salary (so-called “bottom-up leveling”) could result in some or all of such QNECs being ineligible for use in the ACP (or ADP) test.

If a plan switches from the current year testing method to the prior year testing method, regulations sections 1.401(k)-2(a)(6)(vi) and 1.401(m)-2(a)(6)(vi) limit the extent to which QNECs and QMACs may be taken into account in determining the NHCEs’ ADP or ACP for the prior year.

This part of the worksheet should be completed if the terms of the plan provide that QNECs and/or elective contributions will be taken into account for the ACP test or if the plan provides that the employer will make additional QNECs if necessary to satisfy the ACP test.

401(k)(3)(D), 401(k)(8)(E), 401(m)(3) and (m)(4)

1.401(k)-2(a)(6) and -6

1.401(m)- 2(a)(6) and -5

a.

(i) A QNEC must be fully vested when made to the plan, without regard to the participant’s age and service and without regard to whether the contribution is actually taken into account for the ACP test. For example, if an employer makes a contribution of \$100 which is 50% vested in year one and 100% vested in year two, then no part of the contribution will be treated as a QNEC in either year. Also, forfeitures cannot be used as QNECs because such contributions are not fully vested when made to the plan.

401(m)(4)(C)

1.401(m)-5

(ii) QNECs may be distributed only under circumstances that also permit the distribution of elective contributions. (See Worksheet #12.) However, amounts attributable to QNECs may not be distributed on account of hardship for plan years beginning after 1988, unless credited to the employee’s account as of a date specified in the plan which may be no later than December 31, 1988, or, if later, the end of the last plan year ending before July 1, 1989.

Under the terms of the plan, the QNECs must be subject to these distribution limitations regardless of whether they are actually taken into account for the ACP test.

401(k)(7)(C), 401(m)(4)(C)

1.401(m)-5

b. If the plan provides that it will take QNECs and elective contributions into account for purposes of the ACP test, it must limit the QNECs and elective contributions that will be treated as matching contributions to those contributions that are made with respect to employees who are eligible employees under the section 401(m) plan being tested. QNECs cannot be used in an ACP test if they have already been used in an ADP test or another ACP test (e.g., in an ACP test in a plan that switches from current year testing to prior year testing) or have been used in a safe harbor CODA or a SIMPLE 401(k) plan. Furthermore, the plan must provide that such contributions will be treated as matching contributions only if the additional requirements described below and specified in section 1.401(m)-2(a)(6) of the regulations are satisfied.

The plan may incorporate these requirements by reference.

1. The nonelective contributions, including QNECs treated as matching contributions for the ACP test and QNECs treated as elective contributions for the ADP test, satisfy section 401(a)(4).

2. The nonelective contributions, excluding QNECs treated as matching contributions for the ACP test and QNECs treated as elective contributions for the ADP test, satisfy section 401(a)(4). (QNECs allocated to the accounts of NHCEs and HCEs for the same plan year are subject to the requirements of section 401(a)(4) for that plan year even if the plan is using the prior year testing method whereby the QNECs for the NHCEs and HCEs are taken into account for the ACP test in different years.)

3. The CODA under which the elective contributions are made, including those treated as matching contributions, is required to satisfy the ADP test. Thus, elective deferrals made to a section 403(b) plan or elective contributions under a safe harbor CODA cannot be used in the ACP test since they were not subject to the ADP test.

4. The QNECs are allocated to the employee as of a date within the relevant plan year, and the elective contributions relate to compensation that would have been received in the plan year, or compensation for services performed in the plan year that would have been received within 2½ months after the plan year, and are allocated as of a date within the plan year. (See Worksheet #12 and the accompanying explanation regarding when an elective contribution (or QNEC) is considered allocated within a plan year.)

The plan which treats QNECs and elective contributions as matching contributions and the plan to which the QNECs and elective contributions are made must have the same plan year and otherwise could be aggregated for purposes of ACP testing. Thus, elective contributions made under a CODA that uses prior year testing could not be used in an ACP test using current year testing.

A QNEC that exceeds 5 percent of the nonhighly compensated employee's compensation (10 percent in the case of Davis-Bacon-type plans) cannot be counted in the ACP test if it is greater than twice the lowest QNEC and matching percentage given to at least half the eligible nonhighly compensated employees. An employee's QNEC and matching percentage is the amount of QNECs and matching contributions made for the employee for the plan year divided by the employee's compensation.

Example:

An employer has four nonhighly compensated employees eligible for its 401(m) plan and they have compensation for the plan year of \$1,000, \$10,000, \$20,000 and \$50,000. None of the four receive any matching contributions. If the employer makes a flat-dollar QNEC to these employees of \$200, which as a percentage of compensation is 20%, 2%, 1% and 0.4%, respectively, no more than 5% of the \$1,000 employee's QNEC can be used in the ADP test because the most that half these employees got was a 2% QNEC and twice 2% is only 4%. Prior to the final section 401(k) and (m) regulations, the full 20% could have been used to raise the ACP of the nonhighly compensated employees.

401(m)(3)

1.401(m)-2(a)(6), (c)(3)

IV. Corrections

A plan which would otherwise fail the ACP test can avoid such failure, and the consequent loss of qualified status, in either of two ways. The first method involves making additional employer contributions (QNECs or matching contributions), in accordance with the terms of the plan, so that the ACP test is passed. This option is generally unavailable to plans using the prior year testing method because additional contributions have to be made to raise the ACP of nonhighly compensated employees no later than the last day of the 12th month immediately following the plan year and this period has already expired when the test is run. For example, for the calendar-year 2009 testing year, the ACP test will be run in 2010, comparing the ACP of highly compensated employees for 2009 with the ACP of nonhighly compensated employees for 2008. Since contributions taken into account in determining the 2008 ACP would have had to be made before 2010, if the plan fails the ACP test, it is too late to make additional contributions.

The second method involves distributing or forfeiting the amounts in excess of the ACP limits. These two methods are the exclusive means by which a plan may correct an otherwise failed ACP test. Thus, a plan may not satisfy the ACP test by failing to make matching contributions that are required under the terms of the plan or by allocating amounts in excess of the ACP limits to a suspense account and then allocating these amounts back to participants' accounts in subsequent years.

The plan need not contain a method for correction if it contains provisions that will ensure the ACP test is always satisfied.

401(m)(3) and (6)

1.401(m)-2(a)(6)(i) and -2(b)

a. If the plan is using the current year testing method, it may provide that, in order to satisfy the ACP test, the employer will make additional matching contributions or QNECs. If this is the case, also complete Part III. of the worksheet. (See the discussion of QNECs in Parts II. and III.) In this event, further correction will not be required.

401(m)(3)

1.401(m)-2(b)

b. A plan may provide that if the ACP limit is exceeded the plan will distribute (or forfeit, if forfeitable) the excess aggregate contributions plus the income that is allocable to these contributions. To avoid a discriminatory rate of match, a plan generally must forfeit matching contributions (even QMACs) that relate to contributions treated as excess deferrals (unless the excess deferrals are for nonhighly compensated employees), excess contributions, or excess aggregate contributions. (See Worksheet #12 for the definition of "excess deferrals" and "excess contributions.") Such a forfeiture will not cause the plan to violate section 411. Excess aggregate contributions means the excess of the total of matching and employee contributions (plus QNECs and elective contributions treated as matching contributions) made on

behalf of each highly compensated employee over the employee's maximum permissible contribution ratio determined in accordance with IV.c.(i) below. A distribution of excess aggregate contributions may be made without spousal consent.

401(m)(6), 411(a)(3)(G)

1.401(m)-2(b)(2), (3)(i) and (3)(v)(B)

c.

(i) The determination of the amount of excess aggregate contributions attributable to each highly compensated employee and the identity of the highly compensated employees who will have excess aggregate contributions distributed (or forfeited, if forfeitable) from their accounts is performed in two separate steps. First the total amount of excess aggregate contributions in the plan is calculated by determining the amount needed to be removed from the accounts of each highly compensated employee, working backward from the highly compensated employee with the greatest contribution ratio ("ACR"), so that the ratios remaining would pass the ACP test. Then, the amount so determined is distributed (or forfeited, if forfeitable) to highly compensated employees according to the dollar amount of their contributions used in calculating the ratio, beginning with the highly compensated employee with the greatest amount, until the total is distributed.

Example:

Ee	Comp.	Ee	Contrib.Match	ACR	ACP
A	\$100,000	\$4,000	\$2,000	6.00%	
B	\$90,000	\$3,900	\$1,950	6.50%	5.54%
C	\$80,000	\$2,200	\$1,100	4.13%	
D	\$20,000	\$1,000	\$500	7.50%	
E	\$10,000	\$0	\$0	0.00%	2.50%
F	\$10,000	\$0	\$0	0.00%	

(A, B and C are highly compensated employees. D, E, and F are nonhighly compensated employees, and the figures shown for them in this table are for the prior plan year.) Under the ACP test, the greatest acceptable ACP is 4.50 (see example in II.a.). Since 5.54 is greater than 4.50, there are excess aggregate contributions. Since the plan is using the prior year testing method, contributing corrective QNECs or matching contributions to the nonhighly compensated employees is not an option; thus, the plan must distribute (or, if forfeitable, forfeit) the excess aggregate contributions.

In determining the amount of excess aggregate contributions, the proper procedure is to hypothetically reduce the highest ACR until the maximum allowed percentage (4.50) is achieved, or until the next highest ACR is reached, whichever occurs first ("ratio leveling method"). In this case, if B's ACR is reduced to 6.00, the ACP will be 5.38. Since this is not sufficient to satisfy the ACP test, A and B's ACRs must be further reduced to 4.69%. ($4.69 + 4.69 + 4.13 = 13.51$; $13.51 \div 3 = 4.50$). The excess aggregate contributions is the difference between the contributions at the old ACPs (\$6,000 and \$5,850) and the contributions at the new ACPs (\$4,690 and \$4,221), for a total amount of \$2,939. This amount must then be distributed (or forfeited, if forfeitable) from the account(s) of the highly compensated employee with the highest dollar amount of contributions used in the ACP test for the plan year until the contributions remaining in such employee's account equals the plan-year contributions in the highly compensated employee's account(s) with the next highest dollar amount ("dollar leveling method"). Therefore, \$150 must first be distributed to (or forfeited from, if forfeitable) A, to make A's contributions level with B's, and the remaining amount of excess aggregate contributions, \$2,789, is then allocated equally to A and B, so that each has \$4,455.50 of employee and matching contributions remaining for the year. (Note that the ACP test is deemed passed after these corrections even though running the test then would not produce a passing average ACP for the highly compensated employees.)

401(m)

1.401(m)-2(b)(2) and (3)

(ii) Section 401(k) of the Code and the regulations thereunder also provide mechanisms for correcting excess contributions to a qualified cash or deferred arrangement, i.e., elective contributions (and other amounts treated as elective contributions) in excess of the actual deferral percentage (ADP) limits. One method of correcting excess contributions under a qualified cash or deferred arrangement is to recharacterize the excess contributions as employee contributions. If a plan of the employer includes a cash or deferred arrangement that provides for recharacterization, the recharacterized amount is then subject to the ACP limits of section 401(m). The determination of the amounts of excess aggregate contributions resulting from application of the ACP test may be made only after determining the excess contributions to be recharacterized as employee contributions for the plan year.

Example:

Plan X uses a calendar-year plan year and has two eligible employees: A, who is highly compensated; and B, who is nonhighly compensated. Plan X contains a qualified CODA and also provides that the employer will match an employee's contributions to the extent such contributions do not exceed 3% of compensation. Elective contributions that are in excess of the ADP limit are recharacterized and excess aggregate contributions are distributed or, if forfeitable, forfeited. The elective, employee and matching contributions under Plan X for its 2006 testing year are as follows:

Ee	Comp	Elective	EeContrib	Match.
A	\$100,000	\$7,000	\$5,000	\$3,000
B	\$20,000	\$800	\$600	\$600

When the employer calculates the ADP test, it determines that there is an excess contribution of \$1,000 because the maximum A is permitted to elect to defer is the percentage deferred by B (4%) plus 2%. The \$1,000 is therefore recharacterized under the plan as an employee contribution and is includible in A's 2006 income (unless attributable to Roth elective contributions described in section 402A, which have already been included in income). In performing the ACP test, this \$1,000 must be added to the \$8,000 employee and matching contributions made on behalf of A for the same plan year. A's limit under the ACP test is \$8,000 (6% + 2%). Therefore, A has an excess aggregate contribution of \$1,000, which must be distributed or forfeited.

401(m)

1.401(m)-2(a)(4)(ii)

(iii) Any distribution or forfeiture of excess aggregate contributions must include the income or loss allocable to these contributions. For plan years beginning before 2006, income or loss allocable to the "gap period" (the period between the end of the plan year in which the ACP was exceeded and the date of the distribution of excess aggregate contributions) could be disregarded in determining income or loss on excess aggregate contributions for such years. For plan years beginning after 2005 and before 2008, allocable income or loss included allocable income or loss for the gap period. For plan years beginning on or after January 1, 2008, allocable income or loss does not include allocable income or loss for the gap period. The plan may use any reasonable method for calculating the income or loss, provided the method is used consistently and is the normal method used by the plan for allocating income or loss to participants' accounts. Alternatively, allocable income or loss for the plan year can be determined by multiplying the income or loss for the plan year allocable to employee and matching contributions by a fraction, the numerator being the excess aggregate contributions allocated to the employee for the plan year and the denominator being the account balance attributable to employee and matching contributions as of the end of the plan year minus the income or plus the loss allocable to such account balance for the plan year.

401(m)

1.401(m)-2(b)(2)(iv)

(iv) The method of distributing excess aggregate contributions must be nondiscriminatory. If the plan distributes a highly compensated employee's matched employee contributions without forfeiting the corresponding matching employer contributions, it will fail this requirement. A plan may distribute unmatched employee contributions first, or distribute (or forfeit) employer matching contributions before distributing employee contributions. However, if the plan distributes matched employee contributions, there must be a proportional forfeiture of matching contributions.

401(a)(4), 411(a)(3)(G)

1.401(m)-2(b)(3)(v)(B)(v)

(v) A corrective distribution of excess aggregate contributions must be made after the plan year in which the excess aggregate contributions arose and no later than the last day of the 12th month immediately following that plan year. If a plan fails to correct excess aggregate contributions before the end of this 12-month period, the plan will not be qualified for the year in which the excess aggregate contributions were made and all subsequent plan years until corrected. Further, if excess aggregate contributions are not corrected within 2½ months of the end of the plan year, the employer will be liable for a 10-percent excise tax on these contributions. For plan years beginning on or after January 1, 2008, in the case of a plan that includes an eligible automatic contribution arrangement (EACA), the 2½ month distribution deadline is extended to 6 months in certain circumstances. (See Explanation #12, Part XII.) Correction by QNECs or matching contributions (only if using current year testing), even if after the 2½-month period, will enable the employer to avoid the 10-percent excise tax. The regulations provide that any distribution of excess aggregate contributions must be designated as such by the employer.

401(m) and 4979

1.401(m)-2(b)(4) and 54.4979-1

(vi) The plan must provide that a distribution or forfeiture of excess aggregate contributions will be made on the basis of the respective amounts that are attributable to each highly compensated employee. See explanation at IV.c.(i)

401(m)(6)(C)

1.401(m)-2(b)(2)(iii)

d. The plan need not contain methods for correcting a failure of the ACP test if it contains a fail-safe formula (e.g., employee contributions are limited to 2% and 2% QNECs are given to all employees) or a procedure for prospectively reducing the employee contributions of highly compensated employees so that no excess contributions arise.

1.401(m)-2(b)(1)(ii)

V. Highly Compensated Employee/Compensation

a. and b. Section 414(q) of the Code defines "highly compensated employee." This definition applies for purposes of the ACP test. Effective for years beginning after December 31, 1996, the term "highly compensated employee" (HCE) means any employee who:

1) was a 5-percent owner at any time during the year or the preceding year, or

2) for the preceding year had compensation (as defined in section 415(c)(3)) from the employer in excess of \$80,000 and, if the employer so elects, was in the top-paid group for the preceding year.

The \$80,000 amount is adjusted at the same time and in the same manner as under section 415(d), except that the base period is the calendar quarter ending September 30, 1996.

The only regulations under section 414(q), Temp. Regs. section 1.414(q)-1T, were written before section 414(q) was amended by the Small Business Job Protection Act of 1996, effective for years after December 31, 1996. Consequently, portions of those regulations do not reflect current law.

HCE status is determined on the basis of the applicable year of the plan (“determination year”) and the preceding 12-month period (“look-back year”). The plan must take into account employees of all employers aggregated under section 414(b), (c), (m) and (o), in determining who is a HCE. Also, for this purpose, the term “employee” includes leased employees unless such employees are covered under a safe-harbor plan of the leasing organization and not covered under a qualified plan of the employer.

414(q)

1.414(q)-1T Q&A 6 and 7

An employer may make a top-paid group election for a determination year. The effect of this election is that an employee (who is not a 5-percent owner at any time during the determination year or the look-back year) with compensation in excess of \$80,000 (as adjusted) for the look-back year is an HCE only if the employee was in the top-paid group for the look-back year.

An employer may also make a calendar year data election for a determination year. The effect of this election is that the look-back year is the calendar year beginning with or within the look-back year. This election, once made, applies for all subsequent determination years unless changed by the employer. The plan may not use this election to determine whether employees are HCEs on account of being 5-percent owners.

An employer making one of the elections is not required also to make the other election. However, if both elections are made, the look-back year in determining the top-paid group must be the calendar year beginning with or within the look-back year. These elections must apply consistently to the determination years of all plans of the employer, except that the consistency requirement will not apply to determination years beginning with or within the 1997 calendar year, and for determination years beginning on or after January 1, 1998 and before January 1, 2000, satisfaction of the consistency requirement is determined without regard to any nonretirement plans of the employer.

If a qualified plan contains the definition of highly compensated employee, and an employer makes or changes either a top-paid group election or a calendar year data election for a determination year, a plan must reflect the choices made. Any retroactive amendments must reflect the choices made in the operation of the plan for each determination year. A highly compensated former employee is based on the rules applicable to determining highly compensated employee status as in effect for that determination year. See section 1.414(q)-1T, A-4, of the temporary regulations and Notice 97-45.

c. Section 414(s) of the Code sets forth the definition of compensation that must be used for the ACP (and ADP) test. Section 414(s) states that compensation “has the meaning given such term by section 415(c)(3)” but that alternative definitions in regulations under 414(s) may also be used. Also, section 414(s) provides that the definition can exclude amounts not included in gross income under section 125, 132(f), 402(e)(3), 402(h), or 403(b).

Final regulations under section 415 were published on April 5, 2007, and are generally effective for limitation years beginning on or after July 1, 2007. These regulations provide a comprehensive definition of 415(c)(3) compensation and three safe harbor definitions that automatically satisfy 415(c)(3) if specified in the plan.

Even if a plan incorporates the ACP test by reference, the plan must still include this definition.

The following definitions of compensation automatically satisfy section 414(s):

1. Compensation within the meaning of section 415(c)(3).
2. Compensation within the meaning of section 415(c)(3) reduced by all of the following: reimbursements or other expense allowances, fringe benefits, moving expenses, deferred compensation, and welfare benefits.

Under any of these definitions, the employer can elect to include or exclude elective contributions not includible in income, section 457(b) deferred compensation, qualified transportation fringe benefits excluded from income under section 132(f)(4) and section 414(h)(2) pick-up contributions. If any of these are included (excluded), they must all be included (excluded).

A self-employed individual's compensation cannot use 2 above; generally it is earned income as defined in section 401(c)(2).

Other definitions of compensation may satisfy section 414(s) if they are reasonable, not designed to favor highly compensated employees, and if the facts and circumstances show that the average percentage of total compensation included for highly compensated employees as a group does not exceed the average percentage for nonhighly compensated employees by more than a de minimis amount.

In this case, the employer must submit a demonstration that the definition is nondiscriminatory. Imputed compensation or compensation defined in reference to an employee's rate of compensation (rather than actual compensation) may not be used for purposes of the ACP (or ADP) test.

The period used to determine an employee's compensation must be the plan year, the calendar year ending in the plan year, or the portion of either during which the employee was eligible under the plan.

Compensation taken into account cannot exceed the \$200,000 compensation limit described in section 401(a)(17), as adjusted by the Secretary for increases in the cost of living. Such adjustments are made in multiples of \$5,000. See Parts VII and VIII below for the definition of compensation for safe harbor 401(k) plans and QACAs.

401(a)(17), 414(s), 415(c)(3)

1.401(m) 56

1.414(s)-1

1.415(c)-2

VI. Reserved

VII. Safe Harbor Coda Provisions

Section 401(m)(11) was added by the Small Business Job Protection Act of 1996 to provide, for plan years beginning after 12/31/98, a design-based or "safe harbor" method of satisfying the ACP test. The ACP test safe harbor requires that a plan meet the contribution and notice requirements of the ADP test safe harbor described in Explanation #12 and, in addition, satisfy a special limit on matching contributions. A plan providing for after-tax employee contributions or matching contributions that fail to satisfy the ACP test safe harbor must satisfy the regular ACP test under section 401(m)(2). Explanation #12 should always be referred to in addition to this Explanation because the rules that apply to the ADP test safe harbor and to the ACP test safe harbor are noted in Explanation #12.

a. (i),(ii),(iii). Section 401(m)(11) of the Code provides that a plan is deemed to meet the nondiscrimination requirements of section 401(m) with respect to matching contributions if the plan meets an ADP test safe harbor contribution formula, satisfies notice requirements under section 401(k)(12), and provides for a limitation on matching contributions. A plan may provide for a basic matching formula, an enhanced matching formula, or a nonelective contribution formula, as described in Explanation #12.

However, in order to satisfy the ACP test safe harbor with respect to matching contributions, they must satisfy the remainder of this Part VII.

If after-tax employee contributions are permitted under the plan, it will have to satisfy the ACP test with respect to those contributions. If a plan changes from a current year ADP or ACP testing method to a safe harbor nonelective contribution method for the plan year, or from a safe harbor contribution method to the current year ADP/ ACP testing method, additional rules apply, as discussed in Explanation #12. Explanation #12 should always be referred to in addition to this Explanation for applicable rules.

To determine whether the plan has met all applicable requirements, first see Explanation #12 and complete Worksheet #12

401(m)

1.401(m)-3

b. If the plan provides for matching contributions, unless they are required to satisfy the ADP test safe harbor, they are not required to be immediately nonforfeitable. (i) These contributions may be subject to a vesting schedule described under section 411 of the Code. (ii) The ACP test safe harbor is met if (1) matching contributions may not be made with respect to employee contributions or elective contributions that in the aggregate exceed 6% of the employee's compensation, (2) the rate of matching contributions may not increase as the rate of employee contributions or elective contributions increases, (3) at any rate of employee contributions or elective contributions the rate of matching contributions that would apply with respect to any HCE who is an eligible employee is no greater than the rate of matching contributions that would apply with respect to an NHCE who is an eligible employee and who has the same rate of employee contributions or elective contributions and (4) restrictions on elective or employee contributions are limited to those described in Explanation #12, Part X, line b.

401(m)(11)(B)

1.401(m)-3(c) and (d)

c. Even though matching contributions made at the employer's discretion may not be taken into account in determining if the ADP test safe harbor is satisfied, a plan that satisfies the ADP test safe harbor may provide for discretionary matching contributions in addition to any matching contributions needed to satisfy the ADP test safe harbor. However, a plan fails to satisfy the ACP test safe harbor for a plan year if the plan provides for matching contributions made at the employer's discretion on behalf of any employee that, in the aggregate, could exceed a dollar amount equal to 4% of the employee's compensation.

1.401(m)-3(d)(3)(ii)

d. Even if a plan satisfies the ACP test safe harbor with respect to matching contributions, the plan must still satisfy the regular ACP test as described in this Worksheet #11, as modified below, with respect to after-tax employee contributions. The regular ACP test must also be performed if matching contributions fail to satisfy the ACP test safe harbor. In applying the ACP test, an employer may elect to disregard all matching contributions if the ACP test safe harbor is satisfied, or just matching contributions that do not exceed 4% of each employee's

compensation if the plan provides for a matching formula that satisfies the matching contribution requirement under the ADP test safe harbor. QNECs may be treated as matching contributions to the extent permitted under section 1.401(m)-2(a)(6) if they are not needed to satisfy the ADP test safe harbor contribution requirement. In applying the ACP test, matching contributions may not be treated as elective contributions under section 401(k)(3)(D) of the Code to a CODA that satisfies the ADP test safe harbor and elective contributions under a CODA that satisfies the ADP test safe harbor may not be treated as matching contributions under section 401(m)(3).

1.401(m)-2(a)(5)(iv) and -3(j)

e. Under § 1.401(k)-3(e)(1) of the Treasury Regulations, a § 401(k) safe harbor plan must be adopted before the beginning of the plan year and be maintained throughout a full 12-month plan year, except as otherwise provided in § 1.401(k)-3(g) (relating to the reduction or suspension of safe harbor contributions) or in guidance of general applicability published in the Internal Revenue Bulletin. (Under § 1.401(m)-3(f)(1), similar rules apply to § 401(m) safe harbor plans.) Therefore, in general, a plan containing safe harbor provisions cannot be amended mid-year to change plan terms.

Notwithstanding this prohibition, a plan will not fail to satisfy the requirements to be a § 401(k) or (m) safe harbor plan merely because the plan sponsor adopts a mid-year amendment necessary to conform plan terms to be consistent with the decision in *U.S. v. Windsor*, 570 U.S. 12 (2013) and the guidance in Rev. Rul. 2013-13 and Notice 2014-19. Plan terms otherwise in conflict with the decision must be removed, even if the plan is a safe harbor plan, which otherwise would be precluded from making mid-year changes. For additional topical coverage, see Explanation #3.

Notice 2014-19, Q&A-8. Notice 2014-37

f. Matching contributions are taken into account for a plan year under the ACP test safe harbor in accordance with the allocation and timing rules of section 1.401(m)-2(a) of the regulations, which provides that a matching contribution is only taken into account for a plan year if the contribution is allocated to the employee's account under the terms of the plan as of any date within the plan year, is actually paid to the trust no later than 12 months after the close of the plan year, and is made on behalf of an employee on account of the employee's elective contributions or employee contributions for the plan year. However, if it so provides, a plan may match elective and/ or employee contributions on a payroll-by-payroll basis instead of an annual basis for purposes of satisfying the ACP test safe harbor, as long as the plan provides that matching contributions for a plan-year quarter are contributed to the plan no later than the last day of the immediately following plan-year quarter.

1.401(m)-3(d)(4) and -3(j)

g. A plan will not fail to satisfy the ACP test safe harbor merely because, after a hardship withdrawal of elective contributions from the plan, the plan suspends additional employee contributions for a period of 6 months. See Explanation #12 for additional allowable restrictions on elective contributions, with respect to the safe harbor matching contribution requirement.

1.401(m)-3(d)(6)(v)

h. The rules that apply for purposes of aggregating and disaggregating CODAs and plans under section 401(k) and (m) also apply to safe harbor plans, except there is a special rule in section 1.401(m)-3(d)(5) of the regulations for highly compensated employees who participate in both a safe harbor plan and a non-safe harbor plan of the employer at different times during the year.

1.401(m)-3(d)(5)

VIII. Qualified Automatic Contribution Arrangements (QACAs)

Qualified automatic contribution arrangements (QACAs) are described in sections 401(k)(13) and 401(m)(12) of the Code, which were added by section 902 of PPA '06, effective for plan years beginning on or after January 1, 2008. A 401(k) plan that meets the requirements of section 401(k)(13) ("QACA ADP test safe harbor") is deemed to satisfy the ADP test and a plan that meets the requirements of 401(k)(13) and 401(m)(12) ("QACA ACP test safe harbor") is deemed to satisfy the ACP test.

Except for the automatic enrollment features, the lower matching contribution requirement and the vesting applicable to the mandatory employer matching or nonelective contributions, the same rules that apply to Safe Harbor CODAs also apply to QACAs. Thus, Part VII should serve as a reference for this Part VIII.

Final regulations for QACAs were published on February 24, 2009.

The QACA ACP test safe harbor requires that a plan meet the contribution and notice requirements of the QACA ADP test safe harbor described in Explanation #12 and, in addition, satisfy a special limit on matching contributions. A plan providing for after-tax employee contributions or matching contributions that fail to satisfy the QACA ACP test safe harbor must satisfy the regular ACP test under section 401(m)(2). Explanation #12 should always be referred to in addition to this Explanation because the rules that apply to the QACA ADP test safe harbor and to the QACA ACP test safe harbor are noted in Explanation #12.

a. (i),(ii),(iii). Section 401(m)(12) of the Code provides that a plan is deemed to meet the nondiscrimination requirements of section 401(m) with respect to matching contributions if the plan meets a QACA ADP test safe harbor contribution formula, satisfies notice requirements under section 401(k)(13), and provides for a limitation on matching contributions. A plan may provide for a basic matching formula, an enhanced matching formula, or a nonelective contribution formula, as described in Explanation #12.

However, in order to satisfy the QACA ACP test safe harbor with respect to matching contributions, they must satisfy the remainder of this Part VIII.

If after-tax employee contributions are permitted under the plan, it will have to satisfy the ACP test with respect to those contributions. If a plan changes from a current year ADP or ACP testing method to a safe harbor nonelective contribution method for the plan year, or from a safe harbor contribution method to the current year ADP/ACP testing method, additional rules apply, as discussed in Explanation #12. Explanation #12 should always be referred to in addition to this Explanation for applicable rules.

To determine whether the plan has met all applicable requirements, first see Explanation #12 and complete Worksheet #12

401(m)(12)

1.401(m)-3

b.

(i). If the plan provides for matching contributions, unless they are required to satisfy the QACA ADP test safe harbor, they are not required to be nonforfeitable after no more than 2 years. These contributions may be subject to a vesting schedule described under section 411 of the Code.

(ii) The QACA ACP test safe harbor is met if (1) matching contributions may not be made with respect to employee contributions or elective contributions that in the aggregate exceed 6% of the employee's compensation, (2) the rate of matching contributions may not increase as the rate of employee contributions or elective contributions increases, (3) at any rate of employee contributions or elective contributions the rate of matching contributions that would apply with respect to any HCE who is an eligible employee is no greater than the rate of matching contributions that would apply with respect to an NHCE who is an eligible employee and who has the same rate of employee contributions or elective contributions and (4) restrictions on elective or employee contributions are limited to those described in Explanation #12, Part X, line b.

401(m)(12)(B)

1.401(m)-3(c) and (d)

c. Even though matching contributions made at the employer's discretion may not be taken into account in determining if the QACA ADP test safe harbor is satisfied, a plan that satisfies the QACA ADP test safe harbor may provide for discretionary matching contributions in addition to any matching contributions needed to satisfy the QACA ADP test safe harbor. However, a plan fails to satisfy the QACA ACP test safe harbor for a plan year if the plan provides for matching contributions made at the employer's discretion on behalf of any employee that, in the aggregate, could exceed a dollar amount equal to 4% of the employee's compensation.

1.401(m)-3(d)(3)(ii)

d. Even if a plan satisfies the QACA ACP test safe harbor with respect to matching contributions, the plan must still satisfy the regular ACP test as described in this Worksheet #11, as modified below, with respect to after-tax employee contributions. The regular ACP test must also be performed if matching contributions fail to satisfy the QACA ACP test safe harbor. In applying the ACP test, an employer may elect to disregard all matching contributions if the ACP test safe harbor is satisfied, or just matching contributions that do not exceed 3.5% of each employee's compensation if the plan provides for a matching formula that satisfies the matching contribution requirement under the QACA ADP test safe harbor. QNECs may be treated as matching contributions to the extent permitted under section 1.401(m)-2(a)(6) if they are not used to satisfy the QACA ADP test safe harbor contribution requirement. In applying the ACP test, matching contributions may not be treated as elective contributions under section 401(k)(3)(D) of the Code to a CODA that satisfies the QACA ADP test safe harbor and elective contributions under a CODA that satisfies the QACA ADP test safe harbor may not be treated as matching contributions under section 401(m)(3).

1.401(m)-2(a)(5)(iv) and -3(j)

e. Matching contributions are taken into account for a plan year under the QACA ACP test safe harbor in accordance with the allocation and timing rules of section 1.401(m)-2(a) of the regulations, which provides that a matching contribution is only taken into account for a plan year if the contribution is allocated to the employee's account under the terms of the plan as of any date within the plan year, is actually paid to the trust no later than 12 months after the close of the plan year, and is made on behalf of an employee on account of the employee's elective contributions or employee contributions for the plan year. However, if it so provides, a plan may match elective and/ or employee contributions on a payroll-by-payroll basis instead of an annual basis for purposes of satisfying the QACA ACP test safe harbor, as long as the plan provides that matching contributions for a plan-year quarter are contributed to the plan no later than the last day of the immediately following plan-year quarter.

1.401(m)-3(d)(4) and -3(j)

f. A plan will not fail to satisfy the QACA ACP test safe harbor merely because, after a hardship withdrawal of elective contributions from the plan, the plan suspends additional employee contributions for a period of 6 months. See Explanation #12 for additional allowable restrictions on elective contributions, with respect to the QACA safe harbor matching contribution requirement.

1.401(m)-3(d)(6)(v)

g. The rules that apply for purposes of aggregating and disaggregating CODAs and plans under section 401(k) and (m) also apply to QACA safe harbor plans, except there is a special rule in section 1.401(m)-3(d)(5) of the regulations for highly compensated employees who participate in both a QACA safe harbor plan and a plan that is not a QACA safe harbor plan of the employer at different times during the year.

1.401(m)-3(d)(5)

Employee Benefit Plan

Employee and Matching Contributions

(Worksheet Number 11 – Determination of Qualification)

Instructions – All items must be completed unless the contrary is specifically provided. A "Yes" answer indicates a favorable conclusion is warranted while a "No" answer indicates a problem exists. Please use the space on the worksheet to explain any "No" answer. Numbers in brackets refer to EDS paragraph numbers. See Explanation Number 11 for guidance in completing this form.

The technical principles in this worksheet may be changed by future regulations or guidelines.

Name of plan _____

I. Applicability	Plan Reference	Yes	No	N/A
a. If the plan is a defined contribution plan:				
(i) Does the plan provide for voluntary or mandatory employee contributions or employer matching contributions?				
(ii) Does the plan include a section 401(k) Cash or Deferred Arrangement (CODA) and does the plan provide for the allocation of matching contributions or forfeitures on the basis of a participant's elective contributions?				

(If the answer to (i) or (ii) is "Yes," complete this worksheet; but if the plan contains SIMPLE provisions, skip this worksheet and complete Worksheet No. 12. If the plan contains Safe Harbor CODA provisions or Qualified Automatic Contribution Arrangement (QACA) provisions, see Part VII or Part VIII of this worksheet.)

II. Discrimination	Plan Reference	Yes	No	N/A
a. Does the plan either:				
(i) Include the actual contribution percentage test set forth in section 401(m)(2)(A) of the Code and provide that it will meet the ACP test or [1101, 1102, 1103]				
(ii) Incorporate the test by reference including whether it is using the prior or current year testing method, and provide that it will meet the test? [1101, 1102, 1103]				
b. If the terms of the plan set forth the ACP test rather than incorporate it by reference, does the plan, for purposes of this test:				
(i) Take into account the actual contribution ratios of all eligible employees; [1104, 1105]				
(ii) Take the proper contributions into account; [1106, 1107]				
(iii) Treat contributions made under plans that are aggregated for purposes of section 401(a)(4) or 410(b) as made under a single plan; [1108]				
(iv) Aggregate all plans under which a Highly Compensated Employee (HCE) is eligible to make employee contributions or receive matching contributions for purposes of the HCE's actual contribution ratio; and [1109]				
(v) Determine the ACPs of the HCEs and of all other eligible employees using the relevant plan year? [1115]				
c. Are employee and matching contributions available on a nondiscriminatory basis? [1112]				

III. Elective Contributions and Qualified Nonelective Contributions (QNECs)	Plan Reference	Yes	No	N/A
(Complete if the terms of the plan provide that QNECs and/or elective contributions are to be treated as matching contributions for the purposes of the ACP test.)				
a. Are the QNECs:				
(i) Immediately vested, without regard to a participant's age and service? [1136, 1137, 1138, 1139]				
(ii) Distributed only under the distribution rules (other than hardship) applicable for elective contributions under a Qualified Cash or Deferred Arrangement (CODA)? [1136, 1137, 1138, 1139]				
b. Are QNECs and elective contributions treated as matching contributions only if the conditions described in section 1.401(m)-2(a)(6) of the regulations are satisfied? [1147]				

IV. Corrections	Plan Reference	Yes	No	N/A
a. If the plan is using the current year testing method, does it provide that in the event it would otherwise fail the ACP test the employer will make Qualified Nonelective Contributions (QNECs) in order to satisfy the test? (If "No," check N/A. If "Yes," in addition to this question also complete question III above.)				
b. Does the plan provide a mechanism by which employee and/or matching contributions of the highly compensated employees in excess of the amount allowed in the test in II.a? ("excess aggregate contributions") may be distributed or, if forfeitable, forfeited? (If "No," check N/A.)				
c. If the answer to the preceding question is "Yes":				
(i) Is the amount of the excess aggregate contributions to be distributed to highly compensated employees (or if forfeitable, forfeited) determined using the "ratio leveling method"? [1113, 1114]				
(ii) Does the plan determine the amount of excess aggregate contributions only after first determining the amount of excess contributions to be treated as employee contributions due to recharacterization under a CODA in this or any other plan of the employer? [1118]				
(iii) Does the plan properly determine income to be distributed or forfeited? [1119, 1120]				
(iv) If the plan will distribute matched employee contributions, will it also forfeit the corresponding matching contributions? [1121]				
(v) Will the distribution be made after the end of the plan year for which the excess aggregate contributions were made, and no later than 12 months following the end of the plan year? [1122]				
(vi) Are distributions or forfeitures of excess aggregate contributions determined using the "dollar leveling method"? [1123]				
d. If the answer to a. and b. is "N/A," does the plan contain provisions that will ensure that the ACP test is always satisfied? [1125]				

V. Definition of Highly Compensated Employee/Compensation	Plan Reference	Yes	No	N/A
a. Does the plan define highly compensated employee in accordance with section 414(q) of the Code? [1141, 1142]				
b. For this definition does the plan:				
(i) Define determination year, lookback year, compensation, and, if applicable, top-paid group; and				
(ii) Apply the aggregation rules of section 414? [1143, 1144, 1145]				
c. Does the plan define compensation and specify the period used to determine an employee's compensation for purposes of the ACP test? [1134]				

VI. Reserved

VII. Safe Harbor CODA Provisions	Plan Reference	Yes	No	N/A
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If the plan meets the requirements of this Part VII and does not provide for after-tax employee contributions, do not complete Worksheet number 11 (other than Part V) because section 401(m) is satisfied. However, Worksheet number 12, which contains the rules for satisfying the ADP test safe harbor, continues to apply, including notice and contribution requirements that are also applicable to the ACP test safe harbor under section 401(m)(11) of the Code.

Worksheet number 12 contains additional rules if the plan changes from the current year ADP/ACP testing method to a safe harbor nonelective contribution method for the plan year, or from a safe harbor matching contribution method to the current year ADP (and ACP) testing method.

Worksheet number 12 should always be referred to in addition to this Worksheet.

a. Does the plan provide for:				
(i) A basic matching formula, and no other matching contributions,				
(ii) An enhanced matching formula and no other matching contributions, or				
(iii) A safe harbor nonelective contribution formula and a contribution formula that satisfies (i) or (ii) above? [1152]				

VII. Safe Harbor CODA Provisions - Continued	Plan Reference	Yes	No	N/A
b. With respect to matching contributions, does the plan:				
(i) Meet the vesting requirements of section 411 of the Code with respect to matching contributions that are not needed to satisfy the ADP test safe harbor? [1153]				
(ii) Provide that (1) matching contributions are not made with respect to after-tax employee contributions or elective contributions that in the aggregate exceed 6 percent of the employee's compensation, (2) the rate of matching contributions does not increase as the rate of employee contributions or elective contributions increases, (3) at any rate of employee contributions or elective contributions, the rate of matching contributions that would apply with respect to any HCE who is an eligible employee is no greater than the rate of matching contributions that would apply with respect to an NHCE who is an eligible employee and who has the same rate of employee contributions or elective contributions and (4) restrictions on employee contributions or elective contributions are limited to those permissible as described in Explanation number 12, Section X, Line b? If not, the regular ACP test applies to these matching contributions. [1154, 1155]				
c. If the plan provides for discretionary matching contributions, does the plan provide that such discretionary matching contributions may not, on behalf of any employee, in the aggregate exceed an amount equal to 4 percent of the employee's compensation? If the answer to this is no, the plan fails to satisfy the ACP test safe harbor for a plan year, and the regular ACP test applies. [1156]				
d. Does the plan (i) permit after-tax employee contributions or (ii) permit matching contributions that fail to satisfy the ACP test safe harbor? If so, the plan must apply the regular ACP test to these employee contributions and matching contributions, taking into account the special rules for the ACP test described under Explanation number 11, Part VII, Line d. [1157]				
e. Are mid-year amendments limited to the extent necessary to remove plan provisions inconsistent with the decision in <i>U.S. v. Windsor</i> , 570 U.S. 12 (2013) and the guidance in Rev. Rul. 2013-17 and Notice 2014-19? [1172]				
f. Are matching contributions taken into account for a plan year under the ACP test safe harbor in accordance with the allocation and timing rules of section 1.401(m)-2 (a) of the regulations? [1158, 1160]				
g. If the plan provides for a period of suspension when an employee makes a hardship withdrawal of elective contributions, does the period of suspension contributions last only 6 months? [1161]				
h. Are other requirements applicable to both the ADP and ACP test safe harbors met, including satisfying the aggregation and disaggregation rules, as described in Explanation number 12? [1162]				

VIII. Qualified Automatic Contribution Arrangements (QACAs)	Plan Reference	Yes	No	N/A
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If the plan meets the requirements of this Part VIII and does not provide for after-tax employee contributions, do not complete Worksheet number 11 (other than Part V) because section 401(m) is satisfied. However, Worksheet number 12, which contains the rules for satisfying the QACA ADP test safe harbor, continues to apply, including notice and contribution requirements that are also applicable to the QACA ACP test safe harbor under section 401(m)(12) of the Code.

Worksheet number 12 contains additional rules if the plan changes from the current year ADP/ACP testing method to a safe harbor nonelective contribution method for the plan year, or from a safe harbor matching contribution method to the current year ADP (and ACP) testing method.

Worksheet number 12 should always be referred to in addition to this Worksheet.

a. Does the plan provide for:				
(i) A basic matching formula and no other matching contributions,				
(ii) An enhanced matching formula and no other matching contributions, or				
(iii) A safe harbor nonelective contribution formula and a contribution formula that satisfies (i) or (ii) above? [1165]				

VIII. Qualified Automatic Contribution Arrangements (QACAs) - Continued	Plan Reference	Yes	No	N/A
b. With respect to matching contributions, does the plan:				
(i) Meet the vesting requirements of section 411 of the Code with respect to matching contributions that are not needed to satisfy the QACA ADP test safe harbor? [1166]				
(ii) Provide that (1) matching contributions are not made with respect to after-tax employee contributions or elective contributions that in the aggregate exceed 6 percent of the employee's compensation, (2) the rate of matching contributions does not increase as the rate of employee contributions or elective contributions increases, (3) at any rate of employee contributions or elective contributions, the rate of matching contributions that would apply with respect to any HCE who is an eligible employee is no greater than the rate of matching contributions that would apply with respect to an NHCE who is an eligible employee and who has the same rate of employee contributions or elective contributions and (4) restrictions on employee contributions or elective contributions are limited to those permissible as described in Explanation number 12, Section X, Line b? If not, the regular ACP test applies to these matching contributions. [1167]				
c. If the plan provides for discretionary matching contributions, does the plan provide that such discretionary matching contributions may not, on behalf of any employee, in the aggregate exceed an amount equal to 4 percent of the employee's compensation? If the answer to this is no, the plan fails to satisfy the ACP test safe harbor for a plan year, and the regular ACP test applies. [1168]				
d. Does the plan (i) permit after-tax employee contributions or (ii) permit matching contributions that fail to satisfy the QACA ACP test safe harbor? If so, the plan must apply the regular ACP test to these employee contributions and matching contributions, taking into account the special rules for the ACP test described under Explanation number 11, Part VIII, Line d. [1157]				
e. Are matching contributions taken into account for a plan year under the QACA ACP test safe harbor in accordance with the allocation and timing rules of section 1.401 (m)-2(a) of the regulations? [1170]				
f. If the plan provides for a period of suspension when an employee makes a hardship withdrawal of elective contributions, does the period of suspension contributions last only 6 months? [1171]				
g. Are other requirements applicable to both the QACA ADP and ACP test safe harbors met, including satisfying the aggregation and disaggregation rules, as described in Explanation number 11? [1162]				

Employee Plan Deficiency Checklist
Attachment Number 11
Section 401(m) Requirements

For IRS Use	Please furnish the amendment(s) requested in the section(s) checked below.
1011, 1102, 1103 II.a.(i), (ii)	Section _____ of the plan should be amended to provide that the plan will meet the nondiscrimination test set forth in section 401(m)(2)(A) of the Code that applies to employee and matching contributions. Under this test, the Actual Contribution Percentage (ACP) for the group of eligible highly compensated employees for the current plan year may not exceed the greater of (a) 125 percent of the ACP for all other eligible employees for the prior plan year or (b) the lesser of twice the ACP for all other eligible employees for the prior plan year, or such ACP for all other eligible employees for the prior plan year plus 2 percent. If the plan is using the current year testing method, then “the current plan year” should be substituted for “the prior plan year” in the previous sentence. The ACP for a group of eligible employees is the average of the ratios (calculated separately for each employee) of the sum of matching and employee contributions and other contributions taken into account paid under the plan on behalf of each employee for the relevant plan year, divided by the employee’s compensation for that plan year. Employee contributions are any employee contributions made on behalf of an employee to an individual account to which attributable earnings and losses are allocated. Matching contributions are any employer contributions (including discretionary contributions) made to a plan on account of an employee contribution or elective contribution to a plan maintained by the employer and any forfeitures allocated on the basis of employee contributions, matching contributions, or elective contributions. For purposes of this requirement, the plan may incorporate by reference the provisions of section 401(m) of the Code and section 1.401(m)-2 of the regulations. IRC section 401(m) and Regs. section 1.401(m)-1(c)(2) and -2(a)(1)(i).
1104, 1105 II.b.(i)	Section _____ of the plan should be amended to provide that the plan will take into account the actual contribution ratios of all eligible employees for purposes of the Actual Contribution Percentage (ACP) test in IRC section 401(m). For this purpose, an eligible employee is any employee who is directly or indirectly eligible to receive an allocation of matching contributions or to make employee contributions and includes: an employee who would be a plan participant but for the failure to make required contributions; an employee whose right to make employee contributions or receive matching contributions has been suspended because of an election (other than certain one-time elections) not to participate; and an employee who cannot make an employee contribution or receive a matching contribution because section 415(c)(1) prevents the employee from receiving additional annual additions. In the case of an eligible employee who makes no employee contributions and who receives no matching contributions, the contribution ratio that is to be included in determining the ACP is zero. IRC section 401(m)(3) and (5) and Regs. section 1.401(m)-5. If an election has been made to apply section 410(b)(4)(B), the plan may provide that eligible nonhighly compensated employees who have not met minimum age and service requirements under section 410(a)(1)(A) are excluded from the ACP test. IRC section 401(m)(5)(C).
1106, 1107 II.b.(ii)	In running the ACP test for a plan year, an employee contribution will be taken into account if it is paid to the trust during the plan year. An excess contribution to a CODA that is recharacterized as an employee contribution will be taken into account for the ACP test in the plan year in which the contribution would have been received in cash if there had not been an election to defer. A matching contribution will be taken into account for the ACP test for a given plan year only if 1) it is made on account of the employee’s elective or employee contributions for that plan year, 2) it is allocated to the employee’s account as of any date within that plan year, and 3) it is paid to the trust no later than the last day of the 12th month immediately following that plan year. In addition, a Nonhighly Compensated Employee’s (NHCE’s) matching contribution cannot be taken into account for the ACP test to the extent it exceeds the greatest of the following: <ol style="list-style-type: none"> 1) 5 percent of the employee’s compensation; 2) the employee’s matched contributions (elective deferrals, employee contributions or both); and 3) the product of twice the lowest matching rate of at least half the nonhighly compensated employees that made matched contributions for the year and the employee’s matched contributions. An employee’s matching rate is the matching contributions made for such employee divided by that employee’s matched contributions, except that if the matching rate is not the same for all levels of an employee’s matched contributions, the employee is deemed to have made matched contributions equal to 6 percent of compensation. <p>Matching contributions that are forfeited to meet the ACP test or because they relate to excess deferrals, excess contributions, excess aggregate contributions or default elective contributions that are distributed under Code section 414(w) are not counted in the ACP test. Under certain circumstances, an employer may treat elective contributions to a cash or deferred arrangement (for example, elective deferrals) and certain nonelective contributions (for example, qualified nonelective contributions, or QNECs) as matching contributions for purposes of the ACP test. Section _____ of the plan should be amended accordingly. IRC section 401(m)(3) and Regs. section 1.401(m)-2(a)(4) and (5).</p>

1108 II.b.(iii)	Section _____ of the plan should be amended to provide that for purposes of determining whether a plan satisfies the actual contribution percentage test of IRC section 401(m), all employee and matching contributions that are made under two or more plans that are aggregated for purposes of section 401(a)(4) and 410(b) (other than section 410(b)(2)(A)(ii)) are to be treated as made under a single plan, and that if two or more plans are permissively aggregated for purposes of section 401(m), the aggregated plans must also satisfy sections 401(a)(4) and 410(b) as though they were a single plan. IRC section 401(m)(2)(B) and Regs. section 1.401(m)-1(b)(4).
1109 II.b.(iv)	Section _____ of the plan should be amended to provide that in calculating the actual contribution percentage for purposes of section 401(m), the actual contribution ratio of a highly compensated employee will be determined by treating all plans subject to section 401(m) under which the highly compensated employee is eligible (other than those that may not be permissively aggregated) as a single plan. IRC section 401(m)(2)(B) and Regs. section 1.401(m)-2(a)(3)(ii).
1115 II.b.(v)	Section _____ of the plan should be amended to provide that the Actual Contribution Percentages (ACPs) of Highly Compensated Employees (HCEs) and Nonhighly Compensated Employees (NHCEs) are determined for the relevant plan years. If the plan is using the prior year testing method, the ACP of HCEs is determined for the current plan year (the “testing year”) and the ACP of NHCEs is determined for the prior plan year. If, on the other hand, the plan is using the current year testing method, the ACPs of both HCEs and NHCEs are determined for the current year. IRC section 401(m)(2)(A).
1112 II.c.	Section _____ of the plan should be amended so that the availability of employee contributions (and matching contributions, if applicable) does not discriminate in favor of highly compensated employees. IRC section 401(a)(4) and Regs. section 1.401(m)-1(a)(2).
1136, 1137, 1138, 1139 III.a.(i), (ii)	Section _____ of the plan should be amended to provide that nonelective employer contributions may be treated as matching contributions for purposes of the Actual Contribution Percentage (ACP) test of IRC section 401(m) only if such contributions are nonforfeitable when made to the plan and are subject to the same distribution restrictions (other than hardship) that apply to elective contributions. IRC section 401(m)(4)(C) and Regs. sections 1.401(m)-2(a)(6) and -5.
1147 III.b.	Section _____ of the plan should be amended to provide that elective contributions and/or qualified nonelective contributions may be treated as matching contributions only if the conditions described in section 1.401(m)-2(a)(6) of the regulations are satisfied. IRC section 401(m)(3) and Regs. section 1.401(m)-2(a)(6).
1113, 1114 IV.c.(i)	Section _____ of the plan should be amended to provide that the amount of excess aggregate contributions to be distributed to highly compensated employees (or, if forfeitable, forfeited) is determined under the “ratio leveling method.” First, determine how much the Actual Contribution Ratio (ACR) of the highly compensated employee with the highest ACR would have to be reduced to satisfy the Actual Contribution Percentage (ACP) test or cause such ratio to equal the ACR of the highly compensated employee with the next highest ratio. Second, this process is repeated until the ACP test would be satisfied. The amount of excess aggregate contributions is equal to the sum of these hypothetical reductions multiplied, in each case, by the highly compensated employee’s compensation. IRC section 401(m)(6)(B) and (C) and Regs. sections 1.401(m)-2(b)(2) and (3).
1118 IV.c.(ii)	Section _____ of the plan should be amended to provide that the amount of excess aggregate contributions for a plan year shall be determined only after first determining the excess contributions that are treated as employee contributions due to recharacterization. Regs. section 1.401(m)-2(a)(4)(ii).
1119, 1120 IV.c.(iii)	Section _____ of the plan should be amended to provide that the distribution of excess aggregate contributions will include the income or loss allocable thereto. The income or loss allocable to excess aggregate contributions includes income or loss for the plan year for which the excess aggregate contributions were made and, in certain years before 2008, gap-period income or loss. For plan years beginning before 2006, income or loss allocable to the “gap period” (the period between the end of the plan year in which the ADP was exceeded and the date of the distribution of excess aggregate contributions) could be disregarded in determining income or loss on excess aggregate contributions for such years. For plan years beginning after 2005 and before 2008, allocable income or loss included allocable income or loss for the gap period. For plan years beginning on or after January 1, 2008, allocable income or loss does not include allocable income or loss for the gap period. See section 1.401(m)-2(b)(2)(iv) of the regulations for a description of the manner in which income or loss allocable to excess contributions is to be calculated. IRC section 401(m)(6)(A) and Regs. section 1.401(m)-2(b)(2)(iv).
1121 IV.c.(iv)	A method of correcting excess aggregate contributions must meet the nondiscrimination requirements of section 401(a)(4). A method under which employee contributions are distributed to highly compensated employees to the extent necessary to meet the requirements of section 401(m)(2), while matching contributions attributable to such employee contributions remain allocated to the employee’s account, will not meet the requirements of section 401(a)(4). Section _____ of the plan should be amended accordingly. Regs. section 1.401(m)-2(b)(3)(v)(B).

1122 IV.c.(v)	Failure to correct excess aggregate contributions by the end of the 12-month period immediately following the end of the plan year for which they were made will cause the plan to fail to satisfy the requirements of section 401(a)(4) for the plan year for which the excess aggregate contributions were made and for all subsequent years they remain uncorrected. Also, the employer will be liable for a 10 percent excise tax on the amount of excess aggregate contributions unless they are corrected within 2 1/2 months (6 months in the case of certain plans that include an eligible automatic contribution arrangement within the meaning of section 414(w)) after the close of the plan year for which they were made. Section _____ of the plan should be amended accordingly. IRC sections 401(m)(6)(A) and 4979 and Regs. section 1.401(m)-2(b)(4).
1123 IV.c.(vi)	Section _____ of the plan should be amended to provide that the distribution (or forfeiture, if applicable) of excess aggregate contributions shall be made on the basis of the respective amounts attributable to each highly compensated employee. The highly compensated employees subject to actual distribution or forfeiture are determined using the "dollar leveling method" starting with the highly compensated employee with the greatest dollar amount of employee, matching and other contributions treated as matching contributions for the plan year and continuing until the amount of the excess aggregate contributions has been accounted for. IRC section 401(m)(6)(C) and Regs. section 1.401(m)-2(b)(2)(iii).
1125 IV.d.	Section _____ of the plan should be amended to provide for correction of excess aggregate contributions. IRC section 401(m)(6) and Regs. section 1.401(m)-2(b).
1141, 1142 V.a.	Section _____ of the plan should be amended to define highly compensated employee as an employee who: 1) Was a 5 percent owner, as defined in section 416(i)(1)(A)(ii), at any time during the determination year or the look-back year; or 2) Had compensation from the employer for the look-back year in excess of \$80,000 (as adjusted), and, if the employer so elects in the plan, was in the top-paid group for the look-back year. IRC section 414(q), Regs. section 1.414(q)-1T and Notice 97-45, 1997-2 C.B. 296.
1143, 1144, 1145 V.b.	For purposes of the definition of highly compensated employee, section _____ of the plan should be amended to provide that: <ol style="list-style-type: none"> 1) The determination year is the plan year for which the determination of who is highly compensated is being made. 2) The look-back year is the 12-month period immediately preceding the determination year, or if the employer so elects in the plan, the calendar year beginning with or within such 12-month period. 3) Compensation is compensation within the meaning of section 415(c)(3). 4) Employers aggregated under sections 414(b), (c), (m) or (o) are treated as a single employer. 5) If the employer has made a top-paid group election, the top-paid group consists of the top 20 percentage of employees ranked on the basis of compensation received during the look-back year. For purposes of determining the number of employees in the top-paid group, employees described in section 414(q)(5) and Q&A 9(b) of section 1.414(q)-1T of the regulations are excluded. IRC section 414(q), Regs. section 1.414(q)-1T and Notice 97-45, 1997-2 C.B. 296.
1134 V.c.	Section _____ of the plan should be amended to define compensation, for purposes of the Actual Contribution Percentage (ACP) test of section 401(m) and the determination of excess aggregate contributions, in a manner that satisfies section 414(s) and over a period specified in section 1.401(m)-5 of the regulations. A definition will satisfy section 414(s) if it conforms to one of the definitions described in sections 1.414(s)-1(c)(2) and 1.414(s)-1(c)(3) of the regulations. Alternatively, submit a demonstration that the definition is nondiscriminatory. IRC sections 401(m)(3)(B) and 414(s) and Regs. sections 1.401(m)-5 and 1.414(s)-1.
VI.	Reserved
1152 VII.a.	Section _____ of the plan should be amended to provide the matching formula or nonelective contribution formula it is using to automatically satisfy section 401(k).
1153 VII.b.(i)	Section _____ of the plan should be amended to specify the applicable vesting schedule for matching contributions, if not immediately nonforfeitable.
1154, 1155 VII.b.(ii)	Section _____ of the plan should be amended to specify that 1) matching contributions may not be made with respect to employee contributions or elective contributions that in the aggregate exceed 6 percent of the employee's compensation, 2) the rate of matching contributions may not increase as the rate of employee contributions or elective contributions increases, 3) at any rate of employee contributions or elective contributions the rate of matching contributions that would apply with respect to any HCE who is an eligible employee is no greater than the rate of matching contributions that would apply with respect to an NHCE who is an eligible employee and who has the same rate of employee contributions or elective contributions, and 4) only permissible restrictions are applied to an employee's ability to make elective or employee contributions as described in Regs. section 1.401(m)-3(d)(6).
1156 VII.c.	Section _____ of the plan should be amended to provide that matching contributions made at the employer's discretion may not be made on behalf of any employee that, in the aggregate, could exceed a dollar amount equal to 4 percent of the employee's compensation. If this condition is not satisfied, the regular Actual Contribution Percentage (ACP) test applies. Regs. section 1.401(m)-3(d)(3)(ii).

1157 VII.d., VII.e., VIII.d.	Section _____ of the plan should be amended to provide that the regular Actual Contribution Percentage (ACP) test applies (i) with respect to after-tax employee contributions and (ii) with respect to matching contributions under the plan that fail to satisfy the ACP test safe harbor. IRC section 401(m)(11) and Regs. section 1.401(m)-3.
1158, 1160 VII.f.	Section _____ of the plan should be amended to provide that matching contributions are taken into account for a plan year under the Actual Contribution Percentage (ACP) test safe harbor in accordance with the allocation and timing rules of section 1.401(m)-2(a) of the regulations, which provides that a matching contribution is only taken into account for a plan year if the contribution is allocated to the employee's account under the terms of the plan as of any date within the plan year, is actually paid to the trust no later than 12 months after the close of the plan year, and is made on behalf of an employee on account of the employee's elective contributions or employee contributions for the plan year. Regs. section 1.401(m)-3(j).
1161 VII.g.	Section _____ of the plan should be amended to limit suspension of additional contributions to 6 months. Regs. section 1.401(m)-3(d)(6)(v).
1162 VIII.h.(i)	Section _____ of the plan should be amended for the aggregation and disaggregation rules described in Regs. section 1.401(m)-3(d)(5).
1165 VIII.a.	Section _____ of the plan should be amended to provide the matching formula or nonelective contribution formula it is using to automatically satisfy section 401(k). IRC section 401(m)(12) and Regs. section 1.401(m)-3.
1166 VIII.b.(i)	Section _____ of the plan should be amended to specify the applicable vesting schedule for matching contributions, if not immediately nonforfeitable.
1167 VIII.b.(ii)	Section _____ of the plan should be amended to specify that: 1) matching contributions may not be made with respect to employee contributions or elective contributions that in the aggregate exceed 6 percent of the employee's compensation, 2) the rate of matching contributions may not increase as the rate of employee contributions or elective contributions increases, 3) at any rate of employee contributions or elective contributions the rate of matching contributions that would apply with respect to any HCE who is an eligible employee is no greater than the rate of matching contributions that would apply with respect to an NHCE who is an eligible employee and who has the same rate of employee contributions or elective contributions, and 4) only permissible restrictions are applied to an employee's ability to make elective or employee contributions as described in Regs. section 1.401(m)-3(d)(6). IRC section 401(m)(12)(B) and Regs. section 1.401(m)-3(d)(3).
1168 VIII.c.	Section _____ of the plan should be amended to provide that matching contributions made at the employer's discretion may not be made on behalf of any employee that, in the aggregate, could exceed a dollar amount equal to 4 percent of the employee's compensation. If this condition is not satisfied, the regular Actual Contribution Percentage (ACP) test applies. Regs. section 1.401(m)-3(d)(3)(ii).
1170 VIII.e.	Section _____ of the plan should be amended to provide that matching contributions are taken into account for a plan year under the Actual Contribution Percentage (ACP) test safe harbor in accordance with the allocation and timing rules of section 1.401(m)-2(a) of the regulations, which provides that a matching contribution is only taken into account for a plan year if the contribution is allocated to the employee's account under the terms of the plan as of any date within the plan year, is actually paid to the trust no later than 12 months after the close of the plan year, and is made on behalf of an employee on account of the employee's elective contributions or employee contributions for the plan year. Regs. section 1.401(m)-3(j).
1171 VIII.f.	Section _____ of the plan should be amended to limit suspension of additional contributions to 6 months. Regs. section 1.401(m)-3(d)(6)(v).
1172 VII.e.	Please explain why amendments (other than those necessary to conform plan provisions to the decision in <i>U.S. v. Windsor</i> , 570 U.S.12 (2013) and the guidance in Rev. Rul. 2013-17 and Notice 2014-19) were made to the plan's safe harbor feature during the plan year.