Internal Revenue Service

Number: **202631008**
Release Date: 7/31/2026

Index Number: 4980.00-00

Department of the Treasury
Washington, DC 20224

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.
Telephone Number:

Refer Reply To:
CC:EEE:EB:QP1
PLR-120095-25

Date:
May 1, 2026

Legend

Taxpayer =
Company A =
Company B =
Plan A =
Plan B =
Plan C =

Plan D =

Date 1 =
Date 2 =
Date 3 =
Date 4 =
Date 5 =
Year 1 =
Amount 1 =
Amount 2 =

Dear :

This is in response to a request for a letter ruling submitted on behalf of Taxpayer by your authorized representatives on October 6, 2025, and updated by correspondence dated March 13, 2026, April 7, 2026, and April 15, 2026, regarding the treatment of the transfer of surplus assets following the termination of its qualified defined benefit pension plan, Plan A, to a qualified defined contribution plan, Plan B, under section 4980 of the Internal Revenue Code (Code).

The following facts and representations have been submitted under penalties of perjury in support of the rulings requested.

Taxpayer and Company B are directly or indirectly 100 percent owned by Company A. Thus, Taxpayer, Company A, and Company B are entities (together with other companies and a foreign parent corporation) within the same controlled group that are treated as a single employer under Code section 414. Taxpayer has been in the process of terminating its business operations and employees and transferring remaining employees to other entities within Company A's controlled group.

Plan A is a defined benefit pension plan maintained by Taxpayer that (together with its related trust) since its inception has been qualified under Code section 401(a). Taxpayer terminated Plan A effective Date 1. Before that date, benefit accruals under Plan A (and two other defined benefit plans that Taxpayer previously merged into Plan A) were discontinued at various times for different participant groups.

Taxpayer also sponsored Plan C and Plan D, both of which are defined contribution plans that (together with their related trusts) since their inception have been qualified under section 401(a). After having terminated Plan A, Taxpayer terminated Plan C on Date 5 and Plan D on Date 3.

Before its termination, Plan A covered eligible employees of Taxpayer and certain other companies within Company A's controlled group who were both non-bargaining unit employees and bargaining unit employees. Before their termination, Plan C generally covered eligible employees of Taxpayer who were non-bargaining unit employees and Plan D generally covered eligible employees of Taxpayer who were bargaining unit employees.

Company B sponsors Plan B, a defined contribution plan that (together with its related trust) since its inception has been qualified under section 401(a). Plan B covers eligible employees of Company B and certain other (but not all) companies within Company A's controlled group. After terminating Plan C and Plan D, the remaining active participants in Plan C and Plan D transferred their participation and accounts to Plan B, and Taxpayer transferred all remaining Plan C and Plan D liabilities (including installment distributions to terminated participants) to Plan B.

The number of participants in Plan A who remained employed by Company A's controlled group on the date Plan A was terminated was Amount 1. All such participants also participated in either Plan B, Plan C, or Plan D as of the date Plan A was terminated. Thus, immediately after Plan A was terminated effective Date 1, 100% of the participants in Plan A who remained as current employees of Company A's controlled group were active participants in either Plan B, Plan C, or Plan D.

Taxpayer offered participants in Plan A who were not in pay status the opportunity to receive their accrued benefit in the form of a lump sum distribution on or about Date 2.

Taxpayer purchased a group annuity contract from an insurance company to provide annuities covering the accrued benefit of participants in Plan A who remained in pay status or did not elect or were not eligible to receive a lump sum distribution. The insurance company began monthly payments under the group annuity contract on Date 4.

Following the distribution of all benefits due to participants under Plan A and premium adjustments under the group annuity contract, the actuary for Plan A estimates that there will be a surplus of approximately Amount 2. The surplus will be retained in Plan A's trust pending receipt of a favorable IRS determination letter.

After all Plan A's liabilities have been satisfied and before the reversion of any surplus funds to Taxpayer, Taxpayer proposes to direct the trustee of Plan A to effectuate a direct transfer from Plan A to Plan B of an aggregate amount equal to at least 25% of Plan A's remaining surplus. The transfer is intended to occur in Taxpayer's taxable year beginning in Year 1.

Company B will amend Plan B to provide for the creation of a suspense account and allocation rules to fund both safe harbor nonelective contributions and other employer nonelective contributions with the Plan A transferred surplus over a seven-year allocation period in a manner that is intended to comply with Code section 4980(d)(2)(C). The suspense account funds will be allocated in accordance with the terms of Plan B at least as rapidly as ratably on a periodic basis over an allocation period beginning on the date of transfer and ending on the last day of the sixth plan year after the plan year of transfer, with the minimum ratable drawdown of the suspense account measured by Company B on periodic intervals designated by Company B over the allocation period. Company B will allocate any income earned by the suspense account at least as rapidly as ratably on the same periodic basis over the remainder of the allocation period under the same procedure.

Rulings Requested

Based on the foregoing facts and representations, you have requested the following rulings:

1. Plan B is a "qualified replacement plan" within the meaning of section 4980(d) for the purpose of receiving surplus assets from Plan A.

2. The direct transfer from the trust under Plan A to the trust under Plan B of at least 25% of the maximum amount that Taxpayer could receive as an employer reversion from Plan A will be treated as follows:

a. The amount transferred will not be included in Taxpayer's gross income;

b. No deduction will be allowable with respect to the amount transferred; and

c. The amount transferred will not be treated as an employer reversion under section 4980, and Taxpayer will not be subject to excise tax under section 4980 with respect to the amount transferred.

3. The crediting of the amounts transferred from Plan A to a suspense account in Plan B and the allocation of the suspense account to fund all or a portion of the periodic employer non-elective contributions due in accordance with the terms of Plan B at least as rapidly as ratably on a periodic basis over an allocation period beginning on the date of transfer and ending on the last day of the sixth plan year after the plan year of transfer, with the minimum ratable drawdown of the suspense account measured by Company B on periodic intervals designated by Company B over the allocation period, and the allocation of any income earned by the suspense account at least as rapidly as ratably on the same periodic basis over the remainder of the allocation period under the same procedure, will satisfy the allocation requirement of section 4980(d)(2)(C).

Law

Section 4980(a) imposes a 20 percent excise tax on the amount of any employer reversion from a qualified plan. Under section 4980(d)(1), the excise tax under section 4980 is increased to 50 percent with respect to an employer reversion from a qualified plan unless the employer either establishes or maintains a "qualified replacement plan", or the plan provides for certain benefit increases which take effect on the termination date.

Section 4980(c)(1) generally defines a "qualified plan" as any plan meeting the requirements of section 401(a) or section 403(a), other than a plan maintained by an employer if such employer has, at all times, been exempt from tax under Subtitle A, or a governmental plan (within the meaning of section 414(d)).

Section 4980(c)(2) generally defines the term "employer reversion" as the amount of cash and fair market value of other property received (directly or indirectly) by the employer from the qualified plan.

Section 4980(d)(2) defines a "qualified replacement plan" as a qualified plan established or maintained by the employer in connection with a qualified plan termination, which satisfies the participation, asset transfer, and allocation requirements of section 4980(d)(2)(A), (B), and (C).

Section 4980(d)(2)(A) requires that at least 95 percent of the active participants in the terminated plan who remain as employees of the employer after the termination be active participants in the replacement plan.

Section 4980(d)(2)(B) requires that a direct transfer from the terminated plan to the replacement plan be made before any employer reversion, and that the transfer be an amount equal to the excess (if any) of (i) 25 percent of the maximum amount which the employer could receive as an employer reversion without regard to section 4980(d), over (ii) the amount equal to the present value of the aggregate increases in the accrued benefits under the terminated plan of any participants or beneficiaries pursuant to a plan amendment adopted during the 60-day period ending on the date of termination of the qualified plan, and which takes effect immediately on the termination date.

Section 4980(d)(2)(B)(iii) provides that in the case of the transfer of any amount under section 4980(d)(2)(B)(i) from a terminated plan, such amount is not includible in the gross income of the employer, no deduction is allowable with respect to the transfer, and the transfer is not treated as an employer reversion for purposes of section 4980.

Section 4980(d)(2)(C)(i) provides that if the replacement plan is a defined contribution plan, the amount transferred to the replacement plan must be (I) allocated under the plan to the accounts of participants in the plan year in which the transfer occurs, or (II) credited to a suspense account and allocated from such account to accounts of participants no less rapidly than ratably over the 7-plan-year period beginning with the year of the transfer.

Section 4980(d)(2)(C)(ii) provides that if by reason of any limitation under section 415, any amount credited to a suspense account under section 4980(d)(2)(C)(i)(II) may not be allocated to a participant before the close of the 7-plan-year period, that amount shall be allocated to the accounts of other participants, and if any portion of that amount may not be allocated to other participants by reason of such limitation, it shall be allocated to the participant as provided in section 415.

Section 4980(d)(2)(C)(iii) provides that any income on any amount credited to a suspense account under section 4980(d)(2)(C)(i)(II) shall be allocated to accounts of participants no less rapidly than ratably over the remainder of the period determined under section 4980(d)(2)(C)(i)(II) (after application of section 4980(d)(2)(C)(ii)).

Section 4980(d)(2)(C)(iv) provides that if any amount credited to a suspense account under section 4980(d)(2)(C)(i)(II) is not allocated as of the termination date of the replacement plan, (I) such amount shall be allocated to the accounts of the participants as of such date, except that any amount which may not be allocated by reason of any limitation under section 415 shall be allocated to the accounts of other participants, and (II) if any portion of such amount may not be allocated to other participants under the preceding subclause by reason of such limitation, that portion shall be treated as an employer reversion to which section 4980 applies.

Section 4980(d)(4)(A) provides that a benefit may not be increased under section 4980(d)(2)(B)(ii) or section 4980(d)(3)(A), and an amount may not be allocated to a participant under section 4980(d)(2)(C), if such increase or allocation would result in a failure to meet any requirement under section 401(a)(4) or section 415.

Section 4980(d)(4)(B) provides that any increase in benefits under section 4980(d)(2)(B)(ii) or section 4980(d)(3)(A), or any allocation of any amount (or income allocable thereto) to any account under section 4980(d)(2)(C), shall be treated as an annual benefit or annual addition for purposes of section 415.

Section 4980(d)(5)(D)(i) provides that for purposes of determining whether there is a qualified replacement plan under section 4980(d)(2) the Secretary may provide that two or more plans may be treated as one plan.

Revenue Ruling 2003-85, 2003-32 I.R.B. 291, provides that the direct transfer from a terminating plan that did not provide for increases in the accrued benefit of participants to a plan intending to be a qualified replacement plan satisfied the requirements of section 4980(d)(2)(B) when the amount transferred was at least 25 percent of the maximum amount that the employer could receive as an employer reversion.

Analysis

With respect to your first request, Taxpayer represents that Plan B will receive at least 25 percent of the excess assets from Plan A. Consistent with the facts provided to support your third ruling request, Plan B will meet the allocation requirement of section 4980(d)(2)(C). In addition, the active participants in Plan A who remained as current employees of Company A’s controlled group on the date that Taxpayer terminated Plan A participated in either Plan B, Plan C, or Plan D. After terminating Plan C and Plan D, the remaining active participants in Plan C and Plan D transferred their participation and accounts to Plan B, and Taxpayer transferred all remaining Plan C and Plan D liabilities (including installment distributions to terminated participants) to Plan B. Thus, Plan B may be treated as a qualified replacement plan under section 4980(d)(2) with respect to Plan A.

With respect to your second request, Taxpayer represents that the direct transfer of assets from Plan A to Plan B will be an amount equal to at least 25 percent of the total amount of Plan A’s remaining surplus. This transfer to Plan B is a transfer under section 4980(d)(2)(B)(i) from a terminated plan. Therefore, the amount transferred will not be included in Taxpayer’s gross income, no deduction will be allowable with respect to the amount transferred, the amount transferred will not be treated as an employer reversion for purposes of section 4980, and Taxpayer will not be subject to excise tax under section 4980 with respect to the amount transferred.

With respect to your third request, Taxpayer represents that Company B will amend Plan B to provide for the creation of a suspense account and allocation rules to fund both safe harbor nonelective contributions and other employer nonelective contributions with the Plan A transferred surplus over a seven-year allocation period in a manner that is intended to comply with Code section 4980(d)(2)(C). The suspense account funds will be allocated in accordance with the terms of Plan B at least as rapidly as ratably on a periodic basis over an allocation period beginning on the date of transfer and ending on the last day of the sixth plan year after the plan year of transfer, with the minimum ratable drawdown of the suspense account measured by Company B on periodic intervals designated by Company B over the allocation period. Company B will allocate any income earned by the suspense account at least as rapidly as ratably on the same periodic basis over the remainder of the allocation period under the same procedure. This will satisfy the allocation requirement of section 4980(d)(2)(C).

Rulings

1. Plan B is as a “qualified replacement plan” within the meaning of section 4980(d) for the purpose of receiving surplus assets from Plan A.

2. The direct transfer from the trust under Plan A to the trust under Plan B of at least 25% of the maximum amount that Taxpayer could receive as an employer reversion from Plan A will be treated as follows:

a. The amount transferred will not be included in Taxpayer’s gross income;

b. No deduction will be allowable with respect to the amount transferred; and

c. The amount transferred will not be treated as an employer reversion under section 4980, and Taxpayer will not be subject to excise tax under section 4980 with respect to the amount transferred.

3. The crediting of the amounts transferred from Plan A to a suspense account in Plan B and the allocation of the suspense account to fund all or a portion of the periodic employer non-elective contributions due in accordance with the terms of Plan B at least as rapidly as ratably on a periodic basis over an allocation period beginning on the date of transfer and ending on the last day of the sixth plan year after the plan year of transfer, with the minimum ratable drawdown of the suspense account measured by Company B on periodic intervals designated by Company B over the allocation period, and the allocation of any income earned by the suspense account at least as rapidly as ratably on the same periodic basis over the remainder of the allocation period under the same procedure, will satisfy the allocation requirement of section 4980(d)(2)(C).

This ruling letter is based on the representation that Plan A, Plan B, Plan C, and Plan D are qualified under section 401(a) and that their related trusts are tax-exempt under section 501(a) at all times relevant to this ruling letter.

The rulings contained in this letter are based upon information and representations submitted by your authorized representatives and accompanied by a penalty of perjury statement executed by Taxpayer, as specified in Rev. Proc. 2026-1, 2026-1 I.R.B. 1, § 7.01(16)(b). While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination. The Associate office will revoke or modify a letter ruling and apply the revocation retroactively if there has been a misstatement or omission of controlling facts, the facts at the time of the transaction are materially different from the controlling facts on which the ruling was based, or, in the case of a transaction involving a continuing action or series of actions, the controlling facts materially change during the course of the transaction. See Rev. Proc. 2026-1, § 11.05.

Except as expressly provided above, no opinion is expressed or implied concerning the federal income tax consequences of any other aspects of any transaction or item of income described in this ruling letter.

This letter is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Jeremy Lamb
Senior Counsel
Qualified Plans Branch 2
Office of the Associate Chief Counsel
(Employee Benefits, Exempt Organizations, and
Employment Taxes)

cc: