**Rev. Proc. 2015-XX**

SECTION 1. PURPOSE

 The Employee Plans Compliance Resolution System (“EPCRS”) sets forth a comprehensive system of correction programs for sponsors of retirement plans that are intended to satisfy the requirements of § 401(a), 403(a), 403(b), 408(k), or 408(p) of the Internal Revenue Code ("Code"), but that have failed to meet those requirements for a period of time. The components of EPCRS are the Self-Correction Program ("SCP"), the Voluntary Correction Program ("VCP"), and the Audit Closing Agreement Program ("Audit CAP"). EPCRS permits plan sponsors to correct failures and thereby continue to provide employees with retirement benefits on a tax-favored basis. The most recent restatement of EPCRS is set forth in Rev. Proc. 2013-12, 2013-4 I.R.B. 313. The following modifications to Rev. Proc. 2013-12 are reflected in this revenue procedure:

* New safe harbor EPCRS correction methods relating to automatic contribution features (including automatic enrollment and automatic escalation of elective deferrals) in plans described in § 401(k) and § 403(b); and
* Special safe harbor correction methods for plans (including those with automatic contribution features) that have failures that are of limited duration and involve elective deferrals.

SECTION 2. BACKGROUND

 .01 Section 2.05 of Rev. Proc. 2013-12 provides that it is expected that the EPCRS revenue procedure will continue to be updated, in whole or in part, from time to time, including in response to questions received from the public.

.02 Section 2.05(2) of Rev. Proc. 2013-12 specifically requested comments regarding methods to correct failures to implement automatic contribution features (including automatic escalation features that were affirmatively elected) with respect to elective deferrals in a § 401(k) plan or a § 403(b) Plan.

 .03 The Internal Revenue Service (“Service“) has received comments requesting special correction methods with respect to a failure to implement automatic contribution features. Commenters have stated that the cost associated with correcting failures to implement automatic contribution features under the current rules in EPCRS, as set forth in Rev. Proc. 2013-12, discourages employers from adopting plans with automatic contribution features because implementation errors are more common for plans with automatic contribution features (particularly automatic escalation features). The commenters also noted that implementation errors typically are discovered in connection with the preparation of a plan’s Form 5500 series return/report for a plan year. In addition, commenters expressed the view that current EPCRS safe harbor correction methods for the exclusion of eligible employees in a § 401(k) plan or § 403(b) Plan, or for failing to implement a salary reduction election in a § 401(k) plan or § 403(b) Plan, create a “windfall” for affected employees because those employees receive both their full salary and a 50% make-up corrective contribution. Commenters argue that this correction overcompensates affected participants for failures that last a short period of time because the participants usually have the opportunity to increase elective deferrals in later periods.

 .04 The 50% make-up corrective contribution mentioned by commenters was first provided with respect to the improper exclusion of eligible employees in Rev. Proc. 2006-27, 2006-1 C.B. 945, and was extended to failures to implement employee elections with respect to elective deferrals in Rev. Proc. 2008-50, 2008-2 C.B. 464. Previously, Rev. Proc. 2003-44, 2003-1 C.B. 1051, had provided for a make-up corrective contribution based on the actual deferral percentage for an affected employee’s group multiplied by the affected employee’s compensation. The correction principle underlying the 50% make-up corrective contribution was that corrective contributions should make up for the value of the lost opportunity for an employee to have a portion of his or her compensation accumulate with earnings tax deferred in the future assuming the participant would not have the opportunity to increase elective deferrals in later periods to make up for missed contributions and earnings that would have accumulated until retirement.

 .05 The Service is issuing this revenue procedure to improve and update EPCRS by making limited modifications to Rev. Proc. 2013-12. These modifications to EPCRS are described in Section 3, and revisions to Rev. Proc. 2013-12 implementing these modifications are set forth in Section 4.

.06 The Treasury Department and the Service continue to invite further comments on how to improve EPCRS. For information about how to submit comments, see section 7 of this revenue procedure.

SECTION 3. DESCRIPTION OF MODIFICATIONS TO EPCRS

.01 Effect on programs. This revenue procedure modifies, but does not supersede, Rev. Proc. 2013-12.

 .02 Description of special safe harbor methods to correct failures related to automatic contribution features in a § 401(k) plan or § 403(b) Plan.  This revenue procedure modifies the safe harbor correction methods and examples in Appendices A and B to Rev. Proc. 2013-12 to provide alternative correction methods for Employee Elective Deferral Failures (as defined in section 3.04 of this revenue procedure) associated with missed elective deferrals for eligible employees who are subject to automatic contribution features under § 401(k) plans or § 403(b) Plans (including employees who made affirmative elections in lieu of automatic contributions but whose elections were not implemented correctly).

 (1) Modified safe harbor correction method for Employee Elective Deferral Failures to implement an automatic contribution feature. If the failure to implement an automatic contribution feature for an affected eligible employee or the failure to implement an affirmative election of an eligible employee who is otherwise subject to an automatic contribution feature does not extend beyond the end of the 9½ month period after the end of the plan year of the failure (which is generally the filing deadline of the Form 5500 series return, including automatic extensions), no qualified nonelective contribution (“QNEC”) (as defined in § 1.401(k)-6 of the Income Tax Regulations) for the missed elective deferrals is required, provided that the following conditions are satisfied:

 (a) correct deferrals begin no later than the earlier of (i) the first payment of compensation made on or after the last day of the 9½ month period after the end of the plan year in which the failure first occurred for the affected eligible employee or (ii) if the Plan Sponsor was notified of the failure by the affected eligible employee, the first payment of compensation made on or after the last day of the month after the month of notification;

 (b) notice of the failure that satisfies specified requirements in new section .05(8)(c) of Appendix A of Rev. Proc. 2013-12 is given to the affected eligible employee not later than 45 days after the date on which correct deferrals begin; and

 (c) corrective contributions to make up for any missed matching contributions are made in accordance with timing requirements under SCP for significant operational failures (described in section 9.02 of Rev. Proc. 2013-12) and are adjusted for Earnings.  See section 9.04 of Rev. Proc. 2013-12.

 (2) Calculation of Earnings for certain failures to implement automatic contribution features. This revenue procedure provides an alternative safe harbor method for calculating Earnings for Employee Elective Deferral Failures under § 401(k) plans or § 403(b) Plans that have automatic contribution features and that are corrected in accordance with the procedures in section 3.02(1) or 3.03 of this revenue procedure. If an affected eligible employee has not affirmatively designated an investment alternative, missed Earnings may be calculated based on the plan’s default investment alternative, provided that, with respect to a correction made in accordance with the procedures in section 3.02(1) of this revenue procedure, any cumulative losses reflected in the Earnings calculation will not result in a reduction in the required corrective contributions relating to any matching contributions.

 (3) Availability of safe harbor correction method. The safe harbor correction method under section 3.02(1) of this revenue procedure is available only for plans with respect to failures that begin on or before December 31, 2020. At a later date, the Service will consider whether to extend the safe harbor correction method for failures that begin in later years. In deciding whether to extend the safe harbor correction method, the Service will take into account, among other relevant factors, the extent to which there is an increase in the number of plans implemented with automatic contribution features.

  .03 Description of modifications to encourage the early correction of Employee Elective Deferral Failures.

 (1) Safe harbor correction method for Employee Elective Deferral Failures that do not exceed three months. This safe harbor correction method creates a rolling correction period for Employee Elective Deferral Failures that do not exceed three months.  Under this safe harbor, no QNEC for the missed elective deferrals is required provided that the following conditions are satisfied:

 (a) correct deferrals begin no later than the earlier of (i) the first payment of compensation made on or after the three-month period that begins when the failure first occurred for the affected eligible employee or (ii) if the Plan Sponsor was notified of the failure by the affected eligible employee, the first payment of compensation made on or after the last day of the month after the month of notification;

 (b) notice of the failure that satisfies specified requirements in new section .05(9)(c) of Appendix A of Rev. Proc. 2013-12 is given to the affected eligible employee not later than 45 days after the date on which correct deferrals begin; and

 (c) corrective contributions to make up for any missed matching contributions are made in accordance with timing requirements under SCP for significant operational failures (described in section 9.02 of Rev. Proc. 2013-12) and are adjusted for Earnings.  See section 9.04 of Rev. Proc. 2013-12.

 (2) Safe harbor correction method for Employee Elective Deferral Failures that extend beyond three months but do not extend beyond the SCP correction period for significant failures. This revenue procedure creates a safe harbor correction method for Employee Elective Deferral Failures if the period of failure exceeds three months (or the conditions for the safe harbor correction method described in section 3.02 or 3.03(1) are not met by the Plan Sponsor). This safe harbor correction would permit the Plan Sponsor to make a corrective contribution equal to 25% of the missed deferrals (25% QNEC) in lieu of the higher QNEC required in sections .05(2)(b) and .05(5)(a) of Appendix A and section .02(1)(B) of Appendix B to Rev. Proc. 2013-12. In order to use this safe harbor correction, the Plan Sponsor must satisfy the following conditions:

 (a) correct deferrals begin no later than the earlier of (i) the first payment of compensation made on or after the last day of the second plan year following the plan year in which the failure occurred or (ii) if the Plan Sponsor was notified of the failure by the affected eligible employee, the first payment of compensation made on or after the last day of the month after the month of notification;

 (b) notice of the failure that satisfies specified requirements in new section .05(9)(c) of Appendix A of Rev. Proc. 2013-12 is given to the affected eligible employee not later than 45 days after the date on which correct deferrals begin; and

 (c) corrective contributions (including the 25% QNEC and employer contributions to make up for any missed matching contributions) are made in accordance with timing requirements under SCP for significant operational failures (described in section 9.02 of Rev. Proc. 2013-12) and are adjusted for Earnings.  See section 9.04 of Rev. Proc. 2013-12.

.04 Employee Elective Deferral Failure. For purposes of this revenue procedure, an Employee Elective Deferral Failure is a failure to correctly implement elective deferrals in a § 401(k) plan or § 403(b) Plan including elective deferrals pursuant to an affirmative election or pursuant to an automatic contribution feature (including an automatic escalation feature) and a failure to afford an employee the opportunity to make an affirmative election because the employee was improperly excluded from the plan.

SECTION 4. MODIFICATIONS TO REV. PROC. 2013-12

 .01 Appendix A of Rev. Proc. 2013-12 is revised to add the following new section .05(8) to Appendix A. As revised, section .05(8) of Appendix A reads as follows:

(8) Special safe harbor correction method for failures related to automatic contribution features in a § 401(k) plan or a 403(b) Plan. (a) Eligibility to use safe harbor correction method. This safe harbor correction method is available for certain Employee Elective Deferral Failures (as defined in section .05(10) of this Appendix A) associated with missed elective deferrals for eligible employees who are subject to an automatic contribution feature in a § 401(k) plan or 403(b) Plan (including employees who made affirmative elections in lieu of automatic contributions but whose elections were not implemented correctly). If the failure to implement an automatic contribution feature for an affected eligible employee or the failure to implement an affirmative election of an eligible employee who is otherwise subject to an automatic contribution feature does not extend beyond the end of the 9½ month period after the end of the plan year of the failure (which is generally the filing deadline of the Form 5500 series return, including automatic extensions), no QNEC for the missed elective deferrals is required, provided that the following conditions are satisfied:

(i) Correct deferrals begin no later than the earlier of the first payment of compensation made on or after the last day of the 9½ month period after the end of the plan year in which the failure first occurred for the affected eligible employee or, if the Plan Sponsor was notified of the failure by the affected eligible employee, the first payment of compensation made on or after the end of the month after the month of notification;

(ii) Notice of the failure that satisfies the content requirements of section .05(8)(c) of this Appendix A is given to the affected eligible employee not later than 45 days after the date on which correct deferrals begin; and

(iii) If the eligible employee would have been entitled to additional matching contributions had the missed deferrals been made, the Plan Sponsor makes a corrective contribution (adjusted for Earnings) on behalf of the employee equal to the matching contributions that would have been required under the terms of the plan as if the missed deferrals had been contributed to the plan in accordance with timing requirements under SCP for significant operational failures (described in section 9.02 of this revenue procedure).

(b) Calculation of Earnings for certain failures to implement automatic contribution features. This correction method provides an alternative safe harbor method for calculating Earnings for Employee Elective Deferral Failures under § 401(k) plans or 403(b) Plans that have automatic contribution features and that are corrected in accordance with the procedures in this section .05(8). If an affected eligible employee has not affirmatively designated an investment alternative, missed Earnings may be calculated based on the plan’s default investment alternative, provided that, with respect to a correction made in accordance with the procedures in this section .05(8), any cumulative losses reflected in the Earnings calculation will not result in a reduction in the required corrective contributions relating to any matching contributions. The Plan sponsor may also use the Earnings adjustment methods set forth in section 3 of Appendix B of this revenue procedure.

 (c) Content of notice requirement. The notice required under section .05(8)(a)(ii) of this Appendix A must include the following information:

 (i) General information relating to the failure, such as the percentage of eligible compensation that should have been deferred and the approximate date that the compensation should have begun to be deferred. The general information need not include a statement of the dollar amounts that should have been deferred.

 (ii) A statement that appropriate amounts have begun to be deducted from compensation and contributed to the plan (or that appropriate deductions and contributions will begin shortly).

 (iii) A statement that corrective contributions relating to missed matching contributions have been made (or that corrective contributions will be made). Information relating to the date and the amount of corrective contributions need not be provided.

 (iv) An explanation that the affected participant may increase his or her deferral percentage in order to make up for the missed deferral opportunity, subject to applicable limits under section 402(g).

 (v) The name of the plan and plan contact information (including name, street address, e-mail address, and telephone number of a plan contact).

 (d) Sunset of safe harbor correction method. The safe harbor correction method described in this section .05(8) of this Appendix A is available for plans only with respect to failures that begin on or before December 31, 2020.

 .02 Appendix A of Rev. Proc. 2013-12 is revised to add the following new section .05(9) to Appendix A. As revised, section .05(9) of Appendix A reads as follows:

 (9) Safe harbor correction methods for Employee Elective Deferral Failures in § 401(k) plans or 403(b) Plans. (a) Safe harbor correction method for Employee Elective Deferral Failures that do not exceed three months. Under this safe harbor correction method, an Employee Elective Deferral Failure (as defined in section .05(10) of this Appendix A) can be corrected without a QNEC for missed elective deferrals if the following conditions are satisfied:

(i) Correct deferrals begin no later than the earlier of the first payment of compensation made on or after the last day of the three-month period that begins when the failure first occurred for the affected eligible employee or, if the Plan Sponsor was notified of the failure by the affected eligible employee, the first payment of compensation made on or after the end of the month after the month of notification;

(ii) Notice of the failure that satisfies the content requirements of section .05(9)(c) of this Appendix A is given to the affected eligible employee not later than 45 days after the date on which correct deferrals begin; and

(iii) If the eligible employee would have been entitled to additional matching contributions had the missed deferrals been made, the Plan Sponsor makes a corrective contribution (adjusted for Earnings, which may be calculated as described in section .05(8)(b) of this Appendix A) on behalf of the employee equal to the matching contributions that would have been required under the terms of the plan as if the missed deferrals had been contributed to the plan in accordance with timing requirements under SCP for significant operational failures (described in section 9.02 of this revenue procedure).

(b) Safe harbor correction method for Employee Elective Deferral Failures that extend beyond three months but do not extend beyond the SCP correction period for significant failures. This safe harbor correction is for failures that exceed three months (or the conditions for the safe harbor correction method described in section .05(8) or .05(9)(a) of Appendix A of this revenue procedure are not met by the Plan Sponsor). Under this safe harbor correction, the required corrective employer contribution is equal to 25% of the missed deferrals (25% QNEC) in lieu of the higher QNEC required in sections .05(2)(b) and .05(5)(a) of Appendix A of this revenue procedure. In order to use this safe harbor correction method, the Plan Sponsor must satisfy the following conditions:

(i) Correct deferrals begin no later than the earlier of the first payment of compensation made on or after the last day of the second plan year following the plan year in which the failure occurred or, if the Plan Sponsor was notified of the failure by the affected eligible employee, the first payment of compensation made on or after the end of the month after the month of notification;

(ii) Notice of the failure that satisfies the content requirements of section .05(9)(c) of this Appendix A is given to an affected participant not later than 45 days after the date on which correct deferrals begin; and

(iii) Corrective contributions (including the 25% QNEC and employer contributions to make up for any missed matching contributions) are made in accordance with timing requirements under SCP for significant operational failures (described in section 9.02 of this revenue procedure), including adjustments for Earnings, which may be calculated as described in section .05(8)(b) of this Appendix A.

 (c) Content of notice requirement. The notice required under section .05(9)(a)(ii) and section .05(9)(b)(ii) of this Appendix A must include the following information:

 (i) General information relating to the failure, such as the percentage of eligible compensation that should have been deferred and the approximate date that the compensation should have begun to be deferred. The general information need not include a statement of the dollar amounts that should have been deferred.

 (ii) A statement that appropriate amounts have begun to be deducted from compensation and contributed to the plan (or that appropriate deductions and contributions will begin shortly).

 (iii) A statement that corrective contributions have been made (or that corrective contributions will be made). Information relating to the date and the amount of corrective contributions need not be provided.

 (iv) An explanation that the affected participant may increase his or her deferral percentage in order to make up for the missed deferral opportunity, subject to applicable limits under section 402(g).

 (v) The name of the plan and plan contact information (including name, street address, e-mail address, and telephone number of a plan contact).

 .03 Appendix A of Rev. Proc. 2013-12 is revised to add the following new section .05(10). As revised, section .05(10) of Appendix A reads as follows:

 (10) Employee Elective Deferral Failure. For purposes of sections .05(8) and .05(9) of this Appendix A, an “Employee Elective Deferral Failure” is a failure to implement elective deferrals correctly in a § 401(k) plan or 403(b) Plan, including elective deferrals pursuant to an affirmative election or pursuant to an automatic contribution feature under a § 401(k) plan or 403(b) Plan, and a failure to afford an employee the opportunity to make an affirmative election because the employee was improperly excluded from the plan. Automatic contribution features include automatic enrollment and automatic escalation features (including automatic escalation features that were affirmatively elected).

SECTION 5. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2013-12 is modified by this revenue procedure.

SECTION 6. EFFECTIVE DATE

This revenue procedure is effective **[INSERT DATE THAT REV. PROC. IS RELEASED]**.

SECTION 7. PUBLIC COMMENTS

 The Treasury Department and the Service invite comments on this revenue procedure. Send submissions to CC:PA:LPD:PR, (**Rev. Proc. 2015-xx**), Room 5203, Internal Revenue Service, PO Box 7604, Ben Franklin Station, Washington, D.C. 20044. Comments may also be hand delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to: Internal Revenue Service, CC:PA:LPD:PR, (**Rev. Proc. 2015-xx**), Courier’s Desk, Internal Revenue Service, 1111 Constitution Avenue, N.W., Washington DC. Alternatively, comments may be submitted via the Internet at **notice**.comments@irscounsel.treas.gov (**Rev. Proc. 2015-xx**). All comments will be available for public inspection.

SECTION 8. PAPERWORK REDUCTION ACT

The collection of information contained in this revenue procedure has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1673.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number.

The collection of information in this revenue procedure is in sections 4.01 and 4.02. This information is required to enable the Commissioner, Tax Exempt and Government Entities Division of the Internal Revenue Service to consider the issuance of various types of closing agreements and compliance statements. This information will be used to issue closing agreements and compliance statements to allow individual plans to continue to maintain their tax favored status. As a result, favorable tax treatment of the benefits of the eligible employees is retained. The likely respondents are individuals, state or local governments, businesses or other for-profit institutions, nonprofit institutions, and small businesses or organizations.

The estimated total annual reporting or recordkeeping burden is 5,643 hours.

The estimated annual burden per respondent/recordkeeper varies from .5 to 10 hours, depending on individual circumstances, with an estimated average of 5.25 hours. The estimated number of respondents or recordkeepers is 1,075.

The estimated frequency of responses is occasional.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally tax returns and tax return information are confidential, as required by 26 U.S.C. § 6103.

SECTION 9. DRAFTING INFORMATION

 The principal author of this revenue procedure is Kathleen Herrmann of the Office of the Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). For further information regarding this revenue procedure, contact Kathleen Herrmann or Vernon Carter at (202) 317-6799 (not a toll-free number).