

State	County	(Fee/acre/ yr)
Wyoming	Crook	\$11.55
Wyoming	Fremont	\$5.78
Wyoming	Goshen	\$11.55
Wyoming	Hot Springs	\$5.78
Wyoming	Johnson	\$5.78
Wyoming	Laramie	\$5.78
Wyoming	Lincoln	\$23.10
Wyoming	Natrona	\$5.78
Wyoming	Niobrara	\$5.78
Wyoming	Park	\$23.10
Wyoming	Platte	\$11.55
Wyoming	Sheridan	\$11.55
Wyoming	Sublette	\$23.10
Wyoming	Sweetwater	\$5.78
Wyoming	Teton	\$69.31
Wyoming	Uinta	\$11.55
Wyoming	Washakie	\$11.55
Wyoming	Weston	\$5.78

* State-average Land and Building value used where no county-specific value is available.

** Land areas to be determined.

[FR Doc. E9-3788 Filed 2-23-09; 8:45 am]

BILLING CODE 6717-01-P

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Food and Drug Administration

21 CFR Part 17

[Docket No. FDA-2008-N-0561]

Maximum Civil Money Penalty Amounts and Compliance With the Federal Civil Penalties Inflation Adjustment Act; Confirmation of Effective Date

AGENCY: Food and Drug Administration, HHS.

ACTION: Direct final rule; confirmation of effective date.

SUMMARY: The Food and Drug Administration (FDA) is confirming the effective date of March 27, 2009, for the direct final rule that appeared in the *Federal Register* of November 12, 2008 (73 FR 66750). The direct final rule amends the agency's regulations to update the statutory citations regarding the new civil monetary penalties prescribed by the Food and Drug Administration Amendments Act of 2007 (FDAAA), amends the regulations to include the new FDAAA penalties, and adjusts the preceding maximum civil penalty amounts for inflation as prescribed by the Federal Civil Penalties Inflation Adjustment Act of 1990 (FCPIAA). This document confirms the effective date of the direct final rule.

DATES: Effective date confirmed: March 27, 2009.

FOR FURTHER INFORMATION CONTACT: Erik Mettler, Office of Policy, Food and Drug Administration, 10903 New Hampshire Ave, Bldg. 1, rm. 4305, Silver Spring, MD 20993, 301-796-4830.

SUPPLEMENTARY INFORMATION: In the *Federal Register* of November 12, 2008 (73 FR 66750), FDA published the "Maximum Civil Money Penalty Amounts and Compliance With the Federal Civil Penalties Inflation Adjustment Act" direct final rule and solicited comments concerning the direct final rule for a 75-day period ending March 27, 2009. The direct final rule revises § 17.1 (21 CFR 17.1) to update the statutory citations regarding the new civil monetary penalties prescribed by FDAAA, and revises the table in § 17.2 (21 CFR 17.2) to include the new FDAAA penalties, and adjusts the preceding maximum civil penalty amounts for inflation as prescribed by the FCPIAA. This was accomplished by revising the list of statutory monetary penalties in § 17.1 to include the new penalties prescribed by the Federal Food, Drug, and Cosmetic Act, as amended by FDAAA in 2007. These new penalties have been added as new paragraphs (c) and (d). The table in § 17.2 also has been amended to include the new penalties, and the adjusted maximum penalty amounts for the pre-FDAAA penalties have been updated to account for the inflation between June 2004 (the year of the last adjustment) and June 2007 as prescribed by FCPIAA.

FDA also solicited comments concerning the changes for a 75-day period ending January 26, 2009, in a proposed rule published in the *Federal Register* of November 12, 2008 (73 FR 66811). FDA stated that the effective date of the direct final rule would be on March 27, 2009, 60 days after the end of the comment period, unless any significant adverse comment was submitted to FDA during the comment period. FDA did not receive any significant adverse comments.

Authority: Therefore, under the Federal Food, Drug, and Cosmetic Act and the Public Health Service Act, and under authority delegated to the Commissioner of Food and Drugs, 21 CFR part 17 is amended. Accordingly, the amendments issued thereby are effective.

Dated: February 17, 2009.

Jeffrey Shuren,

Associate Commissioner for Policy and Planning.

[FR Doc. E9-3831 Filed 2-23-09; 8:45 am]

BILLING CODE 4160-01-S

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 54

[TD 9447]

RIN 1545-BG80

Automatic Contribution Arrangements

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations relating to automatic contribution arrangements. These regulations affect administrators of, employers maintaining, participants in, and beneficiaries of section 401(k) plans and other eligible plans that include an automatic contribution arrangement.

DATES: *Effective date:* These regulations are effective on February 24, 2009.

Applicability date: Except as provided in §§ 1.401(k)-3(j)(1)(i) and 1.401(m)-2(a)(6)(ii), the final regulations relating to qualified automatic contribution arrangements (§§ 1.401(k)-2, 1.401(k)-3, 1.401(m)-2, and 1.401(m)-3) apply to plan years beginning on or after January 1, 2008. The regulations relating to eligible automatic contribution arrangements (§§ 1.402(c)-2, 1.411(a)-4, 1.414(w)-1, and 54.4979-1) apply for plan years beginning on or after January 1, 2010.

FOR FURTHER INFORMATION CONTACT: R. Lisa Mojiri-Azad, Dana Barry, or William D. Gibbs at (202) 622-6060 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collection of information contained in these final regulations has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)) under control number 1545-2135.

The collection of information in these final regulations is in §§ 1.401(k)-3 and 1.414(w)-1. The information in § 1.401(k)-3 is required to comply with the statutory notice requirements in sections 401(k)(13) and 401(m)(12), and is expected to be included in the notices currently provided to employees that inform them of their rights and benefits under the plan. The collection of information under § 1.414(w)-1 is required to comply with the statutory notice requirements of section 414(w) and is expected to be included in the notices currently provided to employees

that inform them of their rights and benefits under the plan.

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

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.

Background

This document contains amendments to regulations under sections 401(k), 401(m), 402(c), 411(a), and 4979 of the Internal Revenue Code (Code) and new regulations under section 414(w) in order to reflect certain of the provisions of section 902 of the Pension Protection Act of 2006, Public Law 109-280 (PPA '06), taking into account certain of the changes made by section 109(b) of the Worker, Retiree, and Employer Recovery Act of 2008, Public Law 110-458 (WRERA).

Section 902 of PPA '06 added sections 401(k)(13), 401(m)(12), and 414(w) to the Code to facilitate automatic contribution arrangements (sometimes referred to as automatic enrollment) in qualified cash or deferred arrangements under section 401(k), as well as in similar arrangements under sections 403(b) and 457(b). An automatic contribution arrangement is a cash or deferred arrangement that provides that, in the absence of an affirmative election by an eligible employee, a default election applies under which the employee is treated as having made an election to have a specified contribution made on his or her behalf under the plan.

Section 401(k)(1) provides that a profit-sharing, stock bonus, pre-ERISA money purchase, or rural cooperative plan will not fail to qualify under section 401(a) merely because it contains a qualified cash or deferred arrangement. Section 1.401(k)-1(a)(2) defines a cash or deferred arrangement (CODA) as an arrangement under which an eligible employee may make a cash or deferred election with respect to contributions to, or accruals or other benefits under, a plan that is intended to satisfy the requirements of section 401(a). Section 1.401(k)-1(a)(3)(i) defines a cash or deferred election as any direct or indirect election (or modification of an earlier election) by an employee to have the employer either: (1) Provide an amount to the employee in the form of cash (or some

other taxable benefit) that is not currently available; or (2) contribute an amount to a trust, or provide an accrual or other benefit, under a plan deferring the receipt of compensation. For purposes of determining whether an election is a cash or deferred election, § 1.401(k)-1(a)(3)(ii) provides that it is irrelevant whether the default that applies in the absence of an affirmative election is cash (or some other taxable benefit) or a contribution, an accrual, or other benefit under a plan deferring the receipt of compensation. Contributions that are made pursuant to a cash or deferred election under a qualified CODA are commonly referred to as elective contributions.

In order for a CODA to be a qualified CODA, it must satisfy a number of other requirements. Section 401(k)(2)(A) provides that the amount that each eligible employee under the arrangement may defer as an elective contribution must be available to the employee in cash. Section 1.401(k)-1(e)(2)(ii) provides that, in order for a CODA to satisfy this requirement, the arrangement must provide each eligible employee with an effective opportunity to make (or change) a cash or deferred election at least once during each plan year.

Section 401(k)(2)(B) provides that a qualified CODA must provide that elective contributions may only be distributed after certain events, including hardship and severance from employment. Similar distribution restrictions apply under sections 403(b)(7) and 403(b)(11). Section 457(d)(1)(A) includes distribution restrictions for eligible governmental deferred compensation plans.

Section 401(k)(3)(A)(ii) applies a special nondiscrimination test to the elective contributions of highly compensated employees, within the meaning of section 414(q) (HCEs). Under this test, called the actual deferral percentage (ADP) test, the average percentage of compensation deferred for HCEs is compared annually to the average percentage of compensation deferred for nonhighly compensated employees (NHCEs) eligible under the plan, and if certain limits are exceeded by the HCEs, corrective action must be taken. Pursuant to section 401(k)(8), one method of correction is distribution to HCEs of excess contributions made on their behalf.

Section 401(m) provides a parallel test for matching contributions and employee after-tax contributions under a defined contribution plan, called the actual contribution percentage (ACP) test. Pursuant to section 401(m)(6), one

method of correction of the ACP test is distribution to HCEs of excess aggregate contributions made on their behalf.

Sections 401(k)(12) and 401(m)(1) provide a design-based safe harbor under which elective contributions under a CODA and any associated matching contributions are treated as satisfying the ADP and ACP tests if the arrangement meets certain contribution and notice requirements. Sections 1.401(k)-3 and 1.401(m)-3 provide guidance on the requirements for this design-based safe harbor.

Sections 401(k)(13) and 401(m)(12), added by PPA '06 and effective for plan years beginning on or after January 1, 2008, provide an alternative design-based safe harbor for a CODA that provides for automatic contributions at a specified level and meets certain employer contribution, notice, and other requirements. A CODA that satisfies these requirements, referred to as a qualified automatic contribution arrangement (QACA), is treated as satisfying the ADP test and ACP test with respect to matching contributions.

Section 414(w), added to the Code by section 902(d)(1) of PPA '06 and effective for plan years beginning on or after January 1, 2008, further facilitates automatic enrollment by providing limited relief from the distribution restrictions under section 401(k)(2)(B), 403(b)(7), 403(b)(11), or 457(d)(1)(A) in the case of an eligible automatic contribution arrangement (EACA).

Sections 414(w)(1) and 414(w)(2) provide that an applicable employer plan that contains an EACA is permitted to allow employees to elect to receive a distribution equal to the amount of default elective contributions (and attributable earnings) made with respect to the employee beginning with the first payroll period to which the EACA applies to the employee and ending with the effective date of the election. The election must be made within 90 days after the date of the first default elective contribution with respect to the employee under the arrangement. Sections 414(w)(1)(A) and 414(w)(1)(B) provide that the amount of the distribution is includible in gross income for the taxable year in which the distribution is made, but is not subject to the additional income tax under section 72(t).

Section 414(w)(3) defines an EACA as an arrangement under which: (1) A participant may elect to have the employer make payments as contributions under the plan on behalf of the participant, or to the participant directly in cash; (2) the participant is treated as having elected to have the employer make such contributions in an

amount equal to a uniform percentage of compensation provided under the plan until the participant specifically elects not to have such contributions made (or specifically elects to have such contributions made at a different percentage); and (3) participants are provided a notice that satisfies the requirements of section 414(w)(4). Section 109(b)(4) of WRERA eliminated the provision previously found under section 414(w)(3)(C) that, in the absence of an investment election by the participant, default elective contributions must be invested in accordance with the regulations prescribed by the Secretary of Labor under section 404(c)(5) of the Employee Retirement Income Security Act of 1974 (ERISA).

Section 414(w)(4) requires that, within a reasonable period before each plan year, each employee to whom the arrangement applies for such year receive written notice of the employee's rights and obligations under the arrangement which is sufficiently accurate and comprehensive to apprise the employee of such rights and obligations. Section 414(w)(4)(A)(ii) requires that the notice be written in a manner calculated to be understood by the average employee to whom the arrangement applies. Section 414(w)(4)(B) provides that the notice must explain: (1) The employee's rights under the arrangement to elect not to have elective contributions made on the employee's behalf or to elect to have contributions made at a different percentage; and (2) how contributions made under the automatic contribution arrangement will be invested in the absence of any investment decision by the employee. In addition, the employee must be given a reasonable period of time after receipt of the notice and before the first elective contribution is made to make an election with respect to contributions. In many respects, the notice under section 414(w)(4) is the same as the notice required under section 401(k)(13) for a QACA.

Section 414(w)(5), as amended by section 109(b)(5) of WRERA, defines an applicable employer plan as a trust described in section 401(a) that is exempt from tax under section 501(a), a plan described in section 403(b), a section 457(b) plan that is maintained by a governmental employer described in section 457(e)(1)(A), a simplified employee pension the terms of which provide for a salary reduction arrangement described in section 408(k)(6), or a SIMPLE described in section 408(p).

Section 414(w)(6) provides that a withdrawal described in section

414(w)(1) is not to be taken into account for purposes of the ADP test. Section 109(b)(6) of WRERA amended section 414(w)(6) to provide that a withdrawal described in section 414(w)(1) is not to be taken into account for purposes of applying the limitation under section 402(g)(1).

Section 411(a)(3)(G), as amended by section 902(d)(2) of PPA '06, provides that a matching contribution shall not be treated as forfeitable merely because the matching contribution is forfeitable if it relates to a contribution that is withdrawn under an automatic contribution arrangement that satisfies the requirements of section 414(w).

Section 4979 provides for an excise tax on excess contributions (within the meaning of section 401(k)(8)(B)) and excess aggregate contributions (within the meaning of section 401(m)(6)(B)) not distributed within 2½ months after the close of the plan year for which the contributions are made. Section 902 of PPA '06 amended section 4979 to lengthen this 2½ month correction period for excess contributions and excess aggregate contributions under an EACA to 6 months. Thus, in the case of an EACA that is part of a section 401(k) plan, the section 4979 excise tax does not apply to any excess contributions or excess aggregate contributions which, together with income allocable to the contributions, are distributed or forfeited (if forfeitable) within 6 months after the close of the plan year.

Section 902 of PPA '06 amended section 4979(f)(2) to provide that any distributions of excess contributions and excess aggregate contributions (whether or not under an EACA) are includible in the employee's gross income for the taxable year in which distributed. However, pursuant to sections 401(k)(8)(D) and 401(m)(7)(A), the distributions are not subject to the additional income tax under section 72(t). Section 902 of PPA '06 also amended sections 401(k)(8), 401(m)(6), and 4979(f)(1) to eliminate the requirement that distributions of excess contributions or excess aggregate contributions (whether or not under an EACA) include income allocable to the period after the end of the plan year (gap period income).

On November 8, 2007, proposed regulations under sections 401(k), 401(m), 402(c), 411(a), 414(w), and 4979(f) relating to automatic contribution arrangements were issued (72 FR 63144). Written public comments were received on the proposed regulations, and a public hearing was held on May 19, 2008. After consideration of the comments, these final regulations adopt the provisions of

the proposed regulations with certain modifications, the most significant of which are highlighted in the Summary of Comments and Explanation of Revisions. In addition, these final regulations reflect the amendments to sections 401(k)(13) and 414(w) that were made by WRERA.

Summary of Comments and Explanation of Revisions

I. Qualified Automatic Contribution Arrangement Under Section 401(k)(13)

A. Minimum Percentage Requirement

Section 401(k)(13)(C)(iii) sets forth a series of minimum default contribution percentages that an automatic contribution arrangement must satisfy in order to be a qualified automatic contribution arrangement (QACA). The final regulations clarify that the minimum percentage for the initial period is based on when the employee first has contributions made pursuant to a default election under the QACA. Thus, if an employee makes an affirmative election before the default contribution would have begun, then the initial period does not begin for the employee. The minimum percentages are increased for plan years after the initial period.

Several commentators requested guidance on the application of the minimum percentage requirement in the case of a rehired employee. The final regulations provide that the minimum percentages are determined without regard to whether an employee has continued to be eligible to make contributions under the plan. Thus, the minimum percentage is generally determined based on the number of years since the date the employee first had default contributions made under the QACA. However, in response to recordkeeping concerns raised by commentators, the final regulations also provide that a plan is permitted to treat an employee who for an entire plan year did not have contributions made pursuant to a default election under the QACA as if the employee had not had such contributions for any prior plan year as well. For example, if an employee terminates in one plan year, and is rehired in a subsequent plan year, the plan is permitted to provide that a new initial period begins after the employee is rehired, regardless of whether the employee had in fact had contributions made pursuant to a default election under the QACA in some earlier plan year.

Other commentators asked whether plans are permitted to limit the duration of an affirmative election or to require

employees to make new elections. Under the final regulations, automatic enrollment applies for periods during which the affirmative election is not in effect. Accordingly, a plan could specifically provide that an affirmative election expires and, thus, require an employee to make a new affirmative election if he or she wants the prior rate of elective contribution to continue. In the absence of a second affirmative election, the employee will be automatically enrolled at the plan's default percentage (which must meet the minimum percentage requirement described in the preceding paragraph). For example, if an employer has a QACA beginning in 2009 and the plan provides that all affirmative elections in effect on December 31, 2010 expire on that date, then, if the QACA continues into 2011, all eligible employees who do not make a new affirmative election will be automatically enrolled under the QACA. Similarly, if an employee who made an affirmative election takes a hardship withdrawal under the plan and the plan suspends elective contributions for 6 months after receipt of the hardship distribution in accordance with § 1.401(k)-3(c)(6)(v)(B), then, if the plan does not reinstate the affirmative election at the end of the 6 months, the employer must automatically enroll the employee.

The final regulations provide that, for plan years beginning on or after January 1, 2010, compensation for purposes of determining default contributions means safe harbor compensation as defined in § 1.401(k)-3(b)(2).

B. Uniformity Requirement

Section 401(k)(13)(C)(iii) provides that the default percentage must be applied uniformly. The proposed regulations provided that a plan does not fail to satisfy this uniformity requirement merely because: the percentage varies based on the number of years an eligible employee has participated in the automatic contribution arrangement intended to be a QACA; the rate of elective contributions under a cash or deferred election that is in effect immediately prior to the effective date of the default percentage under the QACA is not reduced; the rate of elective contributions is limited so as not to exceed the limits of sections 401(a)(17), 402(g) (determined with or without catch-up contributions described in section 402(g)(1)(C) or 402(g)(7)), and 415; or the default election is not applied during the period an employee is not permitted to make elective contributions in order for the plan to

satisfy the requirements of § 1.401(k)-3(c)(6)(v)(B).

Some commentators asked whether a QACA may provide for an increase in the default percentage in the middle of the plan year. These commentators suggested that some employers wanted to provide for such an increase to coincide with salary increases or performance evaluations.

To address this issue, the final regulations expand the exception to the uniformity requirement that allows variance based on the number of years since the date the employee first had contributions made pursuant to a default election under an arrangement that is intended to be a QACA. Under the final regulations, the default percentage may also vary based on the portions of years since that date. Thus, the plan may provide for the increase of the default percentage mid-year, as long as the percentage is uniform based on the number of years or portions of years since an employee first had contributions made pursuant to a default election and satisfies the minimum percentage requirement throughout the plan year.

C. Notice Timing Requirement

The proposed regulations provided that a QACA satisfies the notice requirement of section 401(k)(13)(E) only if the notice satisfies the notice requirements under section 401(k)(12) and satisfies the additional requirements found in section 401(k)(13)(E)(ii). Section 401(k)(12)(D) and section 401(k)(13)(E)(i) provide that the notice must be provided within a reasonable period before each plan year to each employee eligible to participate in the QACA.

The final regulations under section 401(k)(12) provide that the determination of whether the notice satisfies the timing requirement is based on all of the relevant facts and circumstances. The timing requirement is deemed satisfied if at least 30 days (and no more than 90 days) before the beginning of each plan year, the notice is provided to each eligible employee. In the case where an eligible employee is not provided the notice within this 30-90 day period because the employee becomes eligible after the 90th day before the beginning of the plan year, the timing requirement is deemed to be satisfied if the notice is provided no more than 90 days before the employee becomes eligible and no later than the date the employee becomes eligible.

The proposed regulations under section 401(k)(13) applied these same rules to the notice required under section 401(k)(13)(E)(i). In accordance

with section 401(k)(13)(E)(ii), the proposed regulations also provided that the notice satisfies the timing requirements only if it is provided sufficiently early so that the employee has a reasonable period of time after receipt of the notice and before the first contribution is made pursuant to a default election under the arrangement to make an affirmative election to defer a different amount or percentage.

Some commentators raised a concern about meeting the notice requirement for employees who are eligible to participate in the plan immediately upon hire. Commentators suggested that employers be given a grace period to provide notice, such as 15 days after hire, as long as the employee has an effective opportunity to elect not to make contributions or make an affirmative election to defer a different amount or percentage of compensation prior to the first contribution made pursuant to a default election.

The final regulations modify the deemed satisfaction of timing requirement set forth in § 1.401(k)-3(d)(3)(ii). The regulations provide that if it is not practicable for the notice to be provided on or before the date specified in the plan that an employee becomes eligible, the notice will nonetheless be treated as provided timely if it is provided as soon as practicable after that date and the employee is permitted to elect to defer from all types of compensation that may be deferred under the plan earned beginning on that date. Thus, an employer is required to provide the notice to the employee prior to the pay date for the payroll period that includes the date the employee becomes eligible. This change applies to the safe harbor described in section 401(k)(12), as well as section 401(k)(13).

The final regulations provide rules for when the default election must first become effective. In accordance with section 401(k)(13)(E)(ii)(III), the final regulations provide that the default election must be effective no earlier than a reasonable period of time after the receipt of the notice (in order to provide the employee with a reasonable period of time to make an affirmative election). However, the final regulations provide that the default election must be effective no later than the earlier of the pay date for the second payroll period that begins after the date the notice is provided or the first pay date that occurs at least 30 days after the notice is provided. Notwithstanding any delay in when the first default contribution is made, nonelective contributions that are based on a full year's contributions and the rate of matching contributions that

varies based on compensation must be based on the safe harbor compensation earned since the participant was first eligible under the plan.

D. Exclusion of Current Affirmative Elections From Automatic Enrollment

The proposed regulations provided that an automatic contribution arrangement does not fail to be a QACA merely because the default election is not applied to an employee who was eligible under the cash or deferred arrangement (or a predecessor arrangement) immediately prior to the effective date of the QACA and on that effective date had an affirmative election in effect (that remains in effect) to have elective contributions made on his or her behalf (in a specified amount or percentage of compensation) or not have elective contributions made on his or her behalf.

Some commentators requested that employers be permitted to treat employees who did not affirmatively elect to make elective contributions under the plan as though they had affirmatively elected zero. These commentators stated that it would be administratively difficult to determine which employees had affirmative elections in effect prior to the effective date of the QACA.

The regulations do not expand the exception for automatically enrolling current employees to employees who have not made an affirmative election. Under section 401(k)(13)(C)(iv)(II), only those employees who had an affirmative election in effect immediately before the QACA became effective are permitted to be excluded from having a default election apply to them.

E. Other Topics

Commentators requested clarification as to whether the safe harbor nonelective and matching contributions made under a QACA are eligible for hardship withdrawal. The final regulations clarify that these safe harbor contributions are subject to the withdrawal restrictions found in § 1.401(k)-1(d) that apply to QNECs and QMACs. Thus, the maximum distributable amount under § 1.401(k)-1(d)(3)(ii) does not include earnings, QNECs, QMACs, or these safe harbor contributions.

A commentator asked whether safe harbor matching or nonelective contributions were required for all employees, including those eligible employees with affirmative elections in effect. The final regulations retain the requirement that all eligible employees must receive safe harbor matching contributions or nonelective

contributions, whichever is applicable. The special treatment under section 401(k)(13)(C)(iv) for employees who have an affirmative election in effect does not affect whether safe harbor matching contributions or nonelective contributions are required to be made for those employees.

II. Eligible Automatic Contribution Arrangement Under Section 414(w)

A. Non-Universal Eligible Automatic Contribution Arrangements

The proposed regulations provided that an eligible automatic contribution arrangement (EACA) is an automatic contribution arrangement under an applicable employer plan that applies to each "eligible employee." An eligible employee was defined as an employee who is eligible to make a cash or deferred election under the plan. Therefore, under the proposed regulations, an employer was required to apply automatic enrollment to all current and new employees eligible to make a deferral election under the applicable plan who did not have an affirmative election in effect.

Commentators requested flexibility in the implementation of an EACA by permitting an employer to apply automatic enrollment only to those employees who are hired on or after the effective date of the EACA.

The final regulations modify the rule in the proposed regulations to provide that the employees who must be subject to the automatic enrollment provisions under an EACA are only those employees who are specified in the plan as being covered employees under the EACA. Thus, automatic enrollment under an EACA need not apply to all employees eligible to make a deferral election under the applicable plan, but only to those employees who are covered by the EACA.

The final regulations provide that the plan document must specify the employees who are covered under the EACA and must state whether an employee who makes an affirmative election remains covered under the EACA. Under section 414(w)(4), the notice regarding an employee's rights and obligations under the arrangement need only be provided to those employees who are covered employees under the EACA as set forth in the plan. Thus, if a plan provides that an employee who makes an affirmative election is no longer a covered employee under the EACA, then the employee is not required to receive the notice after he or she makes an affirmative election.

With respect to the correction of excess contributions for a plan year beginning on or after January 1, 2010, the final regulations provide that a plan that contains an EACA is entitled to the extended 6-month period for correcting excess contributions and excess aggregate contributions without incurring an excise tax under section 4979, only if all eligible NHCs and eligible HCEs are covered employees under the EACA for the entire plan year (or the portion of the plan year that the employees are eligible employees). Thus, if an EACA covers fewer than all the eligible employees under the plan, the employer will be unable to take advantage of the extension under section 4979.

B. Uniformity Requirement

The proposed regulations provided that an EACA must provide that the default elective contribution is a uniform percentage of compensation. The exceptions to the uniformity requirement for a QACA set forth in § 1.401(k)-3(j)(2)(iii) also applied to an EACA (without regard to whether the arrangement was intended to be a QACA).

Some commentators requested that the uniformity requirement be eased if the plan is a multiemployer plan or a multiple employer plan, or if the sponsor wants to have different default contributions for collectively bargained and non-collectively bargained employees. The final regulations do not specifically permit this. However, these plan sponsors can accomplish a similar goal by establishing separate EACAs for each of these separate groups. To address the possibility that a plan may contain more than one EACA, the final regulations provide that the requirement that the default elective contributions under an EACA be a uniform percentage of compensation is applied by aggregating all automatic contribution arrangements within the plan that are intended to be EACAs. For this purpose, in the case of a plan subject to section 410(b), the definition of plan is determined after applying the disaggregation rules of § 1.401(k)-1(b)(4). Thus, a plan that is subject to the rules of section 410(b) is permitted to provide for separate EACAs for different groups of collectively bargained employees or different employers in a multiple employer plan with a different default percentage for each EACA, but such a plan could not have different default percentages apply to different groups of employees that are in the same plan after application of the disaggregation rules of § 1.401(k)-1(b)(4).

C. Mid-Year Implementation of an Eligible Automatic Contribution Arrangement

Section 401(k)(12)(D) contains the notice requirement applicable to a plan that is relying on the safe harbor for nondiscrimination testing in section 401(k)(12). It requires that the notice be provided "within a reasonable period before any year." The final regulations under section 401(k)(12) provide that the notice must be provided within a reasonable period of time before the plan year (or, in the first year that the employee becomes eligible, within a reasonable period of time before the employee becomes eligible). The final regulations further provide that whether this timing requirement is satisfied is based upon all of the relevant facts and circumstances and that the timing requirement is deemed to be satisfied if the notice is given at least 30 days (and no more than 90 days) before the beginning of each plan year. In the case of an employee who becomes eligible after the 90th day before the beginning of the plan year, the timing requirement is deemed to be satisfied if the notice is provided no more than 90 days before the employee becomes eligible for the cash or deferred arrangement (and no later than the date the employee becomes eligible).

Section 401(k)(13)(E), which contains the notice requirements applicable to a QACA, and section 414(w)(4), which contains the notice requirements applicable to an EACA, each require that the notice be provided "within a reasonable period before each plan year." The proposed regulations interpreted these provisions in a manner consistent with the interpretation in the final regulations under section 401(k)(12) of the almost identical language in that section, including the requirement that the notice be provided within a reasonable period of time before each plan year, except that, for individuals who become eligible employees during the plan year, the notice need only be provided within a reasonable period before the employee becomes an eligible employee.

Some commentators noted that the notice timing requirement could be interpreted to preclude the establishment of an EACA in the middle of the plan year, in situations where the notice was not provided before the beginning of the plan year. They suggested that the statutory requirement to provide notice before the start of each plan year should not preclude starting an EACA in the middle of the plan year of an existing cash or deferred arrangement that is not an EACA, if

notice is provided to each eligible employee within a reasonable period of time before the employee becomes eligible for the arrangement.

The final regulations do not adopt this suggestion. Instead, the final regulations generally retain the rule in the proposed regulations, which is consistent with the statutory requirements of section 414(w)(4) and with the interpretation of the identical language in section 401(k)(13) and the almost identical language in section 401(k)(12). The final regulations do, however, treat individuals who first become covered under an automatic contribution arrangement as a result of a change in employment status the same as individuals who first become eligible to make a cash or deferred election for purposes of the notice timing requirements.

Consistent with the revisions to the deemed timing rule for purposes of sections 401(k)(12) and 401(k)(13) described in this preamble, the final regulations provide that if it is not practicable for the notice to be provided on or before the date specified in the plan that an employee becomes eligible, the notice will nonetheless be treated as provided timely if it is provided as soon as practicable after that date and the employee is permitted to elect to defer from all types of compensation that may be deferred under the plan earned beginning on that date. Thus, an employer is required to provide the notice to the employee prior to the pay date for the payroll period that includes the date the employee becomes eligible.

D. Permissible Withdrawal

Section 414(w)(2) limits the period for the special election to withdraw default elective contributions to the first 90 days after the date of the first default contribution under the EACA. The proposed regulations provided that the date of the first default elective contribution is the date that the compensation that is subject to the cash or deferred election would otherwise have been included in gross income.

Some commentators suggested that the 90-day period start from the date the first contribution is received by the plan for the participant. The final regulations retain the rule in the proposed regulations that the 90-day period starts after the date the compensation would otherwise have been included in gross income. This date is used for other relevant Code provisions, such as the application of the section 402(g) limitation.

If an employer is concerned about inadvertently permitting withdrawal elections outside the 90-day period due

to misidentifying the date of the first default elective contribution as defined under the regulations, the plan is permitted to limit the period during which the election can be made to less than 90 days. Under the final regulations, a plan is permitted to set an earlier deadline for the election to withdraw default elective contributions. However, if a plan offers a permissible withdrawal for covered employees, the election period for the covered employees must be at least 30 days.

The final regulations also provide that the date of the first default elective contribution must take into account any default elective contributions made under any EACA under the plan. For this purpose, all EACAs under the plan must be aggregated. However, if the plan provides for multiple EACAs to cover different employees in different portions of the plan and these portions of the plan are mandatorily disaggregated under section 410(b), then there is no requirement to aggregate those different EACAs. Thus, in the case where a plan that is subject to the rules of section 410(b) has separate EACAs for different groups of collectively bargained employees or different employers in a multiple employer plan, the date for determining the first default elective contribution is determined with respect to each EACA within the separate disaggregated plan. In addition, in response to comments, the final regulations provide that for purposes of determining the date of the first default elective contribution, a plan is permitted to treat an employee who for an entire plan year did not have default elective contributions made under the EACA as if the employee had not had such contributions for any prior plan year as well.

Commentators asked whether employers can restrict the permissible withdrawals based on subsequent affirmative elections made by employees. For example, one commentator requested that an employer be permitted to limit the permissible withdrawal election to those employees who are automatically enrolled and who do not make a subsequent affirmative election of an amount (other than zero) within the 90-day election period. Under a section 401(a) plan or a section 403(b) plan, an employer is not permitted to condition an employee's right to take a permissible withdrawal on the level of the employee's deferral election under the plan. Thus, an employee's permissible withdrawal rights may not be restricted based upon the employee's subsequent affirmative election.

The proposed regulations provided that the effective date of the permissible withdrawal election must be no later than the last day of the payroll period that begins after the date the election is made. This rule was included in the proposed regulations to limit section 414(w) withdrawals to default elective contributions made for short periods of time. In response to comments, the final regulations modify this rule to provide that the latest effective date of the permissible withdrawal election cannot be after the earlier of: (1) The pay date for the second payroll period beginning after the election is made, or (2) the first pay date that occurs at least 30 days after the election is made. Of course, a plan may permit an earlier effective date.

Commentators also requested that the IRS clarify when the permissible withdrawal amount must be distributed. The final regulations clarify that the permissible withdrawal distribution must be made in accordance with the plan's ordinary timing procedures for processing distributions and making distributions. Thus, the permissible withdrawal distribution should be processed and distributed no differently than any other distribution permitted under the plan.

The proposed regulations provided that a permissible withdrawal distribution may be reduced by any generally applicable fees, but specified that the plan may not charge a different fee for a distribution under section 414(w) than would apply to other distributions. In response to comments, the final regulations clarify that the plan cannot charge a higher fee for a distribution under section 414(w) than would apply to any other distributions of cash.

One commentator requested guidance with respect to the withholding treatment of permissible withdrawal amounts. These amounts are subject to section 3405(a).

E. Forfeiture of Employer Matching Contributions

The proposed regulations provided that matching contributions with respect to default elective contributions that had been distributed pursuant to a permissible withdrawal election must be forfeited. In response to comments, the final regulations clarify that the forfeiture applies to any matching contributions that have been allocated to the participant's account, adjusted for allocable gain or loss. The final regulations provide that the plan is permitted to provide that matching contributions will not be made with respect to any withdrawal made under

§ 1.414(w)-1(c) if the withdrawal has been made prior to the date as of which the matching contributions would otherwise be allocated.

III. Other Issues

A. Other Automatic Contribution Arrangements

Many employers have previously adopted automatic contribution arrangements as originally described in prior guidance, such as Rev. Rul. 2000-8, 2000-1 CB 617. This prior guidance, which was reflected in regulations under section 401(k) issued in 2004, permitted employers to automatically enroll employees in a section 401(k) plan. These final regulations do not affect any automatic contribution arrangement that is not intended to be a QACA or an EACA.

B. Other Issues Under Section 902 of PPA '06 and WRERA

These regulations also reflect the modification to the correction rules for excess contributions and excess aggregate contributions provided in section 902(e) of PPA'06. These provisions include: (1) the change in the year of inclusion in income for distributed excess contributions to the year of distribution; and (2) the elimination of the requirement to include gap period income for a distribution that is made to correct an ADP or ACP failure. However, these regulations do not reflect: (1) the change made by section 109(b)(3) of WRERA that eliminates the requirement to include gap period income for a distribution of an excess deferral under section 402(g); (2) the additional time to correct excess contributions under a SARSEP that includes an EACA; (3) the tax treatment of excess contributions and earnings thereon under a SARSEP; and (4) guidance on SIMPLE IRA plans that include an EACA.

Effective Date

Except as provided in §§ 1.401(k)-3(j)(1)(i) and 1.401(m)-2(a)(6)(ii), the final regulations relating to qualified automatic contribution arrangements (§§ 1.401(k)-2, 1.401(k)-3, 1.401(m)-2, and 1.401(m)-3) apply to plan years beginning on or after January 1, 2008. The regulations relating to eligible automatic contribution arrangements (§§ 1.402(c)-2, 1.411(a)-4, 1.414(w)-1, and 54.4979-1) apply for plan years beginning on or after January 1, 2010. For plan years that begin in 2008, a plan must operate in accordance with a good faith interpretation of section 414(w). For this purpose, a plan that operates in accordance with the proposed

regulations under § 1.414(w)-1 or these final regulations will be treated as operating in accordance with a good faith interpretation of section 414(w).

Special Analyses

It has been determined that these final regulations are not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It has been determined that 5 U.S.C. 533(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations. It is hereby certified that the collection of information in these final regulations will not have a significant economic impact on a substantial number of small entities. This certification is based on the fact that most small entities that maintain plans that will be eligible for the safe harbor provisions of sections 401(k) and 401(m) or the distribution relief provisions of section 414(w) currently provide a similar notice with which this notice can be combined. Therefore, an analysis under the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required. Pursuant to section 7805(f) of the Internal Revenue Code, the notice of proposed rulemaking preceding this regulation was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comments on its impact on small business.

Drafting Information

The principal authors of these regulations are Dana Barry, William D. Gibbs, and R. Lisa Mojiri-Azad, Office of Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). However, other personnel from the IRS and Treasury Department participated in the development of these regulations.

List of Subjects

26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

26 CFR Part 54

Excise taxes, Pensions, Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

■ Accordingly, 26 CFR parts 1 and 54 are amended as follows:

PART 1—INCOME TAXES

■ **Paragraph 1.** The authority citation for part 1 is amended to read as follows:

Authority: 26 U.S.C. 401(m)(9) and 26 U.S.C. 7805 * * * Section 1.401(k)-3 is also issued under 26 U.S.C. 401(m)(9).

■ **Par. 2.** Section 1.401(k)-0 is amended in:

- 1. The entry for § 1.401(k)-2 is amended by—
 - a. Adding the entry for § 1.401(k)-2(a)(5)(vi) and revising the entry for § 1.401(k)-2(b)(2)(iv)(D).
 - b. Revising entries for § 1.401(k)-2(b)(2)(vi)(A) and (b)(2)(vi)(B).
 - c. Adding an entry for § 1.401(k)-2(b)(5)(iii).
- 2. The entry for § 1.401(k)-3 is amended by—
 - a. Adding entries for §§ 1.401(k)-3(a)(1), 1.401(k)-3(a)(2) and 1.401(k)-3(a)(3).
 - b. Adding an entry for § 1.401(k)-3(i).
 - c. Adding entries for §§ 1.401(k)-3(j)(1) and 1.401(k)-3(j)(2).
 - d. Adding entries for §§ 1.401(k)-3(k)(1), 1.401(k)-3(k)(2), 1.401(k)-3(k)(3) and 1.401(k)-3(k)(4).

The additions and revisions read as follows:

§ 1.401(k)-0 Table of Contents.

* * * * *

§ 1.401(k)-2 ADP test.

(a) * * *

(5) * * *

(vi) Default elective contributions pursuant to section 414(w).

* * * * *

(b) * * *

(2) * * *

(iv) * * *

(A) * * *

* * * * *

(D) Plan years before 2008.

* * * * *

(vi) * * *

(A) Corrective distributions for plan years beginning on or after January 1, 2008.

(B) Corrective distributions for plan years beginning before January 1, 2008.

* * * * *

(5) * * *

(iii) Special rule for eligible automatic contribution arrangements.

* * * * *

§ 1.401(k)-3 Safe harbor requirements.

(a) * * *

(1) Section 401(k)(12) safe harbor.

(2) Section 401(k)(13) safe harbor.

(3) Requirements applicable to safe harbor contributions.

* * * * *

(i) [Reserved].

(j) Qualified automatic contribution arrangement.

(1) Automatic contribution requirement.

(i) In general.

(ii) Automatic contribution arrangement.

(iii) Exception to automatic enrollment for certain current employees.

(2) Qualified percentage.

(i) In general.

(ii) Minimum percentage requirements.

- (A) Initial-period requirement.
- (B) Second-year requirement.
- (C) Third-year requirement.
- (D) Later years requirement.
- (iii) Exception to uniform percentage requirement.
- (iv) Treatment of periods without default contributions.
- (k) Modifications to contribution requirements and notice requirements for automatic contribution safe harbor.
 - (1) In general.
 - (2) Lower matching requirement.
 - (3) Modified nonforfeiture requirement.
 - (4) Additional notice requirements.
 - (i) In general.
 - (ii) Additional information.
 - (iii) Timing requirements.

■ **Par. 3.** Section 1.401(k)-1 is amended by:

- 1. Revising paragraph (b)(1)(ii)(C) and adding new paragraph (b)(1)(ii)(D).
 - 2. Adding a new sentence after the fifth sentence in paragraph (e)(7).
- The additions and revisions to read as follows:

§ 1.401(k)-1 Certain cash or deferred arrangements.

- * * * * *
- (b) * * *
- (1) * * *
- (ii) * * *
- (C) The ADP safe harbor provisions of section 401(k)(13) described in § 1.401(k)-3; or
- (D) The SIMPLE 401(k) provisions of section 401(k)(11) described in § 1.401(k)-4.
- * * * * *
- (e) * * *
- (7) *Plan provision requirement.* * * *

In addition, a plan that uses the safe harbor method of section 401(k)(13), as described in paragraph (b)(1)(ii)(C) of this section, must specify the default percentages that apply for the plan year and whether the safe harbor contribution will be the nonelective safe harbor contribution or the matching safe harbor contribution, and is not permitted to provide that ADP testing will be used if the requirements for the safe harbor are not satisfied. * * *

* * * * *

■ **Par. 4.** Section 1.401(k)-2 is amended by:

- 1. Adding paragraph (a)(5)(vi).
- 2. Revising paragraphs (b)(2)(iv)(A) and (b)(2)(iv)(D).
- 3. Removing paragraph (b)(2)(iv)(E).
- 4. Revising paragraph (b)(2)(vi)(A).
- 5. Revising the heading and adding a new first sentence to paragraph (b)(2)(vi)(B).
- 6. Removing *Examples 3, 4, and 5* of paragraph (b)(2)(viii).
- 7. Revising paragraph (b)(4)(iii) and adding paragraph (b)(5)(iii).

The additions and revisions to read as follows:

§ 1.401(k)-2 ADP test.

- (a) * * *
- (5) * * *
- (vi) *Default elective contributions pursuant to section 414(w).* Default elective contributions made under an eligible automatic contribution arrangement (within the meaning of § 1.414(w)-1(b)) that are distributed pursuant to § 1.414(w)-1(c) for plan years beginning on or after January 1, 2008, are not taken into account under paragraph (a)(4) of this section for the plan year for which the contributions are made, or for any other plan year.

- * * * * *
- (b) * * *
- (2) * * *
- (iv) *Income allocable to excess contributions—(A) General rule.* For plan years beginning on or after January 1, 2008, the income allocable to excess contributions is equal to the allocable gain or loss through the end of the plan year. See paragraph (b)(2)(iv)(D) of this section for rules that apply to plan years beginning before January 1, 2008.

(D) *Plan years before 2008.* For plan years beginning before January 1, 2008, the income allocable to excess contributions is determined under § 1.401(k)-2(b)(2)(iv) (as it appeared in the April 1, 2007, edition of 26 CFR part 1).

* * * * *

(vi) *Tax treatment of corrective distributions—(A) Corrective distributions for plan years beginning on or after January 1, 2008.* Except as provided in this paragraph (b)(2)(vi), for plan years beginning on or after January 1, 2008, a corrective distribution of excess contributions (and allocable income) is includible in the employee's gross income for the employee's taxable year in which distributed. In addition, the corrective distribution is not subject to the early distribution tax of section 72(t). See paragraph (b)(5) of this section for additional rules relating to the employer excise tax on amounts distributed more than 2½ 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 end of the plan year. See also § 1.402(c)-2, A-4 for restrictions on rolling over distributions that are excess contributions.

(B) *Corrective distributions for plan years beginning before January 1, 2008.* The tax treatment of corrective distributions for plan years beginning before January 1, 2008, is determined under § 1.401(k)-2(b)(2)(vi) (as it

appeared in the April 1, 2007, edition of 26 CFR Part 1). * * *

* * * * *

(4) * * *

(iii) *Permitted forfeiture of QMAC.*

Pursuant to section 401(k)(8)(E), a qualified matching contribution is not treated as forfeitable under § 1.401(k)-1(c) merely because under the plan it is forfeited in accordance with paragraph (b)(4)(ii) of this section or § 1.414(w)-1(d)(2).

* * * * *

(5) * * *

(iii) *Special rule for eligible automatic contribution arrangements.* In the case of excess contributions under a plan that includes an eligible automatic contribution arrangement within the meaning of section 414(w), 6 months is substituted for 2½ months in paragraph (b)(5)(i) of this section. The additional time described in this paragraph (b)(5)(iii) applies to a distribution of excess contributions for a plan year beginning on or after January 1, 2010 only where all the eligible NHCEs and eligible HCEs are covered employees under the eligible automatic contribution arrangement (within the meaning of § 1.414(w)-1(e)(3)) for the entire plan year (or for the portion of the plan year that the eligible NHCEs and eligible HCEs are eligible employees).

* * * * *

■ **Par. 5.** Section 1.401(k)-3 is amended by:

- 1. Revising paragraph (a).
- 2. Adding a new sentence at the end of paragraph (d)(3)(ii).
- 3. Revising the first sentence of paragraph (e)(1).
- 4. Revising the last sentence of paragraph (h)(2).
- 5. Revising the first sentence of paragraph (h)(3).
- 6. Adding paragraphs (i), (j), and (k).

The additions and revisions to read as follows:

§ 1.401(k)-3 Safe harbor requirements.

(a) *ADP test safe harbor—(1) Section 401(k)(12) safe harbor.* A cash or deferred arrangement satisfies the ADP safe harbor provision of section 401(k)(12) for a plan year if the arrangement satisfies the safe harbor contribution requirement of paragraph (b) or (c) of this section for the plan year, the notice requirement of paragraph (d) of this section, the plan year requirements of paragraph (e) of this section, and the additional rules of paragraphs (f), (g), and (h) of this section, as applicable.

(2) *Section 401(k)(13) safe harbor.* For plan years beginning on or after January 1, 2008, a cash or deferred arrangement

satisfies the ADP safe harbor provision of section 401(k)(13) for a plan year if the arrangement is described in paragraph (j) of this section and satisfies the safe harbor contribution requirement of paragraph (k) of this section for the plan year, the notice requirement of paragraph (d) of this section (modified to include the information set forth in paragraph (k)(4) of this section), the plan year requirements of paragraph (e) of this section, and the additional rules of paragraphs (f), (g), and (h) of this section, as applicable. A cash or deferred arrangement that satisfies the requirements of this paragraph (a)(2) is referred to as a qualified automatic contribution arrangement.

(3) *Requirements applicable to safe harbor contributions.* Pursuant to section 401(k)(12)(E)(ii) and section 401(k)(13)(D)(iv), the safe harbor contribution requirement of paragraph (b), (c), or (k) of this section must be satisfied without regard to section 401(l). The contributions made under paragraph (b) or (c) of this section (and the corresponding contributions under paragraph (k) of this section) are referred to as safe harbor nonelective contributions and safe harbor matching contributions.

* * * * *

(d) * * *

(3) * * *

(ii) *Deemed satisfaction of timing requirement.* * * * If it is not practicable for the notice to be provided on or before the date specified in the plan that an employee becomes eligible, the notice will nonetheless be treated as provided timely if it is provided as soon as practicable after that date and the employee is permitted to elect to defer from all types of compensation that may be deferred under the plan earned beginning on the date the employee becomes eligible.

(e) *Plan year requirement—(1) General rule.* Except as provided in this paragraph (e) or in paragraph (f) of this section, a plan will fail to satisfy the requirements of sections 401(k)(12), 401(k)(13), and this section unless plan provisions that satisfy the rules of this section are adopted before the first day of the plan year and remain in effect for an entire 12-month plan year. * * *

* * * * *

(h) * * *

(2) *Use of safe harbor nonelective contributions to satisfy other discrimination tests.* * * * However, pursuant to section 401(k)(12)(E)(ii) and section 401(k)(13)(D)(iv), to the extent they are needed to satisfy the safe harbor contribution requirement of paragraph (b) of this section, safe harbor

nonelective contributions may not be taken into account under any plan for purposes of section 401(l) (including the imputation of permitted disparity under § 1.401(a)(4)-7).

(3) *Early participation rules.* Section 401(k)(3)(F) and § 1.401(k)-2(a)(1)(iii)(A), which provide an alternative nondiscrimination rule for certain plans that provide for early participation, do not apply for purposes of section 401(k)(12), section 401(k)(13), and this section. * * *

* * * * *

(i) [Reserved].

(j) *Qualified automatic contribution arrangement—(1) Automatic contribution requirement—(i) In general.* A cash or deferred arrangement is described in this paragraph (j) if it is an automatic contribution arrangement described in paragraph (j)(1)(ii) of this section where the default election under that arrangement is a contribution equal to the qualified percentage described in paragraph (j)(2) of this section multiplied by the eligible employee's compensation from which elective contributions are permitted to be made under the cash or deferred arrangement. For plan years beginning on or after January 1, 2010, the compensation used for this purpose must be safe harbor compensation as defined under paragraph (b)(2) of this section.

(ii) *Automatic contribution arrangement.* An automatic contribution arrangement is a cash or deferred arrangement within the meaning of § 1.401(k)-1(a)(2) that provides that, in the absence of an eligible employee's affirmative election, a default election applies under which the employee is treated as having made an election to have a specified contribution made on his or her behalf under the plan. The default election begins to apply with respect to an eligible employee no earlier than a reasonable period of time after receipt of the notice describing the automatic contribution arrangement. The default election ceases to apply with respect to an eligible employee for periods of time with respect to which the employee has an affirmative election that is currently in effect to—

(A) Have elective contributions made in a different amount on his or her behalf (in a specified amount or percentage of compensation); or

(B) Not have any elective contributions made on his or her behalf.

(iii) *Exception to automatic enrollment for certain current employees.* An automatic contribution arrangement will not fail to be a qualified automatic contribution arrangement merely because the default

election provided under paragraph (j)(1)(i) of this section is not applied to an employee who was an eligible employee under the cash or deferred arrangement (or a predecessor arrangement) immediately prior to the effective date of the qualified automatic contribution arrangement and on that effective date had an affirmative election in effect (that remains in effect) to—

(A) Have elective contributions made on his or her behalf (in a specified amount or percentage of compensation); or

(B) Not have elective contributions made on his or her behalf.

(2) *Qualified percentage*—(i) *In general.* A percentage is a qualified percentage only if it—

(A) Is uniform for all employees (except to the extent provided in paragraph (j)(2)(iii) of this section);

(B) Does not exceed 10 percent; and

(C) Satisfies the minimum percentage requirements of paragraph (j)(2)(ii) of this section.

(ii) *Minimum percentage requirements*—(A) *Initial-period requirement.* The minimum percentage requirement of this paragraph (j)(2)(ii)(A) is satisfied only if the percentage that applies for the initial period is at least 3 percent. For this purpose, the initial period begins when the employee first has contributions made pursuant to a default election under an arrangement that is intended to be a qualified automatic contribution arrangement for a plan year and ends on the last day of the following plan year.

(B) *Second-year requirement.* The minimum percentage requirement of this paragraph (j)(2)(ii)(B) is satisfied only if the percentage that applies for the plan year immediately following the last day described in paragraph (j)(2)(ii)(A) of this section is at least 4 percent.

(C) *Third-year requirement.* The minimum percentage requirement of this paragraph (j)(2)(ii)(C) is satisfied only if the percentage that applies for the plan year immediately following the plan year described in paragraph (j)(2)(ii)(B) of this section is at least 5 percent.

(D) *Later years requirement.* A percentage satisfies the minimum percentage requirement of this paragraph (j)(2)(ii)(D) only if the percentage that applies for all plan years following the plan year described in paragraph (j)(2)(ii)(C) of this section is at least 6 percent.

(iii) *Exception to uniform percentage requirement.* A plan does not fail to satisfy the uniform percentage

requirement of paragraph (j)(2)(i)(A) of this section merely because—

(A) The percentage varies based on the number of years (or portions of years) since the beginning of the initial period for an eligible employee;

(B) The rate of elective contributions under a cash or deferred election that is in effect for an employee immediately prior to the effective date of the default percentage under the qualified automatic contribution arrangement is not reduced;

(C) The rate of elective contributions is limited so as not to exceed the limits of sections 401(a)(17), 402(g) (determined with or without catch-up contributions described in section 402(g)(1)(C) or 402(g)(7)), and 415; or

(D) The default election provided under paragraph (j)(1)(i) of this section is not applied during the period an employee is not permitted to make elective contributions in order for the plan to satisfy the requirements of § 1.401(k)-3(c)(6)(v)(B).

(iv) *Treatment of periods without default contributions.* The minimum percentages described in paragraph (j)(2)(ii) of this section are based on the date the initial period begins, regardless of whether the employee is eligible to make elective contributions under the plan after that date. Thus, for example, if an employee is ineligible to make contributions under the plan for 6 months because the employee had a hardship withdrawal and the 6-month period includes a date as of which the default minimum percentage is increased, then the default percentage must reflect that increase when the employee is permitted to resume contributions. However, for purposes of determining the date the initial period described in paragraph (j)(2)(ii)(A) of this section begins, a plan is permitted to treat an employee who for an entire plan year did not have contributions made pursuant to a default election under the qualified automatic contribution arrangement as if the employee had not had such contributions made for any prior plan year as well.

(k) *Modifications to contribution requirements and notice requirements for automatic contribution safe harbor*—

(1) *In general.* A cash or deferred arrangement satisfies the contribution requirements of this paragraph (k) only if it satisfies the contribution requirements of either paragraph (b) or (c) of this section, as modified by the rules of paragraphs (k)(2) and (k)(3) of this section. In addition, a cash or deferred arrangement satisfies the notice requirement of section 401(k)(13)(E) only if the notice satisfies the additional

requirements of paragraph (k)(4) of this section.

(2) *Lower matching requirement.* In applying the requirement of paragraph (c) of this section in the case of a cash or deferred arrangement, the basic matching formula is modified so that each eligible NHCE must receive the sum of—

(i) 100 percent of the employee's elective contributions that do not exceed 1 percent of the employee's safe harbor compensation; and

(ii) 50 percent of the employee's elective contributions that exceed 1 percent of the employee's safe harbor compensation but that do not exceed 6 percent of the employee's safe harbor compensation.

(3) *Modified nonforfeiture requirement.* A cash or deferred arrangement described in paragraph (j) of this section will not fail to satisfy the requirements of paragraph (b) or (c) of this section, as applicable, merely because the safe harbor contributions are not qualified nonelective contributions or qualified matching contributions provided that—

(i) The contributions are subject to the withdrawal restrictions that apply to QNECs and QMACs, as set forth in § 1.401(k)-1(d); and

(ii) Any employee who has completed 2 years of service (within the meaning of section 411(a)) has a nonforfeitable right to the account balance attributable to the safe harbor contributions.

(4) *Additional notice requirements*—

(i) *In general.* A notice satisfies the requirements of this paragraph (k)(4) only if it includes the additional information described in paragraph (k)(4)(i) of this section and satisfies the timing requirements of paragraph (k)(4)(iii) of this section.

(ii) *Additional information.* A notice satisfies the additional information requirement of this paragraph (k)(4)(ii) only if it explains—

(A) The level of elective contributions which will be made on the employee's behalf if the employee does not make an affirmative election;

(B) The employee's right under the arrangement to elect not to have elective contributions made on the employee's behalf (or to elect to have such contributions made in a different amount or percentage of compensation); and

(C) How contributions under the arrangement will be invested (including, in the case of an arrangement under which the employee may elect among 2 or more investment options, how contributions will be invested in the absence of an investment election by the employee).

(iii) *Timing requirements.* A notice satisfies the timing requirements of this paragraph (k)(4)(iii) only if it is provided sufficiently early so that the employee has a reasonable period of time after receipt of the notice to make the elections described under paragraph (k)(4)(ii)(B) and (C) of this section. However, the requirement in the preceding sentence that an employee have a reasonable period of time after receipt of the notice to make an alternative election does not permit a plan to make the default election effective any later than the earlier of—

(A) The pay date for the second payroll period that begins after the date the notice is provided; and

(B) The first pay date that occurs at least 30 days after the notice is provided.

■ **Par. 6.** Section 1.401(k)–6 is amended by revising the last sentence in the definition of “qualified matching contributions (QMACs)” to read as follows:

§ 1.401(k)–6 Definitions.

* * * * *

Qualified matching contributions (QMACs). * * * See also § 1.401(k)–2(b)(4)(iii) for a rule providing that a matching contribution does not fail to qualify as a QMAC solely because it is forfeitable under section 411(a)(3)(G) as a result of being a matching contribution with respect to an excess deferral, excess contribution, or excess aggregate contribution, or it is forfeitable under § 1.414(w)–1(d)(2).

* * * * *

■ **Par. 7.** Section 1.401(m)–0 is amended in:

- 1. The entry for § 1.401(m)–2 by—
 - a. Revising § 1.401(m)–2(b)(2)(iv)(D).
 - b. Adding an entry for § 1.401(m)–2(b)(4)(iii).
 - c. Revising the entries for § 1.401(m)–2(b)(2)(vi)(A) and (b)(2)(vi)(B).
 - d. Adding an entry for § 1.401(m)–2(b)(4)(iii).
- 2. The entry for § 1.401(m)–3 by revising the entries for §§ 1.401(m)–3(a)(1), 1.401(m)–3(a)(2) and 1.401(m)–3(a)(3).

The additions and revisions read as follows:

§ 1.401(m)–0 Table of Contents.

* * * * *

§ 1.401(m)–2 ACP Test.

* * * * *

- (b) * * *
- (2) * * *
- (iv) * * *
- (A) * * *

* * * * *

(D) Plan years before 2008.

(E) Allocable income for recharacterized elective contributions.

* * * * *

(vi) * * *

(A) Corrective distributions for plan years beginning on or after January 1, 2008.

(B) Corrective distributions for plan years beginning before January 1, 2008.

* * * * *

(4) * * *

(iii) Special rule for eligible automatic contribution arrangements.

* * * * *

§ 1.401(m)–3 Safe Harbor Requirements.

(a) * * *

(1) Section 401(m)(11) safe harbor.

(2) Section 401(m)(12) safe harbor.

(3) Requirements applicable to safe harbor contributions.

* * * * *

■ **Par. 8.** Section 1.401(m)–1 is amended by:

- 1. Revising paragraph (b)(1)(iii) and adding paragraph (b)(1)(iv).
- 2. Revising the last sentence of paragraph (b)(4)(iii)(B).
- 3. Revising the fifth sentence of paragraph (c)(2).

The additions and revisions read as follows:

§ 1.401(m)–1 Employee contributions and matching contributions.

* * * * *

(b) * * *

(1) * * *

(iii) The ACP safe harbor provisions of section 401(m)(12) described in § 1.401(m)–3; or

(iv) The SIMPLE 401(k) provisions of sections 401(k)(11) and 401(m)(10) described in § 1.401(k)–4.

* * * * *

(4) * * *

(iii) * * *

(B) *Arrangements with inconsistent ACP testing methods.* * * * Similarly, an employer may not aggregate a plan (within the meaning of § 1.410(b)–7) that is using the ACP safe harbor provisions of section 401(m)(11) or 401(m)(12) and another plan that is using the ACP test of section 401(m)(2).

* * * * *

(c) * * *

(2) *Plan provision requirement.* * * * Similarly, a plan that uses the safe harbor method of section 401(m)(11) or 401(m)(12), as described in paragraphs (b)(1)(ii) and (b)(1)(iii) of this section, must specify the default percentages that apply for the plan year and whether the safe harbor contribution will be the nonelective safe harbor contribution or the matching safe harbor contribution, and is not permitted to provide that ACP testing will be used if the requirements for the safe harbor are not satisfied. * * *

* * * * *

■ **Par. 9.** Section 1.401(m)–2 is amended by:

- 1. Revising the first and second sentences of paragraph (a)(5)(iv).
- 2. Revising paragraph (a)(5)(v).
- 3. Adding a new sentence at the end of paragraph (a)(6)(ii).
- 4. Revising paragraphs (b)(2)(iv)(A) and (b)(2)(iv)(D).
- 5. Removing paragraph (b)(2)(iv)(E).
- 6. Redesignating paragraph (b)(2)(iv)(F) as paragraph (b)(2)(iv)(E).
- 7. Revising paragraph (b)(2)(vi)(A).
- 8. Adding a new sentence to the beginning of paragraph (b)(2)(vi)(B).
- 9. Adding paragraph (b)(4)(iii).

The additions and revisions read as follows:

§ 1.401(m)–2 ACP test.

(a) * * *

(5) * * *

(iv) *Matching contributions taken into account.* A plan that satisfies the ACP safe harbor requirements of section 401(m)(11) or 401(m)(12) for a plan year but nonetheless must satisfy the requirements of this section because it provides for employee contributions for such plan year is permitted to apply this section disregarding all matching contributions with respect to all eligible employees. In addition, a plan that satisfies the ADP safe harbor requirements of § 1.401(k)–3 for a plan year using qualified matching contributions but does not satisfy the ACP safe harbor requirements of section 401(m)(11) or 401(m)(12) for such plan year is permitted to apply this section by excluding matching contributions with respect to all eligible employees that do not exceed 4 percent (3½ percent in the case of a plan that satisfies the ADP safe harbor under section 401(k)(13)) of each employee’s compensation. * * *

(v) *Treatment of forfeited matching contributions.* A matching contribution that is forfeited because the contribution to which it relates is treated as an excess contribution, excess deferral, excess aggregate contribution, or default elective contribution that is distributed under section 414(w), is not taken into account for purposes of this section.

* * * * *

(6) * * * * *

(ii) *Elective contributions taken into account under the ACP test.* * * * In addition, for plan years ending on or after November 8, 2007, elective contributions which are not permitted to be taken into account for the ADP test for the plan year under § 1.401(k)–

2(a)(5)(ii), (iii), (v), or (vi) are not permitted to be taken into account for the ACP test.

* * * * *

(b) * * * * *
(2) * * * * *

(iv) *Income allocable to excess aggregate contributions*—(A) *General rule.* For plan years beginning on or after January 1, 2008, the income allocable to excess aggregate contributions is equal to the allocable gain or loss through the end of the plan year. See paragraph (b)(2)(iv)(D) of this section for rules that apply to plan years beginning before January 1, 2008.

* * * * *

(D) *Plan years before 2008.* For plan years beginning before January 1, 2008, the income allocable to excess aggregate contributions is determined under § 1.401(m)–2(b)(2)(iv) (as it appeared in the April 1, 2007 edition of 26 CFR part 1).

* * * * *

(vi) *Tax treatment of corrective distributions*—(A) *Corrective distributions for plan years beginning on or after January 1, 2008.* Except as otherwise provided in this paragraph (b)(2)(vi), for plan years beginning on or after January 1, 2008, a corrective distribution of excess aggregate contributions (and allocable income) is includible in the employee's gross income in the taxable year of the employee in which distributed. The portion of the distribution that is treated as an investment in the contract and is therefore not subject to tax under section 72 is determined without regard to any plan contributions other than those distributed as excess aggregate contributions. Regardless of when the corrective distribution is made, it is not subject to the early distribution tax of section 72(t). See paragraph (b)(4) of this section for additional rules relating to the employer excise tax on amounts distributed more than 2½ 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 end of the plan year. See also § 1.402(c)–2, A–4, prohibiting rollover of distributions that are excess aggregate contributions.

(B) *Corrective distributions for plan years beginning before January 1, 2008.* The tax treatment of corrective distributions for plan years beginning before January 1, 2008, is determined under § 1.401(m)–2(b)(2)(vi) (as it appeared in the April 1, 2007, edition of 26 CFR Part 1).

(4) * * *

(iii) *Special rule for eligible automatic contribution arrangements.* In the case of excess aggregate contributions under a plan that includes an eligible automatic contribution arrangement (within the meaning of section 414(w)), 6 months is substituted for 2½ months in paragraph (b)(4)(i) of this section. The additional time described in this paragraph (b)(4)(iii) applies to a distribution of excess aggregate contributions for a plan year beginning on or after January 1, 2010 only where all the eligible NHCEs and eligible HCEs are covered employees under the eligible automatic contribution arrangement (within the meaning of § 1.414(w)–1(e)(3)) for the entire plan year (or for the portion of the plan year that the eligible NHCEs and eligible HCEs are eligible employees).

* * * * *

■ **Par. 10.** Section 1.401(m)–3 is amended by:

- 1. Revising paragraph (a).
- 2. Revising the first sentences of paragraphs (f)(1) and (j)(3).

The revisions read as follows:

§ 1.401(m)–3 Safe harbor requirements.

(a) *ACP test safe harbor*—(1) *Section 401(m)(11) safe harbor.* Matching contributions under a plan satisfy the ACP safe harbor provisions of section 401(m)(11) for a plan year if the plan satisfies the safe harbor contribution requirement of paragraph (b) or (c) of this section for the plan year, the limitations on matching contributions of paragraph (d) of this section, the notice requirement of paragraph (e) of this section, the plan year requirements of paragraph (f) of this section, and the additional rules of paragraphs (g), (h) and (j) of this section, as applicable.

(2) *Section 401(m)(12) safe harbor.* For a plan year beginning on or after January 1, 2008, matching contributions under a plan satisfy the ACP safe harbor provisions of section 401(m)(12) for a plan year if the matching contributions are made with respect to an automatic contribution arrangement described in paragraph § 1.401(k)–3(j) that satisfies the safe harbor requirements of § 1.401(k)–3, the limitations on matching contributions of paragraph (d) of this section, the notice requirement of paragraph (e) of this section, the plan year requirements of paragraph (f) of this section, and the additional rules of paragraphs (g), (h) and (j) of this section, as applicable.

(3) *Requirements applicable to safe harbor contributions.* Pursuant to sections 401(k)(12)(E)(ii) and 401(k)(13)(D)(iv), the safe harbor contribution requirement of paragraph

(b) or (c) of this section and § 1.401(k)–3(k) must be satisfied without regard to section 401(l). The contributions made under paragraphs (b) and (c) of this section and § 1.401(k)–3(k) are referred to as safe harbor nonelective contributions and safe harbor matching contributions.

* * * * *

(f) *Plan year requirement*—(1) *General rule.* Except as provided in this paragraph (f) or in paragraph (g) of this section, a plan will fail to satisfy the requirements of section 401(m)(11), section 401(m)(12), and this section unless plan provisions that satisfy the rules of this section are adopted before the first day of that plan year and remain in effect for an entire 12-month plan year.

* * * * *

(j) * * *

(3) *Early participation rules.* Section 401(m)(5)(C) and § 1.401(m)–2(a)(1)(iii)(A), which provide an alternative nondiscrimination rule for certain plans that provide for early participation, do not apply for purposes of section 401(m)(11), section 401(m)(12), and this section.

* * * * *

■ **Par. 11.** Section 1.402(c)–2, A–4, is amended by redesignating paragraph (h) as (j), adding a new paragraph (h), and adding and reserving paragraph (i) to read as follows:

§ 1.402(c)–2 Eligible rollover distributions, questions and answers.

* * * * *

A–4 * * *

(h) A distribution that is a permissible withdrawal from an eligible automatic contribution arrangement within the meaning of section 414(w).

(i) [Reserved]

* * * * *

■ **Par. 12.** Section 1.411(a)–4 is amended by revising paragraph (b)(7) to read as follows:

§ 1.411(a)–4 Forfeitures, suspensions, etc.

* * * * *

(b) * * *

(7) *Certain matching contributions.* A matching contribution (within the meaning of section 401(m)(4)(A) and § 1.401(m)–1(a)(2)) is not treated as forfeitable even if under the plan it may be forfeited under § 1.401(m)–2(b)(1) because the contribution to which it relates is treated as an excess contribution (within the meaning of §§ 1.401(k)–2(b)(2)(ii) and 1.401(k)–6), excess deferral (within the meaning of § 1.402(g)–1(e)(1)(iii)), excess aggregate contribution (within the meaning of § 1.401(m)–5), or a default elective

contribution (within the meaning of § 1.414(w)-1(e)) that is withdrawn in accordance with the requirements of § 1.414(w)-1(c).

* * * * *

■ **Par. 13.** Section 1.414(w)-1 is added to read as follows:

§ 1.414(w)-1 Permissible Withdrawals From Eligible Automatic Contribution Arrangements.

(a) *Overview.* Section 414(w) provides rules under which certain employees are permitted to elect to make a withdrawal of default elective contributions from an eligible automatic contribution arrangement. This section sets forth the rules applicable to permissible withdrawals from an eligible automatic contribution arrangement within the meaning of section 414(w). Paragraph (b) of this section defines an eligible automatic contribution arrangement. Paragraph (c) of this section describes a permissible withdrawal and addresses which employees are eligible to elect a withdrawal, the timing of the withdrawal election, and the amount of the withdrawal. Paragraph (d) of this section describes the tax and other consequences of the withdrawal. Paragraph (e) of this section includes the definitions applicable to this section.

(b) *Eligible automatic contribution arrangement—(1) In general.* An eligible automatic contribution arrangement is an automatic contribution arrangement under an applicable employer plan that is intended to be an eligible automatic contribution arrangement for the plan year and that satisfies the uniformity requirement under paragraph (b)(2) of this section, and the notice requirement under paragraph (b)(3) of this section. An eligible automatic contribution arrangement need not cover all employees who are eligible to elect to have contributions made on their behalf under the applicable employer plan.

(2) *Uniformity requirement—(i) In general.* An eligible automatic contribution arrangement must provide that the default elective contribution is a uniform percentage of compensation.

(ii) *Exception to uniform percentage requirement.* An arrangement does not violate the uniformity requirement of paragraph (b)(2)(i) of this section merely because the percentage varies in a manner that is permitted under § 1.401(k)-3(j)(2)(iii), except that the rule of § 1.401(k)-3(j)(2)(iii)(B) is applied without regard to whether the arrangement is intended to be a qualified automatic contribution arrangement.

(iii) *Rules of application.* For purposes of this paragraph (b)(2), all automatic contribution arrangements that are intended to be eligible automatic contribution arrangements within a plan (or within the disaggregated plan under § 1.410(b)-7, in the case of a plan subject to section 410(b)) are aggregated. Thus, for example, if a single plan within the meaning of section 414(l) covering employees in two separate divisions has two different automatic contribution arrangements that are intended to be eligible automatic contributions arrangements, the two automatic contribution arrangements can constitute eligible automatic contribution arrangements only if the default elective contributions under the arrangements are the same percentage of compensation. However, if the different automatic contribution arrangements cover employees in portions of the plan that are mandatorily disaggregated under the rules of section 410(b), then there is no requirement to aggregate those automatic contribution arrangements under the uniformity requirements of this paragraph (b)(2).

(3) *Notice requirement—(i) General rule.* The notice requirement of this paragraph (b)(3) is satisfied for a plan year if each covered employee is given notice of the employee's rights and obligations under the arrangement. The notice must be sufficiently accurate and comprehensive to apprise the employee of such rights and obligations, and be written in a manner calculated to be understood by the average employee to whom the arrangement applies. The notice must be in writing; however, see § 1.401(a)-21 for rules permitting the use of electronic media to provide applicable notices.

(ii) *Content requirement.* The notice must include the provisions found in § 1.401(k)-3(d)(2)(ii) to the extent those provisions apply to the arrangement. A notice is not considered sufficiently accurate and comprehensive unless the notice accurately describes—

(A) The level of the default elective contributions which will be made on the employee's behalf if the employee does not make an affirmative election;

(B) The employee's rights to elect not to have default elective contributions made to the plan on his or her behalf or to have a different percentage of compensation or different amount of contribution made to the plan on his or her behalf;

(C) How contributions made under the arrangement will be invested in the absence of any investment election by the employee; and

(D) The employee's rights to make a permissible withdrawal, if applicable, and the procedures to elect such a withdrawal.

(iii) *Timing—(A) General rule.* The timing requirement of this paragraph (b)(3)(iii) is satisfied if the notice is provided within a reasonable period before the beginning of each plan year or, in the plan year the employee is first eligible to make a cash or deferred election (or first becomes covered under the automatic contribution arrangement as a result of a change in employment status), within a reasonable period before the employee becomes a covered employee. In addition, a notice satisfies the timing requirements of paragraph (b)(3) of this section only if it is provided sufficiently early so that the employee has a reasonable period of time after receipt of the notice in order to make the election described under paragraph (e)(2)(i) or (e)(2)(ii) of this section.

(B) *Deemed satisfaction of timing requirement.* The timing requirement of this paragraph (b)(3)(iii) is satisfied if at least 30 days (and no more than 90 days) before the beginning of each plan year, the notice is given to each employee covered under the automatic contribution arrangement for the plan year. In the case of an employee who does not receive the notice within the period described in the previous sentence because the employee becomes eligible to make a cash or deferred election (or becomes covered under the automatic contribution arrangement as a result of a change in employment status) after the 90th day before the beginning of the plan year, the timing requirement is deemed to be satisfied if the notice is provided no more than 90 days before the employee becomes eligible to make a cash or deferred election (or becomes covered under the automatic contribution arrangement as a result of a change in employment status), and no later than the date that affords the employee a reasonable period of time after receipt of the notice to make the election described under paragraph (e)(2)(i) or (e)(2)(ii) of this section. If it is not practicable for the notice to be provided on or before the date specified in the plan that an employee becomes eligible to make a cash or deferred election, the notice will nonetheless be treated as provided timely if it is provided as soon as practicable after that date and the employee is permitted to elect to defer from all types of compensation that may be deferred under the plan earned beginning on that date.

(c) *Permissible withdrawal—(1) In general.* If the plan so provides, any

employee who has default elective contributions made under the eligible automatic contribution arrangement may elect to make a withdrawal of such contributions (and earnings attributable thereto) in accordance with the requirements of this paragraph (c). An applicable employer plan that includes an eligible automatic contribution arrangement will not fail to satisfy the prohibition on in-service withdrawals under section 401(k)(2)(B), 403(b)(7), 403(b)(11), or 457(d)(1) merely because it permits withdrawals that satisfy the timing requirement of paragraph (c)(2) of this section and the amount requirement of paragraph (c)(3) of this section.

(2) *Timing*—(i) *Last date to make election*. A covered employee's election to withdraw default elective contributions must be made no later than 90 days after the date of the first default elective contribution under the eligible automatic contribution arrangement and must be effective no later than the date set forth in paragraph (c)(2)(iii) of this section. A plan is permitted to set an earlier deadline for making this election, but if a plan provides that a covered employee may withdraw default elective contributions, then the election period for the covered employee must be at least 30 days.

(ii) *Determination of date of first default elective contribution*. For purposes of this paragraph (c)(2), the date of the first default elective contribution is the date that the compensation that is subject to the cash or deferred election would otherwise have been included in gross income.

(iii) *Latest effective date of the election*. The effective date of an election described in this paragraph (c)(2) cannot be after the earlier of—

(A) The pay date for the second payroll period that begins after the date the election is made; and

(B) The first pay date that occurs at least 30 days after the election is made.

(iv) *Special rules*—(A) *Treatment of periods without default elective contributions*. For purposes of determining the date of the first default elective contribution under the eligible automatic contribution arrangement, a plan is permitted to treat an employee who for an entire plan year did not have default elective contributions made under the eligible automatic contribution arrangement as if the employee had not had such contributions for any prior plan year as well.

(B) *Treatment relating to aggregation of arrangements*. The determination of whether an election is made no later than 90 days after the date of the first

default elective contribution under the eligible automatic contribution arrangement must take into account any other eligible automatic contribution arrangement that is required to be aggregated with the eligible automatic contribution arrangement under the rules of paragraph (b)(2)(iii) of this section.

(3) *Amount and timing of distributions*—(i) *In general*. A distribution satisfies the requirement of this paragraph (c)(3) if the distribution is equal to the amount of default elective contributions made under the eligible automatic contribution arrangement through the effective date of the election described in paragraph (c)(2) of this section (adjusted for allocable gains and losses to the date of distribution). If default elective contributions are separately accounted for in the participant's account, the amount of the distribution will be the total amount in that account. However, if default elective contributions are not separately accounted for under the plan, the amount of the allocable gains and losses will be determined under rules similar to those provided under § 1.401(k)-2(b)(2)(iv) for the distribution of excess contributions.

(ii) *Fees*. The distribution amount as determined under this paragraph (c)(3) may be reduced by any generally applicable fees. However, the plan may not charge a higher fee for a distribution under section 414(w) than would apply to any other distributions of cash.

(iii) *Date of distribution*. The distribution must be made in accordance with the plan's ordinary timing procedures for processing distributions and making distributions.

(d) *Consequences of the withdrawal*—(1) *Income tax consequences*—(i) *Year of inclusion*. The amount of the withdrawal is includable in the eligible employee's gross income for the taxable year in which the distribution is made. However, any portion of the distribution consisting of designated Roth contributions is not included in an employee's gross income a second time. The portion of the withdrawal that is treated as an investment in the contract is determined without regard to any plan contributions other than those distributed as a withdrawal of default elective contributions.

(ii) *No additional tax on early distributions from qualified retirement plans*. The withdrawal is not subject to the additional tax under section 72(t).

(iii) *Reporting*. The amount of the withdrawal is reported on Form 1099-R, "Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.,"

as described in the applicable instructions.

(iv) *Disregarded for purposes of section 402(g)*. The amount of the withdrawal is not taken into account in determining the limitation on elective deferrals under section 402(g).

(2) *Forfeiture of matching contributions*. In the case of any withdrawal made under paragraph (c) of this section, employer matching contributions with respect to the amount withdrawn that have been allocated to the participant's account (adjusted for allocable gains and losses) must be forfeited. A plan is permitted to provide that employer matching contributions will not be made with respect to any withdrawal made under paragraph (c) of this section if the withdrawal has been made prior to the date as of which the match would otherwise be allocated.

(3) *Consent rules*. A withdrawal made under paragraph (c) of this section may be made without regard to any notice or consent otherwise required under section 401(a)(11) or 417.

(e) *Definitions*. Unless indicated otherwise, the following definitions apply for purposes of section 414(w) and this section.

(1) *Applicable employer plan*. An applicable employer plan means a plan that—

(i) Is qualified under section 401(a);

(ii) Satisfies the requirements of section 403(b);

(iii) Is a section 457(b) eligible governmental plan described in § 1.457-2(f);

(iv) Is a simplified employee pension the terms of which provide for a salary reduction arrangement described in section 408(k)(6); or

(v) Is a SIMPLE described in section 408(p).

(2) *Automatic contribution arrangement*. An automatic contribution arrangement means an arrangement that provides for a cash or deferred election and which specifies that, in the absence of a covered employee's affirmative election, a default election applies under which the employee is treated as having elected to have default elective contributions made on his or her behalf under the plan. The default election begins to apply with respect to an eligible employee no earlier than a reasonable period of time after receipt of the notice describing the automatic contribution arrangement. This default election ceases to apply with respect to an eligible employee for periods of time with respect to which the employee has an affirmative election that is currently in effect to—

(i) Not have any default elective contributions made on his or her behalf; or

(ii) Have contributions made in a different amount or percentage of compensation.

(3) *Covered employee.* Covered employee means an employee who is covered under the automatic contribution arrangement, determined under the terms of the plan. A plan must provide whether an employee who makes an affirmative election remains a covered employee. If a plan provides that an employee who makes an affirmative election described in paragraph (e)(2)(i) or (e)(2)(ii) of this section remains a covered employee, then the employee must continue to receive the notice described in paragraph (b)(3) of this section and the plan may be eligible for the excise tax relief with respect to excess amounts distributed within 6 months after the end of the plan year under section 4979(f)(1). Such an employee will also have the default election reapply if the plan provides that the employee's prior affirmative election no longer remains in effect and the employee does not make a new affirmative election.

(4) *Default elective contributions.* Default elective contributions means the contributions that are made at a specified level or amount under an automatic contribution arrangement in the absence of a covered employee's affirmative election that are—

(i) Contributions described in section 402(g)(3); or

(ii) Contributions made to an eligible governmental plan within the meaning of § 1.457-2(f) that would be elective contributions if they were made under a qualified plan.

(f) *Effective/applicability date*—(1) *Statutory effective date.* Section 414(w) applies to plan years beginning on or after January 1, 2008.

(2) *Regulatory effective date.* This section applies to plan years beginning on or after January 1, 2010. For plan years that begin in 2008, a plan must operate in accordance with a good faith interpretation of section 414(w). For this purpose, a plan that operates in accordance with this section will be treated as operating in accordance with a good faith interpretation of section 414(w).

PART 54—PENSION EXCISE TAXES

■ **Par. 14.** The authority citation for part 54 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

■ **Par. 15.** Section 54.4979-1, paragraph (c)(1) is revised to read as follows:

§ 54.4979-1 Excise tax on certain excess contributions and excess aggregate contributions.

* * * * *

(c) *No tax when excess distributed within 2½ months after close of year or additional employer contributions made*—(1) *General rule.* No tax is imposed under this section on any excess contribution or excess aggregate contribution, as the case may be, to the extent the contribution (together with any income allocable thereto) is corrected before the close of the first 2½ months of the following plan year (6 months in the case of a plan that includes an eligible automatic contribution arrangement within the meaning of section 414(w)). The extension to 6 months applies to a distribution of excess contributions or excess aggregate contributions for a plan year beginning on or after January 1, 2010, only where all the eligible NHCEs and eligible HCEs (both as defined in § 1.401(k)-6 of this Chapter) are covered employees under an eligible automatic contribution arrangement within the meaning of section 414(w) for the entire plan year (or the portion of the plan year that the eligible NHCEs and eligible HCEs are eligible employees under the plan). Qualified nonelective contributions and qualified matching contributions taken into account under § 1.401(k)-2(a)(6) of this Chapter or qualified nonelective contributions or elective contributions taken into account under § 1.401(m)-2(a)(6) of this Chapter for a plan year may permit a plan to avoid excess contributions or excess aggregate contributions, respectively, even if made after the close of the 2½ month (or 6 month) period for distributing excess contributions or excess aggregate contributions without the excise tax. See § 1.401(k)-2(b)(1)(i) and (5)(i) of this Chapter for methods to avoid excess contributions, and § 1.401(m)-2(b)(1)(i) of the Chapter for methods to avoid excess aggregate contributions.

* * * * *

Linda E. Stiff,

Deputy Commissioner for Services and Enforcement,

Approved: January 16, 2009.

Eric Solomon,

Assistant Secretary of the Treasury (Tax Policy).

[FR Doc. E9-3716 Filed 2-23-09; 8:45 am]

BILLING CODE 4830-01-P

NATIONAL LABOR RELATIONS BOARD

29 CFR Part 102

Revisions of Regulations Concerning Procedures for Electronic Filing; Correction

AGENCY: National Labor Relations Board.

ACTION: Final rule; correction.

SUMMARY: This document contains corrections to the Summary and Supplementary Information to the Final Rule that was published in the **Federal Register** on Friday, January 30, 2009 (74 FR 5618) regarding the Board's amendment of regulations concerning the procedures for filing documents with the Agency electronically.

DATES: This correction is effective upon publication in the **Federal Register**, and is applicable on January 30, 2009.

FOR FURTHER INFORMATION CONTACT: Lester A. Heltzer, Executive Secretary, 202-273-1067.

SUPPLEMENTARY INFORMATION:

Background

The Final Rule that is the subject of this document applies to Section 102.114 of the Agency's Rules and Regulations.

Need for Correction

As published, the **SUMMARY** and **SUPPLEMENTARY INFORMATION** to the Final Rule contains errors that may prove to be misleading and are in need of clarification.

Correction of Publication

Accordingly, the publication of the Final Rule, which was the subject of FR Doc. E9-1832, is corrected as follows:

1. On page 5619, column 1, in the Summary, the first paragraph of the column, last sentence in the paragraph the language "If electronic service is not possible, the other party shall be notified by telephone of the substance of the transmitted document and a copy of the document shall be served personally, or by registered mail, certified mail, regular mail, or private delivery service, or, with the consent of the other party, by facsimile transmission." is corrected to read "If service by e-mail is not possible, the e-filing party must call the other party to notify them of the substance of the e-filed document and then serve a copy of the document, no later than the next day, by personal service, by overnight delivery service, or, with permission of the party receiving the document, by facsimile transmission."