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Tax-Sheltered Annuity Plans (403(b) Plans)

For Employees of Public Schools and Certain Tax-Exempt Organizations

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Contents

What's New

Hurricane Katrina relief provisions. New rules provide for tax-favored withdrawals, repayments and loans from certain retirement plans (including 403(b) annuity contracts for taxpayers who suffered economic losses as a result of Hurricane Katrina, Rita, or Wilma. See Publication 4492 for details.

What's New for 2005

Limit on elective deferrals. For 2005, the limit on elective deferrals has been increased from $13,000 to $14,000.

Additionally, if you have at least 15 years of service with a public school system, hospital, home health service agency, health and welfare service agency, church, or convention or association of churches (or associated organizations), the limit on elective deferrals to your 403(b) account is increased by the least of:

1. $3,000,
2. $15,000, reduced by the sum of:
   a. The increases to the general limit you were allowed in earlier years because of this rule, plus

b. The aggregate amount of designated Roth contributions for prior tax years, or

3. $5,000 times the number of your years of service for the organization, minus the total elective deferrals made by your employer on your behalf for earlier years.

See chapter 4.

Limit on annual additions. For 2005, the limit on annual additions has been increased from $41,000 to $42,000.

Additionally, if you are a foreign missionary, and your adjusted gross income is $17,000 or less, contributions to your 403(b) account will not be treated as exceeding the limit on annual additions if the contributions are not in excess of $3,000. See chapter 3.

Catch-up contributions for persons age 50 or over. If you will be age 50 or over by the end of 2005, you may be permitted to make additional catch-up contributions of up to $4,000 to your 403(b) plan. See chapter 6.

What's New for 2006

Limit on elective deferrals. For 2006, the limit on elective deferrals has been increased from $14,000 to $15,000. See chapter 4.

Limit on annual additions. For 2006, the limit on annual additions has been increased from $42,000 to $44,000. See chapter 3.

Catch-up contributions for persons age 50 or over. If you will be age 50 or over by the end of 2006, you may be permitted to make additional catch-up contributions of up to $5,000 to your 403(b) plan for 2006. See chapter 6.

Roth contribution program. For tax years beginning after December 31, 2005, your 403(b) plan may allow you to contribute to a Roth contribution program. Under this program, you can designate all or a portion of your elective deferrals as Roth contributions. Elective deferrals designated as Roth contributions must be maintained in a separate Roth account. Contributions to a designated Roth account are not excluded from your gross income, however, qualified distributions from a Roth account are excluded from your gross income.

Elective deferrals. The maximum amount of contributions allowed under a Roth contribution program is your limit on elective deferrals, less elective deferrals not designated as Roth contributions. See chapter 4.

Rollovers. A distribution from your designated Roth account can only be rolled over to another designated Roth account of yours or a Roth (IRA) of yours.

Qualified distributions. A qualified distribution is a distribution that is made after the nonexclusion period and:

- When you are age $59^1/_2$ or over,
- Because you are disabled, or
- On or after the death of the plan participant.

A qualified distribution does not include a distribution of excess elective deferrals. Excess elective deferrals in a designated Roth account are treated in the same manner as excess deferrals in a non-Roth account. See chapter 8.

The *nonexclusion period* is the 5 tax-year period beginning with the earlier of:

- The first tax year in which you made a designated Roth contribution to any Roth account under the same plan.
- If a rollover contribution was made to a designated Roth account from a designated Roth account, previously established for you under another plan, then the first tax year you made a designated Roth contribution to your previously established account.

Proposed Regulations

Proposed Income Tax Regulations pertaining to tax-sheltered annuities within the meaning of section 403(b) of the Internal Revenue Code were issued on November 16, 2004. Generally, when finalized, these regulations will be effective for taxable years beginning after December 31, 2006. The Proposed Regulations, REG-155608-02, 2004-49 I.R.B. 924 are available at *www.irs.gov*.

Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication can help you better understand the tax rules that apply to your 403(b) (tax-sheltered annuity) plan.

In this publication you will find information to help you:

- Determine the maximum amount that can be contributed to your 403(b) account in 2006.
- Determine the maximum amount that could have been contributed to your 403(b) account in 2005.
- Identify excess contributions.
- Understand the basic rules for claiming the retirement savings contributions credit.
- Understand the basic rules for distributions and rollovers from 403(b) accounts.

This publication does not provide specific information on the following topics.

- Distributions from 403(b) accounts. This is covered in Publication 575, Pension and Annuity Income.
- Rollovers. This is covered in Publication 590, Individual Retirement Arrangements (IRAs).
- Withdrawals, repayments, and loans from 403(b) annuity contracts for taxpayers who suffered economic losses as a result of Hurricane Katrina, Rita, or Wilma. This is covered in Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma.

How to use this publication. This publication is organized into chapters to help you find information easily.

Chapter 1 answers questions frequently asked by 403(b) plan participants.

Chapters 2 through 6 explain the rules and terms you need to know to figure the maximum amount that could have been contributed to your 403(b) account for 2005 and the maximum amount that can be contributed to your 403(b) account in 2006.

Chapter 7 provides general information on the prevention and correction of excess contributions to your 403(b) account.

Chapter 8 provides general information on distributions, and transfers and rollovers.

Chapter 9 provides blank worksheets that you will need to accurately and actively participate in your 403(b) plan. Filled-in samples of most of these worksheets can be found throughout this publication.

Chapter 10 explains the rules for claiming the retirement savings contributions credit.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

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You can email us at **taxforms@irs.gov*. (The asterisk must be included in the address.) Please put *Publications Comment* on the subject line. Although we cannot respond individually to each email, we do appreciate your feedback and will consider your comments as we revise our tax products.

Useful Items

You may want to see:

Publication

- ❑ **517** Social Security and Other Information for Members of the Clergy and Religious Workers
- ❑ **575** Pension and Annuity Income
- ❑ **590** Individual Retirement Arrangements (IRAs)

Form (and Instructions)

- ❑ **W-2** Wage and Tax Statement
- ❑ **1099-R** Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

- ❏ **5329** Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts
- ❏ **5330** Return of Excise Taxes Related to Employee Benefit Plans
- ❏ **8915** Qualified Hurricane Retirement Plan Distributions and Repayments

1.

403(b) Plan Basics

This chapter introduces you to 403(b) plans and accounts. Specifically, the chapter answers the following questions.

- What is a 403(b) plan?
- Who can participate in a 403(b) plan?
- Who can set up a 403(b) account?
- How can contributions be made to my 403(b) account?
- Do I report contributions on my tax return?
- How much can be contributed to my 403(b) account?

What is a 403(b) Plan?

A 403(b) plan, also known as a tax-sheltered annuity (TSA) plan, is a retirement plan for certain employees of public schools, employees of certain tax-exempt organizations, and certain ministers.

Individual accounts in a 403(b) plan can be any of the following types.

- An annuity contract, which is a contract provided through an insurance company,
- A custodial account, which is an account invested in mutual funds, or
- A retirement income account set up for church employees. Generally, retirement income accounts can invest in either annuities or mutual funds.

Throughout this publication, wherever the term "403(b) account" is used, it refers to any one of these funding arrangements, unless otherwise specified.

What are the Benefits of Contributing to a 403(b) Plan?

There are three benefits to contributing to a 403(b) plan.

- The first benefit is that you do not pay tax on allowable contributions in the year they are made. You do not pay tax on allowable contributions until you begin making withdrawals from the plan, usually after you retire. Allowable contributions to a 403(b) plan are either excluded or deducted from your income. However, if your contributions are made to a Roth contribution program, this benefit does not apply. Instead, you pay tax on the contributions to the plan but distributions from the plan (if certain requirements are met) are tax free.
- The second benefit is that earnings and gains on amounts in your 403(b) account are not taxed until you withdraw them. Earnings and gains on amounts in a Roth contribution program are not taxed if your withdrawals are qualified distributions. Otherwise, they are taxed when you withdraw them.
- The third benefit is that you may be eligible to take a credit for elective deferrals contributed to your 403(b) account. See chapter 10.

Excluded. If an amount is excluded from your income, it is not included in your total wages on your Form W-2. This means that you do not report the excluded amount on your tax return.

Deducted. If an amount is deducted from your income, it is included with your other wages on your Form W-2. You report this amount on your tax return, but you are allowed to subtract it when figuring the amount of income on which you must pay tax.

Who Can Participate in a 403(b) Plan?

Any eligible employee can participate in a 403(b) plan.

Eligible employees. The following employees are eligible to participate in a 403(b) plan.

- Employees of tax-exempt organizations established under section 501(c)(3) of the Internal Revenue Code. These organizations are usually referred to as section 501(c)(3) organizations or simply 501(c)(3) organizations.
- Employees of public school systems who are involved in the day-to-day operations of a school.
- Employees of cooperative hospital service organizations.
- Civilian faculty and staff of the Uniformed Services University of the Health Sciences (USUHS).
- Employees of public school systems organized by Indian tribal governments.
- Certain ministers (explained next).

Ministers. The following ministers are eligible employees for whom a 403(b) account can be established.

1. Ministers employed by section 501(c)(3) organizations.
2. Self-employed ministers. A self-employed minister is treated as employed by a tax-exempt organization that is a qualified employer.
3. Ministers (chaplains) who meet both of the following requirements.
   a. They are employed by organizations that are not section 501(c)(3) organizations.
   b. They function as ministers in their day-to-day professional responsibilities with their employers.

Throughout this publication, the term *chaplain* will be used to mean ministers described in the third category in the list above.

Example. A minister employed as a chaplain by a state-run prison and a chaplain in the United States Armed Forces are eligible employees because their employers are not section 501(c)(3) organizations and they are employed as ministers.

Who Can Set Up a 403(b) Account?

You cannot set up your own 403(b) account. Only employers can set up 403(b) accounts. A self-employed minister cannot set up a 403(b) account for his or her benefit. If you are a self-employed minister, only the organization (denomination) with which you are associated can set up an account for your benefit.

How Can Contributions Be Made to My 403(b) Account?

Generally, only your employer can make contributions to your 403(b) account. However, some plans will allow you to make after-tax contributions (defined later).

The following types of contributions can be made to 403(b) accounts.

1. **Elective deferrals**. These are contributions made under a salary reduction agreement. This agreement allows your employer to withhold money from your paycheck to be contributed directly into a 403(b) account for your benefit. Except for Roth contributions, you do not pay tax on these contributions until you withdraw them from the account. If your contributions are Roth contributions, you pay taxes on your contributions but any qualified distributions from your Roth account are tax free.
2. **Nonelective contributions**. These are employer contributions that are not made under a salary reduction agreement. Nonelective contributions include matching contributions, discretionary contributions, and mandatory contributions from your employer. You do not pay tax on these contributions until you withdraw them from the account.
3. **After-tax contributions**. These are contributions (that are not Roth contributions)

you make with funds that you must include in income on your tax return. A salary payment on which income tax has been withheld is a source of these contributions. If your plan allows you to make after-tax contributions, they are not excluded from income and you cannot deduct them on your tax return.

4. **A combination** of any of the three contribution types listed above.

Self-employed minister. If you are a self-employed minister, you are considered both an employee and an employer, and you can contribute to a retirement income account for your own benefit.

Do I Report Contributions on My Tax Return?

Generally, you do not report contributions to your 403(b) account (except Roth contributions) on your tax return. Your employer will report contributions on your Form W-2. Elective deferrals will be shown in box 12 and the *Retirement plan* box will be checked. If you are a self-employed minister or chaplain, see the discussions below.

Self-employed ministers. If you are a self-employed minister, you must report the total contributions as a deduction on your tax return. Deduct your contributions on line 28 of Form 1040.

Chaplains. If you are a chaplain and your employer does not exclude contributions made to your 403(b) account from your earned income, you may be able to take a deduction for those contributions on your tax return.

However, if your employer has agreed to exclude the contributions from your earned income, you will not be allowed a deduction on your tax return.

If you can take a deduction, include your contributions on line 36 of Form 1040. Enter the amount of your deduction and write "403(b)" on the dotted line next to line 36.

How Much Can Be Contributed to My 403(b) Account?

There are limits on the amount of contributions that can be made to your 403(b) account each year. If contributions made to your 403(b) account are more than these contribution limits, penalties may apply.

Chapters 2 through 6 provide information on how to determine the amount that can be contributed to your 403(b) account.

Worksheets are provided in chapter 9 to help you determine the maximum amount that can be contributed to your 403(b) account each year. Chapter 7, *Excess Contributions,* describes steps you can take to prevent excess contributions and to get an excess contribution corrected.

2.

Maximum Amount Contributable (MAC)

Throughout this publication, the limit on the amount that can be contributed to your 403(b) account for any year is referred to as your maximum amount contributable (MAC). This chapter:

- Introduces the components of your MAC,
- Tells you how to figure your MAC, and
- Tells you when to figure your MAC.

Components of Your MAC

Generally, before you can determine your MAC, you must first figure the components of your MAC. The components of your MAC are:

- The limit on annual additions (chapter 3), and
- The limit on elective deferrals (chapter 4).

How Do I Figure My MAC?

Generally, contributions to your 403(b) account are limited to the lesser of:

- The limit on annual additions, or
- The limit on elective deferrals.

Depending upon the type of contributions made to your 403(b) account, only one of the limits may apply to you.

Which limit applies. Whether you must apply one or both of the limits depends on the type of contributions made to your 403(b) account during the year.

Elective deferrals only. If the only contributions made to your 403(b) account during the year were elective deferrals made under a salary reduction agreement, you will need to figure both of the limits. Your MAC is the lesser of the two limits.

Nonelective contributions only. If the only contributions made to your 403(b) account during the year were nonelective contributions (employer contributions not made under a salary reduction agreement), you will only need to figure the limit on annual additions. Your MAC is the limit on annual additions.

Elective deferrals and nonelective contributions. If the contributions made to your 403(b) account were a combination of both elective deferrals made under a salary reduction agreement and nonelective contributions (employer contributions not made under a salary reduction agreement), you will need to figure both limits. Your MAC is the limit on the annual additions.

You need to figure the limit on elective deferrals to determine if you have excess elective deferrals, which are explained in chapter 7.

Worksheets. Worksheets are available in chapter 9 to help you figure your MAC.

When Should I Figure My MAC?

At the beginning of 2006, you should refigure your 2005 MAC based on your actual compensation for 2005. This will allow you to determine if the amount that has been contributed to your 403(b) account for 2005 has exceeded the allowable limits. In some cases, this will allow you to avoid penalties and additional taxes. See chapter 7.

Generally, you should figure your MAC for the current year at the beginning of each tax year using a conservative estimate of your compensation. If your compensation changes during the year, you should refigure your MAC based on a revised conservative estimate. By doing this, you will be able to determine if contributions to your 403(b) account can be increased or should be decreased for the year.

3.

Limit on Annual Additions

The first component of MAC is the limit on annual additions. This is a limit on the total contributions (elective deferrals, nonelective contributions and after-tax contributions) that can be made to your 403(b) account. The limit on annual additions generally is the lesser of:

- $42,000 ($44,000 for 2006), or
- 100% of your includible compensation for your most recent year of service.

CAUTION

More than one 403(b) account. *If you contributed to more than one 403(b) account, you must combine the contributions made to all 403(b) accounts on your behalf by your employer.*

Participation in a qualified plan. *If you participated in a 403(b) plan and a qualified plan, you must combine contributions made to your 403(b) account with contributions to a qualified plan and simplified employee pensions of all corporations, partnerships, and sole proprietorships in which you have more than 50% control.*

You can use Part I of Worksheet 1 in chapter 9 to figure your limit on annual additions.

Ministers and church employees. If you are a minister or a church employee, you may be able to increase your limit on annual additions or use different rules when figuring your limit on annual additions. For more information, see chapter 5.

Includible Compensation for Your Most Recent Year of Service

Definition. Generally, *includible compensation for your most recent year of service* is the amount of taxable wages and benefits you received from the employer that maintained a 403(b) account for your benefit during your most recent year of service.

When figuring your includible compensation for your most recent year of service, keep in mind that your most recent year of service may not be the same as your employer's most recent annual work period. This can happen if your tax year is not the same as your employer's annual work period.

When figuring includible compensation for your most recent year of service, do not mix compensation or service of one employer with compensation or service of another employer.

Most Recent Year of Service

Your *most recent year of service* is your last full year of service, ending on the last day of your tax year that you worked for the employer that maintains a 403(b) account on your behalf.

Tax year different from employer's annual work period. If your tax year is not the same as your employer's annual work period, your most recent year of service is made up of parts of at least two of your employer's annual work periods.

Example. A professor who reports her income on a calendar-year basis is employed on a full-time basis by a university that operates on an academic year (October through May). For purposes of figuring her includible compensation for her most recent year of service for 2005, the professor's most recent year of service consists of her service performed during January through May of 2005 and her service performed during October through December of 2005.

Figuring Your Most Recent Year of Service

To figure your most recent year of service, begin by determining what constitutes a full year of service for your position. A *full year of service* is equal to full-time employment for your employer's annual work period.

After identifying a full year of service, begin counting the service you have provided for your employer starting with the service provided in the current year.

Part-time or employed only part of year. If you are a part-time employee, or a full-time employee who is employed for only part of the year, your most recent year of service consists of your service this year and your service for as many previous years as is necessary to total one full year of service. You add up your most recent periods of service to determine your most recent year of service. First, take into account your service during the year for which you are figuring the limit on annual additions. Then, add your service during your next preceding tax year, and years before that, until either your total service equals 1 year of service or you have taken into account all of your service with the employer.

Example. You were employed on a full-time basis during the months July through December 2003 (1/2 year of service), July through December 2004 (1/2 year of service), and October through December 2005 (1/4 year of service). Your most recent year of service for purposes of computing your limit on annual additions for 2005 is the total of your service during 2005 (1/4 year of service), your service during 2004 (1/2 year of service), and your service during the months October through December 2003 (1/4 year of service).

Not yet employed for 1 year. If, at the close of the year, you have not yet worked for your employer for 1 year (including time you worked for the same employer in all earlier years), use the period of time you have worked for the employer as your most recent year of service.

Includible Compensation

After identifying your most recent year of service, the next step is to identify the includible compensation associated with that full year of service.

Includible compensation is not the same as income included on your tax return. *Compensation* is a combination of income and benefits received in exchange for services provided to your employer.

Generally, *includible compensation* is the amount of income and benefits:

- Received from the employer who maintains your 403(b) account, and
- Must be included in your income.

Includible compensation *does* include the following amounts.

- Elective deferrals (employer's contributions made on your behalf under a salary reduction agreement).
- Amounts contributed or deferred by your employer under a section 125 cafeteria plan.
- Amounts contributed or deferred, at the election of the employee, under an eligible section 457 nonqualified deferred compensation plan (state or local government or tax-exempt organization plan).
- Wages, salaries, and fees for personal services earned with the employer maintaining your 403(b) account.
- Income otherwise excluded under the foreign earned income exclusion.
- The value of qualified transportation fringe benefits (including transit passes, certain parking, and transportation in a commuter highway vehicle between your home and work).

Includible compensation *does not* include the following items.

1. Your employer's contributions to your 403(b) account.
2. Compensation earned while your employer was not an eligible employer.
3. Your employer's contributions to a qualified plan that:
   a. Are on your behalf, and
   b. Are excludable from income.
4. The cost of incidental life insurance.

CAUTION

If you are a church employee or a foreign missionary, figure includible compensation using the rules explained in chapter 5.

Contributions after retirement. Nonelective contributions may be made for an employee for up to five years after retirement. These contributions would be based on includible compensation for the last year of service before retirement.

Cost of Incidental Life Insurance

Includible compensation does not include the cost of incidental life insurance.

CAUTION

If all of your 403(b) accounts invest only in mutual funds, then you have no incidental life insurance.

If you have an annuity contract, a portion of the cost of that contract may be for incidental life insurance. If so, the cost of the insurance is taxable to you in the year contributed and is considered part of your basis when distributed. Your employer will include the cost of your insurance as taxable wages in box 1 of Form W-2.

Not all annuity contracts include life insurance. Contact your plan administrator to determine if your account includes incidental life insurance. If it does, you will need to figure the cost of life insurance each year the policy is in effect.

Figuring the cost of incidental life insurance. If you have determined that part of the cost of your annuity contract is for an incidental life insurance premium, you will need to determine the amount of the premium and subtract it from your includible compensation.

To determine the amount of the life insurance premiums you will need to know the following information.

- The value of your life insurance contract, which is the amount payable upon your death.
- The cash value of your life insurance contract at the end of the tax year.
- Your age on your birthday nearest the beginning of the policy year.
- Your current life insurance protection under an ordinary retirement income life insurance policy, which is the amount payable upon your death minus the cash value of the contract at the end of the year.

You can use Worksheet A, *Cost of Incidental Life Insurance* in chapter 9 to determine the cost of your incidental life insurance.

Example. Your new contract provides that your beneficiary will receive $10,000 if you should die anytime before retirement. Your cash value in the contract at the end of the first year is zero. Your current life insurance protection for the first year is $10,000 ($10,000 – 0).

The cash value in the contract at the end of year two is $1,000, and the current life insurance protection for the second year is $9,000 ($10,000 – $1,000).

The one-year cost of the protection can be calculated by using Figure 3-1, *Uniform One-Year Term Premiums for $1,000 Life Insurance Protection*. The premium rate is determined according to your age on your birthday nearest the beginning of the policy year.

Figure 3–1. **Uniform One-Year Term Premiums for $1,000 Life Insurance Protection**

Age	Cost	Age	Cost
15	$1.27	49	$8.53
16	1.38	50	9.22
17	1.48	51	9.97
18	1.52	52	10.79
19	1.56	53	11.69
20	1.61	54	12.67
21	1.67	55	13.74
22	1.73	56	14.91
23	1.79	57	16.18
24	1.86	58	17.56
25	1.93	59	19.08
26	2.02	60	20.73
27	2.11	61	22.53
28	2.20	62	24.50
29	2.31	63	26.63
30	2.43	64	28.98
31	2.57	65	31.51
32	2.70	66	34.28
33	2.86	67	37.31
34	3.02	68	40.59
35	3.21	69	44.17
36	3.41	70	48.06
37	3.63	71	52.29
38	3.87	72	56.89
39	4.14	73	61.89
40	4.42	74	67.33
41	4.73	75	73.23
42	5.07	76	79.63
43	5.44	77	86.57
44	5.85	78	94.09
45	6.30	79	102.23
46	6.78	80	111.04
47	7.32	81	120.57
48	7.89		

CAUTION

If the current published premium rates per $1,000 of insurance protection charged by an insurer for individual one-year term life insurance premiums available to all standard risks are lower than those in the preceding table, you can use the lower rates for figuring the cost of insurance in connection with individual policies issued by the same insurer.

Example 1. Lynne Green, age 44, and her employer enter into a 403(b) plan that will provide her with a $500 a month annuity upon retirement at age 65. The agreement also provides that if she should die before retirement, her beneficiary will receive the greater of $20,000 or the cash surrender value in the life insurance contract. Using the facts presented we can determine the cost of Lynne's life insurance protection as shown in Table 3-1.

Lynne's employer has included $117 for the cost of the life insurance protection in her current year's income. When figuring her includible compensation for this year, Lynne will subtract $117.

Table 3-1. **Worksheet A. Cost of Incidental Life Insurance**

Note. *Use this worksheet to figure the cost of incidental life insurance included in your annuity contract. This amount will be used to figure includible compensation for your most recent year of service.*

1. Enter the value of the contract (amount payable upon your death)	**1.** $20,000.00
2. Enter the cash value in the contract at the end of the year	**2.** 0.00
3. Subtract line 2 from line 1. This is the value of your current life insurance protection	**3.** $20,000.00
4. Enter your age on your birthday nearest the beginning of the policy year	**4.** 44
5. Enter the 1-year term premium for $1,000 of life insurance based on your age. (From Figure 3–1) . .	**5.** $5.85
6. Divide line 3 by $1,000 . .	**6.** 20
7. Multiply line 6 by line 5. This is the cost of your incidental life insurance . .	**7.** $117.00

Example 2. Lynne's cash value in the contract at the end of the second year is $1,000. In year two, the cost of Lynne's life insurance is calculated as shown in Table 3-2.

In year two, Lynne's employer will include $119.70 in her current year's income. Lynne will subtract this amount when figuring her includible compensation.

Table 3-2. **Worksheet A. Cost of Incidental Life Insurance**

Note. *Use this worksheet to figure the cost of incidental life insurance included in your annuity contract. This amount will be used to figure includible compensation for your most recent year of service.*

1. Enter the value of the contract (amount payable upon your death)	**1.** $20,000.00
2. Enter the cash value in the contract at the end of the year	**2.** $1,000.00
3. Subtract line 2 from line 1. This is the value of your current life insurance protection	**3.** $19,000.00
4. Enter your age on your birthday nearest the beginning of the policy year	**4.** 45
5. Enter the 1-year term premium for $1,000 of life insurance based on your age. (From Figure 3–1) . .	**5.** $6.30
6. Divide line 3 by $1,000 . .	**6.** 19
7. Multiply line 6 by line 5. This is the cost of your incidental life insurance . .	**7.** $119.70

Figuring Includible Compensation for Your Most Recent Year of Service

You can use Worksheet B in chapter 9 to determine your includible compensation for your most recent year of service.

Example. Floyd has been periodically working full time for a local hospital since September 2003. He needs to figure his limit on annual additions for 2006. The hospital's normal annual work period for employees in Floyd's general type of work runs from January to December.

During the periods that Floyd was employed with the hospital, the hospital has always been eligible to provide a 403(b) plan to employees. Additionally, the hospital has never provided the employees with a 457 deferred compensation plan, transportation benefits, or a cafeteria plan.

Floyd has never worked abroad and there is no life insurance provided under the plan.

Table 3-3 shows the service Floyd provided to his employer, his compensation for the periods worked, his elective deferrals, and his taxable wages.

Table 3-3. **Floyd's Compensation**

Note. *This table shows information Floyd will use to figure includible compensation for his most recent year of service.*

Year	Years of Service	Taxable Wages	Elective Deferrals
2006	6/12 of a year	$42,000	$2,000
2005	4/12 of a year	$16,000	$1,650
2004	4/12 of a year	$16,000	$1,650

Before Floyd can figure his limit on annual additions, he must figure includible compensation for his most recent year of service.

Because Floyd is not planning to work the entire 2006 year, his most recent year of service will include the time he is planning to work in 2006 plus time he worked in the preceding 3 years until the time he worked for the hospital totals one year. If the total time he worked is less than one year, Floyd will treat it as if it were one year. He figures his most recent year of service shown in the following list.

- Time he will work in 2006 is $^6/_{12}$ of a year.
- Time worked in 2005 is $^4/_{12}$ of a year. All of this time will be used to determine Floyd's most recent year of service.
- Time worked in 2004 is $^4/_{12}$ of a year. Floyd only needs 2 months of the 4 months he worked in 2004 to have enough time to total one full year. Because he needs only one-half of the actual time he worked, Floyd will use only one-half of his income earned during that period to calculate wages that will be used in figuring his includible compensation.

Using the information provided in Table 3-3, wages for Floyd's most recent year of service are $66,000 ($42,000 + $16,000 + $8,000). His includible compensation for his most recent year of service is figured as shown in Table 3-4.

After figuring his includible compensation, Floyd determines his limit on annual additions for 2006 to be $44,000, the lesser of his includible compensation, $70,475 (Table 3-4), and the maximum amount of $44,000.

Table 3-4. **Worksheet B. Includible Compensation for Your Most Recent Year of Service***

Note. *Use this worksheet to figure includible compensation for your most recent year of service.*

1.	Enter your includible wages from the employer maintaining your 403(b) account for your most recent year of service . . .	**1.**	$66,000
2.	Enter elective deferrals excluded from your gross income for your most recent year of service** . . .	**2.**	4,475
3.	Enter amounts contributed or deferred by your employer under a cafeteria plan for your most recent year of service . . .	**3.**	0
4.	Enter amounts contributed or deferred by your employer to your 457 account (a nonqualified plan of a state or local government, or of a tax-exempt organization) for your most recent year of service . . .	**4.**	0
5.	Enter the value of qualified transportation fringe benefits you received from your employer for your most recent year of service . . .	**5.**	0
6.	Enter your foreign earned income exclusion for your most recent year of service . . .	**6.**	0
7.	Add lines 1, 2, 3, 4, 5, and 6 . . .	**7.**	70,475
8.	Enter the cost of incidental life insurance that is part of your annuity contract for your most recent year of service . . .	**8.**	0
9.	Enter compensation that was **both**: • Earned during your most recent year of service, and • Earned while your employer was not qualified to maintain a 403(b) plan . . .	**9.**	0
10.	Add lines 8 and 9 . . .	**10.**	0
11.	Subtract line 10 from line 7. This is your includible compensation for your most recent year of service . . .	**11.**	70,475

***** *Use estimated amounts if figuring includible compensation before the end of the year.*

*******Elective deferrals made to a designated Roth account are not excluded from your gross income and should not be included on this line.*

4. Limit on Elective Deferrals

The second, and final, component of MAC is the limit on elective deferrals. This is a limit on the amount of contributions that can be made to your account through a salary reduction agreement.

A ***salary reduction agreement*** is an agreement between you and your employer allowing for a portion of your compensation to be directly invested in a 403(b) account on your behalf. You can enter into more than one salary reduction agreement during a year.

CAUTION

More than one 403(b) account. *If, for any year, elective deferrals are contributed to more than one 403(b) account for you (whether or not with the same employer), you must combine all the elective deferrals to determine whether the total is more than the limit for that year.*

403(b) plan and another retirement plan. *If, during the year, contributions in the form of elective deferrals are made to other retirement plans on your behalf, you must combine all of the elective deferrals to determine if they are more than your limit on elective deferrals. The limit on elective deferrals applies to amounts contributed to:*

- *401(k) plans, to the extent excluded from income,*
- *Section 501(c)(18) plans, to the extent excluded from income,*
- *SIMPLE plans,*
- *Simplified employee pension (SEP) plans, and*
- *All 403(b) plans.*

Roth contribution program. For tax years beginning after December 31, 2005, 403(b) plans may allow you to designate all or a portion of your elective deferrals as Roth contributions. Elective deferrals designated as Roth contributions must be maintained in a separate Roth account and are not excludable from your gross income.

The maximum amount of contributions allowed under a Roth contribution program is your limit on elective deferrals, less your elective deferrals not designated as Roth contributions.

Excess elective deferrals. If the amount contributed is more than the allowable limit, you must include in your gross income for the year contributed, the excess that is not a Roth contribution.

General Limit

Under the general limit on elective deferrals, the most that can be contributed to your 403(b) account through a salary reduction agreement for 2005 is $14,000. The limit for 2006 is $15,000. This limit applies without regard to community property laws.

15-Year Rule

If you have at least 15 years of service with a public school system, hospital, home health service agency, health and welfare service agency, church, or convention or association of churches (or associated organization), the limit on elective deferrals to your 403(b) account is increased by the least of:

1. $3,000,
2. $15,000, reduced by the sum of:
   a. The increases to the general limit you were allowed in earlier years because of this rule, plus
   b. The aggregate amount of designated Roth contributions for prior tax years, or
3. $5,000 times the number of your years of service for the organization, minus the total elective deferrals made by your employer on your behalf for earlier years.

If you qualify for the 15-year rule, your elective deferrals under this limit can be as high as $17,000 for 2005 and $18,000 for 2006.

To determine whether you have 15 years of service with your employer, see *Years of Service*, next.

Years of Service

To determine if you are eligible for the increased limit on elective deferrals you will first need to figure your years of service. How you figure your years of service depends on whether you were a full-time or a part-time employee, whether you worked for the full year or only part of the year, and whether you have worked for your employer for an entire year.

You must figure years of service for each year during which you worked for the employer who is maintaining your 403(b) account.

If more than one employer maintains a 403(b) account for you in the same year, you must figure years of service separately for each employer.

Definition

Your *years of service* are the total number of years you have worked for the employer maintaining your 403(b) account as of the end of the year.

Figuring Your Years of Service

Take the following rules into account when figuring your years of service.

Status of employer. Your years of service include only periods during which your employer was a qualified employer. Your plan administrator can tell you whether or not your employer was qualified during all your periods of service.

Service with one employer. Generally, you cannot count service for any employer other than the one who maintains your 403(b) account.

Church employee. If you are a church employee, treat all of your years of service with related church organizations as years of service with the same employer. For more information about church employees, see chapter 5.

Self-employed ministers. If you are a self-employed minister, your years of service include full and part years in which you have been treated as employed by a tax-exempt organization that is a qualified employer.

Less than one year of total service. Your years of service cannot be less than one year. If at the end of your tax year, you have less than one year of service (including service in any previous years), figure your limit on annual additions as if you have one year.

Total years of service. When figuring years of service, figure each year individually and then add the individual years of service to determine your total years of service, ending with the year for which the limit on annual additions is being calculated. The total years of service will be used when figuring your limit on annual additions.

Example. The annual work period for full-time teachers employed by ABC Public Schools is September through December and February through May. Marsha began working with ABC schools in September 2001. She has always worked full time for each annual work period. At the end of 2005, Marsha had 4.5 years of service with ABC Public Schools, as shown in Table 4-1.

Table 4-1. **Marsha's Years of Service**

Note. *This table shows how Marsha figures her years of service, as explained in the previous example.*

Year	Period Worked	Portion of Work Period	Years of Service
2001	Sept.-Dec.	.5 year	.5 year
2002	Feb.-May	.5 year	1 year
	Sept.-Dec.	.5 year	
2003	Feb.-May	.5 year	1 year
	Sept.-Dec.	.5 year	
2004	Feb.-May	.5 year	1 year
	Sept.-Dec.	.5 year	
2005	Feb.-May	.5 year	1 year
	Sept.-Dec.	.5 year	
Total years of service			4.5 years

Full time or part time. To figure your years of service, you must analyze each year individually and determine whether you worked full time for the full year or something other than full time. When determining whether you worked full time or something other than full time, you use your employer's annual work period as the standard.

Employer's annual work period. Your *employer's annual work period* is the usual amount of time an individual working full time in a specific position is required to work. Generally, this period of time is expressed in days, weeks, months, or semesters and can span two calendar years.

Example. All full-time teachers at ABC Public Schools are required to work both the September through December semester and the February through May semester. Therefore, the annual work period for full-time teachers employed by ABC Public Schools is September through December and February through May. Teachers at ABC Public Schools who work both semesters in the same calendar year are considered working a full year of service in that calendar year.

Full-Time Employee for the Full Year

Count each full year during which you were employed full time as one year of service. In determining whether you were employed full time, compare the amount of work you were required to perform with the amount of work normally required of others who held the same position with the same employer and who generally received most of their pay from the position.

How to compare. You can use any method that reasonably and accurately reflects the amount of work required. For example, if you are a teacher, you can use the number of hours of classroom instruction as a measure of the amount of work required.

In determining whether positions with the same employer are the same, consider all of the facts and circumstances concerning the positions, including the work performed, the methods by which pay is determined, and the descriptions (or titles) of the positions.

Example. An assistant professor employed in the English department of a university will be considered a full-time employee if the amount of work that he or she is required to perform is the same as the amount of work normally required of assistant professors of English at that university who get most of their pay from that position.

If no one else works for your employer in the same position, compare your work with the work normally required of others who held the same position with similar employers or similar positions with your employer.

Full year of service. A full year of service for a particular position means the usual annual work period of anyone employed full time in that general type of work at that place of employment.

Example. If a doctor works for a hospital 12 months of a year except for a one-month vacation, the doctor will be considered as employed for a full year if the other doctors at that hospital also work 11 months of the year with a one-month vacation. Similarly, if the usual annual work period at a university consists of the fall and spring semesters, an instructor at that university who teaches these semesters will be considered as working a full year.

Other Than Full Time for the Full Year

If, during any year, you were employed full time for only part of your employer's annual work period, part time for the entire annual work period, or part time for only part of the work period, your year of service for that year is a fraction of your employer's annual work period.

Full time for part of the year. If, during a year, you were employed full time for only part of your employer's annual work period, figure the fraction for that year as follows.

- The numerator (top number) is the number of weeks, months, or semesters you were a full-time employee.
- The denominator (bottom number) is the number of weeks, months, or semesters considered the normal annual work period for the position.

Example. Jason was employed as a full-time instructor by a local college for the 4 months of the 2005 spring semester (February 2005 through May 2005). The annual work period for the college is 8 months (February through May and July through October). Given these facts, Jason was employed full time for part of the annual work period and provided 1/2 of a year of service. Jason's years of service computation for 2005 is as follows.

$$\frac{\text{Number of months Jason worked}}{\text{Number of months in annual work period}} = \frac{4}{8} = \frac{1}{2}$$

Part time for the full year. If, during a year, you were employed part time for the employer's entire annual work period, you figure the fraction for that year as follows.

- The numerator (top number) is the number of hours or days you worked.
- The denominator (bottom number) is the number of hours or days required of someone holding the same position who works full time.

Example. Vance teaches one course at a local medical school. He teaches 3 hours per week for two semesters. Other faculty members at the same school teach 9 hours per week for two semesters. The annual work period of the medical school is two semesters. An instructor teaching 9 hours a week for two semesters is considered a full-time employee. Given these facts, Vance has worked part time for a full annual work period. Vance has completed 1/3 of a year of service, figured as shown below.

$$\frac{\text{Number of hours per week Vance worked}}{\text{Number of hours per week considered full time}} = \frac{3}{9} = \frac{1}{3}$$

Part time for part of the year. If, during any year, you were employed part time for only part of your employer's annual work period, you figure your fraction for that year by multiplying two fractions.

Figure the first fraction as though you had worked full time for part of the annual work period. The fraction is as follows.

- The numerator (top number) is the number of weeks, months, or semesters you were a full-time employee.
- The denominator (bottom number) is the number of weeks, months, or semesters considered the normal annual work period for the position.

Figure the second fraction as though you had worked part time for the entire annual work period. The fraction is as follows.

- The numerator (top number) is the number of hours or days you worked.
- The denominator (bottom number) is the number of hours or days required of someone holding the same position who works full time.

Once you have figured these two fractions, multiply them together to determine the fraction representing your partial year of service for the year.

Example. Maria, an attorney, teaches a course for one semester at a law school. She teaches 3 hours per week. The annual work period for teachers at the school is two semesters. All full-time instructors at the school are required to teach 12 hours per week. Based on these facts, Maria is employed part time for part of the annual work period. Her year of service for this year is determined by multiplying two fractions. Her computation is as follows.

Maria's first fraction

$$\frac{\text{Number of semesters Maria worked}}{\text{Number of semesters in annual work period}} = \frac{1}{2}$$

Maria's second fraction

$$\frac{\text{Number of hours Maria worked per week}}{\text{Number of hours per week considered full time}} = \frac{3}{12} = \frac{1}{4}$$

Maria would multiply these fractions to obtain the fractional year of service:

$$\frac{1}{2} \times \frac{1}{4} = \frac{1}{8}$$

Figuring the Limit on Elective Deferrals

You can use Part II of Worksheet 1 in chapter 9 to figure the limit on elective deferrals.

Example

Floyd has figured his limit on annual additions. The only other component needed before he can determine his MAC for 2006 is his limit on elective deferrals.

Figuring Floyd's limit on elective deferrals. Floyd has been employed with his current employer for less than 15 years. He is not eligible for the special 15-year increase. Therefore, his limit on elective deferrals for 2006 is $15,000, as shown in Table 4-2.

Floyd's employer will not make any nonelective contributions to his 403(b) account and Floyd will not make any after-tax contributions. Additionally, Floyd's employer does not offer a Roth contribution program.

Figuring Floyd's MAC

Floyd has determined that his limit on annual additions for 2006 is $44,000 and his limit on elective deferrals is $15,000. Because elective deferrals are the only contributions made to Floyd's account, the maximum amount that can be contributed to a 403(b) account on Floyd's behalf in 2006 is $15,000, the lesser of both limits.

Table 4-2. **Worksheet 1. Maximum Amount Contributable (MAC)**

Note. *Use this worksheet to figure your MAC*.

	Part I. Limit on Annual Additions		
1.	Enter your includible compensation for your most recent year of service	**1.**	$70,475
2.	Maximum • For 2005, enter $42,000 • For 2006, enter $44,000	**2.**	44,000
3.	Enter the lesser of line 1 or line 2. This is your limit on annual additions	**3.**	44,000
	Caution: If you had only nonelective contributions, skip Part II and enter the amount from line 3 on line 18.		
	Part II. Limit on Elective Deferrals		
4.	**Maximum contribution** • For 2005, enter $14,000 • For 2006, enter $15,000	**4.**	15,000
	Note. If you have at least 15 years of service with a qualifying organization, complete lines 5 through 17. If not, enter zero (-0-) on line 16 and go to line 17.		
5.	Amount per year of service	**5.**	5,000
6.	Enter your years of service	**6.**	
7.	Multiply line 5 by line 6	**7.**	
8.	Enter the total of all elective deferrals for prior years made for you by qualifying organizations	**8.**	
9.	Subtract line 8 from line 7. If zero or less, enter zero (-0-)	**9.**	
10.	Maximum increase in limit for long service	**10.**	15,000
11.	Enter all prior year increases in the limit for long service	**11.**	
12.	Enter the total amount of all designated Roth contributions for prior years	**12.**	
13.	Add line 11 and 12	**13.**	
14.	Subtract line 13 from line 10	**14.**	
15.	Maximum additional contributions	**15.**	3,000
16.	Enter the least of lines 9, 14, or 15. This is your increase in the limit for long service	**16.**	-0-
17.	Add lines 4 and 16. This is your limit on elective deferrals	**17.**	15,000
	Part III. Maximum Amount Contributable		
18.	• If you had only nonelective contributions, enter the amount from line 3. This is your MAC. • If you had only elective deferrals, enter the lesser of lines 3 or 17. This is your MAC. • If you had both elective deferrals and nonelective contributions, enter the amount from line 3. This is your MAC. (Use the amount on line 17 to determine if you have excess elective deferrals as explained in chapter 7.)	**18.**	$15,000

5.

Ministers and Church Employees

Self-employed ministers and church employees who participate in 403(b) plans generally follow the same rules as other 403(b) plan participants.

This means that if you are a self-employed minister or a church employee, your MAC generally is the lesser of:

- Your limit on annual additions, or
- Your limit on elective deferrals.

For most ministers and church employees, the limit on annual additions is figured without any changes. This means that if you are a minister or church employee, your limit on annual additions generally is the lesser of:

- $42,000 ($44,000 for 2006), or
- Your includible compensation for your most recent year of service.

Although, in general, the same limit applies, church employees can choose an alternative limit and there are changes in how church employees, foreign missionaries, and self-employed ministers figure includible compensation for the most recent year of service. This chapter will explain the alternative limit and the changes.

Who is a church employee? A church employee is anyone who is an employee of a church or a convention or association of churches, including an employee of a tax-exempt organization controlled by or associated with a convention or association of churches.

Alternative Limit for Church Employees

If you are a church employee, you can choose to use $10,000 a year as your limit on annual additions.

Total contributions over your lifetime under this choice cannot be more than $40,000.

Changes to Includible Compensation for Most Recent Year of Service

There are two types of changes in determining includible compensation for the most recent year of service. They are:

- Changes in how the includible compensation of foreign missionaries and self-employed ministers is figured, and
- A change to the years that are counted when figuring the most recent year of service for church employees and self-employed ministers.

Changes to Includible Compensation

Includible compensation is figured differently for foreign missionaries and self-employed ministers.

Foreign missionary. If you are a foreign missionary, your includible compensation does not include contributions made by the church during the year to your 403(b) account.

If you are a foreign missionary, and your adjusted gross income is $17,000 or less, contributions to your 403(b) account will not be treated as exceeding the limit on annual additions if the contributions are not in excess of $3,000.

You are a foreign missionary if you are either a layperson or a duly ordained, commissioned, or licensed minister of a church and you meet both of the following requirements.

- You are an employee of a church or convention or association of churches.
- You are performing services for the church outside the United States.

Self-employed minister. If you are a self-employed minister, you are treated as an employee of a tax-exempt organization that is a qualified employer. Your includible compensation is your net earnings from your ministry minus the contributions made to the retirement plan on your behalf and the deduction for one-half of the self-employment tax.

Changes to Years of Service

Generally, only service with the employer who maintains your 403(b) account can be counted when figuring your limit on annual additions.

Church employees. If you are a church employee, treat all of your years of service as an employee of a church or a convention or association of churches as years of service with one employer.

Self-employed minister. If you are a self-employed minister, your years of service include full and part years during which you were self-employed.

6.

Catch-Up Contributions

The most that can be contributed to your 403(b) account is the lesser of your limit on annual additions or your limit on elective deferrals.

If you will be age 50 or older by the end of the year, you may also be able to make additional catch-up contributions. These additional contributions cannot be made with after-tax employee contributions.

You are eligible to make catch-up contributions if:

- You will have reached age 50 by the end of the year, and
- The maximum amount of elective deferrals that can be made to your 403(b) account have been made for the plan year.

The maximum amount of catch-up contributions is the lesser of

- $4,000 for 2005 ($5,000 for 2006), or
- Your includible compensation minus your other elective deferrals for the year.

Figuring catch-up contributions. When figuring allowable catch-up contributions, combine all catch-up contributions made by your employer on your behalf to the following plans.

- Qualified retirement plans. (To determine if your plan is a qualified plan ask your plan administrator.)
- 403(b) plans.
- Simplified employee pension (SEP) plans.
- SIMPLE plans.

The total amount of the catch-up contributions on your behalf to all plans maintained by your employer cannot be more than the annual limit. For 2005, the limit is $4,000 and for 2006 the limit is $5,000.

TIP *Catch-up contributions do not affect your MAC. Therefore, the maximum amount that you are allowed to have contributed to your 403(b) account is your MAC plus your allowable catch-up contribution.*

You can use Worksheet C in chapter 9 to figure your limit on catch-up contributions.

7.

Excess Contributions

If your actual contributions are greater than your MAC, you have an excess contribution. Excess contributions can result in income tax, additional taxes, and penalties. The effect of excess contributions depends on the type of excess contribution. This chapter discusses excess contributions to your 403(b) account.

Preventing Excess Contributions

To prevent excess contributions, you should figure your MAC at the beginning of each year using a reasonable estimate of compensation. If, at any time during the year, your employment status or your compensation changes, you should refigure your MAC using a revised estimate of compensation.

How Do I Know If I Have Excess Contributions?

At the end of the year or the beginning of the next year, you should refigure your MAC based on your actual compensation and actual contributions made to your account.

If the actual contributions to your account are greater than your MAC, you have excess contributions.

What Happens If I Have Excess Contributions?

Certain excess contributions in a 403(b) account can be corrected. The effect of an excess 403(b) contribution will depend on the type of excess contribution.

Types of excess contributions. If, after checking your actual contributions, you determine that you have an excess, the first thing is to identify the type of excess that you have. Excess contributions to a 403(b) account are categorized as either an:

- Excess annual addition, or
- Excess elective deferral.

Excess Annual Addition

An excess annual addition is a contribution that is more than your limit on annual additions. To determine your limit on annual additions see chapter 3 (chapter 5 for ministers or church employees).

In the year that your contributions are more than your limit on annual additions, the excess amount will be included in your income.

Amounts in excess of the limit on annual additions that are due to elective deferrals may be distributed if the excess contributions were made for any one of several reasons, including:

- A reasonable error in determining the amount of elective deferrals that could be made under the limit on annual additions, or
- A reasonable error in estimating your compensation.

Excise Tax

If your 403(b) account invests in mutual funds, and you exceed your limit on annual additions, you may be subject to a 6% excise tax on the excess contribution. The excise tax does not apply to funds in an annuity account or to excess deferrals.

You must pay the excise tax each year in which there are excess contributions in your account. Excess contributions can be corrected by contributing less than the applicable limit in later years or by making permissible distributions.

You cannot deduct the excise tax.

Permissible distributions. A permissible distribution is a distribution that can be made when one of the following events occurs.

- You reach age 59½.
- You have a severance from employment.
- You die.
- You become disabled.
- In the case of salary reduction contributions, you encounter financial hardship.

Reporting requirement. You must file Form 5330 if there has been an excess contribution to a custodial account and that excess has not been corrected.

Excess Elective Deferral

An excess elective deferral is the amount that is more than your limit on elective deferrals. To determine your limit on elective deferrals, see chapter 4.

Your employer's 403(b) plan may contain language permitting it to distribute excess deferrals. If so, it may require that, in order to get a distribution of excess deferrals, you either notify the plan of the amount of excess deferrals or designate a distribution as an excess deferral. The plan may require that the notification or designation be in writing and may require that you certify or otherwise establish that the designated amount is an excess deferral. A plan is not required to permit distribution of excess deferrals.

Correction of excess deferrals during year. If you have excess deferrals for a year, a corrective distribution may be made only if both of the following conditions are satisfied.

- You or your employer designate the distribution as an excess deferral to the extent you have excess deferrals for the year.
- The correcting distribution is made after the date on which the excess deferral was made.

Correction of excess deferrals after the year. If you have excess deferrals for a year, you may receive a corrective distribution of the excess deferral no later than April 15 of the following year. The plan can distribute the excess deferral (and any income allocable to the excess) no later than April 15 of the year following the year the excess deferral was made.

Tax treatment of excess deferrals (not attributable to Roth contributions). If the excess deferral is distributed by April 15, it is included in your income in the year contributed and the earnings on the excess deferral will be taxed in the year distributed.

Tax treatment of excess deferrals attributable to Roth contributions. If the excess deferral is distributed by April 15, the income attributable to the excess deferral is taxed in the year distributed. However, if the excess deferral is not distributed to you by April 15, then the amount of the excess deferral will be included in your income for the tax year in which it is distributed.

Example 1. William's MAC for 2004 was $13,000. All of William's contributions were made through salary reductions. He contributed $14,000 in 2004, an excess deferral of $1,000. He notified his plan administrator and his employer of the excess contribution on March 15, 2005, and the excess deferral was distributed on April 13, 2005. Because the excess deferral was distributed before April 15, 2005, the excess deferral will be included in his income for 2004, and any earnings on the excess is included in his income in the year they are distributed.

If you do not receive a distribution of excess elective deferrals by April 15 of the year following the year it is contributed, it will be included in your earned income in the year contributed and in the year distributed.

Example 2. Assume that, in *Example 1*, a distribution of the excess deferral was not made to William by April 15, 2005. Because the distribution was not made timely, the excess deferral will be taxed in 2004 (the year contributed) and again in the year the excess deferral is distributed. The earnings on the distribution will be taxed in the year they are distributed.

8. Distributions and Rollovers

Hurricane relief provisions. New rules provide for tax-favored withdrawals, repayments, and loans from certain retirement plans (including 403(b) annuity contracts) for taxpayers who suffered economic losses as a result of Hurricane Katrina, Rita, or Wilma. See Publication 4492 for details.

What's New

Roth contribution program. For tax years beginning after December 31, 2005, your 403(b) plan may allow you to contribute to a Roth contribution program. Qualified distributions from a Roth account are excludible from your gross income. A qualified distribution is a distribution that is made after the nonexclusion period and:

- When you are age 59½ or over,
- Because you are disabled, or
- On or after the death of the plan participant.

The nonexclusion period is the 5-year-tax period beginning with the earlier of:

- The first tax year you made a designated Roth contribution to any Roth account, under the same plan, or
- If a rollover contribution was made to your designated Roth account from a designated Roth account, previously established for you under another retirement plan, the first tax year you made a designated Roth contribution to your previously established account.

Distributions

Generally, a distribution cannot be made from a 403(b) account until the employee:

- Reaches age 59½,
- Has a severance from employment,
- Dies,
- Becomes disabled, or
- In the case of salary reduction contributions, encounters financial hardship.

In most cases, the payments you receive or that are made available to you under your 403(b) account are taxable in full as ordinary income. In general, the same tax rules apply to distributions from 403(b) plans that apply to distributions from other retirement plans. These rules are explained in Publication 575. Publication 575 also discusses the additional tax on early distributions from retirement plans.

Minimum Required Distributions

You must receive all, or at least a certain minimum, of your interest accruing after 1986 in the 403(b) plan by April 1 of the calendar year following the later of the calendar year in which you become age 70½ or the calendar year in which you retire.

Check with your employer, plan administrator, or provider to find out whether this rule also applies to pre-1987 accruals. If not, a minimum amount of these accruals must begin to be distributed by the later of the end of the calendar year in which you reach age 75 or April 1 of the calendar year following retirement, whichever is later. For each year thereafter, the minimum distribution must be made by the last day of the year. If you do not receive the required minimum distribution, you are subject to a nondeductible 50% excise tax on the difference between the required minimum distribution and the amount actually distributed.

For more information on minimum distribution requirements and the additional tax that applies if too little is distributed each year, see Publication 575.

No Special 10-Year Tax Option

A distribution from a 403(b) plan does not qualify as a lump-sum distribution. This means you cannot use the special 10-year tax option to calculate the taxable portion of a 403(b) distribution. For more information, see Publication 575.

Transfer of Interest in 403(b) Contract

If you transfer all or part of your interest from a 403(b) account to another 403(b) account, the transfer is tax free. This is known as a 90-24 transfer. However, this treatment applies only if the transferred interest is subject to the same or stricter distribution restrictions. This rule applies regardless of whether you are a current employee, a former employee, or a beneficiary of a former employee.

Transfers that do not satisfy this rule are plan distributions and are generally taxable as ordinary income.

Tax-free transfers for certain cash distributions. A tax-free transfer may also apply to a cash distribution of your 403(b) account from an insurance company that is subject to a rehabilitation, conservatorship, insolvency, or similar state proceeding. To receive tax-free treatment, you must do all of the following.

- Withdraw all the cash to which you are entitled in full settlement of your contract rights or, if less, the maximum permitted by the state.
- Reinvest the cash distribution in a single policy or contract issued by another insurance company or in a single custodial account subject to the same or stricter distribution restrictions as the original contract not later than 60 days after you receive the cash distribution.
- Assign all future distribution rights to the new contract or account for investment in that contract or account if you received an amount that is less than what you are entitled to because of state restrictions.

In addition to the preceding requirements, you must provide the new insurer with a written statement containing all of the following information:

- The gross amount of cash distributed under the old contract.
- The amount of cash reinvested in the new contract.
- Your investment in the old contract on the date you receive your first cash distribution.

Also, you must attach the following items to your timely filed income tax return in the year you receive the first distribution of cash.

1. A copy of the statement you gave the new insurer.
2. A statement that includes:
   a. The words ***ELECTION UNDER REV. PROC. 92-44***,
   b. The name of the company that issued the new contract, and
   c. The new policy number.

Direct trustee-to-trustee transfer. If you make a direct trustee-to-trustee transfer, from your governmental 403(b) account to a defined benefit governmental plan, it may not be includible in gross income.

The transfer amount is not includible in gross income if it is made to:

- Purchase permissive service credits, or
- Repay contributions and earnings that were previously refunded under a forfeiture of service credit under the plan, or under another plan maintained by a state or local government employer within the same state.

Permissive service credit. Permissive service credit means credit for a period of service recognized by your defined benefit governmental plan, only if you voluntarily contribute to your defined benefit plan an amount that does not exceed the amount necessary to fund the benefit attributable to the period of service and that is in addition to the regular employee contribution, if any, under the plan. Check with your plan administrator as to the type and extent of service that may be purchased by this transfer.

Tax-Free Rollovers

You can generally roll over tax free all or any part of a distribution from a 403(b) plan to a traditional IRA or an eligible retirement plan, except for any nonqualifying distributions, described below. The most you can roll over is the amount that, except for the rollover, would be taxable. The rollover must be completed by the 60th day following the day on which you receive the distribution. For information on eligible retirement plans, see Publication 575.

Hardship exception to rollover rules. The IRS may waive the 60-day rollover period if the failure to waive such requirement would be against equity or good conscience, including cases of casualty, disaster, or other events beyond the reasonable control of the individual.

To obtain a hardship exception, you must apply to the IRS for a waiver of the 60-day rollover requirement. You apply for the waiver by following the general instructions used in requesting a letter ruling. These instructions are stated in Revenue Procedure 2006-4 found in Internal Revenue Bulletin 2006-1. You must also pay a user fee with the application. The user fee for a rollover that is less than $50,000 is $500. For rollovers that are $50,000 or more, see Rev. Proc. 2006-8, 2006-1 I.R.B. 245.

In determining whether to grant a waiver, the IRS will consider all relevant facts and circumstances, including:

1. Whether errors were made by the financial institution,
2. Whether you were unable to complete the rollover due to death, disability, hospitalization, incarceration, restrictions imposed by a foreign country or postal error,
3. Whether you used the amount distributed (for example, in the case of payment by check, whether you cashed the check), and
4. How much time has passed since the date of distribution.

For additional information on rollovers, see Publication 590.

CAUTION: *Contributions from a designated Roth account can only be rolled over to another Roth account or a Roth IRA.*

Rollovers to and from 403(b) plans. You can roll over, tax free, all or any part of a distribution from an eligible retirement plan to a 403(b) plan. Additionally, you can roll over, tax free, all or any part of a distribution from a 403(b) plan to an eligible retirement plan, except for any nonqualifying distributions, described below. For information on eligible retirement plans, see Publication 575.

If a distribution includes both pre-tax contributions and after-tax contributions, the portion of the distribution that is rolled over is treated as consisting first of pre-tax amounts (contributions and earnings that would be includible in income if no rollover occurred). This means that if you roll over an amount that is at least as much as the pre-tax portion of the distribution, you do not have to include any of the distribution in income.

For more information on rollovers and eligible retirement plans, see Publication 575.

CAUTION *If you roll over money or other property from a 403(b) plan to an eligible retirement plan, see Publication 575 for information about possible effects on later distributions from the eligible retirement plan.*

Eligible retirement plans. The following are considered eligible retirement plans.

- Individual retirement arrangements.
- Qualified retirement plans. (To determine if your plan is a qualified plan ask your plan administrator.)
- 403(b) plans.
- Government eligible 457 plans.

Nonqualifying distributions. You cannot roll over tax free:

- Minimum distributions (generally required to begin at age 70½),
- Substantially equal payments over your life or life expectancy,
- Substantially equal payments over the joint lives or life expectancies of your beneficiary and you,
- Substantially equal payments for a period of 10 years or more,
- Hardship distributions, or
- Corrective distributions of excess contributions or excess deferrals, and any income allocable to the excess, or excess annual additions and any allocable gains.

Direct rollovers of 403(b) plan distributions. You have the option of having your 403(b) plan make the rollover directly to the IRA or new plan. Before you receive a distribution, your plan will give you information on this. It is generally to your advantage to choose this option because your plan will not withhold tax on the distribution if you choose it.

Distribution received by you. If you receive a distribution that qualifies to be rolled over, you can roll over all or any part of the distribution. Generally, you will receive only 80% of the distribution because 20% must be withheld. If you roll over only the 80% you receive, you must pay tax on the 20% you did not roll over. You can replace the 20% that was withheld with other money within the 60-day period to make a 100% rollover.

Voluntary deductible contributions. For tax years 1982 through 1986, employees could make deductible contributions to a 403(b) plan under the individual retirement arrangement (IRA) rules instead of deducting contributions to a traditional IRA.

If you made voluntary deductible contributions to a 403(b) plan under these traditional IRA rules, the distribution of all or part of the accumulated deductible contributions may be rolled over assuming it otherwise qualifies as a distribution you can roll over. Accumulated deductible contributions are the deductible contributions plus income and gain allocable to the contributions, minus expenses and losses allocable to the contributions, and minus distributions from the contributions, income, or gain.

Excess employer contributions. The portion of a distribution from a 403(b) plan transferred to a traditional IRA that was previously included in income as excess employer contributions (discussed earlier) is not an eligible rollover distribution.

Its transfer does not affect the rollover treatment of the eligible portion of the transferred amounts. However, the ineligible portion is subject to the traditional IRA contribution limits and may create an excess IRA contribution subject to a 6% excise tax (see chapter 1 of Publication 590).

Qualified Domestic Relations Order. You may be able to roll over tax free all or any part of an eligible rollover distribution from a 403(b) plan that you receive under a qualified domestic relations order (QDRO). If you receive the interest in the 403(b) plan as an employee's spouse or former spouse under a QDRO, all of the rollover rules apply to you as if you were the employee. You can roll over your interest in the plan to a traditional IRA or another 403(b) plan. For more information on the treatment of an interest received under a QDRO, see Publication 575.

Spouses of deceased employees. If you are the spouse of a deceased employee, you can roll over the qualifying distribution attributable to the employee. You can make the rollover to any eligible retirement plan. You cannot roll it over to a Roth IRA.

If after you roll over money and other property from a 403(b) plan to an eligible retirement plan, you take a distribution from that plan, you will not be eligible to receive the capital gain treatment or the special averaging treatment for the distribution.

Second rollover. If you roll over a qualifying distribution to a traditional IRA, you can, if certain conditions are satisfied, later roll the distribution into another 403(b) plan. For more information, see *IRA as a holding account (conduit IRA) for rollovers to other eligible plans*, in Publication 590.

Frozen deposits. The 60-day period usually allowed for completing a rollover is extended for any time that the amount distributed is a frozen deposit in a financial institution. The 60-day period cannot end earlier than 10 days after the deposit ceases to be a frozen deposit.

A frozen deposit is any deposit that on any day during the 60-day period cannot be withdrawn because:

1. The financial institution is bankrupt or insolvent, or
2. The state where the institution is located has placed limits on withdrawals because one or more banks in the state are (or are about to be) bankrupt or insolvent.

Gift Tax

If, by choosing or not choosing an election, or option, you provide an annuity for your beneficiary at or after your death, you may have made a taxable gift equal to the value of the annuity.

Joint and survivor annuity. If the gift is an interest in a joint and survivor annuity where only you and your spouse have the right to receive payments, the gift will generally be treated as qualifying for the unlimited marital deduction.

More information. For information on the gift tax, see Publication 950, *Introduction to Estate and Gift Taxes.*

9. Worksheets

Chapter 2 introduced you to the term maximum amount contributable (MAC). Generally, your MAC is the lesser of your:

- Limit on annual additions (chapter 3), or
- Limit on elective deferrals (chapter 4).

The worksheets in this chapter can help you figure the cost of incidental life insurance, your includible compensation, your limit on annual additions, your limit on elective deferrals, your limit on catch-up contributions, and your maximum amount contributable.

After completing the worksheets, you should maintain them with your 403(b) records for that year. Do not attach them to your tax return. At the end of the year or the beginning of the next year, you should compare your estimated compensation figures with your actual figures.

If your compensation is the same as, or more than, the projected amounts and the calculations are correct, then you should simply file these worksheets with your other tax records for the year.

If your compensation was lower than your estimated figures, you will need to check the amount contributed during the year to determine if contributions are more than your MAC.

When Should I Figure MAC?

At the beginning of each year, you should figure your MAC using a conservative estimate of your compensation. Should your income change during the year, you should refigure your MAC based on a revised conservative estimate. By doing this, you will be able to determine if contributions to your 403(b) account should be increased or decreased for the year.

Figuring MAC for the Current Year

If you are figuring your MAC for the current year, you should use a conservative estimate of your compensation.

Checking the Previous Year's Contributions

At the beginning of the following year, you should refigure your MAC based on your actual earned income.

At the end of the current year or the beginning of the next year, you should check your contributions to be sure you did not exceed your MAC. This means refiguring your limit based on your actual compensation figures for the year. This will allow you to determine if the amount contributed is more than the allowable amounts, and possibly avoid additional taxes.

Available Worksheets

The following worksheets have been provided to help you figure your MAC.

- Worksheet A. Cost of Incidental Life Insurance.
- Worksheet B. Includible Compensation for Your Most Recent Year of Service.
- Worksheet C. Limit on Catch-Up Contributions.
- Worksheet 1. Maximum Amount Contributable (MAC).

Worksheet A. **Cost of Incidental Life Insurance**

Note. *Use this worksheet to figure the cost of incidental life insurance included in your annuity contract. This amount will be used to figure includible compensation for your most recent year of service.*

1.	Enter the value of the contract (amount payable upon your death)	**1.**	
2.	Enter the cash value in the contract at the end of the year	**2.**	
3.	Subtract line 2 from line 1. This is the value of your current life insurance protection	**3.**	
4.	Enter your age on your birthday nearest the beginning of the policy year	**4.**	
5.	Enter the 1-year term premium for $1,000 of life insurance based on your age. (From Figure 3–1)	**5.**	
6.	Divide line 3 by $1,000	**6.**	
7.	Multiply line 6 by line 5. This is the cost of your incidental life insurance	**7.**	

Worksheet B. **Includible Compensation for Your Most Recent Year of Service***

Note. *Use this worksheet to figure includible compensation for your most recent year of service.*

1.	Enter your includible wages from the employer maintaining your 403(b) account for your most recent year of service	**1.**	
2.	Enter elective deferrals excluded from your gross income for your most recent year of service**	**2.**	
3.	Enter amounts contributed or deferred by your employer under a cafeteria plan for your most recent year of service	**3.**	
4.	Enter amounts contributed or deferred by your employer to your 457 account (a nonqualified plan of a state or local government or of a tax-exempt organization) for your most recent year of service	**4.**	
5.	Enter the value of qualified transportation fringe benefits you received from your employer for your most recent year of service	**5.**	
6.	Enter your foreign earned income exclusion for your most recent year of service	**6.**	
7.	Add lines 1, 2, 3, 4, 5, and 6	**7.**	
8.	Enter the cost of incidental life insurance that is part of your annuity contract for your most recent year of service	**8.**	
9.	Enter compensation that was **both**: • Earned during your most recent year of service, and • Earned while your employer was not qualified to maintain a 403(b) plan	**9.**	
10.	Add lines 8 and 9	**10.**	
11.	Subtract line 10 from line 7. This is your includible compensation for your most recent year of service	**11.**	

** Use estimated amounts if figuring includible compensation before the end of the year.*
***Elective deferrals made to a designated Roth account are not excluded from your gross income and should not be included on this line.*

Worksheet C. **Limit on Catch-Up Contributions**

Note. *If you will be age 50 or older by the end of the year, use this worksheet to figure your limit on catch-up contributions.*

1.	Maximum catch-up contributions • For 2005, enter $4,000 • For 2006, enter $5,000	**1.**	
2.	Enter your includible compensation for your most recent year of service	**2.**	
3.	Enter your elective deferrals	**3.**	
4.	Subtract line 3 from line 2	**4.**	
5.	Enter the lesser of line 1 or line 4. This is your limit on catch-up contributions	**5.**	

Worksheet 1. **Maximum Amount Contributable (MAC)**

Note. *Use this worksheet to figure your MAC.*

Part I. Limit on Annual Additions

1.	Enter your includible compensation for your most recent year of service	**1.**	
2.	Maximum • For 2005, enter $42,000 • For 2006, enter $44,000	**2.**	
3.	Enter the lesser of line 1 or line 2. This is your limit on annual additions	**3.**	
	Caution: If you had only nonelective contributions, skip Part II and enter the amount from line 3 on line 18.		

Part II. Limit on Elective Deferrals

4.	Maximum contribution • For 2005, enter $14,000 • For 2006, enter $15,000	**4.**	
	Note. If you have at least 15 years of service with a qualifying organization, complete lines 5 through 17. If not, enter zero (-0-) on line 16 and go to line 17.		
5.	Amount per year of service	**5.**	$ 5,000
6.	Enter your years of service	**6.**	
7.	Multiply line 5 by line 6	**7.**	
8.	Enter the total of all elective deferrals for prior years made for you by qualifying organizations	**8.**	
9.	Subtract line 8 from line 7. If zero or less, enter zero (-0-)	**9.**	
10.	Maximum increase in limit for long service	**10.**	$15,000
11.	Enter all prior year increases in the limit for long service	**11.**	
12.	Enter the total amount of all designated Roth contributions for prior years	**12.**	
13.	Add line 11 and line 12	**13.**	
14.	Subtract line 13 from line 10	**14.**	
15.	Maximum additional contributions	**15.**	$ 3,000
16.	Enter the least of lines 9, 14, or 15. This is your increase in the limit for long service	**16.**	
17.	Add lines 4 and 16. This is your limit on elective deferrals	**17.**	

Part III. Maximum Amount Contributable

18.	• If you had only nonelective contributions, enter the amount from line 3. This is your MAC. • If you had only elective deferrals, enter the lesser of lines 3 or 17. This is your MAC. • If you had both elective deferrals and nonelective contributions, enter the amount from line 3. This is your MAC. (Use the amount on line 17 to determine if you have excess elective deferrals as explained in chapter 7.)	**18.**	

10.

Retirement Savings Contributions Credit

If you or your employer make eligible contributions (defined later) to a retirement plan, you may be able to take a credit of up to $1,000 (up to $2,000 if filing jointly). This credit could reduce the federal income tax you pay dollar for dollar.

Can you claim the credit? If you or your employer make eligible contributions to a retirement plan, you can claim the credit if all of the following apply.

1. You are not under age 18.
2. You are not a full-time student (explained later).
3. No one else, such as your parent(s), claims an exemption for you on their tax return.
4. Your adjusted gross income (defined later) is not more than:
   a. $50,000 if your filing status is married filing jointly,
   b. $37,500 if your filing status is head of household (with qualifying person), or
   c. $25,000 if your filing status is single, married filing separately, or qualifying widow(er) with dependent child.

Full-time student. You are a full-time student if, during some part of each of 5 calendar months (not necessarily consecutive) during the calendar year, you are either:

- A full-time student at a school that has a regular teaching staff, course of study, and regularly enrolled body of students in attendance, or
- A student taking a full-time, on-farm training course given by either a school that has a regular teaching staff, course of study, and regularly enrolled body of students in attendance, or a state, county, or local government.

You are a full-time student if you are enrolled for the number of hours or courses the school considers to be full time.

Adjusted gross income. This is generally the amount on line 37 of your 2005 Form 1040 or line 21 of your 2005 Form 1040A. However, you must add to that amount any exclusion or deduction claimed for the year for:

- Foreign earned income,
- Foreign housing costs,
- Income for bona fide residents of American Samoa, and
- Income from Puerto Rico.

Eligible contributions. These include:

1. Contributions to a traditional or Roth IRA, and
2. Salary reduction contributions (elective deferrals) to:
   a. A 401(k) plan (including a SIMPLE 401(k)),
   b. A section 403(b) annuity,
   c. An eligible deferred compensation plan of a state or local government (a 457 plan),
   d. A SIMPLE IRA plan, or
   e. A salary reduction SEP.

They also include voluntary after-tax employee contributions to a tax-qualified retirement plan or a section 403(b) annuity.

For purposes of this credit, an employee contribution will be voluntary as long as it is not required as a condition of employment.

Reducing eligible contributions. Reduce your eligible contributions (but not below zero) by the total distributions you received during the testing period (defined later) from any IRA, plan, or annuity to which eligible contributions can be made. However, do not reduce your eligible contributions by the portion of any distribution which is not includible in income because it is a trustee-to-trustee transfer or a rollover distribution.

Reduce your eligible contributions by any distribution from a Roth IRA that is not rolled over, even if the distribution is not taxable.

Do not reduce your eligible contributions by any distribution that is a return of a contribution to an IRA (including a Roth IRA) made during the year for which you claim the credit if:

1. The distribution is made before the due date (including extensions) of your tax return for that year,
2. You do not take a deduction for the contribution, and
3. The distribution includes any income attributable to the contribution.

Distributions received by spouse. Any distributions your spouse receives are treated as received by you if you file a joint return with your spouse both for the year of the distribution and for the year for which you claim the credit.

Testing period. The testing period consists of:

- The year in which you claim the credit,
- The 2 years before the year in which you claim the credit, and
- The period after the end of the year in which you claim the credit and before the due date of the return (including extensions) for filing your return for the year in which you claimed the credit.

Example. You and your spouse filed joint returns in 2003 and 2004, and plan to do so in 2005 and 2006. You received a taxable distribution from a qualified plan in 2003 and a taxable distribution from an eligible deferred compensation plan in 2004. Your spouse received taxable distributions from a Roth IRA in 2005 and tax-free distributions from a Roth IRA in 2006 before April 15. You made eligible contributions to an IRA in 2005 and you otherwise qualify for this credit. You must reduce the amount of your qualifying contributions in 2005 by the total of the distributions you received in 2003, 2004, 2005, and 2006.

Maximum eligible contributions. After your contributions are reduced, the maximum annual contribution on which you can base the credit is $2,000 per person.

Effect on other credits. The amount of this credit will not change the amount of your refundable tax credits. A refundable tax credit, such as the earned income credit or the additional child tax credit, is an amount that you would receive as a refund even if you did not otherwise owe any taxes.

Maximum credit. This is a nonrefundable credit. The amount of the credit in any year cannot be more than the amount of tax that you would otherwise pay (not counting any refundable credits or the adoption credit) in any year. If your tax liability is reduced to zero because of other nonrefundable credits, such as the Education credits, then you will not be entitled to this credit.

How to figure and report the credit. The amount of the credit you can get is based on the contributions you make and your credit rate. The credit rate can be as low as 10% or as high as 50%. Your credit rate depends on your income and your filing status. See Form 8880, Credit for Qualified Retirement Savings Contributions to determine your credit rate.

The maximum contribution taken into account is $2,000 per person. On a joint return, up to $2,000 is taken into account for each spouse.

Figure the credit on Form 8880. Report the credit on line 51 of your Form 1040 or line 32 of your Form 1040A and attach Form 8880 to your return.

11.

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at 1-877-777-4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1-800-829-4059 if you are a TTY/TDD user.
- Visit *www.irs.gov/advocate*.

For more information, see Publication 1546, How To Get Help With Unresolved Tax Problems (now available in Chinese, Korean, Russian, and Vietnamese, in addition to English and Spanish).

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.

Internet. You can access the IRS website 24 hours a day, 7 days a week, at *www.irs.gov* to:

- *E-file* your return. Find out about commercial tax preparation and *e-file* services available free to eligible taxpayers.
- Check the status of your 2005 refund. Click on *Where's My Refund*. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products online.
- Research your tax questions online.
- Search publications online by topic or keyword.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using our Form W-4 calculator.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Phone. Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call 1-800-829-3676 to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- *Asking tax questions.* Call the IRS with your tax questions at 1-800-829-1040.
- *Retirement plan assistance.* If you own a business and have questions about starting a pension plan, an existing plan, or filing Form 5500, call our Tax Exempt/ Government Entities Customer Account Services at 1-877-829-5500. Assistance is available Monday through Friday. If you have questions about a traditional or Roth IRA or any individual income tax issues, you should call 1-800-829-1040.
- *Solving problems.* You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- *TeleTax topics.* Call 1-800-829-4477 and press 2 to listen to pre-recorded messages covering various tax topics.
- *Refund information.* If you would like to check the status of your 2005 refund, call 1-800-829-4477 and press 1 for automated refund information or call 1-800-829-1954. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically). Have your 2005 tax return available because you will need to know your social security number, your filing status, and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- *Products.* You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.
- *Services.* You can walk in to your local Taxpayer Assistance Center every business day for personal, face-to-face tax help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you're more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary, but if you prefer, you can call your local Center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to *www.irs.gov/localcontacts* or look in the phone book under *United States Government, Internal Revenue Service*.

Mail. You can send your order for forms, instructions, and publications to the address below and receive a response within 10 business days after your request is received.

National Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8903

CD-ROM for tax products. You can order Publication 1796, IRS Tax Products CD-ROM, and obtain:

- A CD that is released twice so you have the latest products. The first release ships in late December and the final release ships in late February.
- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions (FAQs).
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.

Buy the CD-ROM from National Technical Information Service (NTIS) at *www.irs.gov/cdorders* for $25 (no handling fee) or call 1-877-233-6767 toll free to buy the CD-ROM for $25 (plus a $5 handling fee).

CD-ROM for small businesses. Publication 3207, The Small Business Resource Guide CD-ROM for 2005, has a new look and enhanced navigation features. This year's CD includes:

- Helpful information, such as how to prepare a business plan, find financing for your business, and much more.
- All the business tax forms, instructions, and publications needed to successfully manage a business.
- Tax law changes for 2005.
- IRS Tax Map to help you find forms, instructions, and publications by searching on a keyword or topic.
- Web links to various government agencies, business associations, and IRS organizations.
- "Rate the Product" survey—your opportunity to suggest changes for future editions.

An updated version of this CD is available each year in early April. You can get a free copy by calling 1-800-829-3676 or by visiting *www.irs.gov/smallbiz*.

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To help us develop a more useful index, please let us know if you have ideas for index entries. See "Comments and Suggestions" in the "Introduction" for the ways you can reach us.

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