

INTERNAL REVENUE SERVICE

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December 5, 2000

Municipality M =

Dear

This responds to your letter of July 7, 2000 and subsequent correspondence, on behalf of Municipality M, requesting a ruling concerning the proposed amended and restated deferred compensation plan (the "Plan") which M intends to be an eligible deferred compensation plan under section 457(b) of the Internal Revenue Code of 1986. M is represented to be a municipal governmental entity described in section 457(e)(1)(A) of the Code.

Under the Plan an employee may elect to defer compensation that would have been received for services rendered to M in any taxable year until death, separation from service with M, attainment of age 70½, or until the occurrence of an unforeseeable emergency. The Plan also provides for an elective in-service distribution of \$5,000.00 or less to be paid to a participant from his or her account in certain limited circumstances set forth thereunder and in section 457(e)(9)(A). The Plan does not provide that a loan may be made from assets held by the Plan to any participant or beneficiary under the Plan.

The participant's election to defer compensation under the Plan must be filed prior to the beginning of the month in which his or her salary reduction agreement becomes effective. The Plan provides for a maximum amount that may be deferred by a participant in any taxable year and also provides for a catch-up computation for amounts deferred for one or more of the participant's last three taxable years ending before he attains normal retirement age under the plan. The amounts that may be deferred under the annual maximum limitation and the catch-up provision are within the limitations of section 457 including the section 457(c) coordinated deferral provision.

With certain limitations, a participant may elect the manner in which his deferred amounts will be distributed. The election generally must be made prior to the date any such payment must commence to the participant. If the participant fails to make a timely election, distribution will commence at the time and in the manner set forth in the Plan. The Plan also includes a provision permitting a one-time additional election by a participant to further defer commencement of his distributions under the Plan after the first permissible payout date if distribution from his account had not already commenced. The Plan provides that the manner and time of benefit payout must meet the distribution requirements of sections 401(a)(9) and 457(d)(2) of the Code.

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The Plan provides that amounts of compensation deferred thereunder are to be transferred to and invested in one or more annuity contracts for the exclusive benefit of the participants and their beneficiaries. Also, all amounts deferred under the Plan must be transferred to the annuity contract within an administratively reasonable time period. The annuity contract is represented to be an annuity contract described in section 401(f) and thus eligible for treatment as a trust pursuant to section 457(g)(3). The rights of any participant or beneficiary to payments under the Plan are nonassignable and not subject to attachment, garnishment, transfer or alienation.

The Plan generally provides that distribution to a former spouse or alternate payee pursuant to a domestic relations order may occur or commence only when authorized under section 457(d)(1)(A) governing when distributions under the Plan may begin. If an alternate payee receives rights to amounts in a participant's account under a domestic relations order, the Plan may establish and maintain a separate account for that alternate payee.

Section 457 of the Code provides rules for the deferral of compensation by an individual participating in an eligible deferred compensation plan as defined in section 457(b).

Section 457(a) of the Code provides that in the case of a participant in an eligible deferred compensation plan, any amount of compensation deferred under the plan and any income attributable to the amounts so deferred shall be includible in gross income only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or beneficiary.

Section 457(b)(5) prescribes that an eligible deferred compensation plan must meet the distribution requirements of section 457(d).

Section 457(d)(1)(A) provides that for a section 457 plan to be an eligible plan, the plan must have distribution requirements providing that under the plan amounts will not be made available to participants or beneficiaries earlier than i) the calendar year in which the participant attains age 70 ½, ii) when the participant is separated from service with the employer, or iii) when the participant is faced with an unforeseeable emergency as determined under Treasury regulations.

Section 457(g) provides that a plan maintained by an eligible governmental employer shall not be treated as an eligible deferred compensation plan unless all assets and rights purchased with such deferred compensation amounts and all income attributable to such amounts, property, or rights of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. Section 457(g)(3) states that custodial accounts and annuity contracts described in section 401(f) shall be treated as trusts under rules similar to the rules under section 401(f).

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Based upon the provisions of the Plan summarized above, and the documents presented, we conclude as follows:

1. The amended and restated Deferred Compensation Plan established by Municipality M is an eligible deferred compensation plan as defined in section 457(b) of the Internal Revenue Code of 1986.
2. Amounts of compensation deferred in accordance with the Plan, including any income attributable to the deferred compensation, will be includible in the recipient's gross income for the taxable year or years in which amounts are paid or otherwise made available to a participant or beneficiary in accordance with the terms of the Plan.
3. The annuity contract associated with M's section 457(b) Plan is treated under section 457(g) as a trust which is treated as an organization exempt from taxation under section 501(a).

No opinion is expressed concerning the timing of the inclusion in income of amounts deferred under any deferred compensation plan other than M's amended and revised Plan described above. In addition, this ruling applies only to deferrals made after the date this ruling is issued. This ruling is directed only to Municipality M and applies only to the Plan submitted on July 7, 2000, as revised by the amendments submitted on November 10, 2000 and to the annuity contract submitted on July 7, 2000, provided that M and the insurance company issuing such contract adopt the Letter Agreement submitted on November 10, 2000 relating to that annuity contract. If the Plan is significantly modified, this ruling will not necessarily remain applicable. Section 6110(k)(3) of the Internal Revenue Code provides that this ruling may not be used or cited as precedent.

Temporary or final regulations pertaining to one or more of the issues addressed in this ruling have not yet been adopted. Therefore, this ruling may be modified or revoked if the adopted temporary or final regulations are inconsistent with any conclusion in the ruling. See section 12.04 of Rev. Proc. 2000-1, 2000-1 I.R.B. 4, 46. However, when the criteria in section 12.05 of Rev. Proc. 2000-1 are satisfied, a ruling is not revoked or modified retroactively except in rare or unusual circumstances.

Sincerely yours,
ROBERT D. PATCHELL
Acting Chief, Qualified Plans Branch 2
Office of the Associate Chief Counsel
(Tax Exempt and Government Entities)

Enclosure: copy for section 6110 purposes