

106TH CONGRESS
2D SESSION

H. R. 4843

To amend the Internal Revenue Code of 1986 to provide for retirement security and pension reform.

IN THE HOUSE OF REPRESENTATIVES

JULY 13, 2000

Mr. ARCHER (for himself, Mr. PORTMAN, and Mr. CARDIN) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide for retirement security and pension reform.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; REFERENCES; TABLE OF CON-**

4 **TENTS.**

5 (a) SHORT TITLE.—This Act may be cited as the
6 “Comprehensive Retirement Security and Pension Reform
7 Act of 2000”.

8 (b) AMENDMENT OF 1986 CODE.—Except as other-
9 wise expressly provided, whenever in this Act an amend-
10 ment or repeal is expressed in terms of an amendment

1 to, or repeal of, a section or other provision, the reference
 2 shall be considered to be made to a section or other provi-
 3 sion of the Internal Revenue Code of 1986.

4 (c) TABLE OF CONTENTS.—The table of contents of
 5 this Act is as follows:

Sec. 1. Short title; references; table of contents.

TITLE I—INDIVIDUAL RETIREMENT ACCOUNT PROVISIONS

Sec. 101. Modification of IRA contribution limits.

TITLE II—EXPANDING COVERAGE

Sec. 201. Increase in benefit and contribution limits.

Sec. 202. Plan loans for subchapter S owners, partners, and sole proprietors.

Sec. 203. Modification of top-heavy rules.

Sec. 204. Elective deferrals not taken into account for purposes of deduction limits.

Sec. 205. Repeal of coordination requirements for deferred compensation plans of State and local governments and tax-exempt organizations.

Sec. 206. Elimination of user fee for requests to IRS regarding pension plans.

Sec. 207. Deduction limits.

Sec. 208. Option to treat elective deferrals as after-tax contributions.

TITLE III—ENHANCING FAIRNESS FOR WOMEN

Sec. 301. Catch-up contributions for individuals age 50 or over.

Sec. 302. Equitable treatment for contributions of employees to defined contribution plans.

Sec. 303. Faster vesting of certain employer matching contributions.

Sec. 304. Simplify and update the minimum distribution rules.

Sec. 305. Clarification of tax treatment of division of section 457 plan benefits upon divorce.

Sec. 306. Modification of safe harbor relief for hardship withdrawals from cash or deferred arrangements.

TITLE IV—INCREASING PORTABILITY FOR PARTICIPANTS

Sec. 401. Rollovers allowed among various types of plans.

Sec. 402. Rollovers of IRAs into workplace retirement plans.

Sec. 403. Rollovers of after-tax contributions.

Sec. 404. Hardship exception to 60-day rule.

Sec. 405. Treatment of forms of distribution.

Sec. 406. Rationalization of restrictions on distributions.

Sec. 407. Purchase of service credit in governmental defined benefit plans.

Sec. 408. Employers may disregard rollovers for purposes of cash-out amounts.

Sec. 409. Minimum distribution and inclusion requirements for section 457 plans.

TITLE V—STRENGTHENING PENSION SECURITY AND ENFORCEMENT

- Sec. 501. Repeal of 150 percent of current liability funding limit.
 Sec. 502. Maximum contribution deduction rules modified and applied to all defined benefit plans.
 Sec. 503. Excise tax relief for sound pension funding.
 Sec. 504. Excise tax on failure to provide notice by defined benefit plans significantly reducing future benefit accruals.
 Sec. 505. Treatment of multiemployer plans under section 415.
 Sec. 506. Prohibited allocations of stock in S corporation ESOP.

TITLE VI—REDUCING REGULATORY BURDENS

- Sec. 601. Modification of timing of plan valuations.
 Sec. 602. ESOP dividends may be reinvested without loss of dividend deduction.
 Sec. 603. Repeal of transition rule relating to certain highly compensated employees.
 Sec. 604. Employees of tax-exempt entities.
 Sec. 605. Clarification of treatment of employer-provided retirement advice.
 Sec. 606. Reporting simplification.
 Sec. 607. Improvement of employee plans compliance resolution system.
 Sec. 608. Repeal of the multiple use test.
 Sec. 609. Flexibility in nondiscrimination, coverage, and line of business rules.
 Sec. 610. Extension to all governmental plans of moratorium on application of certain nondiscrimination rules applicable to State and local plans.
 Sec. 611. Notice and consent period regarding distributions.

TITLE VII—PLAN AMENDMENTS

- Sec. 701. Provisions relating to plan amendments.

1 **TITLE I—INDIVIDUAL** 2 **RETIREMENT ACCOUNTS**

3 **SEC. 101. MODIFICATION OF IRA CONTRIBUTION LIMITS.**

4 (a) INCREASE IN CONTRIBUTION LIMIT.—

5 (1) IN GENERAL.—Paragraph (1)(A) of section
 6 219(b) (relating to maximum amount of deduction)
 7 is amended by striking “\$2,000” and inserting “the
 8 deductible amount”.

9 (2) DEDUCTIBLE AMOUNT.—Section 219(b) is
 10 amended by adding at the end the following new
 11 paragraph:

1 “(5) DEDUCTIBLE AMOUNT.—For purposes of
2 paragraph (1)(A)—

3 “(A) IN GENERAL.—The deductible
4 amount shall be determined in accordance with
5 the following table:

“For taxable years beginning in:	The deductible amount is:
2001	\$3,000
2002	\$4,000
2003 and thereafter	\$5,000.

6 “(B) CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS 50 OR OLDER.—In the case of an individual who has attained the age of 50 before the close of the taxable year, the deductible amount for taxable years beginning in 2001 or 2002 shall be \$5,000.

12 “(C) COST-OF-LIVING ADJUSTMENT.—

13 “(i) IN GENERAL.—In the case of any
14 taxable year beginning in a calendar year
15 after 2003, the \$5,000 amount under sub-
16 paragraph (A) shall be increased by an
17 amount equal to—

18 “(I) such dollar amount, multi-
19 plied by

20 “(II) the cost-of-living adjust-
21 ment determined under section
22 1(f)(3) for the calendar year in which
23 the taxable year begins, determined by

1 substituting ‘calendar year 2002’ for
2 ‘calendar year 1992’ in subparagraph
3 (B) thereof.

4 “(ii) ROUNDING RULES.—If any
5 amount after adjustment under clause (i)
6 is not a multiple of \$500, such amount
7 shall be rounded to the next lower multiple
8 of \$500.”.

9 (b) CONFORMING AMENDMENTS.—

10 (1) Section 408(a)(1) is amended by striking
11 “in excess of \$2,000 on behalf of any individual”
12 and inserting “on behalf of any individual in excess
13 of the amount in effect for such taxable year under
14 section 219(b)(1)(A)”.

15 (2) Section 408(b)(2)(B) is amended by strik-
16 ing “\$2,000” and inserting “the dollar amount in
17 effect under section 219(b)(1)(A)”.

18 (3) Section 408(b) is amended by striking
19 “\$2,000” in the matter following paragraph (4) and
20 inserting “the dollar amount in effect under section
21 219(b)(1)(A)”.

22 (4) Section 408(j) is amended by striking
23 “\$2,000”.

1 (5) Section 408(p)(8) is amended by striking
2 “\$2,000” and inserting “the dollar amount in effect
3 under section 219(b)(1)(A)”.

4 (c) EFFECTIVE DATE.—The amendments made by
5 this section shall apply to taxable years beginning after
6 December 31, 2000.

7 **TITLE II—EXPANDING** 8 **COVERAGE**

9 **SEC. 201. INCREASE IN BENEFIT AND CONTRIBUTION LIM-** 10 **ITS.**

11 (a) DEFINED BENEFIT PLANS.—

12 (1) DOLLAR LIMIT.—

13 (A) Subparagraph (A) of section 415(b)(1)
14 (relating to limitation for defined benefit plans)
15 is amended by striking “\$90,000” and inserting
16 “\$160,000”.

17 (B) Subparagraphs (C) and (D) of section
18 415(b)(2) are each amended by striking
19 “\$90,000” each place it appears in the head-
20 ings and the text and inserting “\$160,000”.

21 (C) Paragraph (7) of section 415(b) (relat-
22 ing to benefits under certain collectively bar-
23 gained plans) is amended by striking “the
24 greater of \$68,212 or one-half the amount oth-
25 erwise applicable for such year under paragraph

1 (1)(A) for “\$90,000” and inserting “one-half
2 the amount otherwise applicable for such year
3 under paragraph (1)(A) for “\$160,000”.

4 (2) LIMIT REDUCED WHEN BENEFIT BEGINS
5 BEFORE AGE 62.—Subparagraph (C) of section
6 415(b)(2) is amended by striking “the social security
7 retirement age” each place it appears in the heading
8 and text and inserting “age 62”.

9 (3) LIMIT INCREASED WHEN BENEFIT BEGINS
10 AFTER AGE 65.—Subparagraph (D) of section
11 415(b)(2) is amended by striking “the social security
12 retirement age” each place it appears in the heading
13 and text and inserting “age 65”.

14 (4) COST-OF-LIVING ADJUSTMENTS.—Sub-
15 section (d) of section 415 (related to cost-of-living
16 adjustments) is amended—

17 (A) by striking “\$90,000” in paragraph
18 (1)(A) and inserting “\$160,000”; and

19 (B) in paragraph (3)(A)—

20 (i) by striking “\$90,000” in the head-
21 ing and inserting “\$160,000”; and

22 (ii) by striking “October 1, 1986” and
23 inserting “July 1, 2000”.

24 (5) CONFORMING AMENDMENT.—Section
25 415(b)(2) is amended by striking subparagraph (F).

1 (b) DEFINED CONTRIBUTION PLANS.—

2 (1) DOLLAR LIMIT.—Subparagraph (A) of sec-
3 tion 415(c)(1) (relating to limitation for defined con-
4 tribution plans) is amended by striking “\$30,000”
5 and inserting “\$40,000”.

6 (2) COST-OF-LIVING ADJUSTMENTS.—Sub-
7 section (d) of section 415 (related to cost-of-living
8 adjustments) is amended—

9 (A) by striking “\$30,000” in paragraph
10 (1)(C) and inserting “\$40,000”; and

11 (B) in paragraph (3)(D)—

12 (i) by striking “\$30,000” in the head-
13 ing and inserting “\$40,000”; and

14 (ii) by striking “October 1, 1993” and
15 inserting “July 1, 2000”.

16 (c) QUALIFIED TRUSTS.—

17 (1) COMPENSATION LIMIT.—Sections
18 401(a)(17), 404(l), 408(k), and 505(b)(7) are each
19 amended by striking “\$150,000” each place it ap-
20 pears and inserting “\$200,000”.

21 (2) BASE PERIOD AND ROUNDING OF COST-OF-
22 LIVING ADJUSTMENT.—Subparagraph (B) of section
23 401(a)(17) is amended—

24 (A) by striking “October 1, 1993” and in-
25 serting “July 1, 2000”; and

1 (B) by striking “\$10,000” both places it
 2 appears and inserting “\$5,000”.

3 (d) ELECTIVE DEFERRALS.—

4 (1) IN GENERAL.—Paragraph (1) of section
 5 402(g) (relating to limitation on exclusion for elec-
 6 tive deferrals) is amended to read as follows:

7 “(1) IN GENERAL.—

8 “(A) LIMITATION.—Notwithstanding sub-
 9 sections (e)(3) and (h)(1)(B), the elective defer-
 10 rals of any individual for any taxable year shall
 11 be included in such individual’s gross income to
 12 the extent the amount of such deferrals for the
 13 taxable year exceeds the applicable dollar
 14 amount.

15 “(B) APPLICABLE DOLLAR AMOUNT.—For
 16 purposes of subparagraph (A), the applicable
 17 dollar amount shall be the amount determined
 18 in accordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount:
2001	\$11,000
2002	\$12,000
2003	\$13,000
2004	\$14,000
2005 or thereafter	\$15,000.”.

19 (2) COST-OF-LIVING ADJUSTMENT.—Paragraph
 20 (5) of section 402(g) is amended to read as follows:

1 “(5) COST-OF-LIVING ADJUSTMENT.—In the
2 case of taxable years beginning after December 31,
3 2005, the Secretary shall adjust the \$15,000
4 amount under paragraph (1)(B) at the same time
5 and in the same manner as under section 415(d),
6 except that the base period shall be the calendar
7 quarter beginning July 1, 2004, and any increase
8 under this paragraph which is not a multiple of
9 \$500 shall be rounded to the next lowest multiple of
10 \$500.”.

11 (3) CONFORMING AMENDMENTS.—

12 (A) Section 402(g) (relating to limitation
13 on exclusion for elective deferrals), as amended
14 by paragraphs (1) and (2), is further amended
15 by striking paragraph (4) and redesignating
16 paragraphs (5), (6), (7), (8), and (9) as para-
17 graphs (4), (5), (6), (7), and (8), respectively.

18 (B) Paragraph (2) of section 457(c) is
19 amended by striking “402(g)(8)(A)(iii)” and in-
20 serting “402(g)(7)(A)(iii)”.

21 (C) Clause (iii) of section 501(c)(18)(D) is
22 amended by striking “(other than paragraph
23 (4) thereof)”.

1 (e) DEFERRED COMPENSATION PLANS OF STATE
 2 AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-
 3 ZATIONS.—

4 (1) IN GENERAL.—Section 457 (relating to de-
 5 ferred compensation plans of State and local govern-
 6 ments and tax-exempt organizations) is amended—

7 (A) in subsections (b)(2)(A) and (c)(1) by
 8 striking “\$7,500” each place it appears and in-
 9 serting “the applicable dollar amount”; and

10 (B) in subsection (b)(3)(A) by striking
 11 “\$15,000” and inserting “twice the dollar
 12 amount in effect under subsection (b)(2)(A)”.

13 (2) APPLICABLE DOLLAR AMOUNT; COST-OF-
 14 LIVING ADJUSTMENT.—Paragraph (15) of section
 15 457(e) is amended to read as follows:

16 “(15) APPLICABLE DOLLAR AMOUNT.—

17 “(A) IN GENERAL.—The applicable dollar
 18 amount shall be the amount determined in ac-
 19 cordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount:
2001	\$11,000
2002	\$12,000
2003	\$13,000
2004	\$14,000
2005 or thereafter	\$15,000.

20 “(B) COST-OF-LIVING ADJUSTMENTS.—In
 21 the case of taxable years beginning after De-

1 cember 31, 2005, the Secretary shall adjust the
2 \$15,000 amount specified in the table in sub-
3 paragraph (A) at the same time and in the
4 same manner as under section 415(d), except
5 that the base period shall be the calendar quar-
6 ter beginning July 1, 2004, and any increase
7 under this paragraph which is not a multiple of
8 \$500 shall be rounded to the next lowest mul-
9 tiple of \$500.”.

10 (f) SIMPLE RETIREMENT ACCOUNTS.—

11 (1) LIMITATION.—Clause (ii) of section
12 408(p)(2)(A) (relating to general rule for qualified
13 salary reduction arrangement) is amended by strik-
14 ing “\$6,000” and inserting “the applicable dollar
15 amount”.

16 (2) APPLICABLE DOLLAR AMOUNT.—Subpara-
17 graph (E) of 408(p)(2) is amended to read as fol-
18 lows:

19 “(E) APPLICABLE DOLLAR AMOUNT; COST-
20 OF-LIVING ADJUSTMENT.—

21 “(i) IN GENERAL.—For purposes of
22 subparagraph (A)(ii), the applicable dollar
23 amount shall be the amount determined in
24 accordance with the following table:

“For taxable years beginning in calendar year:	The applicable dollar amount:
2001	\$7,000
2002	\$8,000
2003	\$9,000
2004 or thereafter	\$10,000.

1 “(ii) COST-OF-LIVING ADJUSTMENT.—

2 In the case of a year beginning after De-
3 cember 31, 2004, the Secretary shall ad-
4 just the \$10,000 amount under clause (i)
5 at the same time and in the same manner
6 as under section 415(d), except that the
7 base period taken into account shall be the
8 calendar quarter beginning July 1, 2003,
9 and any increase under this subparagraph
10 which is not a multiple of \$500 shall be
11 rounded to the next lower multiple of
12 \$500.”.

13 (3) CONFORMING AMENDMENTS.—

14 (A) Clause (I) of section 401(k)(11)(B)(i)
15 is amended by striking “\$6,000” and inserting
16 “the amount in effect under section
17 408(p)(2)(A)(ii)”.

18 (B) Section 401(k)(11) is amended by
19 striking subparagraph (E).

20 (g) ROUNDING RULE RELATING TO DEFINED BEN-
21 EFIT PLANS AND DEFINED CONTRIBUTION PLANS.—

1 Paragraph (4) of section 415(d) is amended to read as
2 follows:

3 “(4) ROUNDING.—

4 “(A) \$160,000 AMOUNT.—Any increase
5 under subparagraph (A) of paragraph (1) which
6 is not a multiple of \$5,000 shall be rounded to
7 the next lowest multiple of \$5,000.

8 “(B) \$40,000 AMOUNT.—Any increase
9 under subparagraph (C) of paragraph (1) which
10 is not a multiple of \$1,000 shall be rounded to
11 the next lowest multiple of \$1,000.”.

12 (h) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to years beginning after December
14 31, 2000.

15 **SEC. 202. PLAN LOANS FOR SUBCHAPTER S OWNERS, PART-**
16 **NERS, AND SOLE PROPRIETORS.**

17 (a) IN GENERAL.—Subparagraph (B) of section
18 4975(f)(6) (relating to exemptions not to apply to certain
19 transactions) is amended by adding at the end the fol-
20 lowing new clause:

21 “(iii) LOAN EXCEPTION.—For pur-
22 poses of subparagraph (A)(i), the term
23 ‘owner-employee’ shall only include a per-
24 son described in subclause (II) or (III) of
25 clause (i).”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to loans made after December 31,
3 2000.

4 **SEC. 203. MODIFICATION OF TOP-HEAVY RULES.**

5 (a) SIMPLIFICATION OF DEFINITION OF KEY EM-
6 PLOYEE.—

7 (1) IN GENERAL.—Section 416(i)(1)(A) (defin-
8 ing key employee) is amended—

9 (A) by striking “or any of the 4 preceding
10 plan years” in the matter preceding clause (i);

11 (B) by striking clause (i) and inserting the
12 following:

13 “(i) an officer of the employer having
14 an annual compensation greater than
15 \$150,000,”;

16 (C) by striking clause (ii) and redesign-
17 ating clauses (iii) and (iv) as clauses (ii) and
18 (iii), respectively; and

19 (D) by striking the second sentence in the
20 matter following clause (iii), as redesignated by
21 subparagraph (C).

22 (2) CONFORMING AMENDMENT.—Section
23 416(i)(1)(B)(iii) is amended by striking “and sub-
24 paragraph (A)(ii)”.

1 (b) MATCHING CONTRIBUTIONS TAKEN INTO AC-
2 COUNT FOR MINIMUM CONTRIBUTION REQUIREMENTS.—
3 Section 416(c)(2)(A) (relating to defined contribution
4 plans) is amended by adding at the end the following:
5 “Employer matching contributions (as defined in section
6 401(m)(4)(A)) shall be taken into account for purposes
7 of this subparagraph.”.

8 (c) DISTRIBUTIONS DURING LAST YEAR BEFORE
9 DETERMINATION DATE TAKEN INTO ACCOUNT.—

10 (1) IN GENERAL.—Paragraph (3) of section
11 416(g) is amended to read as follows:

12 “(3) DISTRIBUTIONS DURING LAST YEAR BE-
13 FORE DETERMINATION DATE TAKEN INTO AC-
14 COUNT.—

15 “(A) IN GENERAL.—For purposes of
16 determining—

17 “(i) the present value of the cumu-
18 lative accrued benefit for any employee, or

19 “(ii) the amount of the account of any
20 employee,

21 such present value or amount shall be increased
22 by the aggregate distributions made with re-
23 spect to such employee under the plan during
24 the 1-year period ending on the determination
25 date. The preceding sentence shall also apply to

1 distributions under a terminated plan which if
2 it had not been terminated would have been re-
3 quired to be included in an aggregation group.

4 “(B) 5-YEAR PERIOD IN CASE OF IN-SERV-
5 ICE DISTRIBUTION.—In the case of any dis-
6 tribution made for a reason other than separa-
7 tion from service, death, or disability, subpara-
8 graph (A) shall be applied by substituting ‘5-
9 year period’ for ‘1-year period’.”.

10 (2) BENEFITS NOT TAKEN INTO ACCOUNT.—

11 Subparagraph (E) of section 416(g)(4) is
12 amended—

13 (A) by striking “LAST 5 YEARS” in the
14 heading and inserting “LAST YEAR BEFORE DE-
15 TERMINATION DATE”; and

16 (B) by striking “5-year period” and insert-
17 ing “1-year period”.

18 (d) DEFINITION OF TOP-HEAVY PLANS.—Paragraph
19 (4) of section 416(g) (relating to other special rules for
20 top-heavy plans) is amended by adding at the end the fol-
21 lowing new subparagraph:

22 “(H) CASH OR DEFERRED ARRANGEMENTS
23 USING ALTERNATIVE METHODS OF MEETING
24 NONDISCRIMINATION REQUIREMENTS.—The

1 term ‘top-heavy plan’ shall not include a plan
2 which consists solely of—

3 “(i) a cash or deferred arrangement
4 which meets the requirements of section
5 401(k)(12), and

6 “(ii) matching contributions with re-
7 spect to which the requirements of section
8 401(m)(11) are met.

9 If, but for this subparagraph, a plan would be
10 treated as a top-heavy plan because it is a
11 member of an aggregation group which is a top-
12 heavy group, contributions under the plan may
13 be taken into account in determining whether
14 any other plan in the group meets the require-
15 ments of subsection (c)(2).”.

16 (e) FROZEN PLAN EXEMPT FROM MINIMUM BEN-
17 EFIT REQUIREMENT.—Subparagraph (C) of section
18 416(c)(1) (relating to defined benefit plans) is amended—

19 (A) by striking “clause (ii)” in clause (i)
20 and inserting “clause (ii) or (iii)”; and

21 (B) by adding at the end the following:

22 “(iii) EXCEPTION FOR FROZEN
23 PLAN.—For purposes of determining an
24 employee’s years of service with the em-
25 ployer, any service with the employer shall

1 be disregarded to the extent that such
2 service occurs during a plan year when the
3 plan benefits (within the meaning of sec-
4 tion 410(b)) no employee or former em-
5 ployee.”.

6 (f) ELIMINATION OF FAMILY ATTRIBUTION.—Sec-
7 tion 416(i)(1)(B) (defining 5-percent owner) is amended
8 by adding at the end the following new clause:

9 “(iv) FAMILY ATTRIBUTION DIS-
10 REGARDED.—Solely for purposes of apply-
11 ing this paragraph (and not for purposes
12 of any provision of this title which incor-
13 porates by reference the definition of a key
14 employee or 5-percent owner under this
15 paragraph), section 318 shall be applied
16 without regard to subsection (a)(1) thereof
17 in determining whether any person is a 5-
18 percent owner.”.

19 (g) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to years beginning after December
21 31, 2000.

1 **SEC. 204. ELECTIVE DEFERRALS NOT TAKEN INTO AC-**
2 **COUNT FOR PURPOSES OF DEDUCTION LIM-**
3 **ITS.**

4 (a) IN GENERAL.—Section 404 (relating to deduction
5 for contributions of an employer to an employees’ trust
6 or annuity plan and compensation under a deferred pay-
7 ment plan) is amended by adding at the end the following
8 new subsection:

9 “(n) ELECTIVE DEFERRALS NOT TAKEN INTO AC-
10 COUNT FOR PURPOSES OF DEDUCTION LIMITS.—Elective
11 deferrals (as defined in section 402(g)(3)) shall not be
12 subject to any limitation contained in paragraph (3), (7),
13 or (9) of subsection (a), and such elective deferrals shall
14 not be taken into account in applying any such limitation
15 to any other contributions.”

16 (b) EFFECTIVE DATE.—The amendment made by
17 this section shall apply to years beginning after December
18 31, 2000.

19 **SEC. 205. REPEAL OF COORDINATION REQUIREMENTS FOR**
20 **DEFERRED COMPENSATION PLANS OF STATE**
21 **AND LOCAL GOVERNMENTS AND TAX-EX-**
22 **EMPT ORGANIZATIONS.**

23 (a) IN GENERAL.—Subsection (c) of section 457 (re-
24 lating to deferred compensation plans of State and local
25 governments and tax-exempt organizations), as amended
26 by section 201, is amended to read as follows:

1 “(c) LIMITATION.—The maximum amount of the
2 compensation of any one individual which may be deferred
3 under subsection (a) during any taxable year shall not ex-
4 ceed the amount in effect under subsection (b)(2)(A) (as
5 modified by any adjustment provided under subsection
6 (b)(3)).”.

7 (b) EFFECTIVE DATE.—The amendment made by
8 subsection (a) shall apply to years beginning after Decem-
9 ber 31, 2000.

10 **SEC. 206. ELIMINATION OF USER FEE FOR REQUESTS TO**
11 **IRS REGARDING PENSION PLANS.**

12 (a) ELIMINATION OF CERTAIN USER FEES.—The
13 Secretary of the Treasury or the Secretary’s delegate shall
14 not require payment of user fees under the program estab-
15 lished under section 7527 of the Internal Revenue Code
16 of 1986 for requests to the Internal Revenue Service for
17 determination letters with respect to the qualified status
18 of a pension benefit plan maintained solely by one or more
19 eligible employers or any trust which is part of the plan.
20 The preceding sentence shall not apply to any request—

21 (1) made after the fifth plan year the pension
22 benefit plan is in existence; or

23 (2) made by the sponsor of any prototype or
24 similar plan which the sponsor intends to market to
25 participating employers.

1 (b) PENSION BENEFIT PLAN.—For purposes of this
2 section, the term “pension benefit plan” means a pension,
3 profit-sharing, stock bonus, annuity, or employee stock
4 ownership plan.

5 (c) ELIGIBLE EMPLOYER.—For purposes of this sec-
6 tion, the term “eligible employer” has the same meaning
7 given such term in section 408(p)(2)(C)(i)(I) of the Inter-
8 nal Revenue Code of 1986. The determination of whether
9 an employer is an eligible employer under this section shall
10 be made as of the date of the request described in sub-
11 section (a).

12 (d) EFFECTIVE DATE.—The provisions of this sec-
13 tion shall apply with respect to requests made after De-
14 cember 31, 2000.

15 **SEC. 207. DEDUCTION LIMITS.**

16 (a) IN GENERAL.—

17 (1) STOCK BONUS AND PROFIT SHARING
18 TRUSTS.—Subclause (I) of section 404(a)(3)(A)(i)
19 (relating to stock bonus and profit sharing trusts) is
20 amended by striking “15 percent” and inserting “20
21 percent”.

22 (2) COMPENSATION.—Section 404(a) (relating
23 to general rule) is amended by adding at the end the
24 following:

1 “(12) DEFINITION OF COMPENSATION.—For
2 purposes of paragraphs (3), (7), (8), and (9), the
3 term ‘compensation otherwise paid or accrued dur-
4 ing the taxable year’ shall include amounts treated
5 as ‘participant’s compensation’ under subparagraph
6 (C) or (D) of section 415(c)(3).”.

7 (b) CONFORMING AMENDMENTS.—

8 (1) Subparagraph (B) of section 404(a)(3) is
9 amended by striking the last sentence thereof.

10 (2) Subparagraph (C) of section 404(h)(1) is
11 amended by striking “15 percent” each place it ap-
12 pears and inserting “20 percent”.

13 (3) Clause (i) of section 4972(c)(6)(B) is
14 amended by striking “(within the meaning of section
15 404(a))” and inserting “(within the meaning of sec-
16 tion 404(a) and as adjusted under section
17 404(a)(12))”.

18 (c) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to years beginning after December
20 31, 2000.

21 **SEC. 208. OPTION TO TREAT ELECTIVE DEFERRALS AS**
22 **AFTER-TAX CONTRIBUTIONS.**

23 (a) IN GENERAL.—Subpart A of part I of subchapter
24 D of chapter 1 (relating to deferred compensation, etc.)

1 tribution program unless the applicable retirement
2 plan—

3 “(A) establishes separate accounts (‘des-
4 ignated plus accounts’) for the designated plus
5 contributions of each employee and any earn-
6 ings properly allocable to the contributions, and

7 “(B) maintains separate recordkeeping
8 with respect to each account.

9 “(c) DEFINITIONS AND RULES RELATING TO DES-
10 IGNATED PLUS CONTRIBUTIONS.—For purposes of this
11 section—

12 “(1) DESIGNATED PLUS CONTRIBUTION.—The
13 term ‘designated plus contribution’ means any elec-
14 tive deferral which—

15 “(A) is excludable from gross income of an
16 employee without regard to this section, and

17 “(B) the employee designates (at such time
18 and in such manner as the Secretary may pre-
19 scribe) as not being so excludable.

20 “(2) DESIGNATION LIMITS.—The amount of
21 elective deferrals which an employee may designate
22 under paragraph (1) shall not exceed the excess (if
23 any) of—

24 “(A) the maximum amount of elective de-
25 ferrals excludable from gross income of the em-

1 ployee for the taxable year (without regard to
2 this section), over

3 “(B) the aggregate amount of elective de-
4 ferrals of the employee for the taxable year
5 which the employee does not designate under
6 paragraph (1).

7 “(3) ROLLOVER CONTRIBUTIONS.—

8 “(A) IN GENERAL.—A rollover contribu-
9 tion of any payment or distribution from a des-
10 igned plus account which is otherwise allow-
11 able under this chapter may be made only if the
12 contribution is to—

13 “(i) another designated plus account
14 of the individual from whose account the
15 payment or distribution was made, or

16 “(ii) a Roth IRA of such individual.

17 “(B) COORDINATION WITH LIMIT.—Any
18 rollover contribution to a designated plus ac-
19 count under subparagraph (A) shall not be
20 taken into account for purposes of paragraph
21 (1).

22 “(d) DISTRIBUTION RULES.—For purposes of this
23 title—

1 “(1) EXCLUSION.—Any qualified distribution
2 from a designated plus account shall not be includ-
3 ible in gross income.

4 “(2) QUALIFIED DISTRIBUTION.—For purposes
5 of this subsection—

6 “(A) IN GENERAL.—The term ‘qualified
7 distribution’ has the meaning given such term
8 by section 408A(d)(2)(A) (without regard to
9 clause (iv) thereof).

10 “(B) DISTRIBUTIONS WITHIN NONEXCLU-
11 SION PERIOD.—A payment or distribution from
12 a designated plus account shall not be treated
13 as a qualified distribution if such payment or
14 distribution is made within the 5-taxable-year
15 period beginning with the earlier of—

16 “(i) the first taxable year for which
17 the individual made a designated plus con-
18 tribution to any designated plus account
19 established for such individual under the
20 same applicable retirement plan, or

21 “(ii) if a rollover contribution was
22 made to such designated plus account from
23 a designated plus account previously estab-
24 lished for such individual under another
25 applicable retirement plan, the first taxable

1 year for which the individual made a des-
2 ignated plus contribution to such pre-
3 viously established account.

4 “(C) DISTRIBUTIONS OF EXCESS DEFER-
5 RALS AND EARNINGS.—The term ‘qualified dis-
6 tribution’ shall not include any distribution of
7 any excess deferral under section 402(g)(2) and
8 any income on the excess deferral.

9 “(3) AGGREGATION RULES.—Section 72 shall
10 be applied separately with respect to distributions
11 and payments from a designated plus account and
12 other distributions and payments from the plan.

13 “(e) OTHER DEFINITIONS.—For purposes of this
14 section—

15 “(1) APPLICABLE RETIREMENT PLAN.—The
16 term ‘applicable retirement plan’ means—

17 “(A) an employees’ trust described in sec-
18 tion 401(a) which is exempt from tax under
19 section 501(a), and

20 “(B) a plan under which amounts are con-
21 tributed by an individual’s employer for an an-
22 nuity contract described in section 403(b).

23 “(2) ELECTIVE DEFERRAL.—The term ‘elective
24 deferral’ means any elective deferral described in
25 subparagraph (A) or (C) of section 402(g)(3).”.

1 (b) EXCESS DEFERRALS.—Section 402(g) (relating
2 to limitation on exclusion for elective deferrals) is
3 amended—

4 (1) by adding at the end of paragraph (1) the
5 following new sentence: “The preceding sentence
6 shall not apply to so much of such excess as does
7 not exceed the designated plus contributions of the
8 individual for the taxable year.”; and

9 (2) by inserting “(or would be included but for
10 the last sentence thereof)” after “paragraph (1)” in
11 paragraph (2)(A).

12 (c) ROLLOVERS.—Subparagraph (B) of section
13 402(c)(8) is amended by adding at the end the following:

14 “If any portion of an eligible rollover distribu-
15 tion is attributable to payments or distributions
16 from a designated plus account (as defined in
17 section 402A), an eligible retirement plan with
18 respect to such portion shall include only an-
19 other designated plus account and a Roth
20 IRA.”.

21 (d) REPORTING REQUIREMENTS.—

22 (1) W-2 INFORMATION.—Section 6051(a)(8) is
23 amended by inserting “, including the amount of
24 designated plus contributions (as defined in section
25 402A)” before the comma at the end.

1 **TITLE III—ENHANCING**
2 **FAIRNESS FOR WOMEN**

3 **SEC. 301. CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS**

4 **AGE 50 OR OVER.**

5 (a) IN GENERAL.—Section 414 (relating to defini-
6 tions and special rules) is amended by adding at the end
7 the following new subsection:

8 “(v) CATCH-UP CONTRIBUTIONS FOR INDIVIDUALS
9 AGE 50 OR OVER.—

10 “(1) IN GENERAL.—An applicable employer
11 plan shall not be treated as failing to meet any re-
12 quirement of this title solely because the plan per-
13 mits an eligible participant to make additional elec-
14 tive deferrals in any plan year.

15 “(2) LIMITATION ON AMOUNT OF ADDITIONAL
16 DEFERRALS.—

17 “(A) IN GENERAL.—A plan shall not per-
18 mit additional elective deferrals under para-
19 graph (1) for any year in an amount greater
20 than the lesser of—

21 “(i) \$5,000, or

22 “(ii) the excess (if any) of—

23 “(I) the participant’s compensa-
24 tion for the year, over

1 “(II) any other elective deferrals
2 of the participant for such year which
3 are made without regard to this sub-
4 section.

5 “(3) TREATMENT OF CONTRIBUTIONS.—In the
6 case of any contribution to a plan under paragraph
7 (1)—

8 “(A) such contribution shall not, with re-
9 spect to the year in which the contribution is
10 made—

11 “(i) be subject to any otherwise appli-
12 cable limitation contained in section
13 402(g), 402(h), 403(b), 404(a), 404(h),
14 408, 415, or 457, or

15 “(ii) be taken into account in applying
16 such limitations to other contributions or
17 benefits under such plan or any other such
18 plan, and

19 “(B) such plan shall not be treated as fail-
20 ing to meet the requirements of section
21 401(a)(4), 401(a)(26), 401(k)(3), 401(k)(11),
22 401(k)(12), 401(m), 403(b)(12), 408(k),
23 408(p), 410(b), or 416 by reason of the making
24 of (or the right to make) such contribution.

1 “(4) ELIGIBLE PARTICIPANT.—For purposes of
2 this subsection, the term ‘eligible participant’ means,
3 with respect to any plan year, a participant in a
4 plan—

5 “(A) who has attained the age of 50 before
6 the close of the plan year, and

7 “(B) with respect to whom no other elec-
8 tive deferrals may (without regard to this sub-
9 section) be made to the plan for the plan year
10 by reason of the application of any limitation or
11 other restriction described in paragraph (3) or
12 contained in the terms of the plan.

13 “(5) OTHER DEFINITIONS AND RULES.—For
14 purposes of this subsection—

15 “(A) APPLICABLE EMPLOYER PLAN.—The
16 term ‘applicable employer plan’ means—

17 “(i) an employees’ trust described in
18 section 401(a) which is exempt from tax
19 under section 501(a),

20 “(ii) a plan under which amounts are
21 contributed by an individual’s employer for
22 an annuity contract described in section
23 403(b),

24 “(iii) an eligible deferred compensa-
25 tion plan under section 457 of an eligible

1 employer as defined in section
2 457(e)(1)(A), and

3 “(iv) an arrangement meeting the re-
4 quirements of section 408 (k) or (p).

5 “(B) ELECTIVE DEFERRAL.—The term
6 ‘elective deferral’ has the meaning given such
7 term by subsection (u)(2)(C).

8 “(C) EXCEPTION FOR SECTION 457
9 PLANS.—This subsection shall not apply to an
10 applicable employer plan described in subpara-
11 graph (A)(iii) for any year to which section
12 457(b)(3) applies.

13 “(D) COST-OF-LIVING ADJUSTMENT.—For
14 years beginning after December 31, 2005, the
15 Secretary shall adjust annually the \$5,000
16 amount in subparagraph (A) for increases in
17 the cost-of-living at the same time and in the
18 same manner as adjustments under section
19 415(d); except that the base period shall be the
20 calendar quarter beginning July 1, 2004, and
21 any increase which is not a multiple of \$500
22 shall be rounded to the next lowest multiple of
23 \$500.”.

1 (b) EFFECTIVE DATE.—The amendment made by
2 this section shall apply to contributions in taxable years
3 beginning after December 31, 2000.

4 **SEC. 302. EQUITABLE TREATMENT FOR CONTRIBUTIONS OF**
5 **EMPLOYEES TO DEFINED CONTRIBUTION**
6 **PLANS.**

7 (a) EQUITABLE TREATMENT.—

8 (1) IN GENERAL.—Subparagraph (B) of section
9 415(c)(1) (relating to limitation for defined con-
10 tribution plans) is amended by striking “25 percent”
11 and inserting “100 percent”.

12 (2) APPLICATION TO SECTION 403(b).—Section
13 403(b) is amended—

14 (A) by striking “the exclusion allowance
15 for such taxable year” in paragraph (1) and in-
16 serting “the applicable limit under section
17 415”;

18 (B) by striking paragraph (2); and

19 (C) by inserting “or any amount received
20 by a former employee after the fifth taxable
21 year following the taxable year in which such
22 employee was terminated” before the period at
23 the end of the second sentence of paragraph
24 (3).

25 (3) CONFORMING AMENDMENTS.—

1 (A) Subsection (f) of section 72 is amend-
2 ed by striking “section 403(b)(2)(D)(iii)” and
3 inserting “section 403(b)(2)(D)(iii), as in effect
4 before the enactment of the Comprehensive Re-
5 tirement Security and Pension Reform Act of
6 2000”.

7 (B) Section 404(a)(10)(B) is amended by
8 striking “, the exclusion allowance under sec-
9 tion 403(b)(2),”.

10 (C) Section 415(a)(2) is amended by strik-
11 ing “, and the amount of the contribution for
12 such portion shall reduce the exclusion allow-
13 ance as provided in section 403(b)(2)”.

14 (D) Section 415(c)(3) is amended by add-
15 ing at the end the following new subparagraph:

16 “(E) ANNUITY CONTRACTS.—In the case
17 of an annuity contract described in section
18 403(b), the term ‘participant’s compensation’
19 means the participant’s includible compensation
20 determined under section 403(b)(3).”.

21 (E) Section 415(c) is amended by striking
22 paragraph (4).

23 (F) Section 415(c)(7) is amended to read
24 as follows:

1 “(7) CERTAIN CONTRIBUTIONS BY CHURCH
2 PLANS NOT TREATED AS EXCEEDING LIMIT.—

3 “(A) IN GENERAL.—Notwithstanding any
4 other provision of this subsection, at the elec-
5 tion of a participant who is an employee of a
6 church or a convention or association of church-
7 es, including an organization described in sec-
8 tion 414(e)(3)(B)(ii), contributions and other
9 additions for an annuity contract or retirement
10 income account described in section 403(b) with
11 respect to such participant, when expressed as
12 an annual addition to such participant’s ac-
13 count, shall be treated as not exceeding the lim-
14 itation of paragraph (1) if such annual addition
15 is not in excess of \$10,000.

16 “(B) \$40,000 AGGREGATE LIMITATION.—
17 The total amount of additions with respect to
18 any participant which may be taken into ac-
19 count for purposes of this subparagraph for all
20 years may not exceed \$40,000.

21 “(C) ANNUAL ADDITION.—For purposes of
22 this paragraph, the term ‘annual addition’ has
23 the meaning given such term by paragraph
24 (2).”.

1 (G) Subparagraph (B) of section 402(g)(7)
2 (as redesignated by section 211) is amended by
3 inserting before the period at the end the fol-
4 lowing: “(as in effect before the enactment of
5 the Comprehensive Retirement Security and
6 Pension Reform Act of 2000)”.

7 (3) EFFECTIVE DATE.—The amendments made
8 by this subsection shall apply to years beginning
9 after December 31, 2000.

10 (b) SPECIAL RULES FOR SECTIONS 403(b) AND
11 408.—

12 (1) IN GENERAL.—Subsection (k) of section
13 415 is amended by adding at the end the following
14 new paragraph:

15 “(4) SPECIAL RULES FOR SECTIONS 403(b) AND
16 408.—For purposes of this section, any annuity con-
17 tract described in section 403(b) for the benefit of
18 a participant shall be treated as a defined contribu-
19 tion plan maintained by each employer with respect
20 to which the participant has the control required
21 under subsection (b) or (c) of section 414 (as modi-
22 fied by subsection (h)). For purposes of this section,
23 any contribution by an employer to a simplified em-
24 ployee pension plan for an individual for a taxable
25 year shall be treated as an employer contribution to

1 a defined contribution plan for such individual for
2 such year.”.

3 (2) EFFECTIVE DATE.—

4 (A) IN GENERAL.—The amendment made
5 by paragraph (1) shall apply to limitation years
6 beginning after December 31, 1999.

7 (B) EXCLUSION ALLOWANCE.—Effective
8 for limitation years beginning in 2000, in the
9 case of any annuity contract described in sec-
10 tion 403(b) of the Internal Revenue Code of
11 1986, the amount of the contribution disquali-
12 fied by reason of section 415(g) of such Code
13 shall reduce the exclusion allowance as provided
14 in section 403(b)(2) of such Code.

15 (3) MODIFICATION OF 403(b) EXCLUSION AL-
16 LOWANCE TO CONFORM TO 415 MODIFICATION.—The
17 Secretary of the Treasury shall modify the regula-
18 tions regarding the exclusion allowance under section
19 403(b)(2) of the Internal Revenue Code of 1986 to
20 render void the requirement that contributions to a
21 defined benefit pension plan be treated as previously
22 excluded amounts for purposes of the exclusion al-
23 lowance. For taxable years beginning after Decem-
24 ber 31, 1999, such regulations shall be applied as if
25 such requirement were void.

1 (c) DEFERRED COMPENSATION PLANS OF STATE
2 AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-
3 ZATIONS.—

4 (1) IN GENERAL.—Subparagraph (B) of section
5 457(b)(2) (relating to salary limitation on eligible
6 deferred compensation plans) is amended by striking
7 “33 $\frac{1}{3}$ percent” and inserting “100 percent”.

8 (2) EFFECTIVE DATE.—The amendment made
9 by this subsection shall apply to years beginning
10 after December 31, 2000.

11 **SEC. 303. FASTER VESTING OF CERTAIN EMPLOYER**
12 **MATCHING CONTRIBUTIONS.**

13 (a) IN GENERAL.—Section 411(a) (relating to min-
14 imum vesting standards) is amended—

15 (1) in paragraph (2), by striking “A plan” and
16 inserting “Except as provided in paragraph (12), a
17 plan”; and

18 (2) by adding at the end the following:

19 “(12) FASTER VESTING FOR MATCHING CON-
20 TRIBUTIONS.—In the case of matching contributions
21 (as defined in section 401(m)(4)(A)), paragraph (2)
22 shall be applied—

23 “(A) by substituting ‘3 years’ for ‘5 years’
24 in subparagraph (A), and

1 “(B) by substituting the following table for
 2 the table contained in subparagraph (B):

“Years of service:	The nonforfeitable percentage is:
2	20
3	40
4	60
5	80
6	100.”.

3 (b) EFFECTIVE DATES.—

4 (1) IN GENERAL.—Except as provided in para-
 5 graph (2), the amendments made by this section
 6 shall apply to contributions for plan years beginning
 7 after December 31, 2000.

8 (2) COLLECTIVE BARGAINING AGREEMENTS.—

9 In the case of a plan maintained pursuant to one or
 10 more collective bargaining agreements between em-
 11 ployee representatives and one or more employers
 12 ratified by the date of the enactment of this Act, the
 13 amendments made by this section shall not apply to
 14 contributions on behalf of employees covered by any
 15 such agreement for plan years beginning before the
 16 earlier of—

17 (A) the later of—

18 (i) the date on which the last of such
 19 collective bargaining agreements termi-
 20 nates (determined without regard to any
 21 extension thereof on or after such date of
 22 the enactment); or

1 (ii) January 1, 2001; or

2 (B) January 1, 2005.

3 (3) SERVICE REQUIRED.—With respect to any
4 plan, the amendments made by this section shall not
5 apply to any employee before the date that such em-
6 ployee has 1 hour of service under such plan in any
7 plan year to which the amendments made by this
8 section apply.

9 **SEC. 304. SIMPLIFY AND UPDATE THE MINIMUM DISTRIBUTION RULES.**
10

11 (a) SIMPLIFICATION AND FINALIZATION OF MIN-
12 IMUM DISTRIBUTION REQUIREMENTS.—

13 (1) IN GENERAL.—The Secretary of the Treas-
14 ury shall—

15 (A) simplify and finalize the regulations re-
16 lating to minimum distribution requirements
17 under sections 401(a)(9), 408(a)(6) and (b)(3),
18 403(b)(10), and 457(d)(2) of the Internal Rev-
19 enue Code of 1986; and

20 (B) modify such regulations to—

21 (i) reflect current life expectancy; and

22 (ii) revise the required distribution
23 methods so that, under reasonable assump-
24 tions, the amount of the required minimum

1 distribution does not decrease over a par-
2 ticipant's life expectancy.

3 (2) FRESH START.—Notwithstanding subpara-
4 graph (D) of section 401(a)(9) of such Code, during
5 the first year that regulations are in effect under
6 this subsection, required distributions for future
7 years may be redetermined to reflect changes under
8 such regulations. Such redetermination shall include
9 the opportunity to choose a new designated bene-
10 ficiary and to elect a new method of calculating life
11 expectancy.

12 (3) EFFECTIVE DATE FOR REGULATIONS.—
13 Regulations referred to in paragraph (1) shall be ef-
14 fective for years beginning after December 31, 2000,
15 and shall apply in such years without regard to
16 whether an individual had previously begun receiving
17 minimum distributions.

18 (b) REPEAL OF RULE WHERE DISTRIBUTIONS HAD
19 BEGUN BEFORE DEATH OCCURS.—

20 (1) IN GENERAL.—Subparagraph (B) of section
21 401(a)(9) is amended by striking clause (i) and re-
22 designating clauses (ii), (iii), and (iv) as clauses (i),
23 (ii), and (iii), respectively.

24 (2) CONFORMING CHANGES.—

1 (A) Clause (i) of section 401(a)(9)(B) (as
2 so redesignated) is amended—

3 (i) by striking “FOR OTHER CASES” in
4 the heading; and

5 (ii) by striking “the distribution of the
6 employee’s interest has begun in accord-
7 ance with subparagraph (A)(ii)” and in-
8 serting “his entire interest has been dis-
9 tributed to him,”.

10 (B) Clause (ii) of section 401(a)(9)(B) (as
11 so redesignated) is amended by striking “clause
12 (ii)” and inserting “clause (i)”.

13 (C) Clause (iii) of section 401(a)(9)(B) (as
14 so redesignated) is amended—

15 (i) by striking “clause (iii)(I)” and in-
16 serting “clause (ii)(I)”;

17 (ii) by striking “clause (iii)(III)” in
18 subclause (I) and inserting “clause
19 (ii)(III)”;

20 (iii) by striking “the date on which
21 the employee would have attained the age
22 70¹/₂,” in subclause (I) and inserting
23 “April 1 of the calendar year following the
24 calendar year in which the spouse attains
25 70¹/₂,”; and

1 (iv) by striking “the distributions to
2 such spouse begin,” in subclause (II) and
3 inserting “his entire interest has been dis-
4 tributed to him,”.

5 (3) EFFECTIVE DATE.—The amendments made
6 by this subsection shall apply to years beginning
7 after December 31, 2000.

8 (c) REDUCTION IN EXCISE TAX.—

9 (1) IN GENERAL.—Subsection (a) of section
10 4974 is amended by striking “50 percent” and in-
11 sserting “10 percent”.

12 (2) EFFECTIVE DATE.—The amendment made
13 by this subsection shall apply to years beginning
14 after December 31, 2000.

15 **SEC. 305. CLARIFICATION OF TAX TREATMENT OF DIVISION**
16 **OF SECTION 457 PLAN BENEFITS UPON DI-**
17 **VORCE.**

18 (a) IN GENERAL.—Section 414(p)(11) (relating to
19 application of rules to governmental and church plans) is
20 amended—

21 (1) by inserting “or an eligible deferred com-
22 pensation plan (within the meaning of section
23 457(b))” after “subsection (e)”; and

1 (2) in the heading, by striking “GOVERN-
2 MENTAL AND CHURCH PLANS” and inserting “CER-
3 TAIN OTHER PLANS”.

4 (b) WAIVER OF CERTAIN DISTRIBUTION REQUIRE-
5 MENTS.—Paragraph (10) of section 414(p) is amended by
6 striking “and section 409(d)” and inserting “section
7 409(d), and section 457(d)”.

8 (c) TAX TREATMENT OF PAYMENTS FROM A SEC-
9 TION 457 PLAN.—Subsection (p) of section 414 is amend-
10 ed by redesignating paragraph (12) as paragraph (13) and
11 inserting after paragraph (11) the following new para-
12 graph:

13 “(12) TAX TREATMENT OF PAYMENTS FROM A
14 SECTION 457 PLAN.—If a distribution or payment
15 from an eligible deferred compensation plan de-
16 scribed in section 457(b) is made pursuant to a
17 qualified domestic relations order, rules similar to
18 the rules of section 402(e)(1)(A) shall apply to such
19 distribution or payment.”.

20 (d) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to transfers, distributions, and
22 payments made after December 31, 2000.

1 **SEC. 306. MODIFICATION OF SAFE HARBOR RELIEF FOR**
2 **HARDSHIP WITHDRAWALS FROM CASH OR**
3 **DEFERRED ARRANGEMENTS.**

4 (a) IN GENERAL.—The Secretary of the Treasury
5 shall revise the regulations relating to hardship distribu-
6 tions under section 401(k)(2)(B)(i)(IV) of the Internal
7 Revenue Code of 1986 to provide that the period an em-
8 ployee is prohibited from making elective and employee
9 contributions in order for a distribution to be deemed nec-
10 essary to satisfy financial need shall be equal to 6 months.

11 (b) EFFECTIVE DATE.—The revised regulations
12 under subsection (a) shall apply to years beginning after
13 December 31, 2000.

14 **TITLE IV—INCREASING PORT-**
15 **ABILITY FOR PARTICIPANTS**

16 **SEC. 401. ROLLOVERS ALLOWED AMONG VARIOUS TYPES**
17 **OF PLANS.**

18 (a) ROLLOVERS FROM AND TO SECTION 457
19 PLANS.—

20 (1) ROLLOVERS FROM SECTION 457 PLANS.—

21 (A) IN GENERAL.—Section 457(e) (relat-
22 ing to other definitions and special rules) is
23 amended by adding at the end the following:

24 “(16) ROLLOVER AMOUNTS.—

25 “(A) GENERAL RULE.—In the case of an
26 eligible deferred compensation plan established

1 and maintained by an employer described in
2 subsection (e)(1)(A), if—

3 “(i) any portion of the balance to the
4 credit of an employee in such plan is paid
5 to such employee in an eligible rollover dis-
6 tribution (within the meaning of section
7 402(c)(4) without regard to subparagraph
8 (C) thereof),

9 “(ii) the employee transfers any por-
10 tion of the property such employee receives
11 in such distribution to an eligible retire-
12 ment plan described in section
13 402(c)(8)(B), and

14 “(iii) in the case of a distribution of
15 property other than money, the amount so
16 transferred consists of the property distrib-
17 uted,

18 then such distribution (to the extent so trans-
19 ferred) shall not be includible in gross income
20 for the taxable year in which paid.

21 “(B) CERTAIN RULES MADE APPLICA-
22 BLE.—The rules of paragraphs (2) through (7)
23 (other than paragraph (4)(C)) and (9) of sec-
24 tion 402(c) and section 402(f) shall apply for
25 purposes of subparagraph (A).

1 “(C) REPORTING.—Rollovers under this
2 paragraph shall be reported to the Secretary in
3 the same manner as rollovers from qualified re-
4 tirement plans (as defined in section
5 4974(c)).”.

6 (B) DEFERRAL LIMIT DETERMINED WITH-
7 OUT REGARD TO ROLLOVER AMOUNTS.—Section
8 457(b)(2) (defining eligible deferred compensa-
9 tion plan) is amended by inserting “(other than
10 rollover amounts)” after “taxable year”.

11 (C) DIRECT ROLLOVER.—Paragraph (1) of
12 section 457(d) is amended by striking “and” at
13 the end of subparagraph (A), by striking the
14 period at the end of subparagraph (B) and in-
15 serting “, and”, and by inserting after subpara-
16 graph (B) the following:

17 “(C) in the case of a plan maintained by
18 an employer described in subsection (e)(1)(A),
19 the plan meets requirements similar to the re-
20 quirements of section 401(a)(31).

21 Any amount transferred in a direct trustee-to-trust-
22 ee transfer in accordance with section 401(a)(31)
23 shall not be includible in gross income for the tax-
24 able year of transfer.”.

25 (D) WITHHOLDING.—

1 (i) Paragraph (12) of section 3401(a)
2 is amended by adding at the end the fol-
3 lowing:

4 “(E) under or to an eligible deferred com-
5 pensation plan which, at the time of such pay-
6 ment, is a plan described in section 457(b)
7 maintained by an employer described in section
8 457(e)(1)(A); or”.

9 (ii) Paragraph (3) of section 3405(c)
10 is amended to read as follows:

11 “(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For
12 purposes of this subsection, the term ‘eligible roll-
13 over distribution’ has the meaning given such term
14 by section 402(f)(2)(A).”.

15 (iii) LIABILITY FOR WITHHOLDING.—
16 Subparagraph (B) of section 3405(d)(2) is
17 amended by striking “or” at the end of
18 clause (ii), by striking the period at the
19 end of clause (iii) and inserting “, or”, and
20 by adding at the end the following:

21 “(iv) section 457(b).”.

22 (2) ROLLOVERS TO SECTION 457 PLANS.—

23 (A) IN GENERAL.—Section 402(c)(8)(B)
24 (defining eligible retirement plan) is amended
25 by striking “and” at the end of clause (iii), by

1 striking the period at the end of clause (iv) and
2 inserting “, and”, and by inserting after clause
3 (iv) the following new clause:

4 “(v) an eligible deferred compensation
5 plan described in section 457(b) of an em-
6 ployer described in section 457(e)(1)(A).”.

7 (B) SEPARATE ACCOUNTING.—Section
8 402(c) is amended by adding at the end the fol-
9 lowing new paragraph:

10 “(11) SEPARATE ACCOUNTING.—Unless a plan
11 described in clause (v) of paragraph (8)(B) agrees to
12 separately account for amounts rolled into such plan
13 from eligible retirement plans not described in such
14 clause, the plan described in such clause may not ac-
15 cept transfers or rollovers from such retirement
16 plans.”.

17 (C) 10 PERCENT ADDITIONAL TAX.—Sub-
18 section (t) of section 72 (relating to 10-percent
19 additional tax on early distributions from quali-
20 fied retirement plans) is amended by adding at
21 the end the following new paragraph:

22 “(9) SPECIAL RULE FOR ROLLOVERS TO SEC-
23 TION 457 PLANS.—For purposes of this subsection,
24 a distribution from an eligible deferred compensation
25 plan (as defined in section 457(b)) of an employer

1 described in section 457(e)(1)(A) shall be treated as
2 a distribution from a qualified retirement plan de-
3 scribed in 4974(c)(1) to the extent that such dis-
4 tribution is attributable to an amount transferred to
5 an eligible deferred compensation plan from a quali-
6 fied retirement plan (as defined in section
7 4974(c)).”.

8 (b) ALLOWANCE OF ROLLOVERS FROM AND TO 403
9 (b) PLANS.—

10 (1) ROLLOVERS FROM SECTION 403 (b)
11 PLANS.—Section 403(b)(8)(A)(ii) (relating to roll-
12 over amounts) is amended by striking “such dis-
13 tribution” and all that follows and inserting “such
14 distribution to an eligible retirement plan described
15 in section 402(c)(8)(B), and”.

16 (2) ROLLOVERS TO SECTION 403 (b) PLANS.—
17 Section 402(c)(8)(B) (defining eligible retirement
18 plan), as amended by subsection (a), is amended by
19 striking “and” at the end of clause (iv), by striking
20 the period at the end of clause (v) and inserting “,
21 and”, and by inserting after clause (v) the following
22 new clause:

23 “(vi) an annuity contract described in
24 section 403(b).”.

1 (c) EXPANDED EXPLANATION TO RECIPIENTS OF
2 ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section
3 402(f) (relating to written explanation to recipients of dis-
4 tributions eligible for rollover treatment) is amended by
5 striking “and” at the end of subparagraph (C), by striking
6 the period at the end of subparagraph (D) and inserting
7 “, and”, and by adding at the end the following new sub-
8 paragraph:

9 “(E) of the provisions under which dis-
10 tributions from the eligible retirement plan re-
11 ceiving the distribution may be subject to re-
12 strictions and tax consequences which are dif-
13 ferent from those applicable to distributions
14 from the plan making such distribution.”.

15 (d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relat-
16 ing to rollover where spouse receives distribution after
17 death of employee) is amended by striking “; except that”
18 and all that follows up to the end period.

19 (e) CONFORMING AMENDMENTS.—

20 (1) Section 72(o)(4) is amended by striking
21 “and 408(d)(3)” and inserting “403(b)(8),
22 408(d)(3), and 457(e)(16)”.

23 (2) Section 219(d)(2) is amended by striking
24 “or 408(d)(3)” and inserting “408(d)(3), or
25 457(e)(16)”.

1 (3) Section 401(a)(31)(B) is amended by strik-
2 ing “and 403(a)(4)” and inserting “, 403(a)(4),
3 403(b)(8), and 457(e)(16)”.

4 (4) Subparagraph (A) of section 402(f)(2) is
5 amended by striking “or paragraph (4) of section
6 403(a)” and inserting “, paragraph (4) of section
7 403(a), subparagraph (A) of section 403(b)(8), or
8 subparagraph (A) of section 457(e)(16)”.

9 (5) Paragraph (1) of section 402(f) is amended
10 by striking “from an eligible retirement plan”.

11 (6) Subparagraphs (A) and (B) of section
12 402(f)(1) are amended by striking “another eligible
13 retirement plan” and inserting “an eligible retire-
14 ment plan”.

15 (7) Subparagraph (B) of section 403(b)(8) is
16 amended to read as follows:

17 “(B) CERTAIN RULES MADE APPLICA-
18 BLE.—The rules of paragraphs (2) through (7)
19 and (9) of section 402(c) and section 402(f)
20 shall apply for purposes of subparagraph (A),
21 except that section 402(f) shall be applied to
22 the payor in lieu of the plan administrator.”.

23 (8) Section 408(a)(1) is amended by striking
24 “or 403(b)(8)” and inserting “, 403(b)(8), or
25 457(e)(16)”.

1 (9) Subparagraphs (A) and (B) of section
2 415(b)(2) are each amended by striking “and
3 408(d)(3)” and inserting “403(b)(8), 408(d)(3), and
4 457(e)(16)”.

5 (10) Section 415(c)(2) is amended by striking
6 “and 408(d)(3)” and inserting “408(d)(3), and
7 457(e)(16)”.

8 (11) Section 4973(b)(1)(A) is amended by
9 striking “or 408(d)(3)” and inserting “408(d)(3), or
10 457(e)(16)”.

11 (f) EFFECTIVE DATE; SPECIAL RULE.—

12 (1) EFFECTIVE DATE.—The amendments made
13 by this section shall apply to distributions after De-
14 cember 31, 2000.

15 (2) SPECIAL RULE.—Notwithstanding any other
16 provision of law, subsections (h)(3) and (h)(5) of
17 section 1122 of the Tax Reform Act of 1986 shall
18 not apply to any distribution from an eligible retire-
19 ment plan (as defined in clause (iii) or (iv) of section
20 402(c)(8)(B) of the Internal Revenue Code of 1986)
21 on behalf of an individual if there was a rollover to
22 such plan on behalf of such individual which is per-
23 mitted solely by reason of any amendment made by
24 this section.

1 **SEC. 402. ROLLOVERS OF IRAS INTO WORKPLACE RETIRE-**
2 **MENT PLANS.**

3 (a) IN GENERAL.—Subparagraph (A) of section
4 408(d)(3) (relating to rollover amounts) is amended by
5 adding “or” at the end of clause (i), by striking clauses
6 (ii) and (iii), and by adding at the end the following:

7 “(ii) the entire amount received (in-
8 cluding money and any other property) is
9 paid into an eligible retirement plan for
10 the benefit of such individual not later
11 than the 60th day after the date on which
12 the payment or distribution is received, ex-
13 cept that the maximum amount which may
14 be paid into such plan may not exceed the
15 portion of the amount received which is in-
16 cludible in gross income (determined with-
17 out regard to this paragraph).

18 For purposes of clause (ii), the term ‘eligible re-
19 tirement plan’ means an eligible retirement plan
20 described in clause (iii), (iv), (v), or (vi) of sec-
21 tion 402(c)(8)(B).”.

22 (b) CONFORMING AMENDMENTS.—

23 (1) Paragraph (1) of section 403(b) is amended
24 by striking “section 408(d)(3)(A)(iii)” and inserting
25 “section 408(d)(3)(A)(ii)”.

1 (2) Clause (i) of section 408(d)(3)(D) is amend-
2 ed by striking “(i), (ii), or (iii)” and inserting “(i)
3 or (ii)”.

4 (3) Subparagraph (G) of section 408(d)(3) is
5 amended to read as follows:

6 “(G) SIMPLE RETIREMENT ACCOUNTS.—In
7 the case of any payment or distribution out of
8 a simple retirement account (as defined in sub-
9 section (p)) to which section 72(t)(6) applies,
10 this paragraph shall not apply unless such pay-
11 ment or distribution is paid into another simple
12 retirement account.”.

13 (c) EFFECTIVE DATE; SPECIAL RULE.—

14 (1) EFFECTIVE DATE.—The amendments made
15 by this section shall apply to distributions after De-
16 cember 31, 2000.

17 (2) SPECIAL RULE.—Notwithstanding any other
18 provision of law, subsections (h)(3) and (h)(5) of
19 section 1122 of the Tax Reform Act of 1986 shall
20 not apply to any distribution from an eligible retire-
21 ment plan (as defined in clause (iii) or (iv) of section
22 402(c)(8)(B) of the Internal Revenue Code of 1986)
23 on behalf of an individual if there was a rollover to
24 such plan on behalf of such individual which is per-

1 mitted solely by reason of the amendments made by
2 this section.

3 **SEC. 403. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.**

4 (a) ROLLOVERS FROM EXEMPT TRUSTS.—Para-
5 graph (2) of section 402(e) (relating to maximum amount
6 which may be rolled over) is amended by adding at the
7 end the following: “The preceding sentence shall not apply
8 to such distribution to the extent—

9 “(A) such portion is transferred in a direct
10 trustee-to-trustee transfer to a qualified trust
11 which is part of a plan which is a defined con-
12 tribution plan and which agrees to separately
13 account for amounts so transferred, including
14 separately accounting for the portion of such
15 distribution which is includible in gross income
16 and the portion of such distribution which is
17 not so includible, or

18 “(B) such portion is transferred to an eli-
19 gible retirement plan described in clause (i) or
20 (ii) of paragraph (8)(B).”.

21 (b) OPTIONAL DIRECT TRANSFER OF ELIGIBLE
22 ROLLOVER DISTRIBUTIONS.—Subparagraph (B) of sec-
23 tion 401(a)(31) (relating to limitation) is amended by add-
24 ing at the end the following: “The preceding sentence shall

1 not apply to such distribution if the plan to which such
2 distribution is transferred—

3 “(i) agrees to separately account for
4 amounts so transferred, including sepa-
5 rately accounting for the portion of such
6 distribution which is includible in gross in-
7 come and the portion of such distribution
8 which is not so includible, or

9 “(ii) is an eligible retirement plan de-
10 scribed in clause (i) or (ii) of section
11 402(c)(8)(B).”.

12 (c) RULES FOR APPLYING SECTION 72 TO IRAS.—
13 Paragraph (3) of section 408(d) (relating to special rules
14 for applying section 72) is amended by inserting at the
15 end the following:

16 “(H) APPLICATION OF SECTION 72.—

17 “(i) IN GENERAL.—If—

18 “(I) a distribution is made from
19 an individual retirement plan, and

20 “(II) a rollover contribution is
21 made to an eligible retirement plan
22 described in section 402(c)(8)(B)(iii),
23 (iv), (v), or (vi) with respect to all or
24 part of such distribution,

1 then, notwithstanding paragraph (2), the
2 rules of clause (ii) shall apply for purposes
3 of applying section 72.

4 “(ii) APPLICABLE RULES.—In the
5 case of a distribution described in clause
6 (i)—

7 “(I) section 72 shall be applied
8 separately to such distribution,

9 “(II) notwithstanding the pro
10 rata allocation of income on, and in-
11 vestment in, the contract to distribu-
12 tions under section 72, the portion of
13 such distribution rolled over to an eli-
14 gible retirement plan described in
15 clause (i) shall be treated as from in-
16 come on the contract (to the extent of
17 the aggregate income on the contract
18 from all individual retirement plans of
19 the distributee), and

20 “(III) appropriate adjustments
21 shall be made in applying section 72
22 to other distributions in such taxable
23 year and subsequent taxable years.”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to distributions made after Decem-
3 ber 31, 2000.

4 **SEC. 404. HARDSHIP EXCEPTION TO 60-DAY RULE.**

5 (a) EXEMPT TRUSTS.—Paragraph (3) of section
6 402(c) (relating to transfer must be made within 60 days
7 of receipt) is amended to read as follows:

8 “(3) TRANSFER MUST BE MADE WITHIN 60
9 DAYS OF RECEIPT.—

10 “(A) IN GENERAL.—Except as provided in
11 subparagraph (B), paragraph (1) shall not
12 apply to any transfer of a distribution made
13 after the 60th day following the day on which
14 the distributee received the property distrib-
15 uted.

16 “(B) HARDSHIP EXCEPTION.—The Sec-
17 retary may waive the 60-day requirement under
18 subparagraph (A) where the failure to waive
19 such requirement would be against equity or
20 good conscience, including casualty, disaster, or
21 other events beyond the reasonable control of
22 the individual subject to such requirement.”.

23 (b) IRAS.—Paragraph (3) of section 408(d) (relating
24 to rollover contributions), as amended by section 403, is

1 amended by adding after subparagraph (H) the following
2 new subparagraph:

3 “(I) WAIVER OF 60-DAY REQUIREMENT.—
4 The Secretary may waive the 60-day require-
5 ment under subparagraphs (A) and (D) where
6 the failure to waive such requirement would be
7 against equity or good conscience, including
8 casualty, disaster, or other events beyond the
9 reasonable control of the individual subject to
10 such requirement.”.

11 (c) EFFECTIVE DATE.—The amendments made by
12 this section shall apply to distributions after December 31,
13 2000.

14 **SEC. 405. TREATMENT OF FORMS OF DISTRIBUTION.**

15 (a) PLAN TRANSFERS.—

16 (1) IN GENERAL.—Paragraph (6) of section
17 411(d) (relating to accrued benefit not to be de-
18 creased by amendment) is amended by adding at the
19 end the following:

20 “(D) PLAN TRANSFERS.—

21 “(i) IN GENERAL.—A defined con-
22 tribution plan (in this subparagraph re-
23 ferred to as the ‘transferee plan’) shall not
24 be treated as failing to meet the require-
25 ments of this subsection merely because

1 the transferee plan does not provide some
2 or all of the forms of distribution pre-
3 viously available under another defined
4 contribution plan (in this subparagraph re-
5 ferred to as the ‘transferor plan’) to the
6 extent that—

7 “(I) the forms of distribution
8 previously available under the trans-
9 feror plan applied to the account of a
10 participant or beneficiary under the
11 transferor plan that was transferred
12 from the transferor plan to the trans-
13 feree plan pursuant to a direct trans-
14 fer rather than pursuant to a distribu-
15 tion from the transferor plan,

16 “(II) the terms of both the trans-
17 feror plan and the transferee plan au-
18 thorize the transfer described in sub-
19 clause (I),

20 “(III) the transfer described in
21 subclause (I) was made pursuant to a
22 voluntary election by the participant
23 or beneficiary whose account was
24 transferred to the transferee plan,

1 “(IV) the election described in
2 subclause (III) was made after the
3 participant or beneficiary received a
4 notice describing the consequences of
5 making the election,

6 “(V) if the transferor plan pro-
7 vides for an annuity as the normal
8 form of distribution under the plan in
9 accordance with section 417, the
10 transfer is made with the consent of
11 the participant’s spouse (if any), and
12 such consent meets requirements simi-
13 lar to the requirements imposed by
14 section 417(a)(2), and

15 “(VI) the transferee plan allows
16 the participant or beneficiary de-
17 scribed in subclause (III) to receive
18 any distribution to which the partici-
19 pant or beneficiary is entitled under
20 the transferee plan in the form of a
21 single sum distribution.

22 “(ii) EXCEPTION.—Clause (i) shall
23 apply to plan mergers and other trans-
24 actions having the effect of a direct trans-
25 fer, including consolidations of benefits at-

1 tributable to different employers within a
2 multiple employer plan.

3 “(E) ELIMINATION OF FORM OF DISTRIBUTION.—Except to the extent provided in regula-
4 tions, a defined contribution plan shall not be
5 treated as failing to meet the requirements of
6 this section merely because of the elimination of
7 a form of distribution previously available there-
8 under. This subparagraph shall not apply to the
9 elimination of a form of distribution with re-
10 spect to any participant unless—

11 “(i) a single sum payment is available
12 to such participant at the same time or
13 times as the form of distribution being
14 eliminated, and
15

16 “(ii) such single sum payment is
17 based on the same or greater portion of
18 the participant’s account as the form of
19 distribution being eliminated.”.

20 (2) EFFECTIVE DATE.—The amendment made
21 by this subsection shall apply to years beginning
22 after December 31, 2000.

23 (b) REGULATIONS.—

24 (1) IN GENERAL.—The last sentence of para-
25 graph (6)(B) of section 411(d) (relating to accrued

1 benefit not to be decreased by amendment) is
2 amended to read as follows: “The Secretary shall by
3 regulations provide that this subparagraph shall not
4 apply to any plan amendment that does not ad-
5 versely affect the rights of participants in a material
6 manner.”.

7 (2) SECRETARY DIRECTED.—Not later than
8 December 31, 2001, the Secretary of the Treasury
9 is directed to issue final regulations under section
10 411(d)(6) of the Internal Revenue Code of 1986, in-
11 cluding the regulations required by the amendments
12 made by this subsection. Such regulations shall
13 apply to plan years beginning after December 31,
14 2001, or such earlier date as is specified by the Sec-
15 retary of the Treasury.

16 **SEC. 406. RATIONALIZATION OF RESTRICTIONS ON DIS-**
17 **TRIBUTIONS.**

18 (a) MODIFICATION OF SAME DESK EXCEPTION.—

19 (1) SECTION 401(k).—

20 (A) Section 401(k)(2)(B)(i)(I) (relating to
21 qualified cash or deferred arrangements) is
22 amended by striking “separation from service”
23 and inserting “severance from employment”.

24 (B) Subparagraph (A) of section
25 401(k)(10) (relating to distributions upon ter-

1 mination of plan or disposition of assets or sub-
2 sidiary) is amended to read as follows:

3 “(A) IN GENERAL.—An event described in
4 this subparagraph is the termination of the
5 plan without establishment or maintenance of
6 another defined contribution plan (other than
7 an employee stock ownership plan as defined in
8 section 4975(e)(7)).”.

9 (C) Section 401(k)(10) is amended—

10 (i) in subparagraph (B)—

11 (I) by striking “An event” in
12 clause (i) and inserting “A termi-
13 nation”; and

14 (II) by striking “the event” in
15 clause (i) and inserting “the termi-
16 nation”;

17 (ii) by striking subparagraph (C); and

18 (iii) by striking “OR DISPOSITION OF
19 ASSETS OR SUBSIDIARY” in the heading.

20 (2) SECTION 403(b).—

21 (A) Paragraphs (7)(A)(ii) and (11)(A) of
22 section 403(b) are each amended by striking
23 “separates from service” and inserting “has a
24 severance from employment”.

1 (B) The heading for paragraph (11) of
2 section 403(b) is amended by striking “SEPARA-
3 TION FROM SERVICE” and inserting “SEVER-
4 ANCE FROM EMPLOYMENT”.

5 (3) SECTION 457.—Clause (ii) of section
6 457(d)(1)(A) is amended by striking “is separated
7 from service” and inserting “has a severance from
8 employment”.

9 (b) EFFECTIVE DATE.—The amendments made by
10 this section shall apply to distributions after December 31,
11 2000.

12 **SEC. 407. PURCHASE OF SERVICE CREDIT IN GOVERN-**
13 **MENTAL DEFINED BENEFIT PLANS.**

14 (a) 403(b) PLANS.—Subsection (b) of section 403 is
15 amended by adding at the end the following new para-
16 graph:

17 “(13) TRUSTEE-TO-TRUSTEE TRANSFERS TO
18 PURCHASE PERMISSIVE SERVICE CREDIT.—No
19 amount shall be includible in gross income by reason
20 of a direct trustee-to-trustee transfer to a defined
21 benefit governmental plan (as defined in section
22 414(d)) if such transfer is—

23 “(A) for the purchase of permissive service
24 credit (as defined in section 415(n)(3)(A))
25 under such plan, or

1 “(B) a repayment to which section 415
2 does not apply by reason of subsection (k)(3)
3 thereof.”.

4 (b) 457 PLANS.—Subsection (e) of section 457 is
5 amended by adding after paragraph (16) the following
6 new paragraph:

7 “(17) TRUSTEE-TO-TRUSTEE TRANSFERS TO
8 PURCHASE PERMISSIVE SERVICE CREDIT.—No
9 amount shall be includible in gross income by reason
10 of a direct trustee-to-trustee transfer to a defined
11 benefit governmental plan (as defined in section
12 414(d)) if such transfer is—

13 “(A) for the purchase of permissive service
14 credit (as defined in section 415(n)(3)(A))
15 under such plan, or

16 “(B) a repayment to which section 415
17 does not apply by reason of subsection (k)(3)
18 thereof.”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to trustee-to-trustee transfers after
21 December 31, 2000.

1 **SEC. 408. EMPLOYERS MAY DISREGARD ROLLOVERS FOR**
2 **PURPOSES OF CASH-OUT AMOUNTS.**

3 (a) **QUALIFIED PLANS.**—Section 411(a)(11) (relating
4 to restrictions on certain mandatory distributions) is
5 amended by adding at the end the following:

6 “(D) **SPECIAL RULE FOR ROLLOVER CON-**
7 **TRIBUTIONS.**—A plan shall not fail to meet the
8 requirements of this paragraph if, under the
9 terms of the plan, the present value of the non-
10 forfeitable accrued benefit is determined with-
11 out regard to that portion of such benefit which
12 is attributable to rollover contributions (and
13 earnings allocable thereto). For purposes of this
14 subparagraph, the term ‘rollover contributions’
15 means any rollover contribution under sections
16 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii),
17 and 457(e)(16).”.

18 (b) **ELIGIBLE DEFERRED COMPENSATION PLANS.**—
19 Clause (i) of section 457(e)(9)(A) is amended by striking
20 “such amount” and inserting “the portion of such amount
21 which is not attributable to rollover contributions (as de-
22 fined in section 411(a)(11)(D))”.

23 (c) **EFFECTIVE DATE.**—The amendments made by
24 this section shall apply to distributions after December 31,
25 2000.

1 **SEC. 409. MINIMUM DISTRIBUTION AND INCLUSION RE-**
2 **QUIREMENTS FOR SECTION 457 PLANS.**

3 (a) MINIMUM DISTRIBUTION REQUIREMENTS.—
4 Paragraph (2) of section 457(d) (relating to distribution
5 requirements) is amended to read as follows:

6 “(2) MINIMUM DISTRIBUTION REQUIRE-
7 MENTS.—A plan meets the minimum distribution re-
8 quirements of this paragraph if such plan meets the
9 requirements of section 401(a)(9).”.

10 (b) INCLUSION IN GROSS INCOME.—

11 (1) YEAR OF INCLUSION.—Subsection (a) of
12 section 457 (relating to year of inclusion in gross in-
13 come) is amended to read as follows:

14 “(a) YEAR OF INCLUSION IN GROSS INCOME.—

15 “(1) IN GENERAL.—Any amount of compensa-
16 tion deferred under an eligible deferred compensa-
17 tion plan, and any income attributable to the
18 amounts so deferred, shall be includible in gross in-
19 come only for the taxable year in which such com-
20 pensation or other income—

21 “(A) is paid to the participant or other
22 beneficiary, in the case of a plan of an eligible
23 employer described in subsection (e)(1)(A), and

24 “(B) is paid or otherwise made available to
25 the participant or other beneficiary, in the case

1 of a plan of an eligible employer described in
2 subsection (e)(1)(B).

3 “(2) SPECIAL RULE FOR ROLLOVER
4 AMOUNTS.—To the extent provided in section
5 72(t)(9), section 72(t) shall apply to any amount in-
6 cludible in gross income under this subsection.”.

7 (2) CONFORMING AMENDMENTS.—

8 (A) So much of paragraph (9) of section
9 457(e) as precedes subparagraph (A) is amend-
10 ed to read as follows:

11 “(9) BENEFITS OF TAX EXEMPT ORGANIZATION
12 PLANS NOT TREATED AS MADE AVAILABLE BY REA-
13 SON OF CERTAIN ELECTIONS, ETC.—In the case of
14 an eligible deferred compensation plan of an em-
15 ployer described in subsection (e)(1)(B)—”.

16 (B) Section 457(d) is amended by adding
17 at the end the following new paragraph:

18 “(3) SPECIAL RULE FOR GOVERNMENT PLAN.—
19 An eligible deferred compensation plan of an em-
20 ployer described in subsection (e)(1)(A) shall not be
21 treated as failing to meet the requirements of this
22 subsection solely by reason of making a distribution
23 described in subsection (e)(9)(A).”.

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to distributions after December 31,
 3 2000.

4 **TITLE V—STRENGTHENING PEN-**
 5 **SION SECURITY AND EN-**
 6 **FORCEMENT**

7 **SEC. 501. REPEAL OF 150 PERCENT OF CURRENT LIABILITY**
 8 **FUNDING LIMIT.**

9 (a) IN GENERAL.—Section 412(c)(7) (relating to
 10 full-funding limitation) is amended—

11 (1) by striking “the applicable percentage” in
 12 subparagraph (A)(i)(I) and inserting “in the case of
 13 plan years beginning before January 1, 2004, the
 14 applicable percentage”; and

15 (2) by amending subparagraph (F) to read as
 16 follows:

17 “(F) APPLICABLE PERCENTAGE.—For
 18 purposes of subparagraph (A)(i)(I), the applica-
 19 ble percentage shall be determined in accord-
 20 ance with the following table:

“In the case of any plan year beginning in—	The applicable percentage is—
2001	160
2002	165
2003	170.”.

21 (b) EFFECTIVE DATE.—The amendments made by
 22 this section shall apply to plan years beginning after De-
 23 cember 31, 2000.

1 **SEC. 502. MAXIMUM CONTRIBUTION DEDUCTION RULES**
2 **MODIFIED AND APPLIED TO ALL DEFINED**
3 **BENEFIT PLANS.**

4 (a) IN GENERAL.—Subparagraph (D) of section
5 404(a)(1) (relating to special rule in case of certain plans)
6 is amended to read as follows:

7 “(D) SPECIAL RULE IN CASE OF CERTAIN
8 PLANS.—

9 “(i) IN GENERAL.—In the case of any
10 defined benefit plan, except as provided in
11 regulations, the maximum amount deduct-
12 ible under the limitations of this paragraph
13 shall not be less than the unfunded termi-
14 nation liability (determined as if the pro-
15 posed termination date referred to in sec-
16 tion 4041(b)(2)(A)(i)(II) of the Employee
17 Retirement Income Security Act of 1974
18 were the last day of the plan year).

19 “(ii) PLANS WITH LESS THAN 100
20 PARTICIPANTS.—For purposes of this sub-
21 paragraph, in the case of a plan which has
22 less than 100 participants for the plan
23 year, termination liability shall not include
24 the liability attributable to benefit in-
25 creases for highly compensated employees
26 (as defined in section 414(q)) resulting

1 from a plan amendment which is made or
2 becomes effective, whichever is later, within
3 the last 2 years before the termination
4 date.

5 “(iii) RULE FOR DETERMINING NUM-
6 BER OF PARTICIPANTS.—For purposes of
7 determining whether a plan has more than
8 100 participants, all defined benefit plans
9 maintained by the same employer (or any
10 member of such employer’s controlled
11 group (within the meaning of section
12 412(l)(8)(C))) shall be treated as one plan,
13 but only employees of such member or em-
14 ployer shall be taken into account.

15 “(iv) PLANS ESTABLISHED AND MAIN-
16 TAIN BY PROFESSIONAL SERVICE EMPLOY-
17 ERS.—Clause (i) shall not apply to a plan
18 described in section 4021(b)(13) of the
19 Employee Retirement Income Security Act
20 of 1974.”.

21 (b) CONFORMING AMENDMENT.—Paragraph (6) of
22 section 4972(c) is amended to read as follows:

23 “(6) EXCEPTIONS.—In determining the amount
24 of nondeductible contributions for any taxable year,
25 there shall not be taken into account so much of the

1 contributions to one or more defined contribution
2 plans which are not deductible when contributed
3 solely because of section 404(a)(7) as does not ex-
4 ceed the greater of—

5 “(A) the amount of contributions not in
6 excess of 6 percent of compensation (within the
7 meaning of section 404(a)) paid or accrued
8 (during the taxable year for which the contribu-
9 tions were made) to beneficiaries under the
10 plans, or

11 “(B) the sum of—

12 “(i) the amount of contributions de-
13 scribed in section 401(m)(4)(A), plus

14 “(ii) the amount of contributions de-
15 scribed in section 402(g)(3)(A).

16 For purposes of this paragraph, the deductible limits
17 under section 404(a)(7) shall first be applied to
18 amounts contributed to a defined benefit plan and
19 then to amounts described in subparagraph (B).”.

20 (c) EFFECTIVE DATE.—The amendments made by
21 this section shall apply to plan years beginning after De-
22 cember 31, 2000.

1 **SEC. 503. EXCISE TAX RELIEF FOR SOUND PENSION FUND-**
2 **ING.**

3 (a) **IN GENERAL.**—Subsection (c) of section 4972
4 (relating to nondeductible contributions) is amended by
5 adding at the end the following new paragraph:

6 “(7) **DEFINED BENEFIT PLAN EXCEPTION.**—In
7 determining the amount of nondeductible contribu-
8 tions for any taxable year, an employer may elect for
9 such year not to take into account any contributions
10 to a defined benefit plan except to the extent that
11 such contributions exceed the full-funding limitation
12 (as defined in section 412(c)(7), determined without
13 regard to subparagraph (A)(i)(I) thereof). For pur-
14 poses of this paragraph, the deductible limits under
15 section 404(a)(7) shall first be applied to amounts
16 contributed to defined contribution plans and then
17 to amounts described in this paragraph. If an em-
18 ployer makes an election under this paragraph for a
19 taxable year, paragraph (6) shall not apply to such
20 employer for such taxable year.”.

21 (b) **EFFECTIVE DATE.**—The amendments made by
22 this section shall apply to years beginning after December
23 31, 2000.

1 **SEC. 504. EXCISE TAX ON FAILURE TO PROVIDE NOTICE BY**
2 **DEFINED BENEFIT PLANS SIGNIFICANTLY**
3 **REDUCING FUTURE BENEFIT ACCRUALS.**

4 (a) IN GENERAL.—Chapter 43 (relating to qualified
5 pension, etc., plans) is amended by adding at the end the
6 following new section:

7 **“SEC. 4980F. FAILURE OF APPLICABLE PLANS REDUCING**
8 **BENEFIT ACCRUALS TO SATISFY NOTICE RE-**
9 **QUIREMENTS.**

10 “(a) IMPOSITION OF TAX.—There is hereby imposed
11 a tax on the failure of any applicable pension plan to meet
12 the requirements of subsection (e) with respect to any ap-
13 plicable individual.

14 “(b) AMOUNT OF TAX.—

15 “(1) IN GENERAL.—The amount of the tax im-
16 posed by subsection (a) on any failure with respect
17 to any applicable individual shall be \$100 for each
18 day in the noncompliance period with respect to such
19 failure.

20 “(2) NONCOMPLIANCE PERIOD.—For purposes
21 of this section, the term ‘noncompliance period’
22 means, with respect to any failure, the period begin-
23 ning on the date the failure first occurs and ending
24 on the date the failure is corrected.

25 “(c) LIMITATIONS ON AMOUNT OF TAX.—

1 “(1) OVERALL LIMITATION FOR UNINTEN-
2 TIONAL FAILURES.—In the case of failures that are
3 due to reasonable cause and not to willful neglect,
4 the tax imposed by subsection (a) for failures during
5 the taxable year of the employer (or, in the case of
6 a multiemployer plan, the taxable year of the trust
7 forming part of the plan) shall not exceed \$500,000.
8 For purposes of the preceding sentence, all multiem-
9 ployer plans of which the same trust forms a part
10 shall be treated as one plan. For purposes of this
11 paragraph, if not all persons who are treated as a
12 single employer for purposes of this section have the
13 same taxable year, the taxable years taken into ac-
14 count shall be determined under principles similar to
15 the principles of section 1561.

16 “(2) WAIVER BY SECRETARY.—In the case of a
17 failure which is due to reasonable cause and not to
18 willful neglect, the Secretary may waive part or all
19 of the tax imposed by subsection (a) to the extent
20 that the payment of such tax would be excessive rel-
21 ative to the failure involved.

22 “(d) LIABILITY FOR TAX.—The following shall be lia-
23 ble for the tax imposed by subsection (a):

24 “(1) In the case of a plan other than a multi-
25 employer plan, the employer.

1 “(2) In the case of a multiemployer plan, the
2 plan.

3 “(e) NOTICE REQUIREMENTS FOR PLANS SIGNIFI-
4 CANTLY REDUCING BENEFIT ACCRUALS.—

5 “(1) IN GENERAL.—If an applicable pension
6 plan is amended to provide for a significant reduc-
7 tion in the rate of future benefit accrual, the plan
8 administrator shall provide written notice to each
9 applicable individual (and to each employee organi-
10 zation representing applicable individuals).

11 “(2) NOTICE.—The notice required by para-
12 graph (1) shall be written in a manner calculated to
13 be understood by the average plan participant and
14 shall provide sufficient information (as determined
15 in accordance with regulations prescribed by the
16 Secretary) to allow applicable individuals to under-
17 stand the effect of the plan amendment.

18 “(3) TIMING OF NOTICE.—Except as provided
19 in regulations, the notice required by paragraph (1)
20 shall be provided within a reasonable time before the
21 effective date of the plan amendment.

22 “(4) DESIGNEES.—Any notice under paragraph
23 (1) may be provided to a person designated, in writ-
24 ing, by the person to which it would otherwise be
25 provided.

1 “(5) NOTICE BEFORE ADOPTION OF AMEND-
2 MENT.—A plan shall not be treated as failing to
3 meet the requirements of paragraph (1) merely be-
4 cause notice is provided before the adoption of the
5 plan amendment if no material modification of the
6 amendment occurs before the amendment is adopt-
7 ed.

8 “(f) APPLICABLE INDIVIDUAL; APPLICABLE PEN-
9 SION PLAN.—For purposes of this section—

10 “(1) APPLICABLE INDIVIDUAL.—The term ‘ap-
11 plicable individual’ means, with respect to any plan
12 amendment—

13 “(A) any participant in the plan, and

14 “(B) any beneficiary who is an alternate
15 payee (within the meaning of section 414(p)(8))
16 under an applicable qualified domestic relations
17 order (within the meaning of section
18 414(p)(1)(A)),

19 who may reasonably be expected to be affected by
20 such plan amendment.

21 “(2) APPLICABLE PENSION PLAN.—The term
22 ‘applicable pension plan’ means—

23 “(A) any defined benefit plan, or

24 “(B) an individual account plan which is
25 subject to the funding standards of section 412,

1 which had 100 or more participants who had ac-
2 crued a benefit, or with respect to whom contribu-
3 tions were made, under the plan (whether or not
4 vested) as of the last day of the plan year preceding
5 the plan year in which the plan amendment becomes
6 effective. Such term shall not include a governmental
7 plan (within the meaning of section 414(d)) or a
8 church plan (within the meaning of section 414(e))
9 with respect to which the election provided by sec-
10 tion 410(d) has not been made.”.

11 (b) CLERICAL AMENDMENT.—The table of sections
12 for chapter 43 is amended by adding at the end the fol-
13 lowing new item:

“Sec. 4980F. Failure of applicable plans reducing benefit accruals
to satisfy notice requirements.”.

14 (c) EFFECTIVE DATES.—

15 (1) IN GENERAL.—The amendments made by
16 this section shall apply to plan amendments taking
17 effect on or after the date of the enactment of this
18 Act.

19 (2) TRANSITION.—Until such time as the Sec-
20 retary of the Treasury issues regulations under sec-
21 tions 4980F(e)(2) and (3) of the Internal Revenue
22 Code of 1986 (as added by the amendments made
23 by this section), a plan shall be treated as meeting

1 the requirements of such sections if it makes a good
2 faith effort to comply with such requirements.

3 (3) SPECIAL RULE.—The period for providing
4 any notice required by the amendments made by this
5 section shall not end before the date which is 3
6 months after the date of the enactment of this Act.

7 **SEC. 505. TREATMENT OF MULTIEMPLOYER PLANS UNDER**
8 **SECTION 415.**

9 (a) COMPENSATION LIMIT.—Paragraph (11) of sec-
10 tion 415(b) (relating to limitation for defined benefit
11 plans) is amended to read as follows:

12 “(11) SPECIAL LIMITATION RULE FOR GOVERN-
13 MENTAL AND MULTIEMPLOYER PLANS.—In the case
14 of a governmental plan (as defined in section
15 414(d)) or a multiemployer plan (as defined in sec-
16 tion 414(f)), subparagraph (B) of paragraph (1)
17 shall not apply.”.

18 (b) COMBINING AND AGGREGATION OF PLANS.—

19 (1) COMBINING OF PLANS.—Subsection (f) of
20 section 415 (relating to combining of plans) is
21 amended by adding at the end the following:

22 “(3) EXCEPTION FOR MULTIEMPLOYER
23 PLANS.—Notwithstanding paragraph (1) and sub-
24 section (g), a multiemployer plan (as defined in sec-
25 tion 414(f)) shall not be combined or aggregated

1 with any other plan maintained by an employer for
2 purposes of applying the limitations established in
3 this section, except that such plan shall be combined
4 or aggregated with another plan which is not such
5 a multiemployer plan solely for purposes of deter-
6 mining whether such other plan meets the require-
7 ments of subsections (b)(1)(A) and (c).”.

8 (2) CONFORMING AMENDMENT FOR AGGREGA-
9 TION OF PLANS.—Subsection (g) of section 415 (re-
10 lating to aggregation of plans) is amended by strik-
11 ing “The Secretary” and inserting “Except as pro-
12 vided in subsection (f)(3), the Secretary”.

13 (c) EFFECTIVE DATE.—The amendments made by
14 this section shall apply to years beginning after December
15 31, 2000.

16 **SEC. 506. PROHIBITED ALLOCATIONS OF STOCK IN S COR-**
17 **PORATION ESOP.**

18 (a) IN GENERAL.—Section 409 (relating to qualifica-
19 tions for tax credit employee stock ownership plans) is
20 amended by redesignating subsection (p) as subsection (q)
21 and by inserting after subsection (o) the following new
22 subsection:

23 “(p) PROHIBITED ALLOCATIONS OF SECURITIES IN
24 AN S CORPORATION.—

1 “(1) IN GENERAL.—An employee stock owner-
2 ship plan holding employer securities consisting of
3 stock in an S corporation shall provide that no por-
4 tion of the assets of the plan attributable to (or allo-
5 cable in lieu of) such employer securities may, dur-
6 ing a nonallocation year, accrue (or be allocated di-
7 rectly or indirectly under any plan of the employer
8 meeting the requirements of section 401(a)) for the
9 benefit of any disqualified person.

10 “(2) FAILURE TO MEET REQUIREMENTS.—

11 “(A) IN GENERAL.—If a plan fails to meet
12 the requirements of paragraph (1), the plan
13 shall be treated as having distributed to any
14 disqualified person the amount allocated to the
15 account of such person in violation of para-
16 graph (1) at the time of such allocation.

17 “(B) CROSS REFERENCE.—

**“For excise tax relating to violations of paragraph
(1) and ownership of synthetic equity, see section
4979A.**

18 “(3) NONALLOCATION YEAR.—For purposes of
19 this subsection—

20 “(A) IN GENERAL.—The term ‘nonalloca-
21 tion year’ means any plan year of an employee
22 stock ownership plan if, at any time during
23 such plan year—

1 “(i) such plan holds employer securi-
2 ties consisting of stock in an S corpora-
3 tion, and

4 “(ii) disqualified persons own at least
5 50 percent of the number of shares of
6 stock in the S corporation.

7 “(B) CONTRIBUTION RULES.—For purposes
8 of subparagraph (A)—

9 “(i) IN GENERAL.—The rules of sec-
10 tion 318(a) shall apply for purposes of de-
11 termining ownership, except that—

12 “(I) in applying paragraph (1)
13 thereof, the members of an individ-
14 ual’s family shall include members of
15 the family described in paragraph
16 (4)(D), and

17 “(II) paragraph (4) thereof shall
18 not apply.

19 “(ii) DEEMED-OWNED SHARES.—Not-
20 withstanding the employee trust exception
21 in section 318(a)(2)(B)(i), individual shall
22 be treated as owning deemed-owned shares
23 of the individual.

24 Solely for purposes of applying paragraph (5),
25 this subparagraph shall be applied after the at-

1 tribution rules of paragraph (5) have been ap-
2 plied.

3 “(4) DISQUALIFIED PERSON.—For purposes of
4 this subsection—

5 “(A) IN GENERAL.—The term ‘disqualified
6 person’ means any person if—

7 “(i) the aggregate number of deemed-
8 owned shares of such person and the mem-
9 bers of such person’s family is at least 20
10 percent of the number of deemed-owned
11 shares of stock in the S corporation, or

12 “(ii) in the case of a person not de-
13 scribed in clause (i), the number of
14 deemed-owned shares of such person is at
15 least 10 percent of the number of deemed-
16 owned shares of stock in such corporation.

17 “(B) TREATMENT OF FAMILY MEMBERS.—
18 In the case of a disqualified person described in
19 subparagraph (A)(i), any member of such per-
20 son’s family with deemed-owned shares shall be
21 treated as a disqualified person if not otherwise
22 treated as a disqualified person under subpara-
23 graph (A).

24 “(C) DEEMED-OWNED SHARES.—

1 “(i) IN GENERAL.—The term
2 ‘deemed-owned shares’ means, with respect
3 to any person—

4 “(I) the stock in the S corpora-
5 tion constituting employer securities
6 of an employee stock ownership plan
7 which is allocated to such person
8 under the plan, and

9 “(II) such person’s share of the
10 stock in such corporation which is
11 held by such plan but which is not al-
12 located under the plan to participants.

13 “(ii) PERSON’S SHARE OF
14 UNALLOCATED STOCK.—For purposes of
15 clause (i)(II), a person’s share of
16 unallocated S corporation stock held by
17 such plan is the amount of the unallocated
18 stock which would be allocated to such per-
19 son if the unallocated stock were allocated
20 to all participants in the same proportions
21 as the most recent stock allocation under
22 the plan.

23 “(D) MEMBER OF FAMILY.—For purposes
24 of this paragraph, the term ‘member of the
25 family’ means, with respect to any individual—

- 1 “(i) the spouse of the individual,
2 “(ii) an ancestor or lineal descendant
3 of the individual or the individual’s spouse,
4 “(iii) a brother or sister of the indi-
5 vidual or the individual’s spouse and any
6 lineal descendant of the brother or sister,
7 and
8 “(iv) the spouse of any individual de-
9 scribed in clause (ii) or (iii).

10 A spouse of an individual who is legally sepa-
11 rated from such individual under a decree of di-
12 vorce or separate maintenance shall not be
13 treated as such individual’s spouse for purposes
14 of this subparagraph.

15 “(5) TREATMENT OF SYNTHETIC EQUITY.—For
16 purposes of paragraphs (3) and (4), in the case of
17 a person who owns synthetic equity in the S corpora-
18 tion, except to the extent provided in regulations, the
19 shares of stock in such corporation on which such
20 synthetic equity is based shall be treated as out-
21 standing stock in such corporation and deemed-
22 owned shares of such person if such treatment of
23 synthetic equity of 1 or more such persons results
24 in—

1 “(A) the treatment of any person as a dis-
2 qualified person, or

3 “(B) the treatment of any year as a non-
4 allocation year.

5 For purposes of this paragraph, synthetic equity
6 shall be treated as owned by a person in the same
7 manner as stock is treated as owned by a person
8 under the rules of paragraphs (2) and (3) of section
9 318(a). If, without regard to this paragraph, a per-
10 son is treated as a disqualified person or a year is
11 treated as a nonallocation year, this paragraph shall
12 not be construed to result in the person or year not
13 being so treated.

14 “(6) DEFINITIONS.—For purposes of this
15 subsection—

16 “(A) EMPLOYEE STOCK OWNERSHIP
17 PLAN.—The term ‘employee stock ownership
18 plan’ has the meaning given such term by sec-
19 tion 4975(e)(7).

20 “(B) EMPLOYER SECURITIES.—The term
21 ‘employer security’ has the meaning given such
22 term by section 409(l).

23 “(C) SYNTHETIC EQUITY.—The term ‘syn-
24 thetic equity’ means any stock option, warrant,
25 restricted stock, deferred issuance stock right,

1 or similar interest or right that gives the holder
2 the right to acquire or receive stock of the S
3 corporation in the future. Except to the extent
4 provided in regulations, synthetic equity also in-
5 cludes a stock appreciation right, phantom
6 stock unit, or similar right to a future cash
7 payment based on the value of such stock or
8 appreciation in such value.

9 “(7) REGULATIONS.—The Secretary shall pre-
10 scribe such regulations as may be necessary to carry
11 out the purposes of this subsection.”.

12 (b) COORDINATION WITH SECTION 4975(e)(7).—The
13 last sentence of section 4975(e)(7) (defining employee
14 stock ownership plan) is amended by inserting “, section
15 409(p),” after “409(n)”.

16 (c) EXCISE TAX.—

17 (1) APPLICATION OF TAX.—Subsection (a) of
18 section 4979A (relating to tax on certain prohibited
19 allocations of employer securities) is amended—

20 (A) by striking “or” at the end of para-
21 graph (1),

22 (B) by striking the period at the end of
23 paragraph (2) and inserting a comma, and

24 (C) by striking all that follows paragraph
25 (2) and inserting the following:

1 “(3) there is any allocation of employer securi-
2 ties which violates the provisions of section 409(p),
3 or a nonallocation year described in subsection
4 (e)(2)(C) with respect to an employee stock owner-
5 ship plan, or

6 “(4) any synthetic equity is owned by a dis-
7 qualified person in any nonallocation year,
8 there is hereby imposed a tax on such allocation or owner-
9 ship equal to 50 percent of the amount involved.”.

10 (2) LIABILITY.—Section 4979A(c) (defining li-
11 ability for tax) is amended to read as follows:

12 “(c) LIABILITY FOR TAX.—The tax imposed by this
13 section shall be paid—

14 “(1) in the case of an allocation referred to in
15 paragraph (1) or (2) of subsection (a), by—

16 “(A) the employer sponsoring such plan, or

17 “(B) the eligible worker-owned cooperative,
18 which made the written statement described in sec-
19 tion 664(g)(1)(E) or in section 1042(b)(3)(B) (as
20 the case may be), and

21 “(2) in the case of an allocation or ownership
22 referred to in paragraph (3) or (4) of subsection (a),
23 by the S corporation the stock in which was so allo-
24 cated or owned.”.

1 (3) DEFINITIONS.—Section 4979A(e) (relating
2 to definitions) is amended to read as follows:

3 “(e) DEFINITIONS AND SPECIAL RULES.—For pur-
4 poses of this section—

5 “(1) DEFINITIONS.—Except as provided in
6 paragraph (2), terms used in this section have the
7 same respective meanings as when used in sections
8 409 and 4978.

9 “(2) SPECIAL RULES RELATING TO TAX IM-
10 POSED BY REASON OF PARAGRAPH (3) OR (4) OF
11 SUBSECTION (a).—

12 “(A) PROHIBITED ALLOCATIONS.—The
13 amount involved with respect to any tax im-
14 posed by reason of subsection (a)(3) is the
15 amount allocated to the account of any person
16 in violation of section 409(p)(1).

17 “(B) SYNTHETIC EQUITY.—The amount
18 involved with respect to any tax imposed by rea-
19 son of subsection (a)(4) is the value of the
20 shares on which the synthetic equity is based.

21 “(C) SPECIAL RULE DURING FIRST NON-
22 ALLOCATION YEAR.—For purposes of subpara-
23 graph (A), the amount involved for the first
24 nonallocation year of any employee stock owner-
25 ship plan shall be determined by taking into ac-

1 count the total value of all the deemed-owned
2 shares of all disqualified persons with respect to
3 such plan.

4 “(D) STATUTE OF LIMITATIONS.—The
5 statutory period for the assessment of any tax
6 imposed by this section by reason of paragraph
7 (3) or (4) of subsection (a) shall not expire be-
8 fore the date which is 3 years from the later
9 of—

10 “(i) the allocation or ownership re-
11 ferred to in such paragraph giving rise to
12 such tax, or

13 “(ii) the date on which the Secretary
14 is notified of such allocation or owner-
15 ship.”.

16 (d) EFFECTIVE DATES.—

17 (1) IN GENERAL.—The amendments made by
18 this section shall apply to plan years beginning after
19 December 31, 2001.

20 (2) EXCEPTION FOR CERTAIN PLANS.—In the
21 case of any—

22 (A) employee stock ownership plan estab-
23 lished after July 11, 2000, or

24 (B) employee stock ownership plan estab-
25 lished on or before such date if employer securi-

1 ties held by the plan consist of stock in a cor-
 2 poration with respect to which an election under
 3 section 1362(a) of the Internal Revenue Code
 4 of 1986 is not in effect on such date,
 5 the amendments made by this section shall apply to
 6 plan years ending after July 11, 2000.

7 **TITLE VI—REDUCING**
 8 **REGULATORY BURDENS**

9 **SEC. 601. MODIFICATION OF TIMING OF PLAN VALUATIONS.**

10 (a) IN GENERAL.—Paragraph (9) of section
 11 412(c)(9) (relating to annual valuation) is amended to
 12 read as follows:

13 “(9) ANNUAL VALUATION.—

14 “(A) IN GENERAL.—For purposes of this
 15 section, a determination of experience gains and
 16 losses and a valuation of the plan’s liability
 17 shall be made not less frequently than once
 18 every year, except that such determination shall
 19 be made more frequently to the extent required
 20 in particular cases under regulations prescribed
 21 by the Secretary.

22 “(B) VALUATION DATE.—

23 “(i) CURRENT YEAR.—Except as pro-
 24 vided in clause (ii), the valuation referred
 25 to in subparagraph (A) shall be made as of

1 a date within the plan year to which the
2 valuation refers or within one month prior
3 to the beginning of such year.

4 “(ii) ELECTION TO USE PRIOR YEAR
5 VALUATION.—The valuation referred to in
6 subparagraph (A) may be made as of a
7 date within the plan year prior to the year
8 to which the valuation refers if—

9 “(I) an election is in effect under
10 this clause with respect to the plan,
11 and

12 “(II) as of such date, the value
13 of the assets of the plan are not less
14 than 125 percent of the plan’s current
15 liability (as defined in paragraph
16 (7)(B)).

17 “(iii) ADJUSTMENTS.—Information
18 under clause (ii) shall, in accordance with
19 regulations, be actuarially adjusted to re-
20 flect significant differences in participants.

21 “(iv) ELECTION.—An election under
22 clause (ii), once made, shall be irrevocable
23 without the consent of the Secretary.”.

1 (b) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to plan years beginning after De-
3 cember 31, 2000.

4 **SEC. 602. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT**
5 **LOSS OF DIVIDEND DEDUCTION.**

6 (a) IN GENERAL.—Section 404(k)(2)(A) (defining
7 applicable dividends) is amended by striking “or” at the
8 end of clause (ii), by redesignating clause (iii) as clause
9 (iv), and by inserting after clause (ii) the following new
10 clause:

11 “(iii) is, at the election of such par-
12 ticipants or their beneficiaries—

13 “(I) payable as provided in clause
14 (i) or (ii), or

15 “(II) paid to the plan and rein-
16 vested in qualifying employer securi-
17 ties, or”.

18 (b) EFFECTIVE DATE.—The amendments made by
19 this section shall apply to taxable years beginning after
20 December 31, 2000.

21 **SEC. 603. REPEAL OF TRANSITION RULE RELATING TO CER-**
22 **TAIN HIGHLY COMPENSATED EMPLOYEES.**

23 (a) IN GENERAL.—Paragraph (4) of section 1114(c)
24 of the Tax Reform Act of 1986 is hereby repealed.

1 (b) EFFECTIVE DATE.—The repeal made by sub-
2 section (a) shall apply to plan years beginning after De-
3 cember 31, 2000.

4 **SEC. 604. EMPLOYEES OF TAX-EXEMPT ENTITIES.**

5 (a) IN GENERAL.—The Secretary of the Treasury
6 shall modify Treasury Regulations section 1.410(b)–6(g)
7 to provide that employees of an organization described in
8 section 403(b)(1)(A)(i) of the Internal Revenue Code of
9 1986 who are eligible to make contributions under section
10 403(b) of such Code pursuant to a salary reduction agree-
11 ment may be treated as excludable with respect to a plan
12 under section 401(k) or (m) of such Code that is provided
13 under the same general arrangement as a plan under such
14 section 401(k), if—

15 (1) no employee of an organization described in
16 section 403(b)(1)(A)(i) of such Code is eligible to
17 participate in such section 401(k) plan or section
18 401(m) plan; and

19 (2) 95 percent of the employees who are not
20 employees of an organization described in section
21 403(b)(1)(A)(i) of such Code are eligible to partici-
22 pate in such plan under such section 401(k) or (m).

23 (b) EFFECTIVE DATE.—The modification required by
24 subsection (a) shall apply as of the same date set forth

1 in section 1426(b) of the Small Business Job Protection
2 Act of 1996.

3 **SEC. 605. CLARIFICATION OF TREATMENT OF EMPLOYER-**
4 **PROVIDED RETIREMENT ADVICE.**

5 (a) IN GENERAL.—Subsection (a) of section 132 (re-
6 lating to exclusion from gross income) is amended by
7 striking “or” at the end of paragraph (5), by striking the
8 period at the end of paragraph (6) and inserting “, or”,
9 and by adding at the end the following new paragraph:
10 “(7) qualified retirement planning services.”.

11 (b) QUALIFIED RETIREMENT PLANNING SERVICES
12 DEFINED.—Section 132 is amended by redesignating sub-
13 section (m) as subsection (n) and by inserting after sub-
14 section (l) the following:

15 “(m) QUALIFIED RETIREMENT PLANNING SERV-
16 ICES.—

17 “(1) IN GENERAL.—For purposes of this sec-
18 tion, the term ‘qualified retirement planning serv-
19 ices’ means any retirement planning service provided
20 to an employee and his spouse by an employer main-
21 taining a qualified employer plan.

22 “(2) NONDISCRIMINATION RULE.—Subsection
23 (a)(7) shall apply in the case of highly compensated
24 employees only if such services are available on sub-
25 stantially the same terms to each member of the

1 group of employees normally provided education and
2 information regarding the employer’s qualified em-
3 ployer plan.

4 “(3) QUALIFIED EMPLOYER PLAN.—For pur-
5 poses of this subsection, the term ‘qualified employer
6 plan’ means a plan, contract, pension, or account de-
7 scribed in section 219(g)(5).”.

8 (c) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to years beginning after December
10 31, 2000.

11 **SEC. 606. REPORTING SIMPLIFICATION.**

12 (a) SIMPLIFIED ANNUAL FILING REQUIREMENT FOR
13 OWNERS AND THEIR SPOUSES.—

14 (1) IN GENERAL.—The Secretary of the Treas-
15 ury shall modify the requirements for filing annual
16 returns with respect to one-participant retirement
17 plans to ensure that such plans with assets of
18 \$250,000 or less as of the close of the plan year
19 need not file a return for that year.

20 (2) ONE-PARTICIPANT RETIREMENT PLAN DE-
21 FINED.—For purposes of this subsection, the term
22 “one-participant retirement plan” means a retire-
23 ment plan that—

24 (A) on the first day of the plan year—

1 (i) covered only the employer (and the
2 employer's spouse) and the employer
3 owned the entire business (whether or not
4 incorporated); or

5 (ii) covered only one or more partners
6 (and their spouses) in a business partner-
7 ship (including partners in an S or C cor-
8 poration);

9 (B) meets the minimum coverage require-
10 ments of section 410(b) of the Internal Revenue
11 Code of 1986 without being combined with any
12 other plan of the business that covers the em-
13 ployees of the business;

14 (C) does not provide benefits to anyone ex-
15 cept the employer (and the employer's spouse)
16 or the partners (and their spouses);

17 (D) does not cover a business that is a
18 member of an affiliated service group, a con-
19 trolled group of corporations, or a group of
20 businesses under common control; and

21 (E) does not cover a business that leases
22 employees.

23 (3) OTHER DEFINITIONS.—Terms used in para-
24 graph (2) which are also used in section 414 of the

1 Internal Revenue Code of 1986 shall have the re-
2 spective meanings given such terms by such section.

3 (b) SIMPLIFIED ANNUAL FILING REQUIREMENT FOR
4 PLANS WITH FEWER THAN 25 EMPLOYEES.—In the case
5 of a retirement plan which covers less than 25 employees
6 on the first day of the plan year and meets the require-
7 ments described in subparagraphs (B), (D), and (E) of
8 subsection (a)(2), the Secretary of the Treasury shall pro-
9 vide for the filing of a simplified annual return that is
10 substantially similar to the annual return required to be
11 filed by a one-participant retirement plan.

12 (c) EFFECTIVE DATE.—The provisions of this section
13 shall take effect on January 1, 2001.

14 **SEC. 607. IMPROVEMENT OF EMPLOYEE PLANS COMPLI-**
15 **ANCE RESOLUTION SYSTEM.**

16 The Secretary of the Treasury shall continue to up-
17 date and improve the Employee Plans Compliance Resolu-
18 tion System (or any successor program) giving special at-
19 tention to—

20 (1) increasing the awareness and knowledge of
21 small employers concerning the availability and use
22 of the program;

23 (2) taking into account special concerns and
24 circumstances that small employers face with respect
25 to compliance and correction of compliance failures;

1 (3) extending the duration of the self-correction
2 period under the Administrative Policy Regarding
3 Self-Correction for significant compliance failures;

4 (4) expanding the availability to correct insig-
5 nificant compliance failures under the Administra-
6 tive Policy Regarding Self-Correction during audit;
7 and

8 (5) assuring that any tax, penalty, or sanction
9 that is imposed by reason of a compliance failure is
10 not excessive and bears a reasonable relationship to
11 the nature, extent, and severity of the failure.

12 **SEC. 608. REPEAL OF THE MULTIPLE USE TEST.**

13 (a) IN GENERAL.—Paragraph (9) of section 401(m)
14 is amended to read as follows:

15 “(9) REGULATIONS.—The Secretary shall pre-
16 scribe such regulations as may be necessary to carry
17 out the purposes of this subsection and subsection
18 (k), including regulations permitting appropriate ag-
19 gregation of plans and contributions.”.

20 (b) EFFECTIVE DATE.—The amendment made by
21 this section shall apply to years beginning after December
22 31, 2000.

23 **SEC. 609. FLEXIBILITY IN NONDISCRIMINATION, COV-**
24 **ERAGE, AND LINE OF BUSINESS RULES.**

25 (a) NONDISCRIMINATION.—

1 (1) IN GENERAL.—The Secretary of the Treas-
2 ury shall, by regulation, provide that a plan shall be
3 deemed to satisfy the requirements of section
4 401(a)(4) of the Internal Revenue Code of 1986 if
5 such plan satisfies the facts and circumstances test
6 under section 401(a)(4) of such Code, as in effect
7 before January 1, 1994, but only if—

8 (A) the plan satisfies conditions prescribed
9 by the Secretary to appropriately limit the
10 availability of such test; and

11 (B) the plan is submitted to the Secretary
12 for a determination of whether it satisfies such
13 test.

14 Subparagraph (B) shall only apply to the extent pro-
15 vided by the Secretary.

16 (2) EFFECTIVE DATES.—

17 (A) REGULATIONS.—The regulation re-
18 quired by paragraph (1) shall apply to years be-
19 ginning after December 31, 2000.

20 (B) CONDITIONS OF AVAILABILITY.—Any
21 condition of availability prescribed by the Sec-
22 retary under paragraph (1)(A) shall not apply
23 before the first year beginning not less than
24 120 days after the date on which such condition
25 is prescribed.

1 (b) COVERAGE TEST.—

2 (1) IN GENERAL.—Section 410(b)(1) (relating
3 to minimum coverage requirements) is amended by
4 adding at the end the following:

5 “(D) In the case that the plan fails to
6 meet the requirements of subparagraphs (A),
7 (B) and (C), the plan—

8 “(i) satisfies subparagraph (B), as in
9 effect immediately before the enactment of
10 the Tax Reform Act of 1986,

11 “(ii) is submitted to the Secretary for
12 a determination of whether it satisfies the
13 requirement described in clause (i), and

14 “(iii) satisfies conditions prescribed by
15 the Secretary by regulation that appro-
16 priately limit the availability of this sub-
17 paragraph.

18 Clause (ii) shall apply only to the extent pro-
19 vided by the Secretary.”.

20 (2) EFFECTIVE DATES.—

21 (A) IN GENERAL.—The amendment made
22 by paragraph (1) shall apply to years beginning
23 after December 31, 2000.

24 (B) CONDITIONS OF AVAILABILITY.—Any
25 condition of availability prescribed by the Sec-

1 amended by striking “section 414(d)” and all that
2 follows and inserting “section 414(d).”.

3 (2) Subparagraph (G) of section 401(k)(3) and
4 paragraph (2) of section 1505(d) of the Taxpayer
5 Relief Act of 1997 are each amended by striking
6 “maintained by a State or local government or polit-
7 ical subdivision thereof (or agency or instrumentality
8 thereof)”.

9 (b) CONFORMING AMENDMENTS.—

10 (1) The heading for subparagraph (G) of sec-
11 tion 401(a)(5) is amended to read as follows: “GOV-
12 ERNMENTAL PLANS”.

13 (2) The heading for subparagraph (H) of sec-
14 tion 401(a)(26) is amended to read as follows: “EX-
15 CEPTION FOR GOVERNMENTAL PLANS”.

16 (3) Subparagraph (G) of section 401(k)(3) is
17 amended by inserting “GOVERNMENTAL PLANS.—”
18 after “(G)”.

19 (c) EFFECTIVE DATE.—The amendments made by
20 this section shall apply to years beginning after December
21 31, 2000.

22 **SEC. 611. NOTICE AND CONSENT PERIOD REGARDING DIS-**
23 **TRIBUTIONS.**

24 (a) EXPANSION OF PERIOD.—

1 (1) IN GENERAL.—Subparagraph (A) of section
2 417(a)(6) is amended by striking “90-day” and in-
3 serting “180-day”.

4 (2) MODIFICATION OF REGULATIONS.—The
5 Secretary of the Treasury shall modify the regula-
6 tions under sections 402(f), 411(a)(11), and 417 of
7 the Internal Revenue Code of 1986 to substitute
8 “180 days” for “90 days” each place it appears in
9 Treasury Regulations sections 1.402(f)-1, 1.411(a)-
10 11(c), and 1.417(e)-1(b).

11 (3) EFFECTIVE DATE.—The amendment made
12 by paragraph (1) and the modifications required by
13 paragraph (2) shall apply to years beginning after
14 December 31, 2000.

15 (b) CONSENT REGULATION INAPPLICABLE TO CER-
16 TAIN DISTRIBUTIONS.—

17 (1) IN GENERAL.—The Secretary of the Treas-
18 ury shall modify the regulations under section
19 411(a)(11) of the Internal Revenue Code of 1986 to
20 provide that the description of a participant’s right,
21 if any, to defer receipt of a distribution shall also de-
22 scribe the consequences of failing to defer such re-
23 ceipt.

1 (2) EFFECTIVE DATE.—The modifications re-
2 quired by paragraph (1) shall apply to years begin-
3 ning after December 31, 2000.

4 **TITLE VII—PLAN AMENDMENTS**

5 **SEC. 701. PROVISIONS RELATING TO PLAN AMENDMENTS.**

6 (a) IN GENERAL.—If this section applies to any plan
7 or contract amendment—

8 (1) such plan or contract shall be treated as
9 being operated in accordance with the terms of the
10 plan during the period described in subsection
11 (b)(2)(A); and

12 (2) such plan shall not fail to meet the require-
13 ments of section 411(d)(6) of the Internal Revenue
14 Code of 1986 by reason of such amendment.

15 (b) AMENDMENTS TO WHICH SECTION APPLIES.—

16 (1) IN GENERAL.—This section shall apply to
17 any amendment to any plan or annuity contract
18 which is made—

19 (A) pursuant to any amendment made by
20 this Act, or pursuant to any regulation issued
21 under this Act, and

22 (B) on or before the last day of the first
23 plan year beginning on or after January 1,
24 2003.

1 In the case of a governmental plan (as defined in
2 section 414(d) of the Internal Revenue Code of
3 1986), this paragraph shall be applied by sub-
4 stituting “2005” for “2003”.

5 (2) CONDITIONS.—This section shall not apply
6 to any amendment unless—

7 (A) during the period—

8 (i) beginning on the date the legisla-
9 tive or regulatory amendment described in
10 paragraph (1)(A) takes effect (or in the
11 case of a plan or contract amendment not
12 required by such legislative or regulatory
13 amendment, the effective date specified by
14 the plan); and

15 (ii) ending on the date described in
16 paragraph (1)(B) (or, if earlier, the date
17 the plan or contract amendment is adopt-
18 ed),

19 the plan or contract is operated as if such plan
20 or contract amendment were in effect; and

21 (B) such plan or contract amendment ap-
22 plies retroactively for such period.

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