

AN ALERT FROM THE BDO COMPENSATION & BENEFITS TAX PRACTICE

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COMPENSATION & BENEFITS



► SUBJECT

IRS RANDOM SAMPLING OF 401(K) PLANS

► DETAILS

The Internal Revenue Service has announced that its Employee Plans Compliance Unit (“EPCU”) will be mailing out a letter and instructions to a random sample of 1,200 employers that sponsor 401(k) plans asking them to complete a “401(k) Compliance Check Questionnaire.”

► BACKGROUND

The Service is well aware that 401(k) plans have far surpassed defined benefit plans as the preferred retirement vehicle for the majority of employers. A recent IRS Employee Plans Examination Study of 79 market segments indicates that 401(k) plans are by far the most non-compliant type of retirement plan. Inasmuch as these plans comprise more than 60% of all retirement plans, the Service believes that it is important to the future of the private retirement system that 401(k) plans maintain the highest level of compliance possible.

► SUMMARY

Through a secure Web site, the EPCU will collect responses on:

- demographics,
- participation,
- employer and employee contributions,
- top-heavy and nondiscrimination testing,
- distributions and plan loans,

► Read more

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- other plan operations,
- automatic contribution arrangements,
- designated Roth features,
- IRS voluntary compliance and correction programs, and
- plan administration.

The Service says that the information gathered will provide comprehensive information on 401(k) plans, and will help EPCU maximize resources for education, outreach, guidance, and enforcement efforts while minimizing the burden to compliant plan sponsors.

All plan sponsors will complete the same questionnaire but there are some questions that only pertain to plans with certain features. Employers that fail to respond to the questionnaire or provide complete information will result in further action or examination of their plan, the Service cautioned.

A team from all different areas of the Employee Plans office of the Tax Exempt and Government Entities Division of the Service worked to create the questionnaire. The employers selected to participate were taken from a random sample of 401(k) plan sponsors that filed a Form 5500, Annual Return/Report of Employee Benefit Plan, for the 2007 plan year.

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