eBenefits Alert: Impact of the New Tax Law on Qualified Retirement Plans – Definition of Compensation

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The new tax act, known as the Tax Cuts and Jobs Act (TCJA) signed into law on December 22, 2017 made significant changes to the tax code. Mostly it does not affect qualified retirement plans, but there are noteworthy exceptions: plan loans, definition of compensation, and hardship withdrawals.

Here's an explanation of the second one - definition of compensation:

- **Definition of Compensation.** The new law doesn't directly change how "compensation" is defined under qualified retirement plans. However, it does change the fringe benefit rules so that certain items of compensation, such as reimbursement for moving expenses, that used to be excluded from taxable income are now included. Because plan compensation definitions often start from compensation definitions under Section 415 or Section 3401 of the Internal Revenue Code, or from the W-2 definition, the changes to fringe benefit exclusion rules may affect your plan's definition of compensation.

What should you do? Check your plan compensation definitions to see if the changes to the fringe benefit rules might cause items of previously excluded income to now be included in the definitions. Errors in applying compensation definitions are common and are one of the items the IRS focuses on in audits. Making sure that your pay codes accurately reflect the terms of the plan is vital to avoiding these errors.

For more information or questions, contact your attorney in the Employee Benefits & Executive Compensation Practice Group at Gray Plant Mooty.

Read about plan loans here and hardship withdrawals here.