

Instructions for Maximum Amount Contributable (MAC) Calculation

PLEASE NOTE: On September 13, 2002, Fidelity Investments Tax-Exempt Services Company notified us they would no longer perform the MAC calculation as required in the Pawtucket School Department Salary Reduction Agreement. The instructions below are provided to our employees so **THEY** may perform the MAC calculation themselves. It is the employee's responsibility to perform this calculation. Do not call the Business Office for assistance on this calculation, we will not provide any advice or assistance. If you do not feel comfortable with performing this calculation, then we suggest you select another Service Provider from our list of authorized Service Providers that will perform the calculation for you.

The following instructions were taken directly from IRS Publication 571, and have been rearranged and paraphrased for your benefit.

Maximum Amount Contributable (MAC). Generally, your MAC is the lesser of:

- The limit on annual additions (Part I), or
- The limit on elective deferrals (Part II).

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

Part I - Limit on Annual Additions

The first component of the MAC is the limit on annual additions. This is a limit on the total contributions that can be made to your account each year; your limit on annual additions is the lesser of:

- \$42,000, or
- 100% of includible compensation for your most recent year of service.

Includible Compensation for Your Most Recent Year of Service

- a) Includible compensation for your most recent year of service is a combination of the amount of income and benefits you receive from the employer who contributes to your 403(b) account that you must include in your income for your last full year of service ending no later than the last day of your tax year.
- b) Your includible compensation does not include any amount received from a former employer after the fifth year following the year in which your employment is terminated.
- c) To figure includible compensation for your most recent year of service, you will need to identify:
 - Your most recent year of service (defined below), and
 - Your compensation associated with your most recent year of service (defined below).

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

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

- 1) **Tax year different from employer's annual work period.** If your tax year is not the same as your employer's annual work period, your most recent year of service is made up of parts of at least two of your employer's annual work periods. *Example.* A professor who reports her income on a calendar-year basis is employed on a full-time basis by a university that operates on an academic year (October through May). For purposes of figuring her MAC, the professor's most recent year of service consists of her service performed during January through May and her service performed during October through December.

- 2) **Figuring Your Most Recent Year of Service.** To figure your most recent year of service, begin by determining what constitutes a full year of service for your position. A full year of service is equal to full-time employment for your employer's annual work period. After identifying a full year of service, begin counting the service you have provided for your employer starting with the service provided in the current year
- 3) **Part-time or employed only part of year.** If you are a part-time employee, or a full-time employee who is employed for only part of the year, your most recent year of service consists of your service this year and your service for as many previous years as is necessary to total one full year of service. You add up your most recent periods of service to determine your most recent year of service. First, take into account your service during the year for which you are figuring the MCA (the limit on annual additions). Then add your service during your next preceding tax year, and years before that, until your total service equals one year of service.
Example. You were employed on a full-time basis during the months July through December 1999 (1/2 year of service), July through December 2000 (1/2 year of service), and October through December 2001 (1/4 year of service). Your most recent year of service for purposes of computing your MCA for 2001 is the total of your service during 2001 (1/4 year of service), your service during 2000 (1/2 year of service), and your service during the months October through December 1999 (1/4 year of service).
- 4) **Not yet employed for one year.** If, at the close of the year, you have not yet worked for your employer for one year (including time you worked for the same employer in earlier years), use the period of time you have worked for the employer as your most recent year of service.

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

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

- Received from the employer who maintains your 403(b) account, and
- That you must include in income. You determine the amount you must include in income without taking into account the foreign earned income exclusion.

Includible compensation *does* include the following amounts.

- Elective deferrals (employer's contributions made on your behalf under a salary reduction agreement).
- Amounts contributed or deferred by your employer under a section 125 cafeteria plan.
- Amounts contributed or deferred, at the election of the employee, under an eligible section 457 nonqualified deferred compensation plan (state or local government tax-exempt organization plan).
- Wages, salaries, and fees for personal services earned with the employer maintaining your 403(b) account.
- The value of qualified transportation fringe benefits.

Includible compensation *does not* include the following items.

- Your employer's contributions to your 403(b) account.
- Compensation earned while your employer was not an eligible employer.
- Your employer's contributions to a qualified plan that:
 - a) Are on your behalf, and
 - b) You can exclude from income.
 - c) Contributions that are more than your MCA.
 - d) The cost of incidental life insurance.

Part II - Limit on Elective Deferrals

The second component of the MAC, the limit on elective deferrals, is a limit on the amount of contributions that can be made to your account through a salary reduction agreement. The most that can be contributed to your 403(b) account through a salary reduction agreement for 2006 is \$15,000. This limit applies without regard to community property laws. If you qualify for the 15-year rule, your limit on elective deferrals for 2006 can be as high as \$18,000.

Elective deferrals. These are contributions made under a salary reduction agreement. This agreement allows your employer to withhold money from your paycheck to be contributed directly into a 403(b) account for your benefit. You do not pay tax on these contributions until you withdraw them from the account. If you contributed to more than one 403(b) account you must combine the contributions made to all 403(b) accounts on your behalf by your employer.

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

Figuring Your Years of Service. Take the following rules into account when figuring your years of service.

- 1) **Service with one employer.** Generally, you cannot count service for any employer other than the one who maintains your 403(b) account.
- 2) **Less than one year of total service.** Your years of service cannot be less than one year. If at the end of your tax year, you have less than one year of service (including service in any previous years), figure your MCA as if you have one year.
- 3) **Total years of service.** When figuring years of service, figure each year individually and then add the individual years of service to determine your total years of service, ending with the year for which the MCA is being calculated. The total years of service will be used when figuring your MCA.
- 4) **Full time for part of the year.** If, during a year, you were employed full time for only part of your employer's annual work period, figure the fraction for that year as follows. The numerator (top number) is the number of weeks or months you were a full-time employee. The denominator (bottom number) is the number of weeks, months, or semesters considered the normal annual work period for the position.

Example. The annual work period for full-time teachers employed by ABC Public Schools are September through December and February through May. Marsha began working with ABC schools in September 1997. She has always worked full time for each annual work period. At the end of 2001, Marsha had 4.5 years of service with ABC Public Schools.

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

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

- \$3,000,
- \$15,000, reduced by increases to the general limit you were allowed in earlier years because of this rule, or
- \$5,000 times the number of your years of service for the organization, minus the total elective deferrals made by your employer on your behalf for earlier years.

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

Catch-Up Contributions

If you are age 50 or older before the end of the plan year, you may also be able to make additional **catch-up contributions**. These additional contributions cannot be made with after-tax employee contributions. You are eligible to make catch-up contributions if:

- You have reached age 50 before the close of the plan year (see your plan administrator to determine the close of your plan year), and
- The maximum amount of elective deferrals that can be made to your 403(b) account have been made for the plan year.

The maximum amount of catch-up contributions for 2006, is the lesser of

- \$5,000, or
- Your includible compensation minus your actual deferrals for the year.

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

If you qualify for the Catch-up Contribution, and the 15-year rule, your total deferral can be as high as \$23,000 for 2006.

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

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

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

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

Employee Maximum Amount Contributable (MAC) Calculation

Part I. Limit on Annual Additions

- 1) Enter the includible compensation for the employees most recent year of service. \$ _____
- 2) Maximum \$ 42,000
- 3) Lesser of line 1 or line 2. This is the employee's limit on annual additions \$ _____

Part II. Limit on Elective Deferrals

- 4) Maximum contribution \$ 15,000

15 Year Rule: If the employee has at least 15 years of service with the Pawtucket School Dept., complete lines 5 through 15. If not, enter \$0 on line 14 and go to line 15.

- 5) Amount per years of service \$ 5,000
- 6) Enter employee's years of service _____ Yrs
- 7) Multiply line 5 by line 6 \$ _____
- 8) Enter the total of all elective deferrals for prior years made for the employee by the qualifying organization. \$ _____
- 9) Subtract line 8 from line 7. If zero or less, enter \$0 \$ _____
- 10) Maximum increase in limit for long service \$ 15,000
- 11) Enter all prior year increases in the limit for long service \$ _____
- 12) Subtract line 11 from line 10 \$ _____
- 13) Maximum additional Contributions \$ 3,000
- 14) Enter the least of lines 9, 12, or 13. This is your increase in the limit for long service \$ _____
- 15) Add lines 4 and 14. This is your limit on elective deferrals \$ _____

Part III. Maximum Amount Contributable

- 16) Enter the lesser of lines 3 or 15. This is your MAC. \$ _____

Catchup Contribution Calculation - Note: If the employee is age 50 or older, use this worksheet to figure the catch-up contribution allowable.

- 1) Maximum Catch-Up Contributions \$ 5,000
- 2) Enter your includible compensation for your most recent year of service \$ _____
- 3) Enter your elective deferrals \$ _____
- 4) Subtract line 3 from line 2 \$ _____
- 5) Enter the lesser of line 1 or line 4. This is your catch-up contribution \$ _____

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

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

1.	Maximum catch-up contributions	
	• For 2003, enter \$2,000	
	• For 2004, enter \$3,000	1. _____
2.	Enter your includible compensation for your most recent year of service	2. _____
3.	Enter your elective deferrals	3. _____
4.	Subtract line 3 from line 2	4. _____
5.	Enter the lesser of line 1 or line 4. This is your limit on catch-up contributions	5. _____