

## Coverage and Nondiscrimination Answer Book - Poje, Bitzer and Topazio, Q 4:13, What are the major differences between the safe harbor definitions of Section 415 compensation?

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The differences between the three safe harbor definitions of Section 415 compensation are quite subtle. Table 4-1 lists the major categories of pay and some of the key differences.

**Table 4-1. Comparison of Section 415 Safe Harbor Definitions**

<i>Simplified Income</i>	<i>Wages Subject to Withholding (3401(a) Wages)</i>	<i>W-2 Wages</i>	<i>Types of Compensation</i>
Included	Included	Included	Commissions, bonuses, overtime
Optional	Included	Included	Medical benefits
Included	Included	Included	Earned Income
Included	Included	Included	Elective deferrals under Code Section 401(k), cafeteria plans, 457 plans and 403(b) plans
Included	Excluded	Included	Group term life insurance
Included — cash or noncash	Included when cash tips are more than \$20/month	Included when cash tips are more than \$20/month	
Excluded unless distributed from unfunded non-qualified plan	Included	Included	Nonqualified plan distributions
Included when granted, excluded when exercised	Included	Included	Nonqualified stock options
Excluded	Excluded	Excluded	Sale, exchange, or disposition of qualified stock
Excluded	Excluded	Excluded	Severance pay <sup>*</sup> -
Included	Included	Included	Wages and salary

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\*Include amounts paid within 2 ½ months if they represent compensation, commissions, bonuses, etc. that would have been paid had the employee continued in employment with the employer.

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