

SUBTITLE A. INCOME TAXES
CHAPTER 1. NORMAL TAXES AND SURTAXES
SUBCHAPTER D. DEFERRED COMPENSATION, ETC.
PART I. PENSION, PROFIT-SHARING, STOCK BONUS PLANS, ETC.
SUBPART B. SPECIAL RULES

IRC Sec. 414

Sec. 414. Definitions and special rules

(q) Highly compensated employee.

(1) In general. The term "highly compensated employee" means any employee who--

(A) was a 5-percent owner at any time during the year or the preceding year, or

(B) for the preceding year--

(i) had compensation from the employer in excess of \$ 80,000, and

(ii) if the employer elects the application of this clause for such preceding year, was in the top-paid group of employees for such preceding year.

The Secretary shall adjust the \$ 80,000 amount under subparagraph (B) at the same time and in the same manner as under section 415(d) [[26 USCS § 415\(d\)](#)], except that the base period shall be the calendar quarter ending September 30, 1996.

(2) 5-percent owner. An employee shall be treated as a 5-percent owner for any year if at any time during such year such employee was a 5-percent owner (as defined in section 416(i)(1) [[26 USCS § 416\(i\)\(1\)](#)]) of the employer.

(3) Top-paid group. An employee is in the top-paid group of employees for any year if such employee is in the group consisting of the top 20 percent of the employees when ranked on the basis of compensation paid during such year.

(4) Compensation. For purposes of this subsection, the term "compensation" has the meaning given such term by section 415(c)(3) [[26 USCS § 415\(c\)\(3\)](#)].

(5) Excluded employees. For purposes of subsection (r) and for purposes of determining the number of employees in the top-paid group, the following employees shall be excluded--

(A) employees who have not completed 6 months of service,

(B) employees who normally work less than 17 1/2 hours per week,

(C) employees who normally work during not more than 6 months during any year,

(D) employees who have not attained age 21, and

(E) except to the extent provided in regulations, employees who are included in a unit of employees covered by an agreement which the Secretary of Labor finds to be a collective bargaining agreement between employee representatives and the employer.

Except as provided by the Secretary, the employer may elect to apply subparagraph (A), (B), (C), or (D) by substituting a shorter period of service, smaller number of hours or months, or lower age for the period of service, number of hours or months, or age (as the case may be) than that specified in such subparagraph.

(6) Former employees. A former employee shall be treated as a highly compensated employee if--

(A) such employee was a highly compensated employee when such employee separated from service, or

(B) such employee was a highly compensated employee at any time after attaining

age 55.

(7) Coordination with other provisions. Subsections (b), (c), (m), (n), and (o) shall be applied before the application of this subsection.

(8) Special rule for nonresident aliens. For purposes of this subsection and subsection (r), employees who are nonresident aliens and who receive no earned income (within the meaning of section 911(d)(2) [[26 USCS § 911\(d\)\(2\)](#)]) from the employer which constitutes income from sources within the United States (within the meaning of section 861(a)(3) [[26 USCS § 861\(a\)\(3\)](#)]) shall not be treated as employees.

(9) Certain employees not considered highly compensated and excluded employees under pre-ERISA rules for church plans. In the case of a church plan (as defined in subsection (e)), no employee shall be considered an officer, a person whose principal duties consist of supervising the work of other employees, or a highly compensated employee for any year unless such employee is a highly compensated employee under paragraph (1) for such year.