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**Re: IRS Suspends Code §409A Requirement to Report 2006 Deferred
Compensation on Form W-2 or 1099**

Dear Clients and Other Friends:

Today, in Notice 2006-100, the IRS announced that employers are not required to report non-taxable accruals of deferred compensation on 2006 Forms W-2 (for employees) or 1099 (for directors and other non-employee service providers). This is good news because it has been unclear exactly what amounts were supposed to be reported on the 2006 W-2 and 1099 forms which must be distributed in January. We anticipate the IRS will issue further guidance on this subject so that 2007 deferrals can be included on W-2s and 1099s distributed in January 2008.

Notice 2006-100 does require employers to report any deferred compensation which became taxable during 2005 or 2006 due to a violation of Code §409A. Hopefully those receiving this letter will not be affected by this requirement, because such amounts are subject to a 20% excise tax. The Notice gives detailed guidance about how employers are supposed to handle reporting and withholding requirements in such cases. Please call us if you want more information about that subject.

As has been the case for many years, distributions from deferred compensation plans must be reported on Form W-2 (if the compensation was earned by an employee) or 1099 (if the service provider was acting as a director or independent contractor). Distributions to employees and former employees are subject to income tax withholding. Routine distributions of deferred compensation are not subject to the 20% excise tax.

The IRS still has not finalized the §409A regulations. We anticipate they will do so sometime in the next few weeks and we will let you know when it happens. Please let us know if you have any questions about the §409A requirements in the meantime.

Sincerely,

A. David Kelly

ADK/jks