
TAX SERVICES

INFORMATION REPORTING FORMS 1099, 1096 AND 5498

DECEMBER 2008

LEGACY
PROFESSIONALS LLP
CERTIFIED PUBLIC ACCOUNTANTS

CHICAGO
(312) 368-0500

MUNSTER, IN
(219) 836-1065

MINNEAPOLIS
(952) 841-3950

www.legacycpas.com

**Preparation of U.S. Treasury Forms 1099 and 1096
For the Year 2008**

IMPORTANT - Please Note: All information returns filed on paper must use a 3-line mailing address format.

Except for Form 1098-C, send all information returns filed on paper to the following:

2008 Filing Locations	
If your principal business, office or agency, or legal residence in the case of an individual, is located in:	Use the following 3-line Internal Revenue Service Center address
Alabama, Arizona, Arkansas, Connecticut, Delaware, Florida, Georgia, Kentucky, Louisiana, Maine, Massachusetts, Mississippi, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, Texas, Vermont, Virginia, West Virginia	Department of the Treasury Internal Revenue Service Austin, TX 73301
Alaska, California, Colorado, District of Columbia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Maryland, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, North Dakota, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Utah, Washington, Wisconsin, Wyoming	Department of the Treasury Internal Revenue Service Kansas City, MO 64999
If you have no legal residence or principal place of business in any Internal Revenue district, file with the Department of the Treasury, Internal Revenue Service Center, Austin, TX 73301.	

Send all Forms 1098-C filed on paper to the Department of Revenue, Internal Revenue Service, Ogden, UT 84201-0027.

After December 1, 2008, tape cartridges will no longer be accepted at the Enterprise Computing Center - Martinsburg (ECC-MTB). The only acceptable method of filing information returns with the Center will be electronically through the FIRE system. See Publication 1220 for specifications for filing Forms 1098, 1099, 5498 and W-2G electronically.

The following is a summary of the 2008 changes to the Form 1099 series and Form 5498:

- **Where to file** – All information returns filed on paper must use a 3-line mailing address. See page one for a complete list of addresses.
- **Form 1098** – The Mortgage Forgiveness Debt Act of 2007 extended the requirement to report in Box 4 qualified mortgage insurance premiums paid by the borrower through December 31, 2010.
- **Form 1098-C** – All forms filed after December 31, 2007, should be filed at either the Austin, TX center or the Kansas City, MO center, depending on the location of the principal residence. In prior years, this form was filed in the Ogden, UT center. This form is to be used only for cancellations of debts for which the debtor is personally liable. Do not use when fraudulent debt is cancelled due to identity theft and the debtor is not liable for the debt.
- **Form 1099-DIV** – The capital gains rate for qualified dividends has generally been reduced to zero after December 31, 2007, for individuals whose other income is taxed at the 10% or 15% rate. Also, Box 7 may be blank since RICs no longer have to report this information to recipients.
- **Form 1099-MISC** – Payments made by the U.S. Department of Veterans Affairs under the compensated work therapy program are exempt from federal income tax as veteran's benefits and are no longer required to be reported on this form.
- **Form 1099-CAP** – The Box 6 checkbox has been removed.
- **Form 1099-R** – The reference to the reporting requirements for eligible charitable distributions under 408(d)(8) has been deleted due to the expiration of the provision.
 - ⤴ Permissible withdrawals from eligible automatic contribution arrangements have been added to the list of distributions that are not eligible rollover distributions.
 - ⤴ Reporting instructions for qualified rollover contributions have been added under reporting a direct rollover.
 - ⤴ Instructions for withholding on nonqualified distributions from designated Roth accounts have been added under eligible rollover distributions.
 - ⤴ The following changes were made to the distributions codes in Box 7:
 - The reference to qualified reservist distribution has been deleted due to expiration of provision
 - An exception was added to distribution Code 2 for distributions that are permissible withdrawals under an eligible automatic contribution arrangement under section 414(w).
 - New distribution Code H, direct rollover of a designated Roth account distribution to a Roth IRA has been added.
 - Distribution Codes B and D are a valid combination for 2008.
- **Form 5498** - A section has been added to direct filers to the IRS website for information on disaster relief available for presidentially declared disaster areas.
 - ⤴ Somalia has been added to the list of locations in the designated combat zone for Enduring Freedom.
 - ⤴ Instructions have been added for the reporting of qualified rollover contributions to Roth IRAs in Box 2.

- **Widely Held Fixed Investment Trusts (WHFITs)** - beginning January 1, 2007, trustees and middlemen of these grantor trusts are required to report to the IRS all items of gross income on Forms 1099 B, 1099 DIV, 1099 INT, 1099-MISC and 1099 OID, and furnish the same information to trust interest holders (TIHs)

Payors must furnish Form 1099 to recipients **on or before February 2, 2009**. The deadline for filing Copy A of the Form 1099 and Transmittal Form 1096 with the Internal Revenue Service is **March 2, 2009** for paper filers. Electronic filers must file by **March 31, 2009**. A 30-day extension of time may be requested by filing Form 8809--Request for Extension of Time to File Information Returns, on or before the due date of the forms. A second 30-day extension may be requested by filing another Form 8809 with a detailed explanation before the end of the initial extension period.

Note: The IRS has extended the February 2, 2009, deadline for brokers who furnish composite annual tax reporting statements. The deadline for brokers to provide the composite statements is **February 17, 2009**.

The following pages discuss specific issues and illustrate how to complete Forms 1096, 1099-DIV, 1099-INT, 1098, 1098-C, 1099-MISC, 1099-R and 5498.

Backup Withholding

Interest, dividends, rents, royalties, commissions, non-employee compensation and certain other payments may be subject to backup withholding at a 28 percent rate.

Backup withholding applies under five circumstances: (1) The payee fails to furnish a taxpayer identification number (TIN). Withholding is required until the TIN is furnished. (2) The Internal Revenue Service notifies the payor that the payee's TIN is incorrect ("B" Notice). The payor is required to promptly furnish a copy of this notice or an acceptable substitute to the payee along with a W-9 Form. Withholding begins on the 31st day after notification and continues until a correct TIN is furnished. (3) The Internal Revenue Service notifies the payor that the payee is subject to backup withholding. Withholding begins on the day after notification and continues until the Internal Revenue Service directs otherwise. (4) For interest and dividends, the payee fails to certify that he or she is *not* subject to backup withholding. Withholding is required until certification has been provided. (5) For interest, dividend, broker or barter accounts opened after 1983, the payee fails to certify, under penalty of perjury, that the TIN is correct; or (6) for interest, dividend, broker or barter accounts, payor is notified that the payee is subject to backup withholding ("C" Notice).

Backup withholding amounts must be reported on Form 945, Annual Return of Withheld Federal Income Tax.

Taxpayer Identification Number (TIN) Matching

TIN Matching is one of the e-services products that is offered and is accessible through the IRS website, www.irs.gov under "e-services." This program allows a payer or authorized agent who is required to file Form 1099-B, DIV, INT, MISC, OID and/or PATR, to match TIN and name combinations with IRS records before submitting the forms to the IRS. It is anticipated that payers who validate the TIN and name combinations before filing information returns will receive fewer backup withholding (CP2100) "B" Notices and penalty notices. E-services technical support is available by calling 1-866-255-0654.

Corrected Returns

File corrected returns when you discover an error after having filed the forms with the IRS. If a form was filed without a payee's TIN, an incorrect TIN, or incorrect dollar amounts, a new transmittal Form 1096 *must* be prepared. A new information return must be prepared and the "corrected" box must be checked. *All* boxes must be completed, not just the boxes needing correction. File Form 1096 with Copy A of the

corrected return by August 3, 2009. Use a separate Form 1096 for each type of return being corrected. Do not cut forms, but submit the entire page. **Do not** include copies of the original return that was filed incorrectly. Provide a statement identified as "corrected" to the recipient as soon as possible. The following list contains common errors and how they should be corrected.

Error:

The wrong type of return was originally filed, (e.g., 1099-DIV instead of 1099-INT). This will require **two separate filings** to make the proper corrections.

Correction:

- a) Prepare a new information return using the **same type of form** that was initially used (i.e., 1099-DIV) and a new transmittal Form 1096. The "corrected" box must be checked on the 1099. Enter all necessary information as it was originally shown. However, for all dollar amounts, enter "0." File Form 1096 and Copy A of the return. **Do not** include copies of the original return that was filed incorrectly.
- b) Prepare a new information return using the proper type of form (i.e., 1099-INT) and a new transmittal Form 1096. **Do not** check the "corrected" boxes. Provide all requested information on the forms. On the transmittal Form 1096, enter the words "Filed to Correct Document Type" at the bottom margin of the form. File Form 1096 and Copy A of the return.

Error:

No payee TIN (SSN or EIN) or incorrect payee TIN was originally filed or incorrect payee's name and address.

Correction:

- a) Prepare a new transmittal Form 1096 and new information returns (e.g., Form 1099, 1098, etc.). Enter an "X" in the "corrected" box at the top of the 1099 Form. Enter the payor, recipient, and account number information exactly as it appeared on the original incorrect returns. Enter "0" for all money amounts. On Form 1096, enter only information about the corrected returns. For example, in Box 3 of Form 1096 enter only the number of corrected returns being submitted. File Form 1096 and Copy A's of the returns.
- b) Prepare a new transmittal Form 1096 and new information returns (e.g., Form 1099, 1098, etc.). Do not mark any of the forms "corrected." Enter the words "Filed to Correct TIN" or "Filed to Correct Name and Address" at the bottom margin of Form 1096. Submit the new information returns as though it was an original. Include on all forms the correct information including the correct TIN. File the 1096 and Copies A of the returns.

Error:

Incorrect money amounts, incorrect address or return filed when one should not have been filed.

Correction:

Prepare a new transmittal Form 1096 *and* new information returns (e.g., Form 1099, 1098, etc.). Enter an "X" in the "corrected" box at the top of each form. Enter the correct payor, recipient, TIN, and account number. Enter only information about the corrected returns on the Form 1096. On the returns, enter all **correct** money amounts in the correct

boxes, as they *should have* appeared on the original returns. File Form 1096 and Copy A of the returns. *Do not* include copies of the original returns that were filed incorrectly.

Reporting Incorrect Payor Name and/or TIN

If a payor discovers that the payor's name or TIN was reported incorrectly, you must write a letter to the Internal Revenue Service at the Martinsburg Computing Center and include the following information:

1. Name and address of the payor
2. Type of Error (including the incorrect payor name and/or TIN that was reported)
3. Tax year
4. Payor TIN
5. Transmitter Control Code (TCC), if applicable
6. Type of return
7. Number of payees and
8. Filing method (paper or electronic).

Send the letter to IRS, Enterprise Computing Center - Martinsburg, Information Reporting Program, 240 Murall Drive, Kearneysville, WV 25430.

If the payor realized that there was a duplicate filing or that a large percentage of incorrect information had been filed, contact the information reporting customer service site at 1-866-455-7438 for further instructions.

Voided Returns

If you make an error while typing or printing a Form 1098, 1099, or 5498, enter an "X" in the "VOID" box at the top of the form. The return will then be disregarded during processing by IRS. *Do not* separate this form from the remaining forms on the sheet.

Electronic Reporting

Electronic filing is required for filing information returns by payors who have **250 or more** information returns. (Additional guidance is provided in IRS Publication 1220 or at www.irs.gov/pub/irs-irbs/irb06-32.pdf). The 250-or-more requirement applies separately to each type of form. For example, if a payor is filing 500 Forms 1099-INT and 100 Forms 1099-DIV, electronic filing is not required for Forms 1099-DIV, but Forms 1099-INT must be filed electronically.

Originals and corrections are not aggregated to determine whether electronic filing requirements apply. For example, if 400 1099-MISC Forms are filed electronically and there are 75 corrections, the corrections can be filed on paper because the number of corrections is less than the 250-filing requirement.

Note: For returns filed after December 1, 2008, the IRS will no longer accept any tape cartridges. Electronic filing is the only acceptable method of filing information returns.

Important Deadlines

Approval for filing electronically is done by filing Form 4419, Application for Filing Information Returns Electronically, at least **30 days** before the March 2, 2009 due date of the returns.

Only one Form 4419 needs to be filed for all types of returns. Once approval is received, the payor need not reapply each year. Send the application, if mailing by airfreight, to: Internal Revenue Service,

Martinsburg Computing Center, Information Reporting Program, 230 Murall Drive. Kearneysville, WV 25430.

To receive a waiver from the required electronic filing, submit Form 8508, **45 days before the due date of the return**, or a written statement requesting an undue hardship waiver from electronic filing for a period of time not to exceed one tax year. Send the form to Internal Revenue Service, Martinsburg Computing Center, Information Reporting Program, 240 Murall Drive, Martinsburg, WV 25430. If the payor is required to file electronically, but fails to do so and does not have an approved waiver on record, the payor may be subject to a \$50 penalty per return for failure to file information returns. The first 250 returns will not be subject to the penalty. The due dates for electronic reporting are the same as for paper document reporting.

Required Format for Paper Document Reporting

Forms 1096, 1098, 1099 and 5498 must be prepared in accordance with the following instructions. If these instructions are not followed, a penalty of \$50 per incorrectly filed document may apply.

1. Forms 1098, 1099 and 5498 are printed two or three to an 8" x 11" page and Form 1096 is one to a page. These forms **must** be submitted to the IRS on the 8" x 11" page. Do **not** cut or separate the forms. If at least one form on the page is correctly completed, you must submit the entire page.
2. **No photocopies** of any forms are acceptable.
3. **Do not** staple, tear, or tape any of these forms. Send the forms to the IRS in a flat mailing. **DO NOT FOLD.**
4. Pinfeed holes must be outside the 8" x 11" area of the page and they must be removed before submission, taking necessary precautions against tearing or ripping the form.
5. **Do not** change the title of any box on any form. Do not use a form to report information that is not properly reportable on that form.
6. Report information only in the appropriate boxes provided on the forms.
7. **Do not** submit any copy other than **Copy A** to the IRS.
8. **Do not** use prior year forms.
9. Use only the official forms or forms that meet the specifications for substitute forms (IRS Publication 1179). All substitute forms to recipients must contain the year, form number and form name prominently displayed together in one area of the statement.
10. Use decimal points to indicate dollars and cents. **DO NOT** use dollar signs (\$), apostrophes ('), ampersands (&), asterisks (*), commas (,), or other special characters.

Penalties

The following penalties generally apply to the person required to file information returns, generally the payor. The penalties apply to taxpayers filing with paper forms as well as electronic media.

1. **Failure to File Correct Information Returns by the Due Date**

If the payor fails to file a correct information return by the due date and cannot show reasonable cause, the payor may be subject to a penalty. The penalty may be assessed for any of the following:

- Failure to file timely, failure to include all information required to be shown on a return, or incorrect information is included on a return.
- Filing on paper when required to file electronically.
- Reporting an incorrect TIN or failure to report a TIN.
- Failure to file paper forms that are machine-readable.

The amount of the penalty is based on when the correct information return is filed. The penalty is:

- \$15 per information return if correctly filed *within 30 days* (by March 30 if the due date is February 28); maximum penalty is \$75,000 per year (\$25,000 for small business).
- \$30 per information return if correctly filed more than *30 days after* the due date but by August 1st; maximum penalty is \$150,000 per year (\$50,000 for small business).
- \$50 per information return if filed after August 1st or if the required information returns are not filed; maximum penalty is \$250,000 per year (\$100,000 for small business).

An entity whose average annual gross receipts for the most recent three tax years (or for the period in existence, if shorter) ending before the calendar year in which the information returns were due are \$5,000,000 or less qualifies as a small business.

If the failure to file is due to intentional disregard of the filing and correct information requirements, the penalty is *at least* \$100 per information return with no maximum penalty.

Exceptions to the Penalty

- A. The penalty will not apply to any failure that was due to reasonable cause and not to willful neglect.
- B. De Minimis Rule for Corrections -

Even though reasonable cause cannot be shown, the penalty for failure to file correct information returns will not apply to a certain number of returns if:

1. Those returns are filed timely,
2. Either the information required to be shown on a return was not included or incorrect information was included *and*
3. You filed corrections of the information returns by August 1.

If you meet all three conditions, the penalty will not apply to the *greater* of ten (10) information returns or one-half of one percent of the total number of information returns you are required to file for the calendar year.

2. Failure to Furnish Correct Payee Statements

If the payor fails to provide correct payee statements and cannot show reasonable cause, the payor may be subject to a penalty. The penalty may be assessed for any of the following:

- Failure to provide the statement to the payee by January 31st.
- Failure to include all information required to be shown on the statement.
- Including incorrect information on the statement.

The penalty is \$50 per statement, regardless of when the correct statement is furnished, with a maximum of \$100,000 per year. There is no reduction in the penalty for furnishing a correct statement by August 1st.

If any failure to provide a correct payee statement is due to intentional disregard, the penalty is at least \$100 per statement with no maximum penalty.

3. Failure to File Form 5498 – 5498-SA, 1099-SA, 1099-Q and 5498-ESA

The penalties mentioned above do not apply to Forms 5498, 5498-SA, 5498-ESA, 1099-SA, and 1099-Q. The penalty relating to failure to timely file these forms is \$50 per return with *no maximum unless the failure is due to reasonable cause.*

Civil damages for fraudulent filing of information returns – If you willfully file fraudulent information return for payments you claim you made to someone, that person may be able to sue you for damages of \$5,000 or more.

Form 1099-CAP.....	Box 2
Form 1099-DIV.....	Boxes 1a, 2a, 3, 8 and 9
Form 1099-H.....	Box 1
Form 1099-INT.....	Boxes 1, 3 and 8
Form 1099-LTC.....	Boxes 1 and 2
Form 1099-MISC.....	Boxes 1, 2, 3, 5, 6, 7, 8, 10, 13 and 14
Form 1099-OID.....	Boxes 1, 2, and 6
Form 1099-PATR.....	Boxes 1, 2, 3 and 5
Form 1099-Q.....	Box 1
Form 1099-R.....	Box 1
Form 1099-S.....	Box 2
Form 1099-SA.....	Box 1
Form 5498.....	Boxes 1, 2, 3, 4, 5, 8, 9 and 10
Form 5498-ESA.....	Boxes 1 and 2
Form 5498-SA.....	Box 1

Form 1099-DIV

Dividends and Distributions

Corporations or associations must file this form for each person:

1. to whom it has paid gross dividends or other distributions on stock of \$10 or more;
2. for whom it has withheld any Federal income tax (regardless of amount) under the backup withholding rules;
3. for whom it has withheld and paid foreign tax on dividends or other stock distributions if the recipient can claim credit for the tax on his/her income tax return; *or*,
4. to whom it has paid \$600 or more as part of a liquidation.

Form 1099-DIV is also used to report dividends distributed under Section 404(k) on stock held by an employee stock ownership plan (ESOP) or a tax credit ESOP. However, if a Section 404(k) distribution is made in the same year as a total distribution, the entire amount should be reported on Form 1099-R, instead of on this form.

For tax years beginning after December 31, 2004, ordinary dividends from a foreign corporation will be qualified dividends if the other conditions under qualified dividends are met.

Distributions, commonly referred to as "dividends", that are actually interest, such as "dividends" on deposit or on share accounts in cooperative banks, credit unions, domestic building and loan associations, savings and loan associations and mutual savings banks, are to be reported on Form 1099-INT.

Trustees and middlemen are required to report all items of gross income and proceeds attributable to a trust interest holder (TIH) of a Widely Held Fixed Investment Trust (WHFIT) on the appropriate Form 1099. These trusts were previously required to file Form 1041. The written tax information statement furnished to the TIH for 2008 is due on or before March 16, 2009.

- A. Box 1a - Shows total ordinary dividends that are taxable
- B. Box 1b – The amount in this box is the portion of the amount in Box 1a that may be eligible for the zero and 15% capital gains rates
- C. Box 2a – This is the total capital gain distributions(long-term) from a regulated investment company or real estate investment trust. Include all amounts shown in Boxes 2b, 2c and 2d.
- D. Box 2b – This amount is the portion of the amount in Box 2a that is unrecaptured Section 1250 gain from certain depreciable real property.

9191 <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED				OMB No. 1545-0110			
PAYER'S name, street address, city, state, ZIP code, and telephone no.		1a Total ordinary dividends		<div style="font-size: 2em; font-weight: bold;">2008</div> <div style="font-weight: bold;">Dividends and Distributions</div>			
		\$ A					
		1b Qualified dividends					
PAYER'S federal identification number		2a Total capital gain distr.		2b Unrecap. Sec. 1250 gain			
		\$ B		\$ D			
		\$ C					
RECIPIENT'S identification number				<div style="font-weight: bold;">Copy A</div> <div style="font-weight: bold;">For Internal Revenue Service Center</div> <div style="font-weight: bold;">File with Form 1099.</div>			
RECIPIENT'S name		2c Section 1202 gain				2d Collectibles (28%) gain	
		\$ E				\$ F	
Street address (including apt. no.)		3 Nondividend distributions		4 Federal income tax withheld			
		\$ G		\$ H			
City, state, and ZIP code		5 Investment expenses					
				\$ I			
Account number (see instructions)		6 Foreign tax paid		7 Foreign country or U.S. possession			
2nd TIN not <input type="checkbox"/>		\$ J		\$ K			
		8 Cash liquidation distributions		9 Noncash liquidation distributions			
		\$		\$			
Form 1099-DIV		Cat. No. 14415N		Department of the Treasury - Internal Revenue Service			
Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page							

- E. Box 2c – This amount is the portion of the amount in Box 2a that is Section 1202 gain from certain small business stock that may be subject to a 50% exclusion.
- F. Box 2d – This amount is subject to the 28% capital gain rate from sale of exchange of collectibles.
- G. Box 3 – This amount is nontaxable because it is a return of your cost (or other basis). File Form 5452 corporate report of non-dividend distributions, if you paid nontaxable dividends to shareholders. Once the recipient has recovered his cost or basis, additional distributions are taxable as a capital gain, even if the payor lists them as nontaxable. This amount is not included in Box 1.
- H. Box 4 – Enter back up withholding in this box. The rate is 28%.
- I. Box 5 – Investment expenses which include a stockholder's pro rata share of expenses of a regulated investment company, including a mutual fund. This amount is included in Box 1a and is deductible as a miscellaneous itemized deduction on the recipient's personal tax return, subject to the two-percent limit.
- J. Box 6 – Enter any foreign taxes paid, denominated in U.S. Dollars.
- K. Box 7 – Enter the name of the country to which the taxes reported in Box 6 were paid.

Note: Boxes 8 and 9 - Liquidation distributions include cash and non-cash. These two boxes apply only to corporations in partial or complete liquidation. If a payment includes non-cash property, show the fair market value of the property at the time of payment. Do not include these amounts in Box 1.

Form 1099-INT
Interest Income

If this form shows two or more recipients, or if the amounts shown include interest belonging to another person, the recipient whose taxpayer identification number is on the form is considered a nominee recipient. This individual must file a 1099-INT with Form 1096, Annual Summary and Transmittal of U.S. Information Returns, with the Internal Revenue Service Center for each of the owners showing their share of income. The nominee recipient is the "payor" and the other owner(s) should be listed as the "recipient" on Form 1099-INT.

Savings and loans, credit unions, banks, insurance companies, and similar organizations, which paid or credited to the account of any person, interest totaling \$10 or more during the calendar year and other organizations that paid interest totaling \$600 or more during the calendar year during the regular course of business must file Form 1099-INT. If withheld federal income tax under the backup withholding rules, regardless of the amount of the payment or if withheld and paid foreign tax on interest, must also file Form 1099-INT.

Canadian Nonresident Aliens - If you pay U.S. bank deposit interest of \$10 to a nonresident alien who resides in Canada, you may have to report the interest on Form 1042-S. This interest is not subject to backup withholding.

Note: Interest payments made to a corporation, tax-exempt organization, individual retirement arrangement (IRA), Archer MSA, Health Savings Account (HSA), a U.S. agency, a state, the District of Columbia, a U.S. possession or registered securities or commodities dealers are not required to be reported on Form 1099-INT, **unless** these entities are holders of Clean Renewable Energy Bonds or Gulf Bonds. See Regulations Section 1.6049-4 for more information.

9292 VOID CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.		Payer's RTN (optional)	OMB No. 1545-0112
		1 Interest income \$ A	2008 Interest Income Form 1099-INT
		2 Early withdrawal penalty \$ B	
PAYER'S federal identification number	RECIPIENT'S identification number	3 Interest on U.S. Savings Bonds and Treas. obligations \$ C	
RECIPIENT'S name		4 Federal income tax withheld \$ D	5 Investment expenses \$ E
Street address (including apt. no.)		6 Foreign tax paid \$ F	7 Foreign country or U.S. possession G
City, state, and ZIP code		8 Tax-exempt interest \$ H	9 Specified private activity bond interest \$ I
Account number (see instructions)	2nd TIN not. <input type="checkbox"/>		

Copy A
For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2008 General Instructions for Forms 1099, 1098, 5498, and W-2G.

Form 1099-INT Cat. No. 14410K Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

- A. Enter any amounts of \$10 or more (whether designated as interest or not) *except* U.S. Government obligations entered in Box 3.
- B. Enter interest on principal forfeited because of an early withdrawal of a time deposit.
- C. Include interest on U.S. Savings Bonds, Treasury Bills, Treasury Bonds, and Treasury Notes.
- D. Enter backup withholding.
- E. Enter the regular interest holder's pro rata share of investment expenses deductible by a single-class REMIC.
- F. Enter any foreign taxes paid denominated in U.S. dollars.
- G. Enter the name of the country to which the taxes reported in Box 6 were paid.
- H. Enter interest of \$10 or more that is credited or paid to the person's account if that interest is used to finance government operations and is issued by a state, the District of Columbia, a U.S. possession, an Indian tribal government or a political subdivision.
- I. Enter interest of \$10 or more from specified private activity bonds.

Form 1098

Mortgage Interest Statement

Form 1098 is for use by persons who, in the course of a trade or business, receive at least \$600 of mortgage interest (including points) from an individual, including a sole proprietor, during a calendar year. File a separate 1098 for each mortgage. This form is not required if the interest is not received in the course of a trade or business. For example, if on a sale of a personal residence, the buyer makes mortgage payments to the individual seller, a Form 1098 is not required to be filed. However, these reporting requirements also apply to governmental units and cooperative housing corporations without regard to the trade or business requirement. Report points paid in Box 2, which were paid directly by a borrower on the purchase of a principal residence.

Reimbursement (refund or credit) of prior year overpayment of interest aggregating \$600 or more must be reported in Box 3. If the reimbursement is less than \$600, reporting is not required unless a Form 1098 is otherwise required to be filed. If the reimbursement is in the same year it is overpaid, do not report the overpayment separately; report the net amount after the reimbursement in Box 1 as mortgage interest paid.

Points must be reported if the points plus other interest on the mortgage are \$600 or more. For example, if a borrower pays points of \$300 and other mortgage interest of \$300, the lender has received \$600 of mortgage interest and must file Form 1098.

The Tax Relief and Health Care Act of 2006 added new Section 6050 (H) (h) which requires the reporting on Line 4 any mortgage insurance premiums of \$600 or more paid or accrued for 2008 for qualified mortgage insurance under a contract issued after December 31, 2006 and provided by the Veterans Administration, the Federal Housing Administration or the Rural Housing Administration. Also, private mortgage insurance as defined by Section 2 of the Homeowners Protection Act of 1998.

7878

CORRECTED

DONOR'S name, street address, city, state, ZIP code, and telephone no.		OMB No. 1545-1959	2008 Form 1098-C	Contributions of Motor Vehicles, Boats, and Airplanes
1 Date of contribution				
2 Make, model, and year of vehicle		3 Vehicle or other identification number		
DONOR'S federal identification number				
DONOR'S identification number		4a <input type="checkbox"/> Donee certifies that vehicle was sold in arm's length transaction to unrelated party		
DONOR'S name				
Street address (including apt. no.)		4b Date of sale		
City, state, and ZIP code				
4c Gross proceeds from sale (see instructions)		5a <input type="checkbox"/> Donee certifies that vehicle will not be transferred for money, other property, or services before completion of material improvements or significant intervening use		
\$				
5b <input type="checkbox"/> Donee certifies that vehicle is to be transferred to a needy individual for significantly below fair market value in furtherance of donee's charitable purpose		5c Donee certifies the following detailed description of material improvements or significant intervening use and duration of use		
6a Did you provide goods or services in exchange for the vehicle? ▶ Yes <input type="checkbox"/> No <input type="checkbox"/>				
6b Value of goods and services provided in exchange for the vehicle		6c Describe the goods and services, if any, that were provided. If this box is checked, donee certifies that the goods and services consisted solely of intangible religious benefits ▶ <input type="checkbox"/>		
\$				
7 Under the law, the donor may not claim a deduction of more than \$500 for this vehicle if this box is checked ▶ <input type="checkbox"/>		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2008 General Instructions for Forms 1099, 1098, 5498, and W-2G.		

Form 1098-C

Cat. No. 39732R

Department of the Treasury - Internal Revenue Service

- A. Boxes 1, 2 and 3 are self-explanatory.
- B. If the vehicle is sold to a buyer other than needy individual without a significant intervening use or material improvement, the organization must certify that the sale was made in an arm's length transaction between unrelated parties. Check the box to make the certification. Boxes 4b and 4c must be completed.
- C. If the organization intends to make a significant intervening use of or a material improvement to the vehicle, Box 5a must be checked to certify that the vehicle will not be transferred for cash, other property or services before completion of the use or improvement. Box 5c must also be completed.
- D. Box 5b must be checked if the organization intends to sell the vehicle to a needy individual at a price significantly below fair market value or make a gratuitous transfer of the vehicle to a needy individual. The donor's contribution for a sale for this purpose is not limited to the gross proceeds from the sale. Skip this box if the qualified vehicle has a claimed value of \$500 or less.
- E. Describe in detail the intended material improvements or significant intervening use and duration of the use by the organization.
- F. This box must be checked to indicate whether goods or services were provided to the donor in exchange for the vehicle.
- G. If Box 6a is checked "yes," Box 6b must be completed.
- H. Describe the details of the goods and services, if Box 6a is checked "yes."
- I. If the vehicle has claimed value of \$500 or less or if the donor did not provide a taxpayer identification number, Box 7 must be checked. If this box is checked, **do not** file Copy A of the Form with the IRS and **do not** furnish Copy B to the donor.

Form 1099-MISC

Miscellaneous Income

Every organization engaged in a trade or business (including a partnership, sole proprietor, corporation, labor union or trust) which made payments of at least \$600 to persons other than corporations (except in the case of legal services and health care services) must report on Form 1099-MISC, items of income for which no other form is prescribed. These items include: rents, royalties, prizes, nonemployee compensation, and health care payments. **Any payments of royalties or broker payments of at least \$10 must be reported on Form 1099-MISC.**

Warning

Taxpayers frequently overlook the fact that payments made for health care services must be reported on Form 1099-MISC **whether or not** the payments are made **to a corporation**. These rules apply to employers with self-insured medical programs. However, payments made under a flexible spending arrangement or a health reimbursement arrangement which is treated as employer-provided coverage under an accident or health plan for purposes of Section 106 are exempt from the reporting requirements.

In addition, payments made to attorneys even if the entity is a corporation must be reported on Form 1099-MISC.

Prizes, Awards and Damages

Prizes and awards received in recognition of past accomplishments in religious, charitable, scientific, artistic, educational, literary or civic fields are not taxable and need not be reported if (1) winners are chosen without action on their part, (2) the winners are not expected to perform future services, and (3) the payor transfers the prize or award to a charitable organization or governmental unit pursuant to a designation made by the recipient.

Punitive damages paid in cases that do not involve physical injury or sickness are taxable and must be included in Box 3 of Form 1099-MISC.

Non-Employee Compensation

Fees for professional services, referral commissions and split fees paid by one professional or tradesperson to another are also subject to information reporting. This includes, for example, an attorney who obtains the assistance of a second attorney in handling a particular case and agrees to split the fee. If the fee is \$600 or more, the first attorney must file an information return. Another example would be a realtor who refers a customer to a second realtor and the second realtor pays the first realtor a referral commission of \$600 or more. The second realtor must file an information return. Payments for services include payment for parts and materials used to render the service if supplying the parts and materials was incidental to providing the service.

Notes: Generally, amounts reportable in Box 7 are subject to self-employment tax. If payments **are not** subject to this tax and they are not reportable elsewhere on this form, report the payments in Box 3.

Do not report payments to **employees**, such as Christmas bonuses or reimbursements for travel or car expenses, on Form 1099. Report these on Form W-2, Wage and Tax Statement.

Legal Services

Payments to attorneys. Attorneys' fees of \$600 or more paid in the course of your trade or business are and continue to be reportable in Box 7 of Form 1099-MISC. However, if you make a payment in the course of your trade or business to an attorney in connection with legal services and the attorney's fee cannot be determined, the total amount paid to the attorney (gross proceeds) must be reported in Box 14. You must obtain the attorney's taxpayer identification number (TIN).

Payments to corporations for legal services. The exemption from reporting payments made to corporations does not apply to payments for legal service. Therefore, you must report attorneys' fees (in Box 7) or gross proceeds paid to attorneys (in Box 14), as described above, to corporations that provide legal services.

Widely Held Fixed Investment Trusts

The IRS issued final regulations on the reporting requirements for fixed investment trusts. Regulations Section 1.671-5(d) require trustees and middlemen to file with the IRS the appropriate Form 1099 for items of income, expense or credit.

9595 VOID CORRECTED

PAYER'S name, street address, city, state, ZIP code, and telephone no.		1 Rents	\$ A	OMB No. 1545-0115	2008 Form 1099-MISC	Miscellaneous Income
		2 Royalties	\$ B			
		3 Other Income	\$ C	4 Federal income tax withheld		
PAYER'S federal identification number	RECIPIENT'S identification number	5 Fishing boat proceeds	\$ E	6 Medical and health care payments	\$	Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2008 General Instructions for Forms 1099, 1098, 5498, and W-2G.
RECIPIENT'S name		7 Nonemployee compensation	\$ F	8 Substitute payments in lieu of dividends or interest	\$ G	
Street address (including apt. no.)		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	\$	10 Crop insurance proceeds	\$	
City, state, and ZIP code		11	\$	12	\$	
Account number (see instructions)		2nd TIN not <input type="checkbox"/>	13 Excess golden parachute payments	14 Gross proceeds paid to an attorney	\$ H	
15a Section 409A deferrals	15b Section 409A Income	16 Estate tax withheld	\$ I	17 State/Payer's state no.	\$ I	18 State income
\$ J	\$ K	\$	\$	\$	\$	\$

Form 1099-MISC Cat. No. 14425J Department of the Treasury - Internal Revenue Service
Do Not Cut or Separate Forms on This Page — **Do Not Cut or Separate Forms on This Page**

- A.** Include amounts paid for all types of rents (real estate, equipment, etc.) of \$600 or more.
- B.** Include gross royalty payments of \$10 or more before reduction for severance and other taxes that have been withheld. Do not report oil or gas payments for a working interest in Box 2; they should be reported in Box 7.
- C.** Enter other income of \$600 or more required to be reported that is not reported in another box. Compensation of a deceased employee paid to an estate or beneficiary and certain damages and prizes not paid for services rendered are included in Box 3.
- D.** Enter backup withholding.
- E.** Include payments made in the course of a trade or business by medical and health care insurers to each physician or other supplier or provider of services relating to health, accident, and sickness insurance programs. Where applicable, list a corporation as the recipient rather than the individual providing the service. Do not include payments made under a flexible spending arrangement or an employer provided health reimbursement arrangement.
- F.** Include fees, commissions, or other forms of compensation for services rendered to your trade or business by an individual who is not your employee. In addition, include any oil and gas payments for a working interest, whether or not services were performed. The amount in this box is subject to self-employment tax.

 Include in Box 7 the amount of all deferrals (plus earnings) reported in Box 15b that are includible in gross income because the nonqualified deferred compensation plan failed to satisfy the requirement of Section 409A.
- G.** Include aggregate payments of at least \$10 received by a broker on behalf of a customer in lieu of dividends or tax-exempt interest as a result of the transfer of a customer's securities for use in a short sale.
- H.** Report gross proceeds paid to an attorney in connection with legal services (regardless of whether the services are performed for the payor). Report gross proceeds paid to an attorney in connection with legal services (regardless of whether the services are performed for the payor).

- I.** If state income tax is withheld, enter the amount in Box 16. In Box 17, enter the abbreviated name of the state and payor's state identification number.
- J.** Include the amount of \$600 or more of total deferrals during the year for the non-employee from all nonqualified deferred compensation (NQDC) plans subject to the provisions on Section 409A. The deferrals during the year include earnings on the current and prior year deferrals. For additional information see Regulations Sections 1.409A through 1.409A-6.
- K.** Include the amount of current year and prior year deferrals that are includible in income under Section 409A because the NQDC plan failed to satisfy the requirements of Section 409A. Include the earnings on the deferrals. Do not include amounts previously included in income. Also do not include amounts that are considered subject to a substantial risk of forfeiture under Section 409A. The amount included in Box 15b is also includible in Box 7 and generally is subject to self-employment tax.

Form 1099-R

Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, Individual Retirement Arrangements, Insurance Contracts, etc.

A designated distribution of \$10 or more from profit-sharing or retirement plans, any annuity, Individual Retirement Accounts, pensions, survivor income benefit plans, charitable gift annuities, or insurance contracts must be reported on Form 1099-R. Reportable disability payments made from a retirement plan must also be reported on Form 1099-R. Death benefits that are not made as a retirement or profit sharing plan are also reported on Form 1099-R. ***A separate Form 1099-R must be used for each type of distribution.*** Do not report two different distributions on the same 1099-R.

For distributions from a Roth IRA, report the gross distribution in Box 1 but generally **leave Box 2a blank**. Mark the "Taxable amount not determined" box in Box 2b. Enter Code J, Q, or T, as appropriate, in Box 7. Do not use any other codes with Code Q or Code T. You may enter Code 8 or P with Code J. For the withdrawal of excess contributions, use Box 2a.

You must report an IRA that is converted to a Roth IRA in Boxes 1 and 2a, even if the conversion is with the same trustee. Use Code 2 or 7 in Box 7 as appropriate.

Distributions of Designated Roth Account Contributions - A participant in a Section 401(k) plan or a Section 403(b) Plan that includes a Roth contribution program may elect to make designated Roth account contributions to the plan or program in lieu of elective deferrals. Designated Roth account contributions are reported on the participant's Form W-2. Designated Roth account distributions are reported separately on Form 1099-R. A new distributions code has been added to report these distributions, (Code B).

Notice to Beneficiaries

If a distribution is **eligible** for rollover, the plan administrator must give a written notice to the recipient **before** the distribution is made. It must contain an explanation of the rollover requirements, the special tax treatment for lump-sum distributions, the mandatory 20% withholding rules, and an explanation of how distributions from the plan to which the rollover is made may have different restrictions and tax consequences than the plan from which the rollover is made. (*See Exhibit A*). It must be given to the recipient at least 30 days, but not more than 90 days, **prior** to the distribution (180 days for plan years beginning after December 31, 2006). However, you may provide the notice more than 90 days before the distribution (180 days for plan years beginning after December 31, 2006) if you also provide a summary

of the notice during the 90 day/30 day period before the distribution. For periodic payments that are eligible rollover distributions, you must provide the notice before the first payment and at least once a year as long as the payments continue.

The IRS revised the “Safe Harbor Explanation” that plan administrators may provide to recipients of eligible rollover distributions from employer plans with Notice 2002-3. This notice reflects changes made by the “Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). (See *Exhibit A*). It also contains a Safe Harbor Explanation that administrators of “Governmental 457 Plans” may provide to recipients of a Governmental 457 Plan. (See *Exhibit B*.)

The notice has not yet been updated for the requirements related to plans that accept designated Roth account contributions or for the requirements of the Pension Protection Act of 2006. The IRS did issue Notice 2007-7 which provides guidance on provisions in the Pension Protection Act of 2006 regarding the tax treatment of certain distributions to nonspouse designated beneficiaries.

The IRS requires that Box 7 be completed with an appropriate code number that shows the type of distribution being made. When applicable, you may enter a numeric and an alpha code. When more than one numeric code is applicable to a distribution, it may be necessary to file more than one Form 1099-R. If part of an eligible rollover distribution is paid in a direct rollover and part is not, you must file a separate 1099-R for each part showing the appropriate code on each form.

Codes

1. **Early (premature) distribution, no known exception** – Use Code 1 only if the employee/taxpayer has not reached age 59½ and none of the exceptions under distribution Codes 2, 3 or 4 apply when the distribution is made. Use Code 1 even if the distribution is made for medical, health insurance premiums, first-time homebuyer or qualified higher education expenses under Section 72(t). Code 1 must also be used even if the taxpayer is 59 ½ or older and he or she modifies a series of substantially equal periodic payments under Section 72(q), (t) or (v), prior to the end of the 5-year period. The exceptions regarding the 10% excise tax (Section 72(q), (t) or (v)) are listed in Exhibit A.
2. **Early (premature) distribution, exception applies** – Use Code 2 only if the employee/taxpayer has not reached age 59½ and only if the distribution is:
 - A Roth IRA Conversion (an IRA converted to a Roth IRA) or a reconversion if the participant is under the age of 59 ½.
 - An early distribution made from a qualified retirement plan or IRA because of an IRS levy under Section 6331.
 - A Section 457 (b) plan distribution that is not subject to the additional 10% excise tax.
 - A distribution from a qualified retirement plan after separation from service at the age of 55.
 - A distribution from a governmental defined benefit plan to a public safety employee after separation from service when the taxpayer has reached age 50.
 - A distribution that is part of a series of substantially equal periodic payments as described in Section 72(q), (t) or (v).
 - Any other distribution subject to an exception under Section 72(q), (t) or (v) that is not required to be reported using Code 1, 3 or 4.

If early distribution is due to disability or death, use Codes 3 or 4 instead of Code 2. Also use Code 2 for a Roth conversion or reconversion if the participant is under 59½.

3. **Disability**
4. **Death** – Includes payments to a beneficiary. Use Code 4, regardless of the age of the employee/taxpayer, to indicate payment to a beneficiary. Also, use it for death benefit payments not made as part of a pension, profit sharing, or retirement plan.
5. **Prohibited transaction**
6. **Section 1035 exchange** – Use Code 6 to indicate tax-free exchange of insurance contracts under Section 1035.
7. **Normal distribution** – Use Code 7 for:
 - A normal distribution from any plan, including a traditional IRA, SIMPLE or SEP, if the employee/taxpayer is at least 59½.
 - A Roth IRA conversion or reconversion if the participant is at least 59½.
 - A distribution from a life insurance, annuity, or endowment contract and for reporting income from a failed life insurance contract.
 - Do not use Code 7 for a Roth IRA.
8. **Excess contributions plus earnings/ excess deferrals and/or earnings** – Use Code 8 for corrective distributions of excess contributions or deferrals plus earnings taxable in 2008.
9. **Cost of current life insurance protection**
 - A. **May be eligible for 10-year averaging** – See Form 4972.
 - B. **Designated Roth Account Distribution** – Use code B for a distribution from a designated Roth account that is not a qualified distribution. However, use Code 2 for an IRS levy and Code E for a Section 415 excess.
 - D. **Excess contributions** – Plus earnings/excess deferrals taxable in 2006.
 - E. **Excess annual additions under Section 415** – and certain excess amounts under Section 403(b) plans.
 - F. **Charitable gift annuity**
 - G. **Direct rollover and rollover contributions**
 - H. **Direct Rollover of a designated Roth account distribution to a Roth IRA.**
 - J. **Early distribution from a Roth IRA** – When Code Q or T does not apply use Code 2 for an IRS levy and Code 5 for a prohibited transaction.
 - L. **Loans treated as deemed distributions under Section 72(p)**
 - N. **Recharacterized IRA contribution** – Made for 2008 and recharacterized in 2008.
 - P. **Excess Contributions** – Plus earnings/excess deferrals taxable in 2007.
 - Q. **Qualified distribution from a Roth IRA.**
 - R. **Recharacterized IRA Contribution** – Made for 2007 and recharacterized in 2008.
 - S. **Early distribution from A SIMPLE IRA in first 2 years**, no known exception.
 - T. **Roth IRA Distribution**, exception applies.

Annuity Contracts Simplified Method

The IRS published Notice 98-2 which provides a Simplified Method for determining the taxable and tax-free portion of certain annuities paid on qualified employee plans and annuity contracts. A copy of the notice is included at the end of this publication. The Safe Harbor Method under Notice 88-118 was replaced by the Simplified Method for distributions after November 18, 1996, (*See Exhibit C*).

Report in Box 9b the total employee contribution toward the annuity **only** in the year periodic payments began. Do **not** put an amount in this box if the distribution is not eligible for the simplified safe harbor method of Notice 88-118. If amounts were previously recovered tax-free in prior years, do **not** include that amount in this box. This information is applicable for annuities **prior** to November 18, 1996. If the distribution is a total distribution, enter the total employee contribution **only** in Box 5.

Deemed IRAs

A qualified employer plan may allow employees to make voluntary employee contributions to a separate account or annuity established under the plan. Under the terms of the plan, the account or annuity must meet the applicable requirements of Section 408 or 408A for a traditional IRA or Roth IRA. Under Section 408(q), the “deemed IRA” portion of the qualified employer plan is subject to the rules applicable to traditional and Roth IRAs and not to those of the applicable plan under Section 401(a), 403(a), 403(b) or 457.

The reporting and withholding rules on any plan and IRA distributions apply separately depending on whether the distributions are made from the deemed IRA or the qualified employer plan. A total distribution of amounts held in the qualified employer plan portion and the deemed IRA portion is reported on two separate 1099-R Forms. Also, the 20% mandatory withholding rules of Section 3405(c) do not apply to a distribution from the deemed IRA portion, but would apply to a distribution from the qualified employer plan portion.

Automatic Rollovers

The IRS has issued guidance on the new Automatic (default) Rollover rule for qualified retirement plans under Code Section 401(a) (31) (B), Notice 2005-5. The guidance defines a mandatory distribution as one that is made without the participant’s consent and that it is made to a participant before he or she attains the later of age 62 or normal retirement age. The Automatic Rollover requirements apply to any mandatory distribution that is more than \$1,000, but not more than \$5,000 and is an eligible rollover distribution that is subject to the direct rollover requirements that are in Section 401(a)(31).

In order to satisfy the automatic requirement of Section 401(a)(31)(B), a plan must provide that when making a mandatory distribution, if after receiving the proper notice, a participant fails to elect to receive a mandatory distribution directly or to have it paid in a direct rollover to an eligible retirement plan, the distribution will be paid in a direct rollover to an individual retirement plan.

The automatic rollover requirements apply to mandatory distributions made on or after March 28, 2005.

Rules to Remember for Federal Income Tax Withholding

A Form W-4P must be completed and signed by the recipient prior to receiving any distribution. Unless the recipient elects on Form W-4P **not** to have income tax withheld from the distribution, the plan administrator is required to withhold on periodic payments as though the payments were wages, based on the recipient’s Form W-4P. Nonperiodic distributions that **are not** eligible for rollover are subject to a 10% withholding tax. All withheld Federal income tax is reported in Box 4.

Any eligible rollover distribution paid to a participant from a qualified plan is subject to a mandatory and automatic 20% withholding tax, unless the distribution is paid directly to another qualified plan or an Individual Retirement Account through a direct trustee-to-trustee transfer. An eligible rollover distribution is defined as any distribution from a qualified plan, annuity, or tax-sheltered annuity, *except* for the following:

1. Benefits paid over the life or life expectancy of the participant or beneficiary, or jointly over both life expectancies;
2. Benefits paid over a scheduled period of time of at least 10 years;
3. Required minimum distributions;
4. Elective deferrals and earnings returned because of Section 415 limits;
5. Corrective distributions of excess deferrals under Section 402(g) and earnings;
6. Corrective distributions of excess contributions under a qualified cash or deferred arrangement (under 401(k)) and excess aggregate contributions (under Section 401(m)) and earnings;
7. Loans treated as deemed distributions (Plan loan offset amounts, however, can be eligible rollover distributions);
8. Section 404(k) dividends;
9. Cost of current life insurance protection;
10. Distributions to a payee other than the employee, the employee's surviving spouse, or a spouse or former spouse who is an alternate payee under a QDRO;
11. Any hardship distribution;
12. A permissible withdrawal under Section 414(w);
13. Prohibited allocations of securities in an S-corporation that are treated as deemed distributions;
14. Distributions of premiums for accident or health insurance under Regulations Sections 1.402(a)-1(e).

Each eligible rollover distribution, including each eligible rollover distribution paid directly to an eligible retirement plan in a direct rollover, must be reported on Form 1099-R.

The 20% withholding does not apply to distributions from IRAs. An employer may, but need not, exclude distributions that are less than \$200 from the 20% withholding.

9898 VOID CORRECTED

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		\$ A		2008 Form 1099-R		
		2a Taxable amount				
\$ B		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>		Copy A For Internal Revenue Service Center File with Form 1096.
PAYER'S federal identification number	RECIPIENT'S identification number	3 Capital gain (included in box 2a)		4 Federal income tax withheld		
		\$ C		\$		
RECIPIENT'S name		5 Employee contributions / Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities		
		\$ D		\$ E		
Street address (including apt. no.)		7 Distribution code(s)		8 Other		
City, state, and ZIP code		IRA/SEP/SIMPLE <input type="checkbox"/>		\$ G %		
		9a Your percentage of total distribution %		9b Total employee contributions \$ H		
1st year of desig. Roth contrib.		10 State tax withheld		11 State/Payer's state no.		12 State distribution
		\$				\$
Account number (see instructions)		13 Local tax withheld		14 Name of locality		15 Local distribution
		\$				\$

Form 1099-R Cat. No. 14436Q Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

- A.** Enter total distribution before tax or other withholdings. Include direct rollovers, premiums paid by a trustee or custodian for current life or other insurance protection, distributions of qualified deductible voluntary employee contributions (DECs) and IRA, SEP or SIMPLE distributions. Also include in this box distributions from governmental Section 457(b) plans.
- B.** Report the amount includible as income. Do not include excludable or tax deferred amounts reportable in Boxes 5, 6, and 8. See the discussion on Expected Annuity Payments, in Exhibit B. Generally, the payor is not required to compute the taxable amount of an IRA, SEP or SIMPLE distribution. For a distribution of excess contributions plus earnings from an IRA, report the gross distribution in Box 1 and only the earnings in Box 2a; enter Code 8 or P in Box 7.
- C.** For lump sum distributions only, enter the amount in Box 2a eligible for the capital gain election.
- D.** Enter the total contributed to the plan by the individual; any amount paid by the employer which was includible in the employee's income; the cost of premiums paid for life insurance protection taxable to the employee; and premiums paid on commercial annuities. The total employee contributions must be reported only in the first year of periodic payments. Also, report after-tax contributions directly rolled over to an IRA. Do not include contributions to any DECs or 401(k) Plans or any other contribution to a retirement plan that was not an after-tax contribution.
- E.** Report the amount of a lump-sum distribution attributable to net unrealized appreciation in employer (or a subsidiary or parent corporation) securities. Include this amount in Box 1 but not in Box 2a.
- F.** See discussion of codes in previous pages.
- G.** The current actuarial value of an annuity contract that is part of a lump-sum distribution. DO NOT include this amount in Boxes 1 and 2a.
- H.** See discussion of Life Annuity Rules in Exhibit C.

Boxes 10-15 - The use of these boxes is optional.

Form 5498
IRA Contribution Information

Form 5498 must be filed with the IRS by June 1, 2009 and a copy provided to the participant, on or before February 2, 2009 for each person for whom any individual retirement arrangement is maintained during 2008. For contributions made between January 1st and April 15, 2009, trustees and issuers should obtain the participant's designation of the year for which the contributions are made.

The receipt of a direct rollover from a qualified plan or tax-sheltered annuity including a governmental Section 457(b) plan must be reported on this form. However, do **not** report a direct trustee-to-trustee transfer from one IRA to another. You must report the receipt of a conversion from an IRA to a Roth conversion IRA even if the conversion is with the same trustee. Report the total amount converted from a Traditional IRA, SEP or SIMPLE to a Roth IRA in Box 3.

Note: The fair market value information must be given to the participant **no later than February 2, 2009.**

2828 VOID CORRECTED

TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code		1 IRA contributions (other than amounts in boxes 2-4 and 8-10) \$	OMB No. 1545-0747 2008 Form 5498	IRA Contribution Information	
		2 Rollover contributions \$			
TRUSTEE'S or ISSUER'S federal identification no.	PARTICIPANT'S social security number	3 Roth IRA conversion amount \$	4 Recharacterized contributions \$		Copy A For Internal Revenue Service Center File with Form 1096. For Privacy Act and Paperwork Reduction Act Notice, see the 2008 General Instructions for Forms 1099, 1098, 5498, and W-2G.
PARTICIPANT'S name		5 Fair market value of account \$	6 Life insurance cost included in box 1 \$		
Street address (including apt. no.)		7 IRA SEP SIMPLE Roth IRA <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>			
City, state, and ZIP code		8 SEP contributions \$ A	9 SIMPLE contributions \$ B		
Account number (see instructions)		10 Roth IRA contributions \$	11 Check if RMD for 2009 <input type="checkbox"/>		

Form 5498 Cat. No. 50010C Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

A. This is the fair market value (FMV) of the account at the end of the year. However, if a decedent is shown as the participant on this form it may be the FMV at the date of death. If a decedent's name is shown as the participant and the FMV is zero, the executor or administrator of the decedent's estate may request a date-of-death valuation.

B. For endowment contracts only, this is the amount allocable to the cost of life insurance. The IRA owner should subtract this amount from the allowable IRA contribution included in Box 1 to compute the amount allowable as an IRA deduction.

EXHIBIT A**SAFE HARBOR EXPLANATION FOR PLANS QUALIFIED UNDER SECTION 401(a), SECTION 403(a) ANNUITY PLANS, OR SECTION 403(b) TAX SHELTER ANNUITIES****Special tax notice regarding plan payments**

This notice explains how you can continue to defer federal income tax on your retirement savings in the [INSERT NAME OF PLAN] (the "Plan") and contains important information you will need before you decide how to receive your Plan benefits.

This notice is provided to you by [INSERT NAME OF THE PLAN ADMINISTRATOR OR, IN THE CASE OF A SECTION 403(b) TAX-SHELTERED ANNUITY, THE PAYOR] (your "Plan Administrator") because all or part of the payment that you will soon receive from the Plan may be eligible for rollover by you or your Plan Administrator to a Traditional IRA or an eligible employer plan. A rollover is a payment by you or the Plan Administrator of all or part of your benefit to another plan or IRA that allows you to continue to postpone taxation of that benefit until it is paid to you. Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an Education IRA). An "eligible employer plan" includes a plan qualified under Section 401(a) of the Internal Revenue Code, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a Section 403(a) annuity plan; a Section 403(b) tax-sheltered annuity; and an eligible Section 457(b) plan maintained by a governmental employer (governmental 457 plan).

An eligible employer plan is not legally required to accept a rollover. Before you decide to roll over your payment to another employer plan, you should find out whether the plan accepts rollovers and, if so, the types of distributions it accepts as a rollover. You should also find out about any documents that are required to be completed before the receiving plan will accept a rollover. Even if a plan accepts rollovers, it might not accept rollovers of certain types of distributions, such as after-tax amounts. If this is the case, and your distribution includes after-tax amounts, you may wish instead to roll your distribution over to a Traditional IRA or split your rollover amount between the employer plan in which you will participate and a Traditional IRA. If an employer plan accepts your rollover, the plan may restrict subsequent distributions of the rollover amount or may require your spouse's consent for any subsequent distribution. A subsequent distribution from the plan that accepts your rollover may also be subject to different tax treatment than distributions from this Plan. Check with the administrator of the plan that is to receive your rollover prior to making the rollover.

If you have additional questions after reading this notice, you can contact your plan administrator at [INSERT PHONE NUMBER OR OTHER CONTACT INFORMATION].

Summary

A payment from the Plan that is eligible for "rollover" can be taken in two ways. You can have all or any portion of your payment either 1) PAID IN A "DIRECT ROLLOVER" or 2) PAID TO YOU. A rollover is a payment of your Plan benefits to your individual retirement arrangement (IRA) or to another employer plan. This choice will affect the tax you owe.

If you choose a DIRECT ROLLOVER

- Your payment will not be taxed in the current year and no income tax will be withheld.
- Your payment will be made directly to your IRA or, if you choose, to another employer plan that accepts your rollover. Your plan payment cannot be rolled over to a ROTH IRA, a SIMPLE IRA or a Coverdell Education Savings Account (ESA) because these are not Traditional IRAs.
- Your payment will be taxed later when you take it out of the Traditional IRA or the qualified employer plan.

If you choose to have your Plan payment that is eligible for rollover PAID TO YOU

- You will receive only 80% of the taxable amount, because the Plan administrator is required to withhold 20% of the payment and send it to the IRS as income tax withholding to be credited against your taxes.
- The taxable amount of your payment will be taxed in the current year unless you roll it over. Under limited circumstances, you may be able to use special tax rules that could reduce the tax you owe. However, if you receive the payment before age 59½, you also may have to pay an additional 10% tax.
- You can roll over all or part of the payment by paying it to your Traditional IRA or to another eligible employer plan that accepts your rollover within 60 days of receiving the payment. The amount rolled over will not be taxed until you take it out of the Traditional IRA or eligible employer plan.
- If you want to roll over 100% of the payment to a Traditional IRA or another eligible employer plan, you must find other money to replace the 20% that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

Your right to waive the 30-Day Notice Period. Generally, neither a direct rollover nor a payment can be made from the plan until at least 30 days after your receipt of this notice. Thus, after receiving this notice, you have at least 30 days to consider whether or not to have your withdrawal directly rolled over. If you do not wish to wait until this 30-day notice period ends before your election is processed, you may waive the notice period by making an affirmative election indicating whether or not you wish to make a direct rollover. Your withdrawal will then be processed in accordance with your election as soon as practical after it is received by the Plan Administrator.

More Information

I.	Payments That Can And Cannot Be Rolled Over	(25)
II.	Direct Rollover	(26)
III.	Payment Paid To You.....	(27)
IV.	Surviving Spouses, Alternate Payees, And Other Beneficiaries	(29)

I. Payments That Can And Cannot Be Rolled Over

Payments from the Plan may be "eligible rollover distributions." This means that they can be rolled over to an IRA or to another employer plan that accepts rollovers. Payments from a plan cannot be rolled over to a Roth IRA, a SIMPLE or a Coverdell Education Savings Account. Your Plan administrator should be able to tell you what portion of your payment is an eligible rollover distribution.

After-tax Contributions. If you made after-tax contributions to the Plan, these contributions may be rolled over into either a Traditional IRA or to certain employer plans that accept rollovers of the after-tax contributions. The following rules apply:

- a) Rollover into a Traditional IRA. You can roll over your after-tax contributions to a Traditional IRA either directly or indirectly. Your plan administrator should be able to tell you how much of your payment is the taxable portion and how much is the after-tax portion.

If you roll over after-tax contributions to a Traditional IRA, it is your responsibility to keep track of, and report to the Service on the applicable forms, the amount of these after-tax contributions. This will enable the nontaxable amount of any future distributions from the Traditional IRA to be determined.

Once you roll over your after-tax contributions to a Traditional IRA, those amounts CANNOT later be rolled over to an employer plan.

- b) Rollover into an Employer Plan. You can roll over after-tax contributions from an employer plan that is qualified under Code Section 401(a) or a Section 403(a) annuity plan to another such plan using a direct rollover if the other plan provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You can also roll over after-tax contributions from a Section 403(b) tax-sheltered annuity to another Section 403(b) tax-sheltered annuity using a direct rollover if the other tax-sheltered annuity provides separate accounting for amounts rolled over, including separate accounting for the after-tax employee contributions and earnings on those contributions. You CANNOT roll over after-tax contributions to a governmental 457 plan. If you want to roll over your after-tax contributions to an employer plan that accepts these rollovers, you cannot have the after-tax contributions paid to you first. You must instruct the Plan Administrator of this Plan to make a direct rollover on your behalf. Also, you cannot first roll over after-tax contributions to a Traditional IRA and then roll over that amount into an employer plan.

The following types of payments cannot be rolled over:

Payments Spread Over Long Periods You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for

- your lifetime (or your life expectancy), or
- your lifetime and your beneficiary's lifetime (or life expectancies), or
- a period of ten years or more.

Required Minimum Payments Beginning in the year you reach age 70½, or retire, whichever is later, a certain portion of your payment cannot be rolled over because it is a "required minimum payment" that must be paid to you. Special rules apply if you are a 5% or more owner.

Hardship Distribution A hardship distribution cannot be rolled over.

ESOP Dividends Cash dividends paid to you on employer stock held in an employee stock ownership plan cannot be rolled over.

Corrective Distributions A distribution that is made to correct a failed nondiscrimination test or because legal limits on certain contributions were exceeded cannot be rolled over.

Loans Treated as Distributions The amount of a Plan loan that becomes a taxable deemed distribution because of a default cannot be rolled over. However, a loan-offset amount is eligible for rollover, as discussed in Part III below. Ask the Plan Administrator of this Plan if distribution of your loan qualifies for rollover treatment.

II. Direct Rollover

You can choose a direct rollover of all or any portion of your payment that is an "eligible rollover distribution," as described above. In a direct rollover, the eligible rollover distribution is paid directly from the Plan to a Traditional IRA or another qualified employer plan that accepts rollovers. If you choose a direct rollover, you are not taxed on a payment until you later take it out of the IRA or the employer plan.

Direct Rollover to a Traditional IRA You can open a Traditional IRA to receive the direct rollover. (The term "IRA," as used in this notice, includes individual retirement accounts and individual retirement annuities.) If you choose to have your payment made directly to a Traditional IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to a Traditional IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish a Traditional IRA to receive the payment. However, in choosing a Traditional IRA, you may wish to consider whether the Traditional IRA you choose will allow you to move all or a part of your payment to another Traditional IRA at a later date, without penalties or other limitations. See IRS Publication 590, Individual Retirement Arrangements, for more information on IRAs (including limits on how often you can roll over between IRAs).

Direct Rollover to a Plan If you are employed by a new employer that has a qualified plan, and you want a direct rollover to that qualified plan, ask the administrator of that plan whether it will accept your rollover. A qualified employer plan is not legally required to accept a rollover. If your new employer's plan does not accept a rollover, you can choose a direct rollover to a Traditional IRA.

Direct Rollover of a Series of Payments If you receive eligible rollover distributions that are paid in a series for less than ten years, your choice to make or not make a direct rollover for a payment will apply to all later payments in the series until you change your election. You are free to change your election for any later payment in the series.

Change in Tax Treatment Resulting from a DIRECT ROLLOVER The tax treatment of any payment from the eligible employer plan or Traditional IRA receiving your DIRECT ROLLOVER might be different than if you received your benefit in a taxable distribution directly from the Plan.

for example, if you were born before January 1, 1936, you might be entitled to ten-year averaging or capital gain treatment, as explained below. However, if you have your benefit rolled over to a Section 403(b) tax-sheltered annuity, a governmental 457 plan, or a Traditional IRA in a DIRECT ROLLOVER, your benefit will no longer be eligible for that special treatment. See the sections below entitled “Additional 10% Tax if You Are Under Age 59½” and “Special Tax Treatment if You Were Born Before January 1, 1936.”

III. Payment Paid To You

If you have the payment made to you, it is subject to 20% income tax withholding. The payment is taxed in the year you receive it unless, within 60 days, you roll it over to a Traditional IRA or another qualified plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

Income Tax Withholding:

Mandatory Withholding If any portion of the payment to you is an eligible rollover distribution, the Plan is required by law to withhold 20% of that amount. This amount is sent to the IRS as income tax withholding. For example, if your eligible rollover distribution is \$10,000, only \$8,000 will be paid to you because the Plan must withhold \$2,000 as income tax. However, when you prepare your income tax return for the year, you will report the full \$10,000 as a payment from the Plan. You will report the \$2,000 as tax withheld, and it will be credited against any income tax you owe for the year.

Voluntary Withholding If any portion of your payment is not an eligible rollover distribution but is taxable, the mandatory withholding rules described above do not apply to that portion. To elect out of withholding, ask the Plan administrator for the election form and related information.

Sixty-Day Rollover Option If you have an eligible rollover distribution paid to you, you can still decide to roll over all or part of it to a Traditional IRA or another qualified employer plan that accepts rollovers. If you decide to roll over, you must make the rollover within 60 days after you receive the payment. The portion of your payment that is rolled over will not be taxed until you take it out of the Traditional IRA or the employer plan.

You can roll over up to 100% of the eligible rollover distribution, including an amount equal to the 20% that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the IRA or the employer plan to replace the 20% that was withheld. On the other hand, if you roll over only the 80% that you received, you will be taxed on the 20% that was withheld.

Example: Your eligible rollover distribution is \$10,000, and you choose to have it paid to you. You will receive \$8,000, and \$2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the \$8,000, you may roll over the entire \$10,000 to an IRA or employer plan. To do this, you roll over the \$8,000 you received from the Plan, and you will have to find \$2,000 from other sources (your savings, a loan, etc.). In this case, the entire \$10,000 is not taxed until you take it out of the IRA or employer plan. If you roll over the entire \$10,000, when you file your income tax return you may get a refund of the \$2,000 withheld.

If, on the other hand, you roll over only \$8,000, the \$2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return, you may get a refund of part of the \$2,000 withheld. (However, any refund is likely to be larger if you roll over the entire \$10,000).

Additional 10% Tax If You Are Under Age 59½ If you receive a payment before you reach age 59½ and you do not roll it over, then, in addition to the regular income tax, you may have to pay an extra tax equal to 10% of the taxable portion of the payment. The additional 10% tax does not apply to your payment if it is (1) paid to you because you separate from service with your employer during or after the year you reach age 55, (2) paid because you retire due to disability, (3) paid to you as equal (or almost equal) payments over your life or life expectancy (or you and your beneficiary's lives or life expectancies), (4) dividends paid with respect to stock by an employee stock ownership plan (ESOP) as described in Code Section 404 (k), (5) payments that are paid directly to the government to satisfy a federal tax levy, (6) payments that are paid to an alternate payee under a qualified domestic relations order, or (7) payments that do not exceed the amount of your deductible medical expenses. See IRS Form 5329 for more information on the additional 10% tax.

The additional 10% tax will not apply to distributions from a governmental 457 plan, except to the extent the distribution is attributable to an amount you rolled over to that plan (adjusted for investment returns) from another type of eligible employer plan or IRA. Any amount rolled over from a governmental 457 plan to another type of eligible employer plan or to a Traditional IRA will become subject to the additional 10% tax if it is distributed to you before you reach age 59½, unless one of the exceptions applies.

Special Tax Treatment If your eligible rollover distribution is not rolled over, it will be taxed in the year you receive it. However, if it qualifies as a "lump sum distribution," it may be eligible for special tax treatment. A lump sum distribution is a payment, within one year, of your entire balance under the Plan (and certain other similar plans of the employer) that is payable to you because you have reached age 59½ or have separated from service with your employer (or, in the case of a self-employed individual, because you have reached age 59½ or have become disabled). For a payment to qualify as a lump sum distribution, you must have been a participant in the Qualified Plan for at least five years. The special tax treatment for lump sum distributions is described below.

Ten-Year Averaging If You Were Born Before January 1, 1936 If you receive a lump sum distribution and you were born before January 1, 1936, you can make a one-time election to figure the tax on the payment by using "10-year averaging" (using 1986 tax rates). Ten-Year averaging often reduces the tax you owe.

Capital Gain Treatment If You Were Born Before January 1, 1936 In addition, if you receive a lump sum distribution and you were born before January 1, 1936, you may elect to have the part of your payment that is attributable to your pre-1974 participation in the Plan (if any) taxed as long-term capital gain at a rate of 20%.

There are other limits on the special tax treatment for lump sum distributions. For example, you can generally elect this special tax treatment only once in your lifetime, and the election applies to all lump sum distributions that you receive in that same year. You may not elect this special tax treatment if you rolled amounts into this Plan from a 403(b) tax-sheltered annuity contract, a governmental 457 plan, or from an IRA not originally attributable to a qualified employer plan. If you have previously rolled over a distribution from this Plan (or certain other similar plans of the employer), you cannot use this special averaging treatment for later payments from the Plan. If you roll over your payment to a Traditional IRA, governmental 457 plan, or 403(b) tax-sheltered annuity, you will not be able to use special tax treatment for later payments from that IRA, plan, or annuity. Also, if you roll over only a portion of your payment to a Traditional IRA, governmental 457 plan, or 403(b) tax-sheltered annuity, this special tax treatment is not available for the rest of the payment.

See IRS Form 4972 for additional information on lump sum distributions and how you elect the special tax treatment.

Employer Stock or Securities There is a special rule for a payment from the Plan that includes employer stock (or other employer securities). To use this special rule, 1) the payment must qualify as a lump sum distribution, as described above (or would qualify except that you do not yet have five-years of participation in the Plan), or 2) the employer stock included in the payment must be attributable to "after-tax" employee contributions, if any. Under this special rule, you may have the option of not paying tax on the "net unrealized appreciation" of the stock until you sell the stock. Net unrealized appreciation generally is the increase in the value of the employer stock while it was held by the Plan. For example, if employer stock was contributed to your Plan account when the stock was worth \$1,000 but the stock was worth \$1,200 when you received it, you would not have to pay tax on the \$200 increase in value until you later sold the stock.

You may instead elect not to have the special rule apply to the net unrealized appreciation. In this case, your net unrealized appreciation will be taxed in the year you receive the stock, unless you roll over the stock. The stock (including any net unrealized appreciation) can be rolled over to a Traditional IRA or another qualified employer plan either in a direct rollover or a rollover that you make yourself.

If you receive only employer stock in a payment that can be rolled over, no amount will be withheld from the payment. If you receive cash or property other than employer stock, as well as employer stock, the 20% withholding amount will be based on the entire amount paid to you (including the employer stock but excluding the net unrealized appreciation). However, the amount withheld will be limited to the cash property (excluding employer stock) paid to you.

If you receive employer stock in a payment that qualifies as a lump sum distribution, the special tax treatment for lump sum distributions described above (such as ten-year averaging) also may apply. See IRS Form 4972 for additional information on these rules.

Repayment of Plan Loans If you end your employment and have an outstanding loan from your Plan, your employer may reduce (or "offset") your balance in the Plan by the amount of the loan you have not repaid. The amount of your loan offset is treated as a distribution to you at the time of the offset and will be taxed unless you roll over an amount equal to the loan offset to another qualified employer plan or a Traditional IRA within 60 days of the date of the offset. If the amount of your loan offset is the only amount you receive or are treated as having received, no amount will be withheld from it. If you receive other payments of cash property from the Plan, the 20% withholding amount will be based on the entire amount paid to you, including the amount of the loan repayment. The amount withheld will be limited to the amount of other cash or property paid to you (other than employer securities). The amount of a defaulted Plan loan that is a taxable deemed distribution cannot be rolled over.

IV. Surviving Spouses, Alternate Payees And Other Beneficiaries

In general, the rules summarized above that apply to payments to employees also apply to payments to surviving spouses of employees and to spouses or former spouses who are "alternate payees." You are an alternate payee if your interest in the Plan results from a "qualified domestic relations order," which an order is issued by a court, usually in connection with a divorce or legal separation. Some of the rules summarized above also apply to a deceased employee's beneficiary who is not a spouse. However, there

are some exceptions for payments to surviving spouses, alternate payees, and other beneficiaries that should be mentioned.

If you are a surviving spouse or an alternate payee, you may choose to have an eligible rollover distribution paid in a direct rollover to a Traditional IRA or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to a Traditional IRA or to an eligible employer plan; thus, you have the same choices as the employee. If you are a beneficiary other than the surviving spouse or an alternate payee, the direct rollover can only be made to an IRA.

If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is not subject to the additional 10% tax described in section III above, even if you are younger than age 59½.

If you are a surviving spouse, an alternate payee, or another beneficiary, you may be able to use the special tax treatment for lump sum distributions and the special rule for payments that include employer stock, as described in section III above. If you receive payment because of the employee's death, you may be able to treat the payment as a lump sum distribution if the employee met the appropriate age requirements, whether or not the employee had five years of participation in the Plan.

How To Obtain Additional Information

This notice summarizes only the federal (not state or local) tax rules that might apply to your payment. The rules described above are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with a professional tax advisor before you take a payment of your benefits from the Plan. Also, you can find more specific information on the tax treatment of payments from qualified retirement plans in IRS Publication 575, Pension and Annuity Income, and IRS Publication 590, Individual Retirement Arrangements. These publications are available from your local IRS office on the IRS's Internet Website at www.irs.gov or by calling 1-800-TAX-FORMS.1.

EXHIBIT B**SAFE HARBOR EXPLANATION FOR GOVERNMENTAL 457 PLANS****Special tax notice regarding Plan payments**

This notice explains how you can continue to defer federal income tax on your retirement savings in the [INSERT NAME OF PLAN] (the “Plan”) and contains important information you will need before you decide how to receive your Plan benefits.

This notice is provided to you by [INSERT NAME OF PLAN ADMINISTRATOR] (your “Plan Administrator”) because all or part of the payment that you will soon receive from the Plan may be eligible for rollover by you or your Plan Administrator to a Traditional IRA or an eligible employer plan. A rollover is a payment by you or the Plan Administrator of all or part of your benefit to another plan or IRA that allows you to continue to postpone taxation of that benefit until it is paid to you. Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an Education IRA). An “eligible employer plan” includes a plan qualified under Section 401(a) of the Internal Revenue Code, including a 401(k) plan, profit-sharing plan, defined benefit plan, stock bonus plan, and money purchase plan; a Section 403(a) annuity plan; a Section 403(b) tax-sheltered annuity; and an eligible Section 457(b) plan maintained by a governmental employer (governmental 457 plan). The Plan is a governmental 457 plan.

An eligible employer plan is not legally required to accept a rollover. Before you decide to roll over your payment to another employer plan, you should find out whether the plan accepts rollovers and, if so, the types of distributions it accepts as a rollover. You should also find out about any documents that are required to be completed before the receiving plan will accept a rollover. Even if a plan accepts rollovers, it might not accept rollovers of certain types of distributions. If this is the case, you may wish instead to roll your distribution over to a Traditional IRA or to split your rollover amount between the employer plan in which you will participate and a Traditional IRA. If an employer plan accepts your rollover, the plan may restrict subsequent distributions of the rollover amount or may require your spouse’s consent for any subsequent distribution. A subsequent distribution from the plan that accepts your rollover may also be subject to different tax treatment than distributions from this Plan. Check with the administrator of the plan that is to receive your rollover prior to making the rollover.

If you have additional questions after reading this notice, you can contact your plan administrator at [INSERT PHONE NUMBER OR OTHER CONTACT INFORMATION].

Summary

There are two ways you may be able to receive a Plan payment that is eligible for rollover:

1. Certain payments can be made directly to a Traditional IRA that you establish or to an eligible employer plan that will accept it and hold it for your benefit (“DIRECT ROLLOVER”), or
2. The payment can be PAID TO YOU

If you choose a DIRECT ROLLOVER

- Your payment will not be taxed in the current year and no income tax will be withheld.
- You choose whether your payment will be made directly to your Traditional IRA or to an eligible employer plan that accepts your rollover. Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account because these are not Traditional IRAs.

- Your payment will be taxed later when you take it out of the Traditional IRA or the eligible employer plan. Depending on the type of plan, the later distribution may be subject to different tax treatment than it would be if you received a taxable distribution from this Plan.

If you choose to have a Plan payment that is eligible for rollover PAID TO YOU

- You will receive only 80% of the taxable amount of the payment, because the Plan Administrator is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes.
- The taxable amount of your payment will be taxed in the current year unless you roll it over.
- You can roll over all or part of the payment by paying it to your Traditional IRA or to an eligible employer plan that accepts your rollover within 60 days after you receive the payment. The amount rolled over will not be taxed until you take it out of the Traditional IRA or the eligible employer plan.
- If you want to roll over 100% of the payment to a Traditional IRA or an eligible employer plan, *you must find other money to replace the 20% of the taxable portion that was withheld.* If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

Your Right to Waive the 30-Day Notice Period. Generally, neither a direct rollover nor a payment can be made from the plan until at least 30 days after your receipt of this notice. Thus, after receiving this notice, you have at least 30 days to consider whether or not to have your withdrawal directly rolled over. If you do not wish to wait until this 30-day notice period ends before your election is processed, you may waive the notice period by making an affirmative election indicating whether or not you wish to make a direct rollover. Your withdrawal will then be processed in accordance with your election as soon as practical after it is received by the Plan Administrator.

More Information

I. Payments That Can and Cannot Be Rolled Over.....(32)

II. Direct Rollover.....(33)

III. Payment Made To You.....(34)

IV. Surviving Spouses, Alternate Payees, and Other Beneficiaries.....(35)

Payments That Can and Cannot Be Rolled Over

Payments from the Plan may be “eligible rollover distributions.” This means that they can be rolled over to a Traditional IRA or to an eligible employer plan that accepts rollovers. Payments from a plan cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account. Your Plan Administrator should be able to tell you whether your payment is an eligible rollover distribution.

The following types of payments cannot be rolled over:

Payments Spread over Long Periods You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for:

- Your lifetime (or a period measured by your life expectancy), or

- Your lifetime and your beneficiary's lifetime (or a period measured by your joint life expectancies), or
- A period of 10 years or more.

Required Minimum Payments Beginning when you reach age 70 ½ or retire, whichever is later, a certain portion of your payment cannot be rolled over because it is a "required minimum payment" that must be paid to you.

Unforeseeable Emergency Distributions A distribution on account of an unforeseeable emergency cannot be rolled over.

Distributions of Excess Contributions A distribution that is made because legal limits on certain contributions were exceeded cannot be rolled over.

Loans Treated as Distributions The amount of a Plan loan that becomes a taxable deemed distribution because of a default cannot be rolled over. However, a loan-offset amount is eligible for a rollover, as discussed in Part III below. Ask the Plan Administrator of this Plan if distribution of your loan qualifies for rollover treatment.

The Plan Administrator of this Plan should be able to tell you if your payment includes amounts which cannot be rolled over.

I. Direct Rollover

A direct rollover is a direct payment of the amount of your Plan benefits to a Traditional IRA or an eligible employer plan that will accept it. You can choose a Direct Rollover of all or any portion of your payment that is an eligible rollover distribution, as described in Part I above. You are not taxed on any taxable portion of your payment for which you choose a Direct Rollover until you later take it out of the Traditional IRA or eligible employer plan. In addition, no income tax withholding is required for any taxable portion of your Plan benefits for which you choose a Direct Rollover. This Plan might not let you choose a Direct Rollover if your distributions for the year are less than \$200.

Direct Rollover to a Traditional IRA You can open a Traditional IRA to receive the direct rollover. If you choose to have your payment made directly to a Traditional IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a direct rollover to a Traditional IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish a Traditional IRA to receive the payment. However, in choosing a Traditional IRA, you may wish to make sure that the Traditional IRA you choose will allow you to move all or a part of your payment to another Traditional IRA at a later date, without penalties or other limitations. See IRS Publication 590, Individual Retirement Arrangements, for more information on Traditional IRA (including limits on how often you can roll over between IRAs.)

Direct Rollover to a Plan If you are employed by a new employer that has an eligible employer plan, and you want a direct rollover to that plan, ask the Plan Administrator of that plan whether it will accept your rollover. An eligible employer plan is not legally required to accept a rollover. Even if your new employer's plan does not accept a rollover, you can choose a Direct Rollover to a Traditional IRA. If the employer plan accepts your rollover, the plan may provide restrictions on the circumstances under which you may later receive a distribution of the rollover amount or may require spousal consent to any subsequent distribution. Check with the Plan Administrator of that plan before making your decision.

Direct Rollover of a Series of Payments If you receive a payment that can be rolled over to a Traditional IRA or an eligible employer plan that will accept it, and it is paid in a series of payments for less than 10 years, your choice to make or not make a Direct Rollover for a payment will apply to all later payments in the series until you change your election. You are free to change your election for any later payment in the series.

Change in Tax Treatment Resulting from a Direct Rollover The tax treatment of any payment from the eligible employer plan or Traditional IRA receiving your Direct Rollover might be different than if you received your benefit in a taxable distribution directly from the Plan. See the sections below entitled “Additional 10% Tax May Apply to Certain Distributions.”

II. Payment Made to You

If your payment can be rolled over (see Part I above) and the payment is made to you in cash, it is subject to 20% federal income tax withholding on the taxable portion (state tax withholding may also apply). The payment is taxed in the year you receive it unless, within 60 days, you roll it over to a Traditional IRA or an eligible employer plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

Income Tax Withholding:

Mandatory Withholding If any portion of your payment can be rolled over under Part I above and you do not elect to make a Direct Rollover, the Plan is required by law to withhold 20% of the taxable amount. This amount is sent to the IRS as federal income tax withholding. For example, if you can roll over a taxable payment of \$10,000, only \$8,000 will be paid to you because the Plan must withhold \$2,000 as income tax. However, when you prepare your income tax return for the year, unless you make a rollover within 60 days (see “Sixty-Day Rollover Option” below) you must report the full \$10,000 as a taxable payment from the Plan. You must report the \$2,000 as tax withheld, and it will be credited against any income tax you owe for the year. There will be no income tax withholding if your payments for the year are less than \$200.

Voluntary Withholding If any portion of your payment is taxable but cannot be rolled over under Part I above, the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. If you do nothing, an amount will be taken out of this portion of your payment for federal income tax withholding. To elect out of withholding, ask the Plan Administrator for the election form and related information.

Sixty-Day Rollover Option If you receive a payment that can be rolled over under Part I above, you can still decide to roll over all or part of it to a Traditional IRA or to an eligible employer plan that accepts rollovers. If you decide to roll over, *you must contribute the amount of the payment you received to a Traditional IRA or eligible employer plan within 60 days after you receive the payment.* The portion of your payment that is rolled over will not be taxed until you take it out of the Traditional IRA or the eligible employer plan.

You can roll over up to 100% of your payment that can be rolled over under Part I above, including an amount equal to the 20% of the taxable portion that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the Traditional IRA or the eligible employer plan, to replace the 20% that was withheld. On the other hand, if you roll over only the 80% of the taxable portion that you received, you will be taxed on the 20% that was withheld.

Example: Your payment that can be rolled over under Part I above is \$10,000, and you choose to have it paid to you. You will receive \$8,000, and \$2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the \$8,000, you may roll over the entire \$10,000 to a Traditional IRA or an eligible employer plan. To do this, you

roll over the \$8,000 you received from the Plan, and you will have to find \$2,000 from other sources (your savings, a loan, etc.). In this case, the entire \$10,000 is not taxed until you take it out of the Traditional IRA or an eligible employer plan. If you roll over the entire \$10,000, when you file your income tax return you may get a refund of part or all of the \$2,000 withheld.

If, on the other hand, you roll over only \$8,000, the \$2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return, you may get a refund of part of the \$2,000 withheld. (However, any refund is likely to be larger if you roll over the entire \$10,000.)

Additional 10% Tax May Apply to Certain Distributions Distributions from this Plan are generally not subject to the additional 10% tax that applies to pre-age-59½ distributions from other types of plans. However, any distribution from the Plan that is attributable to an amount you rolled over to the Plan (adjusted for investment returns) from another type of eligible employer plan or IRA amount is subject to the additional 10% tax if it is distributed to you before you reach age 59½, unless an exception applies.

Exceptions to the additional 10% tax generally include (1) payments that are paid as equal (or almost equal) payments over your life or life expectancy (or your and your beneficiary's lives or life expectancies), (2) payment that are paid from an eligible employer plan after you separate from service with your employer during or after the year you reach age 55, (3) payments that are paid to an alternate payee under a qualified domestic relations order, or (6) payments that do not exceed the amount of your deductible medical expenses. These exceptions may be different for distributions from a Traditional IRA. See IRS Form 5329 for more information on the additional 10% tax.

The additional 10% tax does not apply to distributions from the Plan or any other governmental 457 plan, except to the extent the distribution is attributable to an amount you rolled over to the governmental 457 plan (adjusted for investment returns) from another type of eligible employer plan or IRA.

In addition, any amount rolled over from the Plan to another type of eligible employer plan or to a Traditional IRA will be subject to the additional 10% tax if it is distributed to you before you reach age 59½, unless an exception applies.

Repayment of Plan Loans If your employment ends and you have an outstanding loan from your Plan, your employer may reduce (or "offset") your balance in the Plan by the amount of the loan you have not repaid. The amount of your loan offset is treated as a distribution to you at the time of the offset and will be taxed unless you rollover an amount equal to the amount of your loan offset to another qualified employer plan or a Traditional IRA within 60 days of the date of the offset. If the amount of your loan offset is the only amount you receive or are treated as having received, no amount will be withheld from it. If you receive other payments of cash or property from the Plan, the 20% withholding amount will be based on the entire amount paid to you, including the amount of the loan offset. The amount withheld will be limited to the amount of other cash or property paid to you. The amount of a defaulted plan loan that is a taxable deemed distribution cannot be rolled over.

III. Surviving Spouses, Alternate Payees, and Other Beneficiaries

In general, the rules summarized above that apply to payments to employees also apply to payments to surviving spouses of employees and to spouses or former spouses who are "alternate payees." You are an alternate payee if your interest in the Plan results from a "qualified domestic relations order," which an order is issued by a court, usually in connection with a divorce or legal separation.

If you are a surviving spouse or an alternate payee, you may choose to have a payment that can be rolled over, as described in Part I above, paid in a Direct Rollover to a Traditional IRA or to an eligible employer plan or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to a Traditional IRA or to an eligible employer plan. Thus, you have the same choices as the employee.

If you are a beneficiary other than a surviving spouse or an alternate payee, the direct rollover can only be made to an IRA.

If you are a surviving spouse, an alternate payee, or another beneficiary, your payment is generally not subject to the additional 10% tax described in Part III above, even if you are younger than age 59½ .

How To Obtain More Information

This notice summarizes only the federal (not state or local) tax rules that might apply to your payment. The rules described above are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with the Plan Administrator or a professional tax advisor before you take a payment of your benefits from your Plan. Also, you can find more specific information on the tax treatment of payments from qualified employer plans in IRS Publication 575, Pension and Annuity Income, and IRS Publication 590, Individual Retirement Arrangements. These publications are available from your local IRS office, on the IRS's Internet Website at www.irs.gov, or by calling 1-800-TAX-FORMS.

EXHIBIT C

Annuity Contracts Simplified Method

Notice 98-2 replaces Notice 88-118 which provides the Simplified Method under Code Section 72(d) (1) for determining the tax-free and taxable portions of certain annuity payments made from a qualified plan under Section 401 (a), employee annuities under Section 403(a), and annuity contracts under Section 403(b) of the Code.

In general, this new method applies to an annuity if the annuity starting date is after November 18, 1996. Unlike the safe-harbor method in Notice 88-118, the Simplified Method is required by the code and distributees must use this method in order to comply with Section 72(d) of the Code as amended by the Small Business Job Protection Act and the Taxpayer Relief Act of 1997. Payors must also use this method to report the taxable portion of the annuity payments on Form 1099R. The new method does not apply if the annuity starting date is on or before November 18, 1996.

I. Background

Section 402(a)(1) of the Code provides that the amount actually distributed to any distributee by an employees trust described in Section 401(a) which is exempt from tax under Section 501(a) shall be taxable to the distributee, in the year in which distributed, under Section 72 (relating to annuities). Similarly, amounts distributed from employee annuity contracts under Section 403(a) and annuity contracts under Section 403(b) are taxable to the distributee (in the year in which distributed) under Section 72.

Prior to the enactment of the Tax Reform Act of 1986 (TRA 86), many recipients of annuity payments for qualified plans were able to apply the so-called three-year rule under Section 72(d) of the Code. Under this rule, if the total annuity payments in the first three years equaled or exceeded the investment in the contract, a distributee could exclude annuity payments from gross income until the investment had been recovered. Subsequent annuity payments were fully includible in gross income. Those individuals who could not use the three-year rule were required to determine an exclusion ratio under Section 72(b) in order to determine the taxable portion of their annuity payments.

As a result of the repeal of the three-year rule by Section 1122(c)(1) of TRA 86, all annuity distributions from qualified plans to distributees with annuity starting dates after July 1, 1986, are taxed under Section 72(b) of the Code. Section 72(b) provides that a portion of the annuity payments received in a taxable year may be excluded from gross income as a return of the distributees investment according to an exclusion ratio determined at the annuity starting date. The numerator of this ratio is the employee investment in the contract, and the denominator is the expected return.

The investment in the contract is defined under Section 72(c)(1) of the Code as the aggregate premiums or other consideration paid (generally the aggregate amount of after-tax contributions made to the plan), reduced by amounts received before the annuity starting date that were excluded from gross income. In addition, Section 72(c)(2) provides that the investment in the contract must be adjusted to reflect the value of any refund feature. In general, a contract contains a refund feature if (i.) the annuity payments depend, in whole or in part, upon the continuing life of one or more persons, (ii.) there are to be payments on or after the death of the annuitant if a specified amount or a stated number of payments has not been made prior to death, and (iii.) such payments are in the nature of a refund of the consideration paid. Section 1.72-7 of the regulations provides rules for determining the refund feature adjustment.

Finally, in certain cases the investment in the contract may be increased by any death benefit exclusion that is allowed under Section 101(b) if employee death benefits are paid to a survivor in the form of an annuity, other than as a joint and survivor annuity. See Section 101(b)(2)(D) of the Code and Section 1.101-2(e) of the regulations. The total amount excludable under Section 101(b) by beneficiaries with respect to any employee may not exceed \$5,000, regardless of the number of employers or the number of beneficiaries.

Note - The Small Business Job Protection Act of 1996 repealed the \$5,000 exclusion for decedents dying after August 20, 1996. Surviving beneficiaries are no longer permitted to increase the investment in the contract by the death benefit exclusion.

Notice 88-118 provided a simplified Safe-Harbor method for determining the tax-free portion and taxable portion of certain annuity payments made from qualified plans under Sections 401(a), 403(a) and 403(b). Under the Safe Harbor method, the exclusion ratio was determined by dividing the distributee's investment in the contract by an expected number of payments based upon the distributee's age. The result represented the tax-free portion of each payment. This Safe Harbor method could be elected only if the distributee received monthly payments and this method did not apply to installment payments that were not life contingent.

Section 1403 of the Small Business Job Protection Act amended Section 72(d) of the Code to require the use of a Simplified Method of recovering the investment in the contract for most annuity distributions from qualified plans under Section 401(a), 403(a) and 403(b). The Simplified Method is similar to, but not the same as, the Safe-Harbor method provided by Notice 88-118. This amendment also provided a special rule where a single sum is received in connection with the commencement of annuity payments. In such case, the single-sum payment is treated as if received before the annuity starting date. These changes apply to distributions with annuity starting dates *after* November 18, 1996.

The Taxpayer Relief Act of 1997 under Section 1075 amended the Simplified Method of recovering the investment in the contract in Section 72(d) (1) (B) of the Code to prescribe a different table if the annuity is payable based on the lives of more than one individual. This new table applies to distributions with annuity starting dates after December 31, 1997. This act did not make any changes for annuities payable based on the life of only one individual under the Simplified Method described by the Small Business Job Protection Act.

II. Simplified Method

A. General

The Simplified Method provided in Section 72(d) of the Code and in this notice simplifies the calculation of the amount to be excluded from taxation by allowing the use of a simpler method to determine the expected number of payments to be received and the investment in the contract.

The Simplified Method provided in this notice must be used by distributees to comply with Section 72(b) of the Code, and by payors to report the taxable portion of annuity distributions on Form 1099-R. If three conditions are met: (i) the annuity payments depend upon the life of the distributee or the joint lives of the distributee and beneficiary, (ii) the annuity payments are made from an employee plan qualified under Section 401(a) of the Code, an employee annuity under Section 403(a), or an annuity contract under Section 403(b), and (iii.) the distributee is less than age 75 when annuity payments commence or, if the distributee is age 75 or older, there are less than five years of guaranteed payments.

B. Expected Annuity Payments

Under the Simplified Method, for annuities starting dates beginning **after** November 18, 1996 but before January 1, 1998, the total number of monthly annuity payments expected to be received is based on the primary annuitant's age at the annuity starting date rather than according to the life expectancy tables in Section 1.72-9 of the regulations. The same expected number of payments applies to a distributee whether he or she is receiving a single life annuity or a joint and survivor annuity. These payments are set forth in the tables below.

ANNUITY STARTING DATE

<u>(Old Rules)</u> <u>Prior to November 18, 1996</u>		<u>After November 18, 1996</u> <u>and before January 1, 1998</u>	
<u>Age of Primary Annuitant</u>	<u>Expected Number of Payments</u>	<u>Age of Primary Annuitant</u>	<u>Expected Number of Payments</u>
55 and under	300	55 and under	360
56-60	260	56-60	310
61-65	240	61-65	260
66-70	170	66-70	210
71 and over	120	71 and over	160

New recovery method for joint and survivor annuity payments from qualified plans. For annuity starting dates beginning after December 31, 1997, a new method is used to figure the tax-free portion of an annuity that is payable *over the lives of more than one annuitant*. New law requires that the recovery factors (the number of anticipated monthly payments used to recover the tax-free investment in the contract or basis) be determined by *combining the ages* of the annuitants.

The separate tables for 1998 and subsequent years that apply to payments based on the life of only one annuitant and on the lives of more than one annuitant are shown below:

AFTER DECEMBER 31, 1997

<u>Age of Primary Annuitant</u>	<u>Expected Number of Payments</u>	<u>Combined age of Annuitants</u>	<u>Expected Number of Payments</u>
55 and under	360	110 and under	410
56-60	310	111-120	360
61-65	260	121-130	310
66-70	210	131-140	260
71 and over	160	141 and over	210

C. Investment in the Contract

The investment in the contract is the aggregate amount of premiums and other consideration paid (generally the after-tax contributions to the plan), minus the aggregate amount received before the annuity starting date that was excluded from gross income. No refund feature adjustment is required. A distributee who elects the Simplified Method may increase the investment in the contract by any death benefit exclusion (subject to the \$5,000 limit determined with respect to an employee) allowed under Section 101(b) of the Code. However, plan administrators or payors must disregard any such death benefit exclusion adjustment for reporting purposes under the Simplified Method. Also, this exclusion is no longer available for decedents dying after August 20, 1996 since Section 101(b) was repealed.

D. Excluded Amount

Under the Simplified Method, the distributee recovers his or her investment in the contract in even amounts over the number of monthly payments determined from the table above. The portion of each monthly annuity payment that is excluded from gross income by a distributee who uses the simplified method for income tax purposes is a level dollar amount determined by dividing the investment in the contract, including any applicable death benefit exclusion, by the set number of annuity payments from the tables above, as follows:

$$\text{Investment} / \text{Expected Number of Monthly Payments} = \text{Tax free portion of monthly annuity}$$

The dollar amount determined above will be excluded from each monthly annuity payment, even where the amount of the annuity payments change. For example, the amount to be excluded from each annuity payment determined at the annuity starting date remains constant, even if the amount of the annuity payments increases due to cost of living increases, or decreases in the case of a reduced survivor annuity. If the amount to be excluded from each monthly payment is greater than the amount of the monthly annuity (e.g., because of decreased survivor payments), then each monthly annuity payment will be completely excluded from gross income until the entire investment is recovered. For those distributees with annuity starting dates after December 31, 1986, annuity payments received after the investment is recovered (generally, after the set number of payments has been received) are fully includible in gross income. If annuity payments cease before the set number of payments has been made, a deduction for the unrecovered investment is allowed on the distributee's last tax return.

If annuity payments are to be made to multiple beneficiaries, the total amount to be excluded from all monthly payments is determined with reference to the age of the oldest beneficiary. Each beneficiary will exclude from each annuity payment a pro-rata portion of this amount determined according to a ratio, the numerator of which is the amount of the beneficiary's monthly annuity, and the denominator of which is the total amount of the monthly annuity payments to all beneficiaries.

E. Examples

The application of the Simplified Method is illustrated by the following examples. In all examples, the investment in the contract is stated as the employee's after-tax contributions and with no adjustment for the refund feature.

Example 1

Upon retirement, Employee A, age 65, begins receiving retirement benefits in the form of a joint and 50 percent survivor annuity to be paid for the joint lives of A and A's spouse, age 64. A's annuity starting date is January 1, 1997. A contributed \$26,000 to the plan, and has received no distributions prior to the annuity starting date. A will receive a monthly retirement benefit of \$1,000 per month, and A's spouse will receive a monthly survivor benefit of \$500 upon A's death.

Under the Simplified Method, A's investment in the contract is \$26,000 (the after-tax contributions to the plan). The set number of monthly payments for a distributee who is age 65 is 260. The tax-free portion of each \$1,000 monthly annuity payment to A is \$100, determined by dividing A's investment (\$26,000) by the number of monthly payments (260).

$$\$26,000 \text{ investment} / 260 = \$100 \text{ return of investment per month}$$

Upon A's death, if A has not recovered the full \$26,000 investment, A's spouse will also exclude \$100 from each \$500 monthly annuity payment.

Any annuity payments received after 260 payments have been made will be fully includible in gross income. If A and A's spouse die before 260 payments have been made, a deduction is allowed for the last income tax return in the amount of the unrecovered investment.

Example 2

Upon retirement, Employee B, age 65, begins receiving retirement benefits in the form of a joint and 50 percent survivor annuity to be paid for the joint lives of B and B's spouse, age 64. B's annuity starting date is January 1, 1998. B contributed \$26,000 to the plan, and has received no distributions prior to the annuity starting date. B will receive a monthly retirement benefit of \$1,000 per month, and B's spouse will receive a monthly survivor benefit of \$500 upon B's death.

B's investment in the contract is \$26,000. The expected number of monthly payments is 310 for two distributees whose combined ages are 129. The tax-free portion of each \$1,000 monthly annuity payment to B is \$83.87, determined by dividing B's investment (\$26,000) by the expected number of payments (310).

$$\text{\$26,000 investment} / 310 = \text{\$83.87 return of investment per month.}$$

Upon B's death, if B has not recovered the full \$26,000 investment, B's spouse will also exclude \$83.87 from each \$500 monthly annuity payment.

Any annuity payments received after 310 monthly payments have been made will be fully includible in gross income. If B and B's spouse die before 310 monthly payments have been made, a deduction is allowed for the last income tax return in the amount of the unrecovered investment.

III. Transition Rule

Some payors and distributees may have continued to use the law in effect prior to the Small Business Job Protection Act (SBJPA) for annuity starting dates after November 18, 1996 and before January 1, 1998. This notice contains a transition rule for these payors and distributees.

Under this transition rule, for annuities with annuity starting dates after November 18, 1996 and before January 1, 1998, the law in effect prior to SBJPA (including the methodology contained in Notice 88-118) may be used to determine the taxable and tax-free portions of annuity payments received in 1996 and 1997. Accordingly, under this transition rule, payors are not to re-issue Forms 1099-R for 1996 (and 1997, if applicable), and distributees are not to file amended income tax returns for 1996 (and 1997, if applicable), solely because they failed to take into account the changes to Section 72(d) of the Code made by SBJPA.

However, under this transition rule, a payor who reports the taxable portion of annuity payments on Form 1099-R must determine the taxable and tax-free portion of annuity payments using the transition method described below. The transition method must be applied to annuity payments made on and after January 1, 1998. However, payors may choose to apply the transition method for annuity payments made on an earlier date (for example, payments made on and after January 1, 1997). Under the transition method, the tax-free portion of each annuity payment made on and after the transition date is determined by dividing the remaining investment in the contract by the remaining number of expected payments. The remaining investment in the contract is the distributee's original investment in the contract as of the annuity starting

date, minus the amount of the investment in the contract treated as recovered after the annuity starting date and prior to the transition date. The remaining number of expected monthly payments is the total number of expected monthly payment as of the annuity starting minus the number of payments made prior to the transition date. Where the payor does not report the taxable portion of annuity payments on Form 1099-R, a distributee who uses the transition rule must determine the taxable and tax-free portions of annuity payments using the transition method described in this paragraph.

Example of Transition Rule

Assume the same facts as in Example 1 except that A's annuity starting date is December 1, 1996. The tax-free portion of each \$1,000 monthly and tax-free annuity payment to A was determined under Notice 88-118. This tax-free portion was \$108.33, calculated as follows:

$$\text{\$26,000 investment} / 240 \text{ monthly payments} = \text{\$108.33 return of investment}$$

The \$108.33 was treated as tax-free for the 1996 return. Under the transition rule, this treatment for 1996 is allowed. However, the taxable and tax-free portion must be redetermined using the method with a transition date of January 1, 1998, or earlier.

Assume that A uses January 1, 1997 as transition date. For annuity payments received for after December 1, 1996, determine the tax-free portion of each \$1,000 annuity payment by dividing the remaining investment in the contract by the remaining number of expected payments as of the transition date, determined in accordance with Section 72(d) and this notice. Accordingly, the tax-free portion of each \$1,000 payment received in 1997 and later years is \$99.97, determined as follows:

$$\begin{aligned} &\text{\$25,891.67 investment} / 259 \text{ monthly payments} = \text{\$108.33 return of investment} \\ &(\text{\$26,000 minus } \text{\$108.33}) \end{aligned}$$

Under this method, the total amount of annuity payments that is tax-free is \$26,000.

IV. Effective Date

The Simplified Method described in this notice is generally effective for annuity starting dates after November 18, 1996. For annuity starting dates after December 31, 1997, if the annuity is payable based on the lives of more than one individual, the Simplified Method based on the combined ages of the annuitants is to be used.