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GUIDE TO NATIONAL TAXATION OF UNJSPF BENEFITS WITH SPECIAL REFERENCE TO UNITED STATES TAX

This Guide** has been prepared by the Office of Legal Affairs of the United Nations with the substantial assistance of Buck Consultants (the consulting actuary of the Pension Fund), primarily for use by those offices of the United Nations (including all entities for which the Secretary-General has administrative responsibilities) that are concerned with the taxes that may be imposed by national Governments or local authorities on benefits received from the United Nations Joint Staff Pension Fund. It is also designed to inform present and former members of the staff of the United Nations and their beneficiaries about these questions and about the relevant practices of the Organization. Except for the portions that relate specifically to such practices (paragraphs 4 to 6, 16 (last sentence), 20 and 37), this Guide may also prove useful to other UNJSPF participants and their beneficiaries.

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PART ONE: GENERAL

I. National taxation of pensions

1. Unlike the emoluments paid to most United Nations officials in active service, periodic pension payments to former officials or to their survivors are generally not exempt from national (including local) taxation by reason of any international agreement. However, as indicated in paragraph 5 below, a different rule applies to lump sum benefits, whether representing a withdrawal settlement or the commutation of a retirement benefit.

2. Whether and how periodic pension benefits are taxed is therefore a matter of national law. In some countries, United Nations Joint Staff Pension Fund (UNJSPF) benefits may be wholly or partially exempt from taxation because of:

(a) The terms of a particular treaty or the interpretation by national authorities of the Convention on the Privileges and Immunities of the United Nations;

(b) All pensions or perhaps all public service pensions (which may or may not be defined to include international service) might be exempt from taxation;

(c) Pensions earned for service abroad might not be subject to taxation, in full or in part;

(d) Pensions might be considered as deferred compensation, tax-exempt under national law to the same extent as the original emoluments on which they are based;

(e) Payments made from or received abroad might not be subject to taxation, either for anyone or perhaps only for non-citizens;

(f) Pensions might be exempt to the extent that they represent a mere return of a participant's own contribution. [1/]

In addition, if the recipient of a benefit is not a citizen of the country in which he resides, he may on the one hand be subject to multiple taxation, or he may be shielded from taxation by one or even by both countries by the terms of double taxation treaties between them.

3. National tax laws, especially those relating to pensions, are exceedingly complex and diverse, and subject to frequent change. Consequently, the United Nations is not able to maintain up-to-date familiarity in this field nor to give advice to individual participants or their survivors. All recipients of UNJSPF benefits must therefore ascertain for themselves what their tax obligations may be. Only with respect to United States taxation, which has an impact on a very large number of UNJSPF beneficiaries, has the Organization acquired certain information, which is summarized in Part Two of this Guide. In addition,

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1/ For the application of this principle by the United States, see para. 13 below, and the calculations referred to therein.

the Association of Former International Civil Servants (AFICS), which has branches in a number of headquarters cities, has gathered some data about other national tax systems.

II. Refund of taxes by the United Nations

4. National taxes imposed on periodic benefits from UNJSPF, whether in the form of income, inheritance, estate or property taxes, are not refunded by he United Nations.

5. However, lump sum payments received as a withdrawal settlement (art. 31 of the UNJSPF Regulations [2/]) or as a partial or complete commutation of a retirement benefit (arts. 28(g), (h), 29(c) or 30(c)), are considered to constitute part of the terminal payments received by an official, and should therefore be exempt from national taxation to the same extent as salary and other emoluments (such as payment for accrued annual leave, termination benefits, etc.), even though some of these payments may not be actually received until some time after separation from service. Though the great majority of countries accord tax exemption, if any tax is imposed on such lump sum payments it will be refunded pursuant to United Nations Staff Regulation 3.3(f) to former staff members who had joined the Organization before 1 January 1980 [3/], on the same basis as taxes imposed on other emoluments. As required by the rules relating to such refunds, the official must minimize the tax liability as much as legally possible and, in particular, should inform the national fiscal authorities that the United Nations considers these lump sum payments to be covered by the tax exemption applicable to the emoluments of officials. 4/ If necessary, a statement to this effect can be secured from the UN Office of Legal Affairs.

6. It should be noted that the United Nations in principle refunds only taxes imposed on its own staff members. However, the United Nations Administrative Tribunal has held that, under certain circumstances, if a staff member leaves the Organization and joins the staff of another member organization of the Pension Fund that does not refund national taxes imposed on lump sums, the United Nations must, when that staff member eventually retires and receives a lump sum benefit that is taxed, reimburse, depending on the circumstances, either an amount equivalent to the taxes that would have been imposed on the lump sum that would have been payable had the staff member retired at the time of his separation from the United Nations, or the taxes levied on the portion of the lump sum that is attributable to the period of UN service. 5/

2/ All citations to the UNJSPF Regulations herein are to those set out in JSPB/G.4/Rev.13, and include the amendments adopted by General Assembly resolution 42/222.

3/ By reason of General Assembly resolution 34/165, part III, staff members joining the United Nations after 31 December 1979 will not be reimbursed by the Organization for any taxes payable upon receipt of any lump sum payments from UNJSPF.

4/ As to the application of this rule in respect of United States federal income taxation, see paragraphs 20 and 37 below. See also the annual UN Secretariat Information Circular on "Payment of Income Taxes" (for 1988: ST/IC/89/3, Part F, paras. 67-72).

5/ See, respectively, UNAT Judgement No. 320 (Mills v. The Secretary-General of the United Nations) and No. 373 (Saddler v. The Secretary-General of the United Nations).

PART TWO: UNITED STATES TAXATION [6]

III. Federal income tax

A. Liability to pay federal income tax

7. Whether or not a particular payment from UNJSPF is subject to United States federal income taxation depends primarily on the status of the recipient at the time the payment is received, rather than on that of the participant during the time the pension was earned (though, as indicated in para. 17(e)(i) below, the calculation and thus the amount of the tax may depend on such status). Liability to taxation does not depend on the place or the currency in which benefits are paid (see art. 47(b) of UNJSPF Regulations), except as this may constitute evidence relevant to the recipient's residential status. If such status changes, so may the taxability of UNJSPF benefits received thereafter, but not that of payments received earlier. [7]

8. Generally speaking:

(a) United States citizens and resident aliens (i.e., "green card" holders who, if they had that status while still staff members, were required to sign a waiver of privileges and immunities; see also para. 10 below) are subject to United States federal income taxation, whether or not they actually live in the United States;

(b) For non-resident aliens (see para. 10 below) UNJSPF benefits are considered to be non-United States source income and thus generally not subject to United States taxation, whether or not for some period they actually live in or are occasionally present in the United States.

9. United States citizens should note that pension benefits are not "earned" income within the meaning of Section 911 of the Internal Revenue Code (IRC) and consequently the exemption applicable to foreign-earned income does not apply, regardless of whether the pension was earned or is received outside the United States. (See, however, para. 17(e)(ii) below.)

10. A non-United States national must determine whether he is a resident or a non-resident alien. In this respect, as of 1 January 1985, there was a significant change in the applicable legislation whereby holders of G-IV visas, with few exceptions, no longer have the "choice" that they in effect used to have as to the category of aliens (resident or non-resident) they belonged to for tax purposes

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[6] The discussion herein is not intended as an authoritative interpretation of United States tax laws. This can be secured only from the competent federal or state fiscal authorities, either individually or generally from official publications. It may be necessary to consult a tax lawyer or a tax accountant. It should also be noted that the application of certain provisions of the Internal Revenue Code of 1986, as amended by the Revenue Act of 1987, will depend on Regulations yet to be issued, on judicial interpretation and on possible technical corrections.

[7] See examples D and E, which concern beneficiaries who had not been

(see pre-1985 versions of IRS Publication 519, "United States Tax Guide for Aliens"; see also Secretariat information circular ST/IC/84/10, paras. 5-6, and para. 10 of earlier versions of this Guide). Under the new law, G-IV visa holders are considered as non-resident aliens for income tax purposes, unless they file a joint return with a spouse, which they may do only if such spouse is: (a) a United States citizen; or (b) a lawful permanent resident of the United States (i.e., a "green card" holder); or (c) an individual who meets the "substantial presence test" (i.e., a holder of a G-V, E or I visa who has been present in the United States for at least the minimum period precisely defined in Section 7701(b)(3) of the Internal Revenue Code) (see Secretariat information circular ST/IC/84/74, sect. A, or post-1984 versions of IRS Publication 519). The "substantial presence test" might also make a person obtaining a "green card" a tax resident, and hence subject to tax, from the first day of physical presence in the United States after separation from United Nations service (see IRC 7701(b)); however, any time spent in the United States while holding a G-IV visa would not be counted for this purpose.

B. General principle of taxation of UNJSPF benefits

11. UNJSPF is a "qualified" employees' trust under IRC Section 401(a). A copy of the most recent Internal Revenue Service determination letter in which this is recognized (dated 28 April 1977 and bearing the symbol: E:EO:7103:O.Resnick) is attached.

12. As a qualified trust, UNJSPF benefits are taxed by the United States in the same way as those of any other such trust - with the single exception that for a non-resident alien these benefits are considered to be from a non-United States source and thus not subject to United States taxation (see para. 8(b) above). In securing advice or assistance from any lawyer, accountant, tax service or IRS agent, it should be made clear that UNJSPF is "qualified" and that there are no special exemptions or immunities relating to the taxation of the benefits it pays to United States citizens or resident aliens.

13. The general principle by which benefits from qualified pension plans are taxed is that the participant, or his beneficiaries, are entitled to recover tax-free the participant's own "investment" in the pension, which generally speaking amounts to his own contribution, while any benefits in excess of that investment are subject to taxation (at regular or capital gains rates). The portion of each benefit payment that is subject to tax depends on how that "investment" is calculated and how it is allocated to each benefit payment; an indication of how this is done is given in parts C-H below, and in the attached examples A-D, F and I. It should, however, be noted that the taxable portion of the benefit is not merely the sum of the employing organization's contributions plus the interest credited thereon and on the participant's contributions; rather, it is, in the first instance, the difference between the total actuarial value of all elements of the pension (called the "expected return" by the IRS and calculated according to IRS rules rather than the UNJSPF tables) and the participant's investment, and ultimately the difference between the total amount of all payments received from UNJSPF and the participant's investment.

14. IRS annually issues its Publication 575, "Pension and Annuity Income", which contains a full description of the taxation of pensions, particularly those paid by qualified plans, as well as numerous actuarial tables required to make the necessary calculations. (Briefer descriptions appear in Publication No. 17, "Your Federal Income Tax", as well as in the instructions for completing line 17 on Form 1040 (for 1988).) IRS has also issued a simplified method for tax calculations; this is discussed in detail in para. 40 below. The remainder of the present

section III of the Guide refers as far as possible to those official documents, to which participants and other beneficiaries should turn for additional explanations, detailed instructions and further illustrative examples. An attempt has been made here to indicate how various features and provisions of UNJSPF relate to the descriptions and definitions in the IRS instructions.

15. The calculations indicated below only show what fraction of each benefit is tax-exempt and how much is taxable and, if so, on what basis (i.e., at regular rates, or as a long-term capital gain, or subject to income-averaging rules). The actual amount of the tax payable will generally depend on the taxpayer's gross taxable income (which also includes any other taxable income) and on the exemptions, deductions and tax credits available.

C. Withdrawal settlement (full lump sum)

General

16. For income tax purposes a withdrawal settlement received under article 31 of the UNJSPF Regulations, or a commutation of an entire small pension under article 28(g)(ii), 28(h), 29(c) (read with 28(g)(ii)) or 30(c)(ii), is divided into three parts: 8/

(a) The return of the participant's contribution (see para. 17 below), which is not taxed;

(b) The fraction of the balance of the lump sum that is attributable to pre-1974 employment of participants age 50 or older on 31 December 1985 (see para. 22 below), which may be taxed as a long-term capital gain at 1986 rates (see para. 23 below);

(c) The remainder of the balance of the lump sum, which is taxed as regular income, but may be subject to special income-averaging (see paras. 24, 26 and 27 below).

After a participant receives his withdrawal settlement from the UNJSPF, the United Nations Office of Financial Services will inform him of the amount that falls into each of the above categories.

17. The participant's contribution 9/ ("investment") or basic tax-free recovery is the sum of the following:

(a) His regular contributions to UNJSPF that had been deducted at the rate of 7 per cent of his pensionable remuneration before 1984, 7.25 per cent as from 1 January 1984 to 30 June 1988, 7.4 per cent from 1 July 1988 to 30 June 1989 and 7.5 per cent as from 1 July 1989;

8/ See example A.

9/ It should be noted that a participant's "contribution" as defined for IRS purposes is not the same as the term "own contributions" defined in art. 1(n) of the UNJSPF Regulations, since the latter includes interest.

(b) Any transfers of the participant's share from a provident fund; 10/

(c) Any amounts paid by the participant to validate non-contributory service (art. 23 of the UNJSPF Regulations) or to restore prior contributory service (art. 24);

(d) Payments made by a participant to make periods of leave without pay part of his contributory service (including the employing organization's share to the extent paid by the participant) (arts. 22(b) and 25(b)); 11/

(e) The contributions paid by the employing organization (at the rate of 14 per cent of pensionable remuneration through 1983, 14.5 per cent from 1 January 1984 to 30 June 1988, 14.80 per cent from 1 July 1988 to 30 June 1989 and 15 per cent from 1 July 1989), if such payments, when made, would have been exempt from United States income tax had they been paid directly to the participant instead of into UNJSPF, i.e., during any period that the participant was:

(i) an alien (whether or not employed within the United States) whose emoluments were, at the time received, not subject to or exempt from United States taxation (e.g., because he was residing in the United States on a G-IV visa); 12/

(ii) a United States citizen (but not a resident alien) whose emoluments at the time received were subject to the exemption of foreign earned income (now IRC Section 911), but only in respect of amounts earned before 1 January 1963 while a bona fide resident of a foreign country or while present in such countries for 510 days during a period of 18 continuous months. 13/

All of the above amounts are to be calculated without taking into account any interest earned thereon. But interest that the participant had actually paid to the UNJSPF under article 25(b), (c), (d) or (e) of its Regulations is to be included, except to the extent such interest was taken as a tax deduction in the year paid.

18. The taxable balance of the distribution is equal to the total lump sum less the participant's contribution calculated under para. 17 above.

19. Under certain conditions part or all of the taxable portion of a full lump sum benefit can be "rolled over", within 60 days of receipt, into either another qualified pension plan or into an Individual Retirement Account (IRA), with the result that no tax is imposed on such benefit until distributions are made from such plan or Account (see IRS Publication 590, "Individual Retirement Arrangements"). However, the portion not rolled over is taxed at ordinary income tax rates since it would not qualify for any of the favorable tax treatments described below.

10/ See example A, data II(b).

11/ See example A, data II(d).

12/ See example A, data III(a).

13/ See example A, data III(b).

20. As indicated in paragraph 5 above, the United Nations may refund the tax imposed on full lump sum benefits (but see footnote 3) and consequently includes these amounts in the final Statement of Taxable Earnings given to a staff member subject to United States taxation. However, such refund will only be paid to the extent of the minimum tax payable on the lump sum (i.e., that resulting from the most favorable method). In respect of a participant who was a non-citizen of the United States at the time of his separation (and had not waived his tax-exempt status), it is the view of the United Nations, as indicated in paragraph 5 above, that the immunity from taxation of officials granted by Section 18(b) of the Convention on the Privileges and Immunities of the United Nations, and accepted by the United States for all except United States citizens and immigrants (i.e., "green card" resident aliens), still applies to a withdrawal settlement paid upon separation and that therefore no tax is due thereon.

Participants with more than 5 years of contributory service who were age 50 before 1 January 1986

21. For those born in 1935 or earlier, under the 1986 Internal Revenue Code certain provisions of the pre-1986 Internal Revenue Code were "grandfathered" and it is possible to select the tax treatment of the distribution which is most favorable to the participant. Income Tax Form 4972 is essential in looking at the methods of determining the tax.

22. Under the "grandfather" method, the taxable balance of the lump sum may be divided into a pre-1974 and a post-1973 portion in proportion to the months of service before and after 31 December 1973. (For the purpose of this calculation, any part of a pre-1974 calendar year during which there was any pensionable service is counted as 12 months; any part of a post-1973 month during which there was any pensionable service is counted as one month.)

23. The pre-1974 taxable portion may be reported, using 1986 rules and tax rates, as a long-term capital gain subject to a maximum tax of 20 per cent, as indicated in Part II of Form 4972. This may or may not be advantageous, depending on the effective tax bracket of each segment of the various tax calculations. As indicated in para. 24 below, an election may be made to treat the pre-1974 taxable portion as if it were part of the post-1973 portion.

24. The post-1973 taxable portion is taxed as ordinary income. However, two methods of reducing taxes on this amount are available, and the more favorable method may be used:

(a) Special 10-year averaging (by use of Form 4972), which is available for the ordinary income portion of lump sum settlements, and in effect, permits this portion to be taxed as if it were received evenly over a period of 10 years and without regard to other income. The tax rates are those which were applicable in 1986 to an unmarried taxpayer, and are shown in the instructions on the 1988 Form 4972. Often, but depending on individual circumstances (including the consequent state tax - see section IV below), this will be the most favorable method; as indicated in paragraph 23 above, depending on the taxable amount, it may be favorable enough that the taxpayer may find it to his benefit to elect to treat the pre-1974 taxable portion of the distribution

as if it were post-1973, and to apply the special 10-year averaging to it rather than capital gains treatment - but in deciding on such an election the effect on state taxes should also be considered, as they may give preferred treatment to capital gains but make no provision for special 10-year averaging (see para. 56 below).

(b) Special 5-year averaging (by use of Form 4972) operates in a manner similar to the special 10-year averaging, except that under 5-year averaging income is assumed to be received evenly over a 5-year period and without regard to other income, and the regular ordinary income tax rates in effect at the time of distribution are applicable. As in the case of 10-year averaging, the special 5-year averaging should be tested for the total taxable distribution.

25. There are, therefore, four ways a participant who reached age 50 before 1 January 1986 should calculate the possible taxes on the lump sum to determine the most advantageous alternative - in each case also calculating the applicable state and local taxes. Any of these, which must be elected by the participant, may be used only once in a lifetime, and any such election precludes the subsequent election of any of these methods in respect of other pensions (including what might be received from UNJSPF under article 40(b) or (c) of its Regulations).

(a) Pre-1974 portion at capital gains; post-1973 portion at special 10-year income averaging
(b) Pre-1974 portion at capital gains; post-1974 portion at special 5-year income averaging
(c) Total at special 10-year income averaging
(d) Total at special 5-year income averaging

Participants with more than 5 years of contributory service, over age 59-1/2 at date of distribution, and who were not age 50 on 31 December 1985

26. The total taxable distribution can be taxed using the special 5-year income averaging rules described in para. 24(b). This averaging method is elective and may be used only once in a lifetime.

All others

27. The taxable balance of the lump sum distribution to participants who have less than 5 years of contributory service at separation, or have more than 5 years but are under age 59-1/2 at date of distribution or were not age 50 on 31 December 1985, is subject to ordinary income tax, unless rolled over into an IRA or other qualified plan (see para. 19).

28. The beneficiary of a participant who would have qualified for special treatment (para. 25 and 26) also qualifies for that special treatment, even if the participant did not have 5 years of contributory service.

Early and excess distribution taxes

29. A feature of the 1986 Internal Revenue Code is the imposition of two additional taxes. These taxes are an early distribution tax and an excess distribution tax. They are not applicable to taxable distributions rolled over into an IRA or another qualified plan (although later distributions from an IRA or other qualified plan could fall under them).

30. The early distribution tax is equal to 10% of the taxable balance of a lump sum or partial commutation (see para. 34 below) payable upon separation from service before the year in which a participant reaches age 55. 14/ It is not payable if the amount is paid on account of a participant's death or disability.

31. The excess distribution tax, which is an excise tax, is not age-related, and is equal to 15% of the taxable balance of the total pension payments received in any year that are:

(a) in excess of $750,000 currently (or $562,500, adjusted after 1987 for cost-of-living, if larger) for lump sums on which averaging is elected -- this cannot apply to any UNJSPF beneficiary, unless that person receives during the same year benefits from another pension plan or from IRA withdrawals;

or

(b) in excess of $150,000 (or $112,500, adjusted after 1987 for cost-of-living, if larger) on taxable distributions on which averaging is not used - that is, on the combined total in a taxable year of the taxable portion of pension benefits, IRA withdrawals, lump sum commutations and lump sum withdrawals for which special averaging is not elected. 15/

32. The same amount cannot be taxed under both of the taxes described in paras. 30-31 above. Thus, any amount already taxed at 15% under the excess distribution tax (see para. 31) that would also be subject to the early distribution tax (see para. 30), will not in addition be taxed at 10% under the latter tax.

33. There is a "grandfathering" provision in the Internal Revenue Code which, if elected by 17 April 1989, provides some relief from the 15% excess distribution tax for a participant whose accrued benefits (exclusive of after-tax contributions) on 1 August 1986 were worth more than $562,500. Tests show that, of the UNJSPF participants retiring in 1988 or later, only a few could possibly have a benefit entitlement from the Fund with a value, as of 1 August 1986, as high as $562,500; the Pension Fund Secretariat has already notified the participants concerned on an individual basis.

D. Commuted retirement benefit (partial lump sum)

34. A lump sum paid in partial commutation of a retirement benefit (art. 28(g)(i) or (h) of the UNJSPF Regulations), early retirement benefit (art. 29(c) read with 28(g)(i)), or a deferred retirement benefit (art. 30(c)(i)), is taxable as ordinary income to the extent that it exceeds a specified portion (see para. 38 below) of the participant's contribution (see para. 17 above).

35. This tax may not be reduced by any of the special 10-year and 5-year rules, which are applicable only to full lump sum settlements (paras. 22-26 above). Furthermore, the new additional taxes imposed under the 1986 Internal Revenue Code (paras. 29-33 above) may be applicable, particularly the excess distribution tax (para. 31 above).

14/ See last paragraph of worksheet for withdrawal settlement - example A.

15/ See note 3 of example B, case no. 2, safe-harbor method.

36. A partial lump sum cannot be rolled over (see para. 19 above) into any other type of qualified pension plan or tax-exempt IRA. In particular, such a lump sum does not qualify as a "partial distribution" under Section 402(a)(5)(D)(i)(III) of the Internal Revenue Code, since it will always be less than 50% of the value of the participant's benefit.

37. As indicated in paragraph 5 above (but see footnote 3), the United Nations may refund the tax imposed on partial lump sum benefits (which are also included in the final Statement of Taxable Earnings referred to in para. 20 above), but only to the extent of the minimum tax payable thereon. As further indicated in para. 20, the United Nations also considers that no United States tax may be imposed on such a benefit paid to a participant who was a non-citizen and non-immigrant of the United States at the time of his retirement.

38. The taxable and non-taxable portions of the lump sum commutation reflect the amount of reduction in the participant's retirement benefit because of the election of the lump sum and are calculated under a formula:

$$\text{Participant's contribution (see para. 17)} \times \left(1 - \frac{\text{participant's reduced benefit}}{\text{participant's unreduced benefit}}\right)$$

$$= \text{tax-free (excludable) amount}$$ 16/

The taxable portion equals the total lump sum minus the tax-free amount.

E. Retirement benefit

39. Periodic payments of a retirement benefit (art. 28(b)-(f) of the UNJSPF Regulations), early retirement benefit (art. 29(b)) or deferred retirement benefit (art. 30(b)) are taxed as ordinary income, except to the extent that they may be exempt from taxation as representing a return of the participant's contribution. The latter is to be computed as under paragraph 17 above, though subject to the adjustments indicated in paragraph 41(a)(ii) below if the General Rule ("exclusion percentage") is applicable.

Simplified General Rule - "safe-harbor"

40. The Internal Revenue Service on 15 November 1988 promulgated a method of calculation that is considerably more simple and almost invariably results in lower taxes during the initial years of retirement (though in correspondingly higher taxes later) than that specified in earlier Regulations (see para. 41 below). This simplified method is applicable where benefits are provided only to a participant and/or surviving spouse, and where the pension commencement date occurs after 1 July 1986.

(a) Bases for computation

Under this Simplified General Rule, the investment in the pension (para. 17), without adjustment for the refund feature (para. 41(a)(ii) below), and the "expected number of monthly payments" (which depends solely on the participant's age at the starting date of the payments, independent of whether or not a spouse's benefit is payable) are the only items that enter into the calculation of the amount of the basic initial tax-free monthly payment. The number of payments is shown in the following table:

16/ See examples B and C, cases nos. 2 and 3.

Age at Start of Distribution	Number of Monthly Payments
55 and under	300
56 - 60	260
61 - 65	240
66 - 70	170
71 and over	120

(b) Computation

(i) The following formula, which takes no account of the portion of the investment in the pension (para. 17 above) that may have been utilized to determine the tax-free amount of a partial lump-sum commutation (para. 38 above), is used to determine the initial tax-free portion of the monthly benefit:

$$\frac{\text{Investment in contract}}{\text{Number of monthly payments}} = \text{Tax-free amount of monthly pension}$$

(ii) In accordance with current understanding, the tax-free amount, determined as above, is applicable to the participant's pension and to the spouse's pension after the pensioner's death. It is not changed if the amount of the retirement benefit is later changed; if the amount of the benefit changes, the tax-free amount remains the same and only the taxable portion varies. 17/

(iii) Further, this monthly amount is independent of any election of a lump sum commutation. Only the period of time for which this tax-free amount is available is affected by the amount of the tax-free portion of a lump sum. (See sub-para. (c) below.)

(c) Limit on tax-free recovery

Participants whose pension payments start after 31 December 1986 must keep track, year by year, of the total amount of their UNJSPF benefits received tax-free, starting with the tax-free amount of any partial lump sum (see para. 38 above) and adding the tax-free amount of each monthly benefit (sub-para. (b)(i) above), until that total equals their investment in the pension (para. 17 above). Thereafter, the full amount of the pension is taxable. If the "investment" is not recovered in full by the time of the last death of the participant and of any spouse, the unrecovered amount may be taken as a tax loss in the last tax return.

17/ See note on each pension worksheet. However, a new calculation is required if a separate new benefit is earned later (see para. 42).

(d) Elections

(i) If the starting date of a pension is after 31 December 1987, the participant makes the election to use the Simplified General Rule on the first year's income tax return.

(ii) If the starting date of a pension is after 1 July 1986 and before 1 January 1988, the participant may elect to use the Simplified General Rule either starting in 1988 or starting retroactively as of the commencement of the pension (by filing amended returns for the years 1986 and 1987, which may be worthwhile because the Simplified General Rule almost always results in lower taxes during the initial years). Note: for a participant whose annuity starting date was between 1 July 1986 and 1 January 1987, the tax-free amount will apply to all future annuity payments, as the limitation on tax-free recovery in sub-para. (c) above does not apply.

General Rule - "exclusion percentage"

41. For all pensions starting after 1 July 1986, there is a General Rule, also called the "exclusion percentage (or ratio) rule", which may be used to determine the taxable portion of any periodic payments. (The former "Three-Year Rule", which had been available for most UNJSPF pensions that started before 2 July 1986, was described in para. 29 of the previous version of this Guide, JSPB/G.11/Rev.5.) As stated in para. 40 above, for pensions starting after 1 July 1986, a simplified method of calculation may be elected where there is no child's or other secondary benefit. Where the General Rule is applied (whether mandatorily or by choice), it is necessary to calculate:

(a) Adjusted investment in the contract

(i) The participant's contribution - calculated as under para. 17 above, which may need to be split for amounts applicable through 30 June 1986 and amounts thereafter. (See the note under sub-para. (b)(i) below.)

(ii) Subtract therefrom an adjustment for the "refund feature", since art. 38 of the UNJSPF Regulations guarantees a return of at least the participant's "own contributions", and this constitutes a refund feature within the meaning of the Internal Revenue Code. The calculation of the "value" of this feature is quite complicated and results in a very small adjustment, which is explained and illustrated in IRS Publication 575. 18/

18/ See Part 1 of the pension worksheets. The calculations are based on the assumption that the pension is received at an even rate over a number of years.

(b) Expected return on periodic benefits

(i) Using the appropriate life expectancy tables in IRS Publication 575, it is necessary to calculate the expected value of the retirement benefit (art. 28, 29 or 30), together with any widow's/widower's benefit (art. 34 or 35), child's benefit (art. 36) or secondary dependent's benefit (art. 37). If only a retirement benefit is payable, then merely the "Ordinary Life Annuities - One Life - Expected Return Multiples" table should be used; however, if there is a widow's/widower's or secondary dependent's benefit to a parent, then the "Ordinary Joint Life and Last Survivor Annuities - Two Lives - Expected Return Multiples" tables should be used, and account must be taken of the lesser amount of these latter benefits. In every case the benefit on which these calculations are based must be that initially awarded, prior to any reduction due to the choice of a partial lump sum benefit, and not taking into account any subsequent cost-of-living or other adjustments.

Note: The expected return for participants who have made contributions only after 30 June 1986 is based on new unisex actuarial factors. Those who have made contributions both before and after that date must use the unisex tables for the period after 30 June 1986 and may elect to use either the unisex factors or the sex-based factors (formerly in use for all benefits) for the earlier period. It is necessary to make this election at the time of filing the tax return for the first year in which a pension is paid.

(ii) To the above, the value of any child's benefit (art. 36) or secondary dependent's benefit to a brother or sister must be added (using the "Temporary Life Annuities - One Life - Expected Return Multiples" table).

(c) Tax-free portion of initial benefit

(i) Calculate the ratio of the "investment" ((a) above) to the "expected return" ((b) above);

(ii) Multiply the actual initial annual rate retirement benefit, as adjusted for any lump sum commutation elected, by the ratio obtained under (i) above.

(d) Tax-free recovery

The tax-free recovery rules are the same as those indicated in para. 40(c) above, except that the total recoverable amount is the investment in the pension, after adjustment for the refund feature (see para. 41(a)(ii) above). Furthermore, any unrecovered amount may only be taken as a tax loss after the death of the last recipient of a secondary benefit.

General

42. If two or more retirement benefits are paid to a former participant on the basis of separate periods of contributory service (see arts. 28(a)-(e) and 40 of the UNJSPF Regulations), then the calculations under paragraph 38, 40 or 41 above should be based on cumulated figures, for all the benefits, of the amounts of the participant's contribution and of the expected return. If some benefits had already been paid before another retirement benefit was earned on the basis of a later period of contributory service during which payment of the earlier benefit was suspended (art. 40(a) of the UNJSPF Regulations), then the amount of the participant's contribution used in the latest calculations should be reduced by the amount of any benefits that had previously been received on a tax-exempt basis.

43. The results of the calculations under paragraph 40 or 41 above are to be entered in the lines for "Other pensions and annuities" on page 1 of Form 1040 (line 17(b) for 1988; the total amount received from the Pension Fund in the year in question is to be entered in line 17(a)).

44. The recipient of a retirement benefit may be able to utilize the "Credit for the Elderly and the Permanently and Totally Disabled" (see paras. 45-46 below). However, as UNJSPF is not considered to be a "public retirement system" within the meaning of the Internal Revenue Code, such credit can only become applicable after age 65, or if the beneficiary is totally and permanently disabled prior to age 60.

F. Disability benefit

45. A disability benefit (art. 33 of the UNJSPF Regulations) is fully taxable as ordinary income, but qualifies in principle for the rather modest "Credit for the Elderly and the Permanently and Totally Disabled" allowed by a 1983 amendment to the Internal Revenue Code. This credit is described generally in IRS Publications 17 and 554, "Tax Benefits for Older Americans", and in the "Instructions for Completing Schedule R (Form 1040)", but is more fully covered by Publication 524, "Credit for the Elderly and the Permanently and Totally Disabled".

46. Since 1984, the normal rule for treating disability benefits is:

(a) A beneficiary who is attested by a physician to be permanently and totally disabled from performing any substantial gainful activity and is below the "mandatory retirement age" (60 at the United Nations), may take a tax credit of 15 per cent of the smaller of the disability benefit or of an amount ranging between $3,750 and 7,500 (depending on the age and physical condition of both the beneficiary and any spouse), reduced by the amount of any

non-taxable social security and other governmental pensions and by one-half of the amount the adjusted gross income exceeds certain stated limits; 19/

(b) After age 60, the disability benefit is taxed as a normal retirement benefit, i.e., as described in section E above. For this purpose apparently no account is taken of any payments received prior to age 60, i.e., these payments are not considered as having reduced the participant's "investment".

47. When a disability benefit is payable on account of a service-incurred injury for which compensation under Appendix D to the United Nations Staff Rules is also awarded, then, pursuant to article 4 of that appendix, such compensation is considered to be supplementary to the disability benefit, and under article 4.1 of appendix D the compensation is generally reduced. As Appendix D compensation has been held to be in the nature of workmen's compensation, which is exempt from income tax, a participant who was awarded such compensation may be able to establish that the UNJSPF disability benefit is also exempt in part under the workmen's compensation rule.

G. Child's benefit

48. It should be noted that a child's benefit (art. 36 of the UNJSPF Regulations) is considered income of the child and not of the parent or guardian to whom it may be paid (under UNJSPF Administrative Rule J.2(e)).

49. In applying the General Rule ("exclusion percentage") (see para. 41 above), the same ratio (calculated in accordance with para. 41(c)(i) above) should be applied to the child's initial benefit to determine the amount that is tax-exempt each year, the remainder of the benefit being fully taxable. 20/

H. Survivor's benefits

50. Benefits paid to a survivor (e.g., widow's/widower's, child's or secondary dependent's benefit, payable under art. 34, 35, 36 or 37 of the UNJSPF Regulations) on behalf of a participant who died in service are taxed on the same basis as a retirement benefit (see section E above) under the Simplified General Rule (para. 40) or under the General Rule ("exclusion percentage") (para. 41). The only difference is that for the purpose of calculating the late participant's "investment", the amount of the "death benefit exclusion" may be added to the investment calculated under the applicable method. That exclusion is based on the amount by which the expected return on the pension (commuted into a lump sum as of the date of the participant's death) exceeds the larger of: (i) the withdrawal settlement that would have been payable to the participant (under art. 31 of the UNJSPF Regulations) had he been separated from service and requested such a settlement immediately before his death, or (ii) the participant's total contributions (calculated as under para. 17 above). The amount of the exclusion

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19/ See example F.

20/ See example C, cases nos. 1, 2 and 3.

may not, under any circumstances, exceed $5,000 reduced by any amount applied to other payments received by the survivor under the Staff Regulations and Rules by reason of the participant's death (e.g., under United Nations Staff Rule 109.10(a)(vi)) or received from another employer. (See paras. 40(c) and 41(d) as to full recovery of the investment in contract.) 21/

51. A survivor's benefit paid on behalf of a retired participant is taxed as a continuation of the participant's own pension. 22/ Thus, the "exclusion percentage" calculated under paragraph 41(c)(i) above is applied to the initial amount of each survivor's benefit (i.e., the widow or widower, any child, or a secondary dependent), to determine the tax-free element of each payment; or, if the Simplified General Rule has been utilized, the same dollar amount as initially determined for the retired participant (para. 40(b)(i)) is the tax-exempt part of the widow or widower's benefit, subject to the limitations in para. 40(c) if the participant's pension commenced after 31 December 1986. Once that amount has been determined, it remains constant (until the investment in contract is used up) for as long as the benefit is paid, regardless of any change in its amount. 23/

52. In addition, if an estate tax is paid by a participant's estate on account of a survivor's benefit, then the portion of the total estate tax that is attributable to such benefit may be deducted by the survivor on his income tax return ratably over his remaining life expectancy. It should be noted that, unlike the exclusions referred to in para. 51 - which reduce gross income (and are entered on Schedule E), the ratable portion of the estate tax is merely a permissible itemized deduction (on Schedule A), if such deductions are taken.

53. The recipient of a widow's, widower's or secondary dependant's (to a parent) benefit may be able to utilize the "Credit for the Elderly" (see para. 44 above).

IV. State and local income taxes

54. Most persons subject to United States federal income taxes are also subject to taxation by one or more of the constituent states. In particular, a United States citizen or resident alien actually living in the United States will be subject to taxation by the state of which he is a "domiciliary", for which (depending on the definition in the state tax code) actual residence during some fraction of the year

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21/ See example G.

22/ The only exception is the case where the participant was not a United States citizen or resident alien (and hence owed no United States taxes on his pension benefits), but the survivor receiving benefits is a United States citizen or resident alien. While in this case the late participant's "investment" would include the contribution by the Organization (see para. 17(e)(i) above), it is necessary to deduct from that "investment" any payments representing a return of the investment in contract that the participant had received from the Pension Fund, whether as a partial lump sum or otherwise. While there is no guidance, it appears this determination can safely be made by assuming the individual was subject to U.S. tax rules discussed herein from the date payments started.

23/ See example C, cases nos. 1, 2 and 3.

or even the mere maintenance of a place of abode may suffice; a person living abroad, especially one who for federal tax purposes is considered a "bona fide resident" of a foreign country, is frequently not a resident of any of the states and in such event cannot be taxed on his income as a resident by any of them. It should be noted that, in order to change residence (domicile) for tax purposes, it is necessary to establish both a physical presence in the new domicile and sufficient indications that the stay there is to be permanent or indefinite (e.g., purchase or long-term rental of a residence; voter registration; car registration; bank accounts, etc.). A person subject to state taxation may also be subject to taxation by a municipality within the State (e.g., New York City).

55. It should be noted that with respect to UNJSPF benefits attributable in whole or in part to service in New York State (e.g., at UN Headquarters):

(a) Periodic benefits (see paras. 39 and 50 above) are taxed by New York State only to the extent that they are received by a resident of the State; therefore any such benefits received after a person has moved from New York State, or by a person who was never a resident in that State, are not taxed by New York;

(b) A commuted retirement benefit (i.e. a partial lump sum; see para. 34 above) is apparently considered to be part of an "annuity" and is therefore treated in the same way as the periodic benefits - i.e. it is only subject to taxation by New York State if received by a person who is a resident of the State;

(c) A withdrawal settlement (i.e. a full lump sum; see chapeau of para. 16 above) is taxed fully to a resident, but to a non-resident only to the extent the services during the year of retirement and the three immediately preceding taxable years were performed in New York State. (For this purpose, it is necessary to calculate, for each such year and then for the sum of all such years, the total compensation received from the UN and the portion thereof that is attributable to service performed at UN Headquarters in New York; the ratio of these two sums gives the fraction of the withdrawal settlement that is taxable by New York. 24/) It should, however, be noted that in case of a person resident in another State at the time the withdrawal settlement is received, that State may tax the payment fully, partially or not at all, and may or may not give credit for any tax paid to New York State.

The same rules presumably also apply, *mutatis mutandis*, to taxation of UNJSPF benefits by New York City.

56. Some states, like New York 25/, tax almost all income, including pension benefits, on the same basis as the Federal Government, merely applying different exemptions, standard deductions and tax rates to the federal adjusted gross taxable income figures; in such states, UNJSPF benefits will automatically be taxed on the same basis as they are on the federal level and no separate calculation of how much is taxable and how much is exempt need be made; but caution must be exercised, for

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24/ See example H.

25/ Since 1982, both New York State and New York City permit the annual deduction of up to $20,000 in periodic pension income. This deduction is available to the person who earned the pension (i.e. to the UNJSPF participant) and has attained the age of 59-1/2, and to any survivors of such person.

some special federal features may not be allowed (e.g., special 10-year or 5-year averaging - see para. 24 above - is not available in New Jersey). Others, like California, incorporate the federal rules as to annuities by reference.

57. Still other states tax annuities (such as retirement and survivor's benefits) on a different basis: they require that the investment in the pension be determined - but since state tax laws are rarely as specific on this point as the federal rules, it is probably easiest to use the federal calculation, as in para. 17 or 41(a) above. This investment is multiplied by a flat rate (typically 3 per cent) to give the taxable amount of the annual benefit - unless the actual amount thereof is less (it rarely is). The balance of the benefit is not taxed, but each year the amount so exempted must be cumulated, and once the total amount exempted equals the original "investment" then all future benefits become fully taxable. [26/]

V. Federal estate tax

58. The tax on the estate of a deceased participant will in any event have to be calculated with the assistance of a lawyer - usually the one who is handling the probate or administration of the estate. That lawyer should be informed of the "qualified" status of the UNJSPF (see paras. 11-12 above) as this fact may make a considerable difference in the calculation of the estate tax for certain individuals, e.g., those in pay status before 1985.

59. In general and subject to paragraph 60 below, the present value of annuities and other benefits payable by a qualified plan to the beneficiaries of a deceased participant need to be included in the participant's estate.

60. Under current law there is no federal estate tax exemption on the estate of a participant for the value of benefits payable by a qualified plan to his beneficiaries. However, the estate of a decedent who was a plan participant whose pension was in pay status on 31 December 1984, and who irrevocably elected the form of benefit before 18 July 1984, will be able to exclude up to $100,000 from the value of the employer-provided benefit; and the estate of a decedent who was a plan participant whose pension was in pay status on 31 December 1982, and who irrevocably elected the form of benefit before 1 January 1983, may exclude the total value of the employer-provided benefit.

26/ See example I.

61. Whether or not the full value of any UNJSPF benefit must be included in an estate (see para. 60 above), it is likely that this will by itself not exceed the basic exemption limits available under federal estate tax rules. However, as there are likely to be some other assets, their value added to that of the benefits may result in some liability to taxation. But even if there appears to be no such liability, it is important that the returns be filed correctly. State inheritance or estate tax rules generally are also involved and could be a factor, even if no federal estate tax is payable.

62. In any event, if benefits are payable to a surviving spouse, the value of those benefits can generally be excluded from the estate in calculating federal estate tax liability.

VI. Social security

63. No benefit received from the UNJSPF constitutes either "wages" subject to the social security tax or "net earnings from self-employment" subject to the self-employment tax.

64. No benefit received from the UNJSPF constitutes "earned income" that reduces the full amount of social security payments receivable by the beneficiary.

65. All taxable benefits received from the UNJSPF (see section III above) must be included in the calculation to determine whether or not any part of social security payments received are themselves taxable.

Examples

Under the current Tax Code, the computations to determine the portion of benefit payable from the Fund have become quite complex.

In order to sort out the various elements, a "Data" sheet, along with worksheets entitled "Withdrawal Settlement" and "Pension" have been developed. Examples, illustrating the various situations discussed in the text, are given using these worksheets.

After the examples, blank copies of the worksheets are provided.

EXAMPLE A

WITHDRAWAL SETTLEMENT

Participant Q, a United States citizen who has had no relevant service outside the United States, receives a withdrawal settlement. Q had a year of leave without pay during which he paid the full amount of contribution.

DATA

Type Withdrawal Settlement

I DATES

SERVICE	D	M	Y	AGES	D	M	Y
(a) Date service started	1	1	73	(d) Date of birth	1	4	35
(b) Date of separation	31	12	88	(e) Date payments start	1	1	89
(c) Period of service			16	(f) Age		9	53
				"Nearest" = x			54

II Participant's own contributions

(a) Regular contributions	$ 30,000
(b) Transfer from provident funds	-
(c) Amounts for validation	-
(d) Amounts for leaves of absence	4,500
(e) Total contributions = (a)+(b)+(c)+(d)	$ 34,500
(f) Interest on contributions	6,500
(g) Grand total = (e)+(f)	$ 41,000

III Employing organization's contributions that count as the participant's contribution for income tax purposes (para. 17(e))

(a) While participant was an alien (para. 17(e)(i))	$ -
(b) Prior to 1 January 1963 for a U.S. citizen serving overseas (para. 17(e)(ii))	-
(c) Total	$ -

IV Basic tax-free recovery = II(e) + III(c) $ 34,500

V Withdrawal settlement $ 76,000

VI Pension amounts

	Annual Pension	Lump Sum
(a) If no lump sum	$ N/A	XXX
(b) If maximum commutation		
(c) Other commutation		

VII Other data

		D	M	Y	"Nearest" Age	Annual Pension
(a) Spouse:	D/B					$
(b) Children:	D/B					

WORKSHEET

Withdrawal Settlement - Example A

(a) Amount of withdrawal settlement $ 76,000

(b) Basic tax-free recovery: Data IV $ 34,500

(c) Taxable amount = (a) - (b) $ 41,500

(d) More than 5 years of contributory service Yes |x| No |_|

If "No", amount in (c) is taxable as ordinary income

If "Yes" continue

(e) Over age 50 before 1 January 1986 (i.e., Date of birth was in 1935 or earlier) Yes |x| No |_|

If "No", amount in (c) is taxable as ordinary income unless participant is age 59-1/2 or over at date of distribution in which case it is taxable under special 5-year averaging.

If "Yes" continue

(f) Portion of (c) taxable as long-term capital gain

$$= \frac{\text{Service before 1974}}{\text{Total years of participation}} = \frac{1 \text{ yrs.}}{16 \text{ yrs.}} = .0625$$

(g) Amount taxable as a long-term capital gain (see para. 23) = (c) x (f) = $ 2,594

(h) Amount subject to the more favorable of special 10-year or 5-year averaging (see para. 24) = (c) - (g) $ 38,906

Note: In addition to testing item (h) for the more favorable of special 10-year and 5-year averaging in combination with the tax on item (g), the entire taxable amount in item (c) should be tested on its own for the more favorable of special 10-year and 5-year averaging.

An early distribution tax of 10% of the amount in (c) is payable upon separation from service before the year in which a participant reaches age 55.

EXAMPLE B

RETIREMENT BENEFIT (NO SURVIVORS)

With/without lump sum commutation-Provident fund transfers - Pre-1963 non-U.S. service.
Safe harbor method applicable
Exclusion percentage rule shown for comparison

Participant R, a United States citizen, served in Geneva during her entire career. She had provident fund credits (half based on her own and half based on the employing organization's contributions) transferred into the Fund and had service in Geneva prior to 1 January 1963.

DATA

Type Retirement Benefit

I DATES

SERVICE	D	M	Y	AGES	D	M	Y
(a) Date service started	1	4	57	(d) Date of birth	28	3	28
(b) Date of separation	31	3	88	(e) Date payments start	1	4	88
(c) Period of service			31	(f) Age	0	0	60
				"Nearest" age = x			60

II Participant's own contributions	Before 1/7/86 (*)	After 30/6/86 (*)	Total
(a) Regular contributions	$ 30,000	$ 3,300	$ 33,300
(b) Transfer from provident funds	250	-	250
(c) Amounts for validation	-	-	-
(d) Amounts for leaves of absence	-	-	-
(e) Total contributions = (a)+(b)+(c)+(d)	$ 30,250	$ 3,300	$ 33,550
(f) Interest on contributions			19,500
(g) Grand total = (e)+(f)			$ 53,050

III Employing organization's contributions that count as the participant's contribution for income tax purposes (para. 17(e))			
(a) While participant was an alien (para. 17(e)(i))	$ -	$ -	$ -
(b) Prior to 1 January 1963 for a U.S. citizen serving overseas (para. 17(e)(ii))	6,250	-	6,250
(c) Total	$ 6,250	$ 0	$ 6,250
IV Basic tax-free recovery = II(e) + III(c)	$ 36,500	$ 3,300	$ 39,800
V Withdrawal settlement			$ N/A

VI Pension amounts	Annual Pension	Lump Sum
(a) If no lump sum - Case #1	$ 18,600	XXX
(b) If maximum commutation - Case #2	12,400	$ 83,600
(c) Other commutation - Case #3	16,380	30,000

VII Other data		D	M	Y	"Nearest" Age	Annual Pension
(a) Spouse:	D/B					$
(b) Children:	D/B					

(*) Enter only if pension is payable with respect to service performed before and after these dates.

EXAMPLE B

WORKSHEET - SIMPLIFIED GENERAL RULE ("SAFE HARBOR")

TAX-FREE PORTION OF RETIREMENT BENEFITS

Case #1 - No Commutation Elected

(Applicable if pension payments are to be made only to a participant or to only a participant and surviving spouse and the annuity starting date is on or after 1 July 1986.)

1. Lump Sum

(a)	Amount received	$ 0
(b)	Investment in contract (Data IV)	$ 39,800
(c)	Ratio: Pension, after commutation / Pension, if no commutation = 18,600 / 18,600 =	1
(d)	1 - (c)	0
(e)	Tax-free = (b) x (d)	$ 0
(f)	Amount of lump sum taxable = (a) - (e)	$ 0

2. Pension

(a) Investment in contract (Data IV) $ 39,800

(b) Number of monthly payments

Age at Distribution	Number of Payments
55 and under	300
56 - 60	260
61 - 65	240
66 - 70	170
71 and over*	120

260

(c) Tax-free portion of monthly pension = (a) ÷ (b) $ 153

(d) Tax-free portion of annual pension = (c) x 12 $ 1,836

Notes:

1. The dollar amounts shown in Items 2(c) and 2(d) are constant and do not change if a spouse's benefit becomes payable. These amounts do not increase when pension payments increase.
2. For those retiring after 31 December 1986 the tax-free amounts are applicable each year until total tax-free amounts (including the amount relating to the lump sum) accumulate to a total of the investment in contract (Data IV). If any tax-free recovery remains at the time of the last death (or new cessation of pension) that remainder may be taken as a deduction on the last tax return.

*Do not use this method if the participant's age at the start of pension payments is age 75 or over and guaranteed payments (Data II(g)) divided by annual pension (Data VI(a)) is greater than 5.

EXAMPLE B

WORKSHEET - SIMPLIFIED GENERAL RULE ("SAFE HARBOR")

TAX-FREE PORTION OF RETIREMENT BENEFITS

Case #2 - Maximum Commutation Elected

(Applicable if pension payments are to be made only to a participant or to only a participant and surviving spouse and the annuity starting date is on or after 1 July 1986.)

1. Lump Sum

(a)	Amount received	$	83,600
(b)	Investment in contract (Data IV)	$	39,800
(c)	Ratio: Pension, after commutation / Pension, if no commutation = 12,400 / 18,600 =		.666667
(d)	1 - (c)		.333333
(e)	Tax-free = (b) x (d)	$	13,267
(f)	Amount of lump sum taxable = (a) - (e)	$	70,333

2. Pension

(a) Investment in contract (Data IV) $ 39,800

(b) Number of monthly payments

Age at Distribution	Number of Payments
55 and under	300
56 - 60	260
61 - 65	240
66 - 70	170
71 and over*	120

260

(c) Tax-free portion of monthly pension = (a) ÷ (b) $ 153

(d) Tax-free portion of annual pension = (c) x 12 $ 1,836

Notes:

1. The dollar amounts shown in Items 2(c) and 2(d) are constant and do not change if a spouse's benefit becomes payable. These amounts do not increase when pension payments increase.

2. For those retiring after 31 December 1986 the tax-free amounts are applicable each year until total tax-free amounts (including the amount relating to the lump sum) accumulate to a total of the investment in contract (Data IV). If any tax-free recovery remains at the time of the last death (or new cessation of pension) that remainder may be taken as a deduction on the last tax return.

3. The first year's taxable amount would total $78,256 ($70,333 lump sum plus 9/12 of $10,564 taxable pension). No excess distribution tax would be payable since this amount is less than $150,000. However, if the benefits were double those shown, the participant would pay regular income tax on the taxable total of $156,512. In addition, an excess distribution tax of $977, at the rate of 15 per cent of $6,512 would be payable (see para. 31(b) of text).

*Do not use this method if the participant's age at the start of pension payments is age 75 or over and guaranteed payments (Data II(g)) divided by annual pension (Data VI(a)) is greater than 5.

EXAMPLE B

WORKSHEET - SIMPLIFIED GENERAL RULE ("SAFE HARBOR")

TAX-FREE PORTION OF RETIREMENT BENEFITS

Case # 3 - Other Commutation Elected

(Applicable if pension payments are to be made only to a participant or to only a participant and surviving spouse and the annuity starting date is on or after 1 July 1986.)

1. Lump Sum

(a)	Amount received	$	30,000
(b)	Investment in contract (Data IV)	$	39,800
(c)	Ratio: Pension, after commutation / Pension, if no commutation = 16,380 / 18,600 =		.880645
(d)	1 - (c)		.119355
(e)	Tax-free = (b) x (d)	$	4,750
(f)	Amount of lump sum taxable = (a) - (e)	$	25,250

2. Pension

(a) Investment in contract (Data IV) $ 39,800

(b) Number of monthly payments

Age at Distribution	Number of Payments
55 and under	300
56 - 60	260
61 - 65	240
66 - 70	170
71 and over*	120

260

(c) Tax-free portion of monthly pension = (a) ÷ (b) $ 153

(d) Tax-free portion of annual pension = (c) x 12 $ 1,836

Notes: 1. The dollar amounts shown in Items 2(c) and 2(d) are constant and do not change if a spouse's benefit becomes payable. These amounts do not increase when pension payments increase.

2. For those retiring after 31 December 1986 the tax-free amounts are applicable each year until total tax-free amounts (including the amount relating to the lump sum) accumulate to a total of the investment in contract (Data IV). If any tax-free recovery remains at the time of the last death (or new cessation of pension) that remainder may be taken as a deduction on the last tax return.

*Do not use this method if the participant's age at the start of pension payments is age 75 or over and guaranteed payments (Data II(g)) divided by annual pension (Data VI(a)) is greater than 5.

FOR REFERENCE ONLY

EXAMPLE B

WORKSHEET - GENERAL RULE ("EXCLUSION PERCENTAGE")

PENSION - SERVICE BEFORE 1 JULY 1986

Enter Data Items for the amounts of Pension that would be payable if no commutation is elected and, except as specifically noted, for total service

1. Investment in contract

(a) Basic tax free recovery = Data IV - before 1 July 1986 $ 36,500
(b) Total refund = gross residual settlement = Data II(g) 53,050
(c) Expected return from term payment = 2(c)(iv) below x Data IV (before 1/7/86 = ______ =) (Total) 0
(d) Portion of refund attributed to life annuities = (b) - (c) not less than $0 53,050
(e) Expected period of recovery = (d) / Annual Pension (Data VI(a)) = 53,050 / 18,600 use nearest years = 3 yrs
(f) Factor from IRS Pub. No. 575, Table III Age x 60 Sex F duration in (h) if single life. Use 0% if a spouse's pension payable* 2%
(g) Lesser of (a) and (b) = $36,500 - (c) $ 36,500
(h) Value of refund = (f) x (g) $ 730
(i) Adjusted net investment = (a) - (h) $ 35,770

2. Expected return and pension exclusion ratio

(a) Participant's pension
(i) Initial annual pension benefit $ 18,600
(ii) Life expectancy from ibid. Table I Age x 60 Sex F 21.7 yrs
(iii) Expected return (i) x (ii) $ 403,620
(b) Participant's spouse's pension
(i) Expected initial benefit $ -
(ii) Joint life expectancy ibid. Table II Age __ Sex __ Age __ Sex __ - yrs
(iii) Expected years' payments to spouse (ii) minus (a)(ii) - yrs
(iv) Expected return (i) x (iii) $ -
(c) For child -- maximum term payment
(i) Initial benefit $ -
(ii) Child's maximum years' payments = 21 - Age ___ yrs. - yrs
(iii) Expected years of payments ibid. Table IV Sex ___ - yrs
(iv) Expected return (i) x (iii) $ -
(d) Other $ -
(e) Total (a)(iii) + (b)(iv) + (c)(iv) = $ 403,620
(f) Exclusion ratio = 1(i) / 2(e) = $ 35,770 / 403,620 (% with 1 decimal) 8.9 %

*0% is the applicable figure for most cases. If Item (e) is 2-1/2 or more years and the pensioner's or spouse's age at retirement is over age 74, the figure could be 1%. (IRS will determine the figure upon request.)

FOR REFERENCE ONLY

EXAMPLE B

WORKSHEET - GENERAL RULE ("EXCLUSION PERCENTAGE")

PENSION - SERVICE AFTER 30 JUNE 1986

Enter Data Items for the amounts of Pension that would be payable if no commutation is elected and, except as specifically noted, for total service

1. Investment in contract

(a)	Basic tax free recovery = Data IV - after 30 June 1986	$ 3,300
(b)	Total refund = gross residual settlement = Data II(g)	53,050
(c)	Expected return from term payment = 2(c)(iv) below x Data IV (after 30/6/86 = ______ =) (Total)	0
(d)	Portion of refund attributed to life annuities = (b) - (c) not less than $0	53,050
(e)	Expected period of recovery = (d) / Annual Pension (Data VI(a)) = 53,050 / 18,600 use nearest years =	3 yrs
(f)	Factor from IRS Pub. No. 575, Table VII Age x 60 duration in (h) if single life. Use 0% if a spouse's pension payable*	1 %
(g)	Lesser of (a) and (b) = $3,300 - (c)	$ 3,300
(h)	Value of refund = (f) x (g)	$ 33
(i)	Adjusted net investment = (a) - (h)	$ 3,267

2. Expected return and pension exclusion ratio

(a)	Participant's pension	
	(i) Initial annual pension benefit	$ 18,600
	(ii) Life expectancy from ibid. Table V Age x 60	24.2 yrs
	(iii) Expected return (i) x (ii)	$ 450,120
(b)	Participant's spouse's pension	
	(i) Expected initial benefit	$ -
	(ii) Joint life expectancy ibid. Table VI Age __ Age __	- yrs
	(iii) Expected years' payments to spouse (ii) minus (a)(ii)	- yrs
	(iv) Expected return (i) x (iii)	$ -
(c)	For child -- maximum term payment	
	(i) Initial benefit	$ -
	(ii) Child's maximum years' payments = 21 - Age ___ yrs.	-
	(iii) Expected years of payments ibid. Table VIII	- yrs
	(iv) Expected return (i) x (iii)	$ -
(d)	Other	$ -
(e)	Total (a)(iii) + (b)(iv) + (c)(iv)	= $ 450,120
(f)	Exclusion ratio = 1(i) / 2(e) = 3,267 / 450,120 (% with 1 decimal)	0.7 %

*0% is the applicable figure for most cases. If Item (e) is 2-1/2 or more years, and the pensioner's or spouse's age at retirement is over age 74, the figure could be 1%.

FOR REFERENCE ONLY --
TAX TREATMENT, SAFE-HARBOR
METHOD, IS MORE BENEFICIAL

EXAMPLE B

SUMMARY - GENERAL RULE ("EXCLUSION PERCENTAGE")

TAX-FREE PORTION OF RETIREMENT BENEFITS

Case #1 - No Commutation Elected

1. Lump Sum

(a)	Amount received	$ 0
(b)	Investment in contract (total from 3. below)	$ 39,037
(c)	Ratio: Pension, after commutation / Pension, if no commutation = 18,600 / 18,600 =	1.0
(d)	1 - (c)	0.0
(e)	Tax-free = (b) x (d)	$ 0
(f)	Amount of lump sum taxable = (a) - (e)	0

2. Pension

	Service Periods Covered		
	Before 1/7/86	After 30/6/86	Total
(a) Exclusion ratio - Pension Worksheets Item 2(f)	8.9 %	0.7 %	9.6 %
(b) Initial actual benefits			
(i) Participant			$ 18,600
(ii) Spouse			-
(iii) Child			-
(iv) Other			-
(c) Tax-free amount			
(i) Participant			$ 1,786
(ii) Spouse			-
(iii) Child			-
(iv) Other			-
3. Total Tax-Free Recovery Worksheets Item 1(i)	$ 35,770	$ 3,267	$ 39,037

Notes:

1. The dollar amounts shown in Item 2(c) are constant and do not increase when pension payments increase.

2. The tax-free amounts are applicable each year until total tax-free amounts (including the amount relating to the lump sum) accumulate to a total of the tax-free recovery in 3. If any tax-free recovery remains at the time of the last death (or new cessation of pension) that remainder may be taken as a deduction on the last tax return.

FOR REFERENCE ONLY --
TAX TREATMENT, SAFE-HARBOR
METHOD, IS MORE BENEFICIAL

EXAMPLE B

SUMMARY - GENERAL RULE ("EXCLUSION PERCENTAGE")
TAX-FREE PORTION OF RETIREMENT BENEFITS
Case #2 - Maximum Commutation Elected

1. Lump Sum

(a)	Amount received	$ 83,600
(b)	Investment in contract (total from 3. below)	$ 39,037
(c)	Ratio: Pension, after commutation / Pension, if no commutation = 12,400 / 18,600 =	.666667
(d)	1 - (c)	.333333
(e)	Tax-free = (b) x (d)	$ 13,012
(f)	Amount of lump sum taxable = (a) - (e)	$ 70,588

2. Pension

	Service Periods Covered		
	Before 1/7/86	After 30/6/86	Total
(a) Exclusion ratio - Pension Worksheets Item 2(f)	8.9 %	0.7 %	9.6 %
(b) Initial actual benefits			
(i) Participant			$ 12,400
(ii) Spouse			-
(iii) Child			-
(iv) Other			-
(c) Tax-free amount			
(i) Participant			$ 1,190
(ii) Spouse			-
(iii) Child			-
(iv) Other			-
3. Total Tax-Free Recovery Worksheets Item 1(i)	$ 35,770	$ 3,267	$ 39,037

Notes:

1. The dollar amounts shown in Item 2(c) are constant and do not increase when pension payments increase.

2. The tax-free amounts are applicable each year until total tax-free amounts (including the amount relating to the lump sum) accumulate to a total of the tax-free recovery in 3. If any tax-free recovery remains at the time of the last death (or new cessation of pension) that remainder may be taken as a deduction on the last tax return.

FOR REFERENCE ONLY --
TAX TREATMENT, SAFE-HARBOR
METHOD, IS MORE BENEFICIAL

EXAMPLE B

SUMMARY - GENERAL RULE ("EXCLUSION PERCENTAGE")
TAX-FREE PORTION OF RETIREMENT BENEFITS
Case #3 - Other Commutation Elected

1. Lump Sum

(a)	Amount received	$ 30,000
(b)	Investment in contract (total from 3. below)	$ 39,037
(c)	Ratio: Pension, after commutation / Pension, if no commutation = 16,380 / 18,600 =	.880645
(d)	1 - (c)	.119355
(e)	Tax-free = (b) x (d)	$ 4,659
(f)	Amount of lump sum taxable = (a) - (e)	$ 25,341

2. Pension

	Service Periods Covered		
	Before 1/7/86	After 30/6/86	Total
(a) Exclusion ratio - Pension Worksheets Item 2(f)	8.9 %	0.7 %	9.6 %
(b) Initial actual benefits			
(i) Participant			$ 16,380
(ii) Spouse			-
(iii) Child			-
(iv) Other			-
(c) Tax-free amount			
(i) Participant			$ 1,572
(ii) Spouse			-
(iii) Child			-
(iv) Other			-
3. Total Tax-Free Recovery Worksheets Item 1(i)	$ 35,770	$ 3,267	$ 39,037

Notes:

1. The dollar amounts shown in Item 2(c) are constant and do not increase when pension payments increase.

2. The tax-free amounts are applicable each year until total tax-free amounts (including the amount relating to the lump sum) accumulate to a total of the tax-free recovery in 3. If any tax-free recovery remains at the time of the last death (or new cessation of pension) that remainder may be taken as a deduction on the last tax return.

EXAMPLE C

RETIREMENT BENEFIT (WITH WIFE AND SON)

General Rule ("exclusion percentage") -- with/without lump sum commutation

Participant S, was a non-resident alien on G-IV visa during active service in the United States, and retires in the United States as an immigrant.

DATA

Type Retirement--with wife and child

I DATES

Participant S	SERVICE D	M	Y		AGES D	M	Y
(a) Date service started	1	1	59	(d) Date of birth	1	11	28
(b) Date of separation	31	12	88	(e) Date payments start	1	1	89
(c) Period of service			30	(f) Age	1	2	60
				"Nearest" age = x			60

II Participant's own contributions

	Before 1/7/86	After 30/6/86	Total
(a) Regular contributions	$ 32,000	$ 4,000	$ 36,000
(b) Transfer from provident funds	-	-	-
(c) Amounts for validation	-	-	-
(d) Amounts for leaves of absence	-	-	-
(e) Total contributions = (a)+(b)+(c)+(d)	$ 32,000	$ 4,000	$ 36,000
(f) Interest on contributions			20,000
(g) Grand total = (e)+(f)			$ 56,000

III Employing organization's contributions that count as the participant's contribution for income tax purposes (para. 17(e))

	Before 1/7/86	After 30/6/86	Total
(a) While participant was an alien* (para. 17(e)(i))	$ 64,000	$ 8,000	$ 72,000
(b) Prior to 1 January 1963 for a U.S. citizen serving overseas (para. 17(e)(ii))	-	-	-
(c) Total	$ 64,000	$ 8,000	$ 72,000
IV Basic tax-free recovery = II(e) + III(c)	$ 96,000	$ 12,000	$ 108,000
V Withdrawal settlement			$ N/A

VI Pension amounts

	Annual Pension	Lump Sum
(a) If no lump sum - Case #1	$ 21,000	XXX
(b) If maximum commutation - Case #2	14,000	$ 94,500
(c) Other commutation - Case #3	18,000	40,500

VII Other data

			D	M	Y	"Nearest" Age	Annual Pension
(a) Spouse:	T	D/B	12	12	38	50	$ 10,500
(b) Children:	U	D/B	2	2	74	15	1,686

(*) Prorate in proportion to II(a)

EXAMPLE C

WORKSHEET - GENERAL RULE ("EXCLUSION PERCENTAGE")
PENSION - SERVICE BEFORE 1 JULY 1986

Enter Data Items for the amounts of Pension that would be payable if no commutation is elected and, except as specifically noted, for total service

1. Investment in contract

		Amount
(a)	Basic tax free recovery = Data IV - before 1 July 1986	$ 96,000
(b)	Total refund = gross residual settlement = Data II(g)	56,000
(c)	Expected return from term payment = 2(c)(iv) below x Data IV (before 1/7/86 / Total) = 96,000 / 108,000 = .888889	8,992
(d)	Portion of refund attributed to life annuities = (b) - (c) not less than $0	47,008
(e)	Expected period of recovery = (d) / Annual Pension (Data VI(a)) = 47,008 / 21,000 use nearest years =	2 yrs
(f)	Factor from IRS Pub. No. 575, Table III Age x N/A Sex N/A duration in (h) if single life. Use 0% if a spouse's pension payable*	0 %
(g)	Lesser of (a) and (b) = $56,000 - (c)	$ 47,008
(h)	Value of refund = (f) x (g)	$ 0
(i)	Adjusted net investment = (a) - (h)	$ 96,000

2. Expected return and pension exclusion ratio

		Amount
(a)	Participant's pension	
	(i) Initial annual pension benefit	$ 21,000
	(ii) Life expectancy from ibid. Table I Age x 60 Sex M	18.2 yrs
	(iii) Expected return (i) x (ii)	$ 382,200
(b)	Participant's spouse's pension	
	(i) Expected initial benefit	$ 10,500
	(ii) Joint life expectancy ibid. Table II Age 60 Sex M Age 50 Sex F	31.9 yrs
	(iii) Expected years' payments to spouse (ii) minus (a)(ii)	13.7 yrs
	(iv) Expected return (i) x (iii)	$ 143,850
(c)	For child -- maximum term payment	
	(i) Initial benefit	$ 1,686
	(ii) Child's maximum years' payments = 21 - Age 15 yrs.	6 yrs
	(iii) Expected years of payments ibid. Table IV Sex M	6 yrs
	(iv) Expected return (i) x (iii)	$ 10,116
(d)	Other	$ 0
(e)	Total (a)(iii) + (b)(iv) + (c)(iv)	= $ 536,166
(f)	Exclusion ratio = 1(i) / 2(e) = $ 96,000 / 536,166 (% with 1 decimal)	17.9 %

*0% is the applicable figure for most cases. If Item (e) is 2-1/2 or more years, and the pensioner's or spouse's age at retirement is over age 74, the figure could be 1%. (IRS will determine the figure upon request.)

EXAMPLE C

WORKSHEET - GENERAL RULE ("EXCLUSION PERCENTAGE")
PENSION - SERVICE AFTER 30 JUNE 1986

Enter Data Items for the amounts of Pension that would be payable if no commutation is elected and, except as specifically noted, for total service

1. Investment in contract

(a)	Basic tax free recovery = Data IV - after 30 June 1986	$ 12,000
(b)	Total refund = gross residual settlement = Data II(g)	56,000
(c)	Expected return from term payment = 2(c)(iv) below x Data IV (after 30/6/86 = 12,000 / Total 108,000 = .111111)	1,124
(d)	Portion of refund attributed to life annuities = (b) - (c) not less than $0	54,876
(e)	Expected period of recovery = (d) / Annual Pension (Data VI(a)) = 54,876 / 21,000 use nearest years =	3 yrs
(f)	Factor from IRS Pub. No. 575, Table VII Age x N/A duration in (h) if single life. Use 0% if a spouse's pension payable*	0 %
(g)	Lesser of (a) and (b) = $12,000 - (c)	$ 10,876
(h)	Value of refund = (f) x (g)	$ 0
(i)	Adjusted net investment = (a) - (h)	$ 12,000

2. Expected return and pension exclusion ratio

(a)	Participant's pension	
	(i) Initial annual pension benefit	$ 21,000
	(ii) Life expectancy from ibid. Table V Age x 60	24.2 yrs
	(iii) Expected return (i) x (ii)	$ 508,200
(b)	Participant's spouse's pension	
	(i) Expected initial benefit	$ 10,500
	(ii) Joint life expectancy ibid. Table VI Age 60 Age 50	35.6 yrs
	(iii) Expected years' payments to spouse (ii) minus (a)(ii)	11.4 yrs
	(iv) Expected return (i) x (iii)	$ 119,700
(c)	For child -- maximum term payment	
	(i) Initial benefit	$ 1,686
	(ii) Child's maximum years' payments = 21 - Age 15 yrs.	6 yrs
	(iii) Expected years of payments ibid. Table VIII	6 yrs
	(iv) Expected return (i) x (iii)	$ 10,116
(d)	Other	$ 0
(e)	Total (a)(iii) + (b)(iv) + (c)(iv) =	$ 638,016
(f)	Exclusion ratio = 1(i) / 2(e) = 12,000 / 638,016 (% with 1 decimal)	1.9 %

*0% is the applicable figure for most cases. If Item (e) is 2-1/2 or more years, and the pensioner's or spouse's age at retirement is over age 74, the figure could be 1%.

EXAMPLE C

SUMMARY - GENERAL RULE ("EXCLUSION PERCENTAGE") TAX-FREE PORTION OF RETIREMENT BENEFITS

Case #1 - No Commutation Elected

1. Lump Sum

(a)	Amount received	$ 0
(b)	Investment in contract (total from 3. below)	$ 108,000
(c)	Ratio: Pension, after commutation / Pension, if no commutation = 21,000 / 21,000 =	1.0
(d)	1 - (c)	0.0
(e)	Tax-free = (b) x (d)	$ 0
(f)	Amount of lump sum taxable = (a) - (e)	$ 0

2. Pension

	Service Periods Covered		
	Before 1/7/86	After 30/6/86	Total
(a) Exclusion ratio - Pension Worksheets Item 2(f)	17.9 %	1.9 %	19.8 %
(b) Initial actual benefits			
(i) Participant			$ 21,000
(ii) Spouse			10,500
(iii) Child			1,686
(iv) Other			-
(c) Tax-free amount			
(i) Participant			$ 4,158
(ii) Spouse			2,079
(iii) Child			334
(iv) Other			-
3. Total Tax-Free Recovery Worksheets Item 1(i)	$ 96,000	$ 12,000	$ 108,000

Notes:

1. The dollar amounts shown in Item 2(c) are constant and do not increase when pension payments increase.

2. The tax-free amounts are applicable each year until total tax-free amounts (including the amount relating to the lump sum) accumulate to a total of the tax-free recovery in 3. If any tax-free recovery remains at the time of the last death (or new cessation of pension) that remainder may be taken as a deduction on the last tax return.

EXAMPLE C

SUMMARY - GENERAL RULE ("EXCLUSION PERCENTAGE")
TAX-FREE PORTION OF RETIREMENT BENEFITS

Case #2 - Maximum Commutation Elected

1. Lump Sum

(a)	Amount received		$ 94,500
(b)	Investment in contract (total from 3. below)		$ 108,000
(c)	Ratio: Pension, after commutation / Pension, if no commutation	= 14,000 / 21,000 =	.666667
(d)	1 - (c)		.333333
(e)	Tax-free = (b) x (d)		$ 36,000
(f)	Amount of lump sum taxable = (a) - (e)		$ 58,500

2. Pension

	Service Periods Covered		
	Before 1/7/86	After 30/6/86	Total
(a) Exclusion ratio - Pension Worksheets Item 2(f)	17.9 %	1.9 %	19.8 %
(b) Initial actual benefits			
(i) Participant			$ 14,000
(ii) Spouse			10,500
(iii) Child			1,686
(iv) Other			-
(c) Tax-free amount			
(i) Participant			$ 2,772
(ii) Spouse			2,079
(iii) Child			334
(iv) Other			-
3. Total Tax-Free Recovery Worksheets Item 1(i)	$ 96,000	$ 12,000	108,000

Notes:

1. The dollar amounts shown in Item 2(c) are constant and do not increase when pension payments increase.

2. The tax-free amounts are applicable each year until total tax-free amounts (including the amount relating to the lump sum) accumulate to a total of the tax-free recovery in 3. If any tax-free recovery remains at the time of the last death (or new cessation of pension) that remainder may be taken as a deduction on the last tax return.

EXAMPLE C

SUMMARY - GENERAL RULE ("EXCLUSION PERCENTAGE") TAX-FREE PORTION OF RETIREMENT BENEFITS

Case #3 - Other Commutation Elected

1. Lump Sum

(a)	Amount received	$ 40,500
(b)	Investment in contract (total from 3. below)	$ 108,000
(c)	Ratio: Pension, after commutation / Pension, if no commutation = 18,000 / 21,000 =	.857143
(d)	1 - (c)	.142857
(e)	Tax-free = (b) x (d)	$ 15,429
(f)	Amount of lump sum taxable = (a) - (e)	$ 25,071

2. Pension

	Service Periods Covered		
	Before 1/7/86	After 30/6/86	Total
(a) Exclusion ratio - Pension Worksheets Item 2(f)	17.9 %	1.9 %	19.8 %
(b) Initial actual benefits			
(i) Participant			$ 18,000
(ii) Spouse			10,500
(iii) Child			1,686
(iv) Other			-
(c) Tax-free amount			
(i) Participant			$ 3,564
(ii) Spouse			2,079
(iii) Child			334
(iv) Other			-
3. Total Tax-Free Recovery Worksheets Item 1(i)	$ 96,000	$ 12,000	$ 108,000

Notes:

1. The dollar amounts shown in Item 2(c) are constant and do not increase when pension payments increase.

2. The tax-free amounts are applicable each year until total tax-free amounts (including the amount relating to the lump sum) accumulate to a total of the tax-free recovery in 3. If any tax-free recovery remains at the time of the last death (or new cessation of pension) that remainder may be taken as a deduction on the last tax return.

EXAMPLE D

Retirement benefit: change of status

Participant S in example C was not a resident or citizen of the United States on his retirement on 31 December 1988. However, he arrives in the United States as an immigrant on 1 January 1991 (i.e., two years after his retirement).

Case #1. No lump sum commutation

Even though he was not liable to pay any United States tax for any year before 1991, and even though his retirement benefit for 1991 may be higher (due to cost-of-living increases) than $21,000, the calculations he makes to establish the tax-free portion of his benefit and that of his child (and eventually that of his widow) are identical to those illustrated in example C, Case #1. Consequently, in 1991 he can exclude $4,158 of his retirement benefit and his child, U (assuming he is required to file) can exclude $334.

On the basis of the same reasoning, in calculating the total accumulation of tax-free amounts received (see Note 2 in example C, Case #1), account should also be taken of the amounts that would have been received tax-free in 1989 and 1990 if the benefits in those years had been subject to US taxation.

Cases #2 and #3. With lump sum commutation.

For consistency, the same general principle as applicable in Case #1 may be used here. The fact of exact taxability of the lump sum as of S's date of separation of service is not relevant. The computations carried through in the examples are relevant and provide the appropriate flat level amounts of tax exclusion for S and U (and after S's death, for T).

Note: This particular question appears not yet to have been decided by the IRS. Therefore, although the approach suggested above seems the most logical and defensible, other approaches could be advocated, such as that all benefits received while the recipient was not subject to U.S. taxes should either be:

(a) Disregarded entirely, so that the total investment in the pension remains available for tax-free recovery after the recipient becomes subject to U.S. taxes; or

(b) Considered as constituting entirely a tax-free recovery to be subtracted from the investment in the pension, so that the latter may be diminished or even entirely used up before U.S. taxation first applies to the recipient; or

(c) Considered as constituting a tax-free recovery to be subtracted from the investment in the pension only to the extent that these benefits were exempted from the taxes of the country in which the benefits were received.

EXAMPLE E

Retirement benefit: change of status

Participant S in example C, instead of immigrating to the United States two years after retirement, as was the case in example D, immigrates to the United States on 1 January 1989, the day after his retirement.

Taking a position consistent with that in example D, the tax-free amounts (now applicable with respect to the pension amounts in 1989) would be identical to those shown in example C.

With respect to any lump sum commutation, while S may actually receive the payment after 1 January 1989, the United Nations considers that the entire lump sum is tax-exempt, because at the time of retirement S was not a citizen of or immigrant to the United States.

EXAMPLE F

Disability benefit, before age 60

Participant X is single and becomes fully disabled in 1988 at age 50, and thus entitled to a disability benefit of $4,800 per year. His other income consists of $3,000 in dividends and interest per year and of $4,000 in Social Security payments. Up to age 60 his tax credit is calculated (on Schedule R) as follows:

1.	Base amount (single; disabled)		$ 5,000
2.	Taxable disability benefit		$ 4,800
3.	Smaller of (1) and (2)		$ 4,800
4.	Non-taxable social security payments		$ 4,000
5.	Adjusted gross income:		
	(a) Taxable disability benefit	$ 4,800	
	(b) Dividends and interest	3,000	$ 7,800
6.	Gross income limit (single; disabled)		$ 7,500
7.	Excess adjusted gross income: (5) minus (6)		$ 300
8.	One half excess adjusted gross income: .5 x (7)		$ 150
9.	Total deductions: (4) plus (8)		$ 4,150
10.	Net disability benefit: (3) minus (9)		$ 650
11.	Tax credit (Form 1040, line 42): .15 x (10)		$ 97.50

Note: The determination of the regular tax-free portion of the pension using the Pension Worksheet would follow the steps in example B, Case #1 - Safe-Harbor Method. The same method would be followed if X had a spouse, but no children. If X had any children, the example C, Case #1, Exclusion Percentage Rule should be followed.

EXAMPLE G

Widow's benefit: death benefit exclusion

Participant Y, a United States citizen, dies in service at age 55 on 1 January 1988, having served from 1 July 1986. His widow, Z, age 50, is entitled to a widow's benefit, and under Staff Rule 109.10 she receives certain emoluments beyond the date of Y's death.

DATA

Type Widow's benefit

I DATES

Participant Y	SERVICE D	M	Y		AGES D	M	Y
(a) Date service started	1	7	86	(d) Date of birth	5	12	32
(b) Date of separation	1	1	88	(e) Date payments start	1	1	88
(c) Period of service		6	1	(f) Age		1	55
				"Nearest" = x			55

II Participant's own contributions

(a) Regular contributions	$ 5,500
(b) Transfer from provident funds	-
(c) Amounts for validation	-
(d) Amounts for leaves of absence	-
(e) Total contributions = (a)+(b)+(c)+(d)	$ 5,500
(f) Interest on contributions	125
(g) Grand total = (e)+(f)	$ 5,625

III Employing organization's contributions that count as the participant's contribution for income tax purposes (para. 17(e))

(a) While participant was an alien (para. 17(e)(i))	$ -
(b) Prior to 1 January 1963 for a U.S. citizen serving overseas (para. 17(e)(ii))	-
(c) Total	$ -

IV Basic tax-free recovery = II(e) + III(c) $ 8,500*

V Withdrawal settlement $ 5,625

VI Pension amounts

	Annual Pension	Lump Sum
(a) If no lump sum	$ N/A	XXX
(b) If maximum commutation		
(c) Other commutation		

VII Other data

			D	M	Y	"Nearest" Age	Annual Pension
(a) Spouse:	Z	D/B	1	2	38	50	$ 2,800
(b) Children:		D/B					

Spouse also entitled to $2,000 of emoluments after the date of Y's death under Staff Rule 109.10.

*See special calculation because participant's only entitlement at time of death was a withdrawal settlement.

EXAMPLE G

SPECIAL WORKSHEET

Widow's/Widower's Benefits

For widow's/widower's benefits, where the deceased participant is entitled to a benefit of lesser value than the widow's/widower's benefit (under the UNJSPF, which occurs when the participant's only entitlement is to a withdrawal benefit) the special calculation is needed to determine the basic tax-free recovery in Data Item IV.

IV Basic tax-free recovery (substitute)

(a) Value of widow's/widower's benefit - expected return on the pension	
(i) Initial annual benefit	$ 2,800
(ii) Factor from IRS Pub. No. 575, Table XIV Age 50	8.4743
(iii) Factor *ibid.*, for monthly payment	1.0450
(iv) Value of benefit - (i) x (ii) x (iii)	$ 24,796
(b) Value of participant's entitlement at time of death:	
(i) Withdrawal settlement	$ 5,625
(ii) Other	$ -
(c) Participant's own contributions Data II(e)	$ 5,500
(d) Excess of (a)(iv) over larger of (b) or (c)	$ 19,171
(e) Death benefit exclusion:	
(i) Maximum	$ 5,000
(ii) Amount used for Staff Rule 109.10 payment	$ 2,000
(iii) Net available for pension = (i) - (ii)	$ 3,000
(iv) Lesser of (iii) and (d)	$ 3,000
(f) Basic tax-free recovery = (c) + (e)(iv)	$ 8,500

Note: The determination of the regular tax-free portion of the widow's/widower's benefit using the Pension Worksheet would follow the steps in the Worksheet (next page) - Safe-Harbor Method.

EXAMPLE G

WORKSHEET - SIMPLIFIED GENERAL RULE ("SAFE-HARBOR")
TAX-FREE PORTION OF WIDOW/WIDOWER'S BENEFITS

(Applicable if the benefit starting date is on or after 1 July 1986.)

1. Lump Sum

(a)	Amount received	$	0
(b)	Investment in contract (Data IV)	$	8,500
(c)	Ratio: Pension, after commutation / Pension, if no commutation = 2,800 / 2,800 =		1
(d)	1 - (c)		0
(e)	Tax-free = (b) x (d)	$	0
(f)	Amount of lump sum taxable = (a) - (e)	$	0

2. Pension

(a) Investment in contract (Data IV) $ 8,500

(b) Number of monthly payments

Age at Distribution	Number of Payments
55 and under	300
56 - 60	260
61 - 65	240
66 - 70	170
71 and over*	120

300

(c) Tax-free portion of monthly pension = (a) ÷ (b) $ 28

(d) Tax-free portion of annual pension = (c) x 12 $ 336

Notes:

1. The dollar amounts shown in Items 2(c) and 2(d) are constant and do not change if a spouse's benefit becomes payable. These amounts do not increase when pension payments increase.
2. For those whose payments commence after 31 December 1986 the tax-free amounts are applicable each year until total tax-free amounts (including the amount relating to the lump sum) accumulate to a total of the investment in contract (Data IV). If any tax-free recovery remains at the time of death that remainder may be taken as a deduction on the last tax return.

*Do not use this method if the age at the start of pension payments is age 75 or over and guaranteed payments (Data II(g)) divided by annual pension (Data VI(a)) is greater than 5.

FOR REFERENCE ONLY --
TAX TREATMENT, SAFE-HARBOR
METHOD, IS MORE FAVORABLE

EXAMPLE G

WORKSHEET - GENERAL RULE ("EXCLUSION PERCENTAGE")

PENSION - SERVICE AFTER 30 JUNE 1986

Enter Data Items for the amounts of Pension that would be payable if no commutation is elected and, except as specifically noted, for total service

1. Investment in contract

(a)	Basic tax free recovery = Data IV (f) substitute	$ 8,500
(b)	Total refund = gross residual settlement = Data II(g)	5,625
(c)	Expected return from term payment = 2(c)(iv) below x Data IV (after 30/6/86 / Total) = ___ ___ =	0
(d)	Portion of refund attributed to life annuities = (b) - (c) not less than $0	5,625
(e)	Expected period of recovery = (d) / Annual Pension (Data VII(a)) = 5,625 / 2,800 use nearest years =	2 yrs
(f)	Factor from IRS Pub. No. 575, Table VII Age x 50 duration in (h) if single life. Use 0% if a spouse's pension payable*	0 %
(g)	Lesser of (a) and (b) = $5,625 - (c)	$ 5,625
(h)	Value of refund = (f) x (g)	$ 0
(i)	Adjusted net investment = (a) - (h)	$ 8,500

2. Expected return and pension exclusion ratio

(a)	Participant's pension - use for widows/widowers	
	(i) Initial annual pension benefit	$ 2,800
	(ii) Life expectancy from ibid. Table V Age x 50	33.1 yrs
	(iii) Expected return (i) x (ii)	$ 92,680
(b)	Participant's spouse's pension	
	(i) Expected initial benefit	$ -
	(ii) Joint life expectancy ibid. Table VI Age __ Age __	- yrs
	(iii) Expected years' payments to spouse (ii) minus (a)(ii)	- yrs
	(iv) Expected return (i) x (iii)	$ -
(c)	For child -- maximum term payment	
	(i) Initial benefit	$ -
	(ii) Child's maximum years' payments = 21 - Age ___ yrs.	- yrs
	(iii) Expected years of payments ibid. Table VIII	- yrs
	(iv) Expected return (i) x (iii)	$ -
(d)	Other	$ -
(e)	Total (a)(iii) + (b)(iv) + (c)(iv)	= $ 92,680
(f)	Exclusion ratio = 1(i) / 2(e) = 8,500 / 92,680 (% with 1 decimal)	9.2 %**

*0% is the applicable figure for most cases. If Item (e) is 2-1/2 or more years, and the pensioner's or spouse's age at retirement is over age 74, the figure could be 1%.

**9.2% of $2,800, or $258, would be the annual tax-free portion of the benefit up to the time the adjusted net investment in contract has been recovered on a tax-free basis.

EXAMPLE H

WITHDRAWAL SETTLEMENT - NEW YORK STATE TAX ON NON-RESIDENT

Participant Q in example A is a resident of Florida at separation from service, having served at UN Headquarters in New York for all service through March 1987 and in Geneva until the end of 1988.

His compensation during the last four years was:

Year	Total Compensation	New York portion
1985	$ 28,000	$28,000
1986	30,000	30,000
1987	32,000	8,000
1988	35,000	-
	$125,000	$66,000

Of the total withdrawal settlement of $76,000, the amount subject to New York State tax would be:

(a)	Ratio of New York compensation to total compensation	.528
(b)	Federal taxable amount (example A, Worksheet, item (c))	$41,500
(c)	New York taxable amount = (a) x (b)	$21,912

EXAMPLE I

State tax

Participant R in example B lives in a state that taxes pensions as outlined in paragraph 55 of the text.

1. R's investment in contract (from example B, Data IV) $39,800
2. Annual amount taxable: 3 per cent of (1) 1,194
3. Using Case #1, where no lump sum was elected.

	Received	Taxable	Tax-free	Cumulative tax-free
1988	$13,950	$ 1,194	$12,756	$12,756
1989	18,600	1,194	17,406	30,162
1990	19,500	9,862	9,638	39,800
1991	20,500	20,500	0	39,800

EXAMPLE J

Federal estate tax

Participant S in example C, having elected the partial lump sum commutation in Case #3, dies on 31 December 1993. Immediately after his death, T's widow's benefit is $12,000 per year, and U's child's benefit is $1,800.

Value of survivor's pension rights to be included in estate

A. Expected return:

1. For T

(a) Multiple from Federal Estate Tax Regulations 20.2031-7(b), table A*, age 55 (adjusted for monthly payments) 8.365

(b) Widow's benefit at time of S's death $12,000

(c) Expected return: (a) x (b) $100,380

*Same as Table XIV of IRS Publication No. 575.

2. For U

   (a) U's maximum eligibility
   (21 - 20) = 1 year

   (b) Multiple from ibid., table B,
   (adjusted for monthly payment) .9500

   (c) Annual benefit $1,800

   (d) Expected return (b) x (c) $ 1,710

3. Total expected return: 1(c) + 2(d) = includible amount* = $102,090

   *Where participant's pension was not in pay status before 1985 (see also para. 60 of text).

If S had retired during 1984 or before, and the benefits to T and U were the same as in Part A of this example, steps B and C below would apply.

B. Includible portion of benefit

1. Ratio of S's contributions to total contributions

   (a) S's contribution $ 36,000

   (b) United Nations contribution $ 72,000

   (c) ratio = $\frac{(a)}{(a) + (b)} = \frac{36,000}{36,000 + 72,000}$ 33.33%

2. Includible in S's estate: A(3) x B(1.c)
   = $102,090 x .3333 $ 34,027

C. Exclusion

1. Total expected return: A(3) $102,090

2. Calculated as includible in S's estate: B(2) $ 34,027

3. Amount of exclusion: (1) - (2) $ 68,063

Since the amount of the exclusion is less than $100,000 (see para. 60 of text), only the calculated amount of $34,027 is includible in his estate.

DATA

Type ______________

I DATES

	SERVICE D	M	Y		AGES D	M	Y
(a) Date service started	__	__	__	(d) Date of birth	__	__	__
(b) Date of separation	__	__	__	(e) Date payments start	__	__	__
(c) Period of service	__	__	__	(f) Age	__	__	__
				"Nearest" age = x			__

II Participant's own contributions

	Before 1 July 1986	After 30 June 1986	Total
(a) Regular contributions	$______	$______	$______
(b) Transfer from provident funds	______	______	______
(c) Amounts for validation	______	______	______
(d) Amounts for leaves of absence	______	______	______
(e) Total contributions = (a)+(b)+(c)+(d)	$______	$______	$______
(f) Interest on contributions			______
(g) Grand total = (e)+(f)			$______

III Employing organization's contributions that count as the participant's contribution for income tax purposes (para. 17(e))

(a) While participant was an alien (para. 17(e)(i))	$______	$______	$______
(b) Prior to 1 January 1963 for a U.S. citizen serving overseas (para. 17(e)(ii))	______	______	______
(c) Total	$______	$______	$______

IV Basic tax-free recovery = II(e) + III(c) $______ $______ $______

V Withdrawal settlement $______

VI Pension amounts

	Annual Pension	Lump Sum
(a) If no lump sum	$______	XXX
(b) If maximum commutation	______	______
(c) Other commutation	______	______

VII Other data

		D	M	Y	"Nearest" Age	Annual Pension
(a) Spouse:	D/B	__	__	__	______	$______
(b) Children:	D/B	__	__	__	______	______

WORKSHEET

WITHDRAWAL SETTLEMENT

(a) Amount of withdrawal settlement $________

(b) Basic tax-free recovery: Data IV $________

(c) Taxable amount = (a) - (b) $________

(d) More than 5 years of contributory service Yes |__| No |__|

If "No", amount in (c) is taxable as ordinary income

If "Yes" continue

(e) Over age 50 on 1986 January (i.e., Date of birth was in 1935 or earlier) Yes |__| No |__|

If "No", amount in (c) is taxable as ordinary income unless participant is age 59-1/2 or over at date of distribution in which case it is taxable under special 5-year averaging.

If "Yes" continue

(f) Portion of (c) taxable as long-term capital gain

$$= \frac{\text{Service before 1974}}{\text{Total years of participation}} = \frac{____\text{ yrs.}}{____\text{ yrs.}} = .______$$

(g) Amount taxable as a long-term capital gain (see para.23) = (c) x (f) = $________

(h) Amount subject to the more favorable of special 10-year or 5-year averaging (see para.24) = (c) - (g) $________

Note: In addition to testing item (h) for the more favorable of special 10-year and 5-year averaging in combination with the tax on item (g), the entire taxable amount in item (c) should be tested on its own for the more favorable of special 10-year and 5-year averaging.

An early distribution tax of 10% of the amount in (c) is payable upon separation from service before the year in which a participant reaches age 55.

WORKSHEET - SIMPLIFIED GENERAL RULE ("SAFE-HARBOR")

TAX-FREE PORTION OF RETIREMENT BENEFITS

(Applicable if pension payments are to be made only to a participant or to only a participant and surviving spouse and the annuity starting date is on or after 1 July 1986.)

1. Lump Sum

(a) Amount received $ ____________

(b) Investment in contract (Data IV) $ ____________

(c) Ratio: Pension, after commutation / Pension, if no commutation = ____________ = ____________

(d) 1 - (c) ____________

(e) Tax-free = (b) x (d) $ ____________

(f) Amount of lump sum taxable = (a) - (e) $ ____________

2. Pension

(a) Investment in contract (Data IV) $ ____________

(b) Number of monthly payments

Age at Distribution	Number of Payments
55 and under	300
56 - 60	260
61 - 65	240
66 - 70	170
71 and over*	120

____

(c) Tax-free portion of monthly pension = (a) ÷ (b) $ ____________

(d) Tax-free portion of annual pension = (c) x 12 $ ____________

Notes: 1. The dollar amounts shown in Items 2(c) and 2(d) are constant and do not change if a spouse's benefit becomes payable. These amounts do not increase when pension payments increase.

2. For those retiring after 31 December 1986 the tax-free amounts are applicable each year until total tax-free amounts (including the amount relating to the lump sum) accumulate to a total of the investment in contract (Data IV). If any tax-free recovery remains at the time of the last death (or new cessation of pension) that remainder may be taken as a deduction on the last tax return.

*Do not use this method if the participant's age at the start of pension payments is age 75 or over and guaranteed payments (Data II(g)) divided by annual pension (Data VI(a)) is greater than 5.

WORKSHEET - GENERAL RULE ("EXCLUSION PERCENTAGE")

PENSION - SERVICE BEFORE 1 JULY 1986

Enter Data Items for the amounts of Pension that would be payable if no commutation is elected and, except as specifically noted, for total service

1. Investment in contract

   (a) Basic tax free recovery = Data IV - before 1 July 1986 $________
   (b) Total refund = gross residual settlement = Data II(g) ________
   (c) Expected return from term payment = 2(c)(iv) below x Data IV (before 1/7/86 = ________ =) (Total) ________
   (d) Portion of refund attributed to life annuities = (b) - (c) not less than $0 ________
   (e) Expected period of recovery = (d) / Annual Pension (Data VI(a)) = ______ use nearest years = ______ yrs
   (f) Factor from IRS Pub. No. 575, Table III Age x ___ Sex ___ duration in (h) if single life. Use 0% if a spouse's pension payable* ______ %
   (g) Lesser of (a) and (b) = $________ - (c) $________
   (h) Value of refund = (f) x (g) $________
   (i) Adjusted net investment = (a) - (h) $________

2. Expected return and pension exclusion ratio

   (a) Participant's pension
      (i) Initial annual pension benefit $________
      (ii) Life expectancy from ibid. Table I Age x ___ Sex ___ ______ yrs
      (iii) Expected return (i) x (ii) $________
   (b) Participant's spouse's pension
      (i) Expected initial benefit $________
      (ii) Joint life expectancy ibid. Table II Age __ Sex __ Age __ Sex __ ______ yrs
      (iii) Expected years' payments to spouse (ii) minus (a)(ii) ______ yrs
      (iv) Expected return (i) x (iii) $________
   (c) For child -- maximum term payment
      (i) Initial benefit $________
      (ii) Child's maximum years' payments = 21 - Age ___ yrs. ______ yrs
      (iii) Expected years of payments ibid. Table IV Sex ___ ______ yrs
      (iv) Expected return (i) x (iii) $________
   (d) Other $________
   (e) Total (a)(iii) + (b)(iv) + (c)(iv) = $________
   (f) Exclusion ratio = 1(i) / 2(e) = $______ (% with 1 decimal) ______ %

*0% is the applicable figure for most cases. If Item (e) is 2-1/2 or more years, and the pensioner's or spouse's age at retirement is over age 74, the figure could be 1%. (IRS will determine the figure upon request.)

WORKSHEET - GENERAL RULE ("EXCLUSION PERCENTAGE")

PENSION - SERVICE AFTER 30 JUNE 1986

Enter Data Items for the amounts of Pension that would be payable if no commutation is elected and, except as specifically noted, for total service

1. Investment in contract

(a) Basic tax free recovery = Data IV - after 30 June 1986 $________
(b) Total refund = gross residual settlement = Data II(g) ________
(c) Expected return from term payment = 2(c)(iv) below
x Data IV (after 30/6/86 = ________ =)
(Total) ________
(d) Portion of refund attributed to life annuities
= (b) - (c) not less than $0 ________
(e) Expected period of recovery
= (d) / Annual Pension (Data VI(a)) = ______ use nearest years = ________ yrs
(f) Factor from IRS Pub. No. 575, Table VII Age x ___ duration in (h) if single life. Use 0% if a spouse's pension payable* ________ %
(g) Lesser of (a) and (b) = $________ - (c) $________
(h) Value of refund = (f) x (g) $________
(i) Adjusted net investment = (a) - (h) $________

2. Expected return and pension exclusion ratio

(a) Participant's pension
(i) Initial annual pension benefit $________
(ii) Life expectancy from ibid. Table V Age x ___ ________ yrs
(iii) Expected return (i) x (ii) $________
(b) Participant's spouse's pension
(i) Expected initial benefit $________
(ii) Joint life expectancy ibid. Table VI
Age __ Age __ ________ yrs
(iii) Expected years' payments to spouse
(ii) minus (a)(ii) ________ yrs
(iv) Expected return (i) x (iii) $________
(c) For child -- maximum term payment
(i) Initial benefit $________
(ii) Child's maximum years' payments = 21 - Age ___ yrs. ________ yrs
(iii) Expected years of payments ibid. Table VIII ________ yrs
(iv) Expected return (i) x (iii) $________
(d) Other $________
(e) Total (a)(iii) + (b)(iv) + (c)(iv) = $________
(f) Exclusion ratio = 1(i) / 2(e) = ________ (% with 1 decimal) ________ %

*0% is the applicable figure for most cases. If Item (e) is 2-1/2 or more years, and the pensioner's or spouse's age at retirement is over age 74, the figure could be 1%.

SUMMARY - GENERAL RULE ("EXCLUSION PERCENTAGE")

TAX-FREE PORTION OF RETIREMENT BENEFITS

1. Lump Sum

(a)	Amount received	$______
(b)	Investment in contract (total from 3. below)	$______
(c)	Ratio: Pension, after commutation / Pension, if no commutation = ______	= ______
(d)	1 - (c)	______
(e)	Tax-free = (b) x (d)	$______
(f)	Amount of lump sum taxable = (a) - (e)	$______

2. Pension

	Service Periods Covered		
	Before 1/7/86	After 30/6/86	Total
(a) Exclusion ratio - Pension Worksheets Item 2(f)	______%	______%	______%
(b) Initial actual benefits			
(i) Participant			$______
(ii) Spouse			______
(iii) Child			______
(iv) Other			______
(c) Tax-free amount			
(i) Participant			$______
(ii) Spouse			______
(iii) Child			______
(iv) Other			______
3. Total Tax-Free Recovery Worksheets Item 1(i)	$______	$______	$______

Notes:

1. The dollar amounts shown in Item 2(c) are constant and do not increase when pension payments increase.

2. The tax-free amounts are applicable each year until total tax-free amounts (including the amount relating to the lump sum) accumulate to a total of the tax-free recovery in 3. If any tax-free recovery remains at the time of the last death (or new cessation of pension) that remainder may be taken as a deduction on the last tax return.

SPECIAL WORKSHEET

Widow's/Widower's Benefits

For widow's/widower's benefits, where the deceased participant is entitled to a benefit of lesser value than the widow's/widower's benefit (under the UNJSPF, which occurs when the participant's only entitlement is to a withdrawal benefit) the special calculation is needed to determine the basic tax-free recovery in Data Item IV.

IV Basic tax-free recovery (substitute)

(a) Value of widow's/widower's benefit - expected return on the pension	
(i) Initial annual benefit	$______
(ii) Factor from IRS Pub. No. 575, Table XIV Age ___	______
(iii) Factor *ibid.*, for monthly payment	______
(iv) Value of benefit - (i) x (ii) x (iii)	$______
(b) Value of participant's entitlement at time of death:	
(i) Withdrawal settlement	$______
(ii) Other	$______
(c) Participant's own contributions Data II(e)	$______
(d) Excess of (a)(iv) over larger of (b) or (c)	$______
(e) Death benefit exclusion:	
(i) Maximum	$ 5,000
(ii) Amount used for Staff Rule 109.10 payment	$______
(iii) Net available for pension = (i) - (ii)	$______
(iv) Lesser of (iii) and (d)	$______
(f) Basic tax-free recovery = (c) + (e)(iv)	$______

Note: The determination of the regular tax-free portion of the widow's/widower's benefit using the Pension Worksheet would follow the steps in the Safe-Harbor Worksheet.

Annex

IRS DETERMINATION: COPY OF LETTER RECOGNIZING QUALIFIED NATURE OF UNJSPF UNDER IRC SECTION 401(a)

Address any reply to: P.O. Box 3200, New York, N.Y. 10008

Department of the Treasury

District Director
Internal Revenue Service

Date: April 28, 1977

In reply refer to: E:EO:7103: O. Resnick 264-2140

United Nations
799 United Nations Plaza
New York, N.Y. 10017

Gentlemen:

Name of Plan: United Nations Joint Staff Pension Fund
Name of Trust:
Application Form: 5300 Dated: 3/25/77
Date Adopted: Date Amended: 12/22/76

Based on the information supplied, we have made a favorable determination on your application identified above.

Continued qualification of the plan will depend on its effect in operation as well as its present form. See section 1.401-1(b)(3) of the Income Tax Regulations. The enclosed Publication 794 describes some events that could occur after you receive this determination letter that would automatically nullify it without specific notice from us. The publication also provides information about filing requirements, the effect of determination letters and plan operations, and the deductibility of contributions. The status of the plan in operation will be reviewed periodically.

If your application covered an amendment only, this letter is an opinion only as to whether the amendment submitted affects the existing status of the qualification of the plan and exemption of the trust. It is not a determination on the continued qualification of the entire plan.

This letter relates only to the status of your plan under the Internal Revenue Code. It is not a determination regarding the effect of other Federal or local statutes.

Please keep this letter in your permanent records.

Sincerely yours,

Charles H. Brennan

District Director

Form L-[illegible] (Rev. [illegible])

Favorable Determination Letter

Publication 794
(Rev. 1–76)

This publication describes some events that could nullify a favorable determination letter.

Operation of the plan in subsequent years

Rev. Proc. 72-6, 1972-1 C.B. 710, 712, and Rev. Rul. 69-24, 1969-1 C.B. 110, 111, provide, in part, that:

". . . While a favorable determination letter may serve as a basis for determining deductions for employer contributions thereunder, it is not to be taken as an indication that contributions are necessarily deductible as made. Such determinations can be made only upon an examination of the employer's tax return, in accordance with the limitations and subject to the conditions of section 404 of the Code. . . ."

". . . A determination letter issued with respect to the qualification of a plan under section 401(a) of the Code, is based on the information furnished by the employer. . . The wording contained within the four corners of a written document may spell out a theoretically qualified plan which may or may not materialize in actual operation. For example, a plan may be open to all employees who have one year of service and who will be entitled to pensions commencing at normal retirement age 65 only if they remain with the employer until that age and have at least 10 years of service at retirement.

"Such provisions have been found acceptable in certain cases, and favorable determination letters have been issued. . . . A high rate of service separations, however, may leave relatively few of the lower paid employees but practically all of the officers, shareholders . . and highly compensated employees in the plan, resulting in discrimination in favor of the latter group. Thus, in operation, such a plan does not meet the requirements of section 401(a) of the Code for some part or all of the period of its operation. . . ."

If coverage is based on the percentage requirement of section 410(b)(1)(A) of the Internal Revenue Code and this requirement is not met in some years following issuance of the favorable determination letter, the taxpayer may no longer rely on the letter.

Similarly, if coverage is based on the requirement of section 410(b)(1)(B) of the Code and the coverage of employees in the lower and middle compensation ranges is reduced materially in any subsequent year from that in the application, a favorable determination letter will not apply.

A plan will be considered as meeting these coverage requirements during the whole taxable year if on any one day of each quarter it satisfies these requirements.

If employee turnover results in the allocation of forfeitures principally to the benefit of officers, shareholders, and highly compensated employees, a favorable determination letter will not apply.

These few examples are not the only developments in operation that could cause a plan to lose its qualified status.

Requirements for filing returns

Employers or plan administrators must file one or more of the following forms:

Form 5500, Annual Return/Report of Employee Benefit Plan (With 100 or more participants), and required attachments.

Form 5500-C, Annual Return/Report of Employee Benefit Plan (With fewer than 100 participants, none of whom is an owner-employee), and required attachments.

Form 5500-K, Annual Return/Report of Employee Pension Benefit Plan for Sole Proprietorships and Partnerships, and required attachments.

In addition, the following forms may also be required:

Form 990-T, Exempt Organization Business Income Tax Return, if unrelated business income was realized.

Form W-2P, Statement for Recipients of Annuities, Pensions, or Retired Pay

Form 1099R, Statement for Recipients of Lump-Sum Distributions from Profit-Sharing and Retirement Plans

Form W-3, Transmittal of Income and Tax Statements.

The part of the insurance premiums paid for life insurance protection is considered income to the employee in the year in which the premium is paid and must be reported on Form 1099R if paid by the fiduciary, or on Form W-2 if paid by the employer.