



**Krosnowski & Scott LLC**  
Investment & Retirement Planning Specialists

To:

From: Andrew J. Krosnowski and Melissa Scott Paine

Reference: **ExxonMobil Savings Plan Net Unrealized Appreciation (NUA)  
Stock Distribution Analysis**

**I. NUA Defined** – NUA is a special tax method. After you retire from ExxonMobil, if you distribute your total Savings Plan balance during the same calendar year, you can elect to deliver a portion of your ExxonMobil stock shares to a taxable (non-IRA) account. Normally, the cost basis of the shares is taxed as ordinary income during the tax year of the distribution. The capital appreciation is subject to capital gains tax rates during the year that the shares are liquidated.

**II. Stock Distribution Priorities** –

**A. Liquidity** – Your “tax paid” or (pre-1987, post 1986) after tax balance can be used to provide liquid cash upon the distribution of your Savings Plan (if you roll your pre-tax assets to an IRA). It can also be applied to the cost basis of a portion of your NUA shares. This may enable you to distribute stock shares from the Savings Plan cost basis tax free (these are known as “tax paid” shares).

**B. Estate Planning** - In the future there is uncertainty as to how much of your estate you and your spouse will be able to shelter from estate taxes. In 2007 and 2008, if your assets are properly titled, both you and your spouse can each pass on \$2 million to your beneficiaries estate tax free. In 2011, the estate tax exclusion amount will be reduced to \$1 million per spouse. If your net worth is in excess of a few million dollars, it may be advisable to consider a NUA stock distribution from your Savings Plan. An NUA stock distribution may provide you with greater flexibility to “equalize” assets between you and your spouse. This may enable you to avoid unnecessary estate taxes. This may also enable your beneficiaries to inherit stock assets with a “step-up” in basis. Inherited IRA assets are subject to ordinary income taxes. This could have significant tax implications for your beneficiaries.

**C. Tax Planning** - The benefit of rolling over pre-tax Savings Plan assets to an IRA is tax deferral. Income distributions from an IRA are taxed as ordinary income. NUA enables investors in higher income tax brackets to take advantage of more favorable long term capital gains tax rates.

Electing to receive NUA stock distributions can be very advantageous for investors who may otherwise have larger IRA balances which may cause them to be in a higher income tax bracket when mandatory IRA distributions occur. Upon turning age 70½, investors are required to take mandatory IRA distributions.



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**III. Calculation Methods** – There are two ways to calculate distributing company stock from the ExxonMobil Savings Plan under the NUA tax guidelines.

**A. Simple (“Tax Paid Share”)** - This method of stock distribution applies the Savings Plan participant’s “tax paid” balance (if available) to the maximum number of lower cost basis shares. This strategy enables corporate retirees to distribute a portion of their shares cost basis tax free. The cost basis of remaining shares distributed are subject to ordinary income taxation.

**B. Complex “Maximum Share”** – This method takes into consideration the effect the stock distribution would have on the Savings Plan participant’s marginal income tax bracket. The first step is to identify the desired number of company stock shares to distribute. The second step is to calculate the total cost basis of these shares. The third step is to verify the individual’s marginal federal income tax bracket during the year of the stock distribution. The fourth step is to calculate the ordinary income tax that would normally apply to the cost basis of the distributed shares. The fifth step is to apply the “tax paid balance” as a tax credit against the ordinary income tax liability created as a result of the stock distribution. The “tax paid” balance offsets the ordinary income tax liability and enables plan participants to distribute stock cost basis tax free.

The “Complex” NUA stock distribution method may enable Savings Plan participants in lower marginal income tax brackets to distribute more “tax paid” shares than under the “Simple” NUA stock distribution method.

For Example: An ExxonMobil Savings Plan participant has a “tax paid” balance of \$33,800 and 6100 shares of company stock in the Savings Plan. At \$90/share, the total market value of the stock would be \$549,000.

**1. Simple NUA distribution method:**

A. NUA “Tax Paid” shares = 3100, average cost basis = \$10.54/share. These shares can be distributed cost basis tax free.

B. NUA Taxable shares = 3000, cost basis = \$80,000, average cost basis at \$26.50/share. These shares can be distributed with the cost basis taxed as ordinary income.

**2. Complex NUA distribution method:**

A. Distribute all 6100 shares. The total cost basis of these shares is \$112,700. If the distributee is less than age 59 ½ at the time of distribution, a 10% pre-mature withdrawal penalty applies to the \$80,000 portion of the cost basis of the stock shares distributed.



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B. Apply the “tax paid” balance as a tax credit against the taxable basis (assume 30% marginal income tax bracket)

\$112,700 (cost basis) X .30 (tax rate)=	\$33,800
Less “tax paid” balance	<u>33,800</u>
<b>Tax Liability</b>	<b>-0-</b>

C. In this example, all 6100 shares could be distributed as NUA without any ordinary income tax exposure on the cost basis of the shares.

*\*It is highly recommended to consult a professional tax adviser before distributing company stock shares from your 401(k) Savings Plan.*

IV. “Tax Paid” Shares (i.e. shares that you can distribute cost basis tax free):

Your Tax Paid Balance = \$

COST BASIS PER SHARE	SHARES	COST BASIS (\$)
<b>TOTAL</b>		

V. Additional Shares (for planning purposes, shares you may wish to distribute with a taxable cost basis (at ordinary income tax rates)):

COST BASIS PER SHARE	SHARES	COST BASIS (\$)
*		
<b>TOTAL</b>		

We look forward to reviewing this information with you and answering any questions that you may have regarding this analysis.

Sincerely,

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