



TAX REIMBURSEMENT HANDBOOK

For IDB Group Retirees

June 2019



This Handbook has been prepared primarily for US tax residents who are receiving, or will receive, pension benefits from the IDB Staff Retirement Plan. The Handbook describes the IDB's tax reimbursement process and the method used to calculate tax reimbursements made to US tax residents.

Additionally, and for the benefit of non-US tax resident recipients of pension benefits, this Handbook also includes a summary of the tax reimbursement process for recipients who are subject to tax outside the US.

This handbook clarifies the relevant staff rule and expands on the specific procedures and guidelines related to retiree tax reimbursements. It supersedes all previously issued guidance, interpretations, memoranda or other communications on such topic; but in the case of any conflict with this handbook, the provisions contained in such staff rules shall at all times govern.

While this Handbook includes a general overview of the tax obligations of Staff Retirement Plan retirees and survivors who are subject to income tax, it is not comprehensive and therefore not intended as tax advice. Tax rules may vary depending upon individual circumstances, and are subject to change. You should therefore rely only on materials published by the IRS and state tax authorities, and/or consult with your personal tax professional.

I. OVERVIEW: REIMBURSEMENT OF INCOME TAXES ON STAFF RETIREMENT PLAN BENEFITS

A tax reimbursement is payable to IDB Group¹ retirees and survivors who are required to pay income taxes on Staff Retirement Plan pensions

The Staff Retirement Plan of the Inter-American Development Bank and the Inter-American Investment Corporation (SRP) pays a pension benefit to eligible former staff of the Inter-American Development Bank (IDB or the Bank) and the Inter-American Investment Corporation (IIC), and to their eligible survivors and beneficiaries that is “net of taxes”, which means that the benefit is adjusted for the effect of income taxes on the recipient. Therefore, if you receive a pension from the SRP that is subject to income tax, the Bank will also pay you a tax reimbursement for the income taxes paid on your pension, in accordance with IDB’s Staff Rule PE-338-1, and IIC’s Staff Rule No. 35, “Reimbursement of Income Tax on Pensions”.

Taxable SRP benefits paid monthly to U.S. tax residents, in the form of a retiree’s pension, survivor’s pension, disability pension, or a children’s benefit, are eligible for tax reimbursement. Additionally, if you are a retiree and elect to commute a portion of your monthly pension into a lump sum payment, your lump sum commutation, if taxable, will also be eligible for tax reimbursement. However, withdrawal benefits and lump sum death benefits paid from the SRP are not eligible for tax reimbursement.

If you are a US tax resident while receiving your pension, your pension will be subject to US federal and state income taxes, and you will receive a tax reimbursement, which is itself taxable. As international organizations, the IDB and the IIC are immune from US tax laws and therefore do not withhold or remit taxes to US tax authorities, as is required of pension plan sponsors in the US private sector. Consequently, retirees or surviving spouses who are US tax residents must remit quarterly estimated tax payments to cover income taxes on their SRP benefits in addition to filing annual tax returns. IDB Group pays estimated tax reimbursements quarterly, in advance of the estimated tax due dates, subject to confirmation and re-calculation in the following year after you provide the IDB, or its designated third party vendor, a completed IDB Tax Form 7R. (IDB Tax Forms can be downloaded from the [Retirees page](#) on the Bank’s website.)

A primary focus of this Handbook is to describe the tax reimbursement process and calculation methodology as it applies to the majority of retirees and survivors who are US tax residents. However, retirees and survivors who are subject to taxes on their pension in jurisdictions other than the US are similarly reimbursed, and the calculation methodology is tailored to the specific taxing jurisdiction. Section IV of this Handbook provides more detail on the tax reimbursement process for retirees and survivors whose SRP pensions are taxable outside the US.

¹ The IDB Group consists of the Inter-American Development Bank (IDB) and the Inter-American Investment Corporation (IIC). This handbook applies to all IDB Group retirees of the IDB and IIC who are eligible for tax reimbursement under Staff Rule No. PE-338-1 and Staff Rule No. 35, respectively. References in this handbook to “IDB” or “the Bank” shall be deemed to refer as well to IIC, where appropriate.

II. TAX OBLIGATIONS OF RETIREES AND SURVIVORS WHO ARE SUBJECT TO US TAXATION

This Section provides a general overview of the tax obligations of IDB retirees and surviving spouses who are US tax residents. This overview is not comprehensive, and tax rules may vary depending upon individual circumstances, and may change from time to time. You should therefore review materials published by the IRS and state tax authorities, and/or consult with your personal tax professional.

A. DETERMINING IF YOU ARE A US TAX RESIDENT

You are a US tax resident, and your SRP benefits will be taxable in the US, if at least one of the following is applicable:

1. You are a US citizen;
2. You hold a US permanent resident visa (also known as a “green card”);
3. You are a nonresident but elect to be treated as a U.S. tax resident in order to file a joint tax return with your spouse who is a US tax resident; or
4. You held a G-4 visa at the time your IDB employment terminated and you meet the “substantial presence test” based on the number of days of your presence in the US after your separation from IDB Group employment. You meet this test if you were physically present in the United States:
 - i. on at least 31 days during the current year, and
 - ii. for at least 183 days during the 3-year period that includes the current year and the two immediately preceding years, counting:
 - all the days you were present in the current year, and
 - 1/3 of the days you were present in the first year before the current year, and
 - 1/6 of the days you were present in the second year before the current year.

In applying this test, do not count days of presence in the US during your (or your spouse’s) full time employment by the IDB Group or another international organization while holding a G-4 visa. (See IRS Publication 519 for more information on what days are counted for purposes of the substantial presence test.)

Becoming a US tax resident under the substantial presence test

The substantial presence test is relevant for G-4 visa holders who wish to remain in the US after separation from IDB Group.

If you held a G-4 visa during your IDB Group

employment and intend to remain in the US after you are no longer employed full time by the IDB Group, you will need to determine if the number of days of your presence in the US after your separation from the IDB and during the calendar year of your retirement exceeds the threshold under the substantial presence test, as previously described. For those holding a G-4 visa upon separation from the Bank, the threshold in the calendar year of retirement is usually 183 days of presence within the US.

The first day of tax residency

If you satisfy the substantial presence test for a calendar year, your SRP benefits received on or after the first day in that year that is counted for purposes of that test will be taxable in the US. If you obtain a permanent resident visa (or green card), in most cases your retirement benefits will become taxable beginning on the date on which the visa is approved, but it could be an earlier date if you also satisfy the substantial presence test in the same year. Please refer to IRS Publication 519 to determine when your US tax residency commences.

EXAMPLE 1

Maria was employed by the IDB on a G-4 visa and after 25 years of full-time employment, she retired from the IDB. Her last day of full time IDB employment was on March 1, 2018. Soon thereafter she applied for a U.S. permanent resident visa. On November 22, 2018, her permanent resident visa was approved. For the period from the date of her retirement through the end of 2018, Maria remained in the U.S. at all times.

Since Maria was present in the U.S. for at least 183 days in 2018 after she ceased full time IDB employment, she meets the substantial presence test. Her first day of tax residency is March 2, 2018, as this is the first day that is counted for purposes of the substantial presence test, and it precedes the approval of her permanent resident visa. IDB pension payments received on or after March 2 are therefore subject to U.S income tax.

EXAMPLE 2

Same facts as in example 1, except that Maria retires later in the year, on July 15, 2018. Since there are fewer than 183 days from July 15 to December 31, Maria cannot meet the substantial presence test in 2018. Her first day of tax residency is therefore November 22, 2018, the date her permanent resident visa was approved. Only the IDB pension payments received on or after November 22, 2018, are subject to U.S. income tax.

Retirees who become U.S. tax residents in retirement, whether by becoming a US permanent resident, a US citizen, or meeting the substantial presence test, are eligible for tax reimbursements on taxable SRP pensions or commutations received after the first day of tax residency.

SRP benefits paid to you before your first day of US tax residency will not be subject to US income taxes or tax reimbursement. Please refer to IRS Publication 519 to determine your first day of tax residency.

Please refer to the introduction to Section III to learn about the steps that you will need to take upon retirement to notify IDB of your tax residency status, and to commence receipt of tax reimbursements if your SRP benefit is taxable.

If you become a US tax resident at a later date during retirement, you will need to submit SRP Form 765 to the Staff Retirement Plan to update your tax residence status in the Bank system. This will ensure that a Form 1099-R is generated and transmitted to you and the IRS to report your taxable pension income and tax reimbursement. This will also ensure that you will receive the necessary information to apply for a tax reimbursement.

Determining your tax residency status, and when your tax residency commences, can be complex. The above summary is neither comprehensive nor intended to serve as personal tax advice. Please refer to IRS Publication 519 for the rules to determine whether and when you might become a tax resident, and/ or consult with your personal tax professional.

B. TAX OBLIGATIONS OF US TAX RESIDENTS

US taxation of SRP pensions paid to US tax residents

A portion of the SRP pension paid to US tax residents will be subject to US federal and state income taxes. SRP pension payments are derived from three different sources:

- staff contributions;
- IDB Group employer contributions; and
- earnings on staff and employer contributions.

For all US tax residents, the portion of the pension attributable to staff contributions will be non-taxable, while the portion derived from earnings will be fully taxable.

However, the portion of the pension attributable to employer contributions may or may not be taxable depending on whether the retiree was a US citizen while an IDB Group employee. For a retiree who was never a US citizen during IDB Group employment, the entire employer contribution portion will not be taxable. For a retiree who was a US citizen at all times during IDB Group employment, the entire employer contribution portion will be taxable. For those who became a US citizen at some point during IDB Group employment, a prorated portion of the employer contribution component of the pension will be taxable based on the duration of IDB Group employment while a US citizen.

The Bank will determine the portion of your pension that is subject to US income taxes for purposes of computing your tax reimbursement and reporting your taxable pension on Form 1099-R.

US tax residents are obliged to pay estimated taxes on taxable SRP benefits

IDB Group and other international organizations are immune from withholding taxes from salaries and pensions. Retirees and survivors who are subject to US income taxes on SRP pensions are therefore required to make quarterly federal and state estimated tax payments directly to tax authorities to cover their expected taxes. Failure to pay at least the minimum required estimated tax payments

on a timely basis may result in assessments of underpayment penalties by tax authorities. The IDB Group's tax reimbursement does not cover interest and penalties.

Federal estimated taxes

If you are a US tax resident, you are required to pay your federal estimated taxes quarterly, in compliance with the IRS' published schedule; the quarterly payment deadlines generally fall on the 15th of April, June, September and January. The IDB Group will remit your tax reimbursement to you quarterly before each of the four due dates for estimated taxes. As explained in section III, in your first year of receiving pension payments from the SRP as a US tax resident, you will need to timely submit Tax Form 1R in order to start receiving quarterly tax reimbursements.

Amount of federal estimated taxes – minimum required payments

To avoid underpayment penalties, the total of your four quarterly federal estimated tax payments for the current year, when added to any income tax withholding on your non-IDB Group income or your spouse's income, will need to cover at least:

- 90% of the total tax that you expect to be shown on your tax return the current year, or
- 100% (or 110% if your adjusted gross income exceeds \$150,000*) of the total tax shown on your tax return for the immediately preceding year. **This threshold is \$75,000 if your filing status is married filing separately.*

Please note that you may have to pay estimated taxes on your other retirement income or spouse income that is not subject to tax withholding. Consequently, the IDB Group quarterly tax reimbursement may be less than your minimum quarterly federal and state estimated tax payments, and you may need to contribute an additional amount to avoid underpayment penalties.

Additional resources on federal estimated tax payments

For general information on the requirement to pay estimated taxes, and how to avoid underpayment

penalties, please see IRS Publication 505 “Tax Withholding and Estimated Tax”, or refer to the instructions to IRS Form 1040-ES, normally found on IRS.gov.

State estimated tax payments

Many US tax residents will also need to make quarterly payments of estimated state income tax to cover state income taxes on the SRP retirement benefit. Your IDB Group quarterly income tax reimbursement will also include a reimbursement of your state income taxes related to your SRP retirement benefit. If you move between states, you may need to make estimated tax payments to both states. (You should always refer to the relevant state tax authority to determine your estimated tax obligations.)

Depending upon the state, quarterly estimated tax deadlines are generally the same as the federal estimated tax deadlines, except that for Virginia residents (for example) the first estimated tax payment for the year is due on May 1. Each state tax jurisdiction, like the IRS, will impose a penalty for underpayment or untimely payments of estimated taxes.

For details on state estimated tax payments, including the minimum required payments, required vouchers, and instructions for online payment, you should refer to the applicable state tax authority. If you reside overseas, it is possible that you may not be considered a resident of any state depending on your individual circumstances. You will need to refer to the residency rules for the applicable jurisdiction.

C. ANNUAL TAX RETURNS

Annual reporting of taxable SRP income paid to US tax residents

If you are a US tax resident, the IDB Group will submit a Form 1099-R to the IRS in January of each year to report both the total amount of IDB Group retirement benefits (including tax reimbursements) paid to you during the preceding year, and the portion that is taxable. You will be provided a copy of the form.

For 2019, the taxable amount reported on Form 1099-R will include the sum of: (i) your taxable SRP benefits, (ii) your tax reimbursement settlement for 2018, and (iii) quarterly payments of your 2019 tax reimbursement. Because your 2019 taxable IDB retirement income will include tax reimbursement for two years (2018 and 2019), it may be higher than the taxable amount reported for 2018. Your 2019 tax reimbursement includes the tax on this higher income.

For 2020 and future years, the taxable amount reported on Form 1099-R will equal the sum of your taxable Staff Retirement Plan benefits plus the total tax reimbursement (including adjustments for prior years) paid to you during the calendar year.

Required annual federal tax returns

After receiving the Form 1099-R from the IDB Group, US tax residents are required to file their annual federal returns for the preceding year by April 15, unless an extension is obtained. For more information on federal tax return filing deadlines and extensions, you should refer to the Form 1040 instructions and Form 4868, which are normally available on IRS.gov. The income reported on your Form 1099-R should be reported as pension income on your Form 1040 consistent with the instructions for both forms.

Some US tax residents may need to file federal Form 8938

Your SRP benefit is considered a “specified foreign financial asset” for purposes of the US Foreign Account Tax Compliance Act (“FATCA”). If you are a US tax resident and if the total value of all of your foreign financial assets exceeds a threshold (currently \$50,000 if your filing status is single and \$100,000 if your filing status is married joint, and these amounts may be subject to change), you will need to attach a completed IRS Form 8938 to your federal Form 1040 to report your annual SRP payment, tax reimbursement, and any other specified foreign financial assets. The total amount you received from the SRP during the year (not only the taxable amount) plus the IDB Group tax reimbursement is taken into account to determine if you meet the threshold for the filing requirement.

Guidance on FATCA requirements for IDB Group retirees may be found on the [Retirees page](#) on the Bank's website. For additional more detailed information, including the applicable filing requirements, please refer to the instructions to IRS Form 8938, which are normally available on IRS.gov.

Since FATCA requirements are complex, and the failure to comply with FATCA may result in the imposition of fines and other penalties, you may wish to review the Form 8938 instructions and/or consult with an experienced tax professional to determine your FATCA reporting obligations, if any.

State tax returns

In most cases, you must also file a state tax return for the state where you reside. The state tax return is typically less complex and entries on the state return are typically derived from entries on the federal return. For more information on state tax return filing deadlines and extensions, you should refer to state resources that are available from the applicable state tax authority. Tax reimbursements made by the IDB Group are calculated on the assumption and expectation that retirees will avail themselves of any favorable tax treatment of pension income, including full or partial tax exemptions, that may exist under the tax laws of their particular state.

Payments with your tax returns

If the total tax due on your tax return exceeds the sum of the estimated tax payments and any non-IDB Group income tax withholding for the year, you will need to make an additional tax payment by the tax filing deadline without extensions, typically April 15. This may occur if you underestimated your quarterly estimated tax payments on your total income, and may include a penalty if the underpayment exceeds certain thresholds. Conversely, if you overpaid your estimated tax, you may be entitled to a refund. As described in Part III, in the confirmation process, your future tax reimbursement may be increased or decreased based on your final tax returns.

III. IDB GROUP'S US TAX REIMBURSEMENT PROCESS FOR SRP BENEFITS

Eligibility for tax reimbursement

All recipients of a taxable monthly pension benefit (including normal and early retirement pensions, disability pensions, survivors' pensions, and children's benefits) under the Staff Retirement Plan will be eligible for tax reimbursements. Retirees who elect to commute a portion of their monthly pension are eligible for tax reimbursement on the lump sum commutation, if taxable. Additionally, former staff who receive long term disability benefits under the Bank's Long Term Disability Program are eligible for tax reimbursement on such disability benefits. However, withdrawal benefits and lump sum death benefits paid by the SRP are not eligible for tax reimbursement.

Upon retirement, you will need to inform the IDB Group of your U.S. tax residency status

At the time of your retirement, the IDB Group Staff Retirement Plan will ask you to complete SRP Form 765. On this form, you will indicate whether or not you are a U.S. tax resident at the time of your retirement, or if you expect to become a U.S. tax resident in the calendar year of retirement.

Additionally, if you are or expect to become a U.S. tax resident in the calendar year of your retirement, you will need to complete IDB Tax Form 1R, which you can download from the [Retirees page](#) on the Bank's website. Based on the data you enter on Form 1R, the Bank's designated third party provider will determine your eligibility for tax reimbursement and the amount of any quarterly payments of tax reimbursement that will be paid to you in the calendar year of your retirement.

If you are not a U.S. tax resident during the year of your retirement, but become a U.S. tax resident in a subsequent calendar year, you will need to (i) inform the Staff Retirement Plan by submitting Form 765; and (ii) submit a Form 1R to the Bank's third party provider.

Overview of the Tax Reimbursement Process for US Tax Residents

The tax reimbursement procedure consists of a two-step approach:



1. Quarterly payments of tax reimbursement during the tax year. You will receive quarterly payments of tax reimbursement based on an estimate of your tax liability on your IDB Group retirement income. The estimated tax liability is calculated based on the taxable amount of your pension and the personal tax data you provide.
2. Confirmation of data used to calculate the quarterly payments. In the following year, you are required to provide actual data from your tax return. Your tax reimbursement for the preceding year will then be recalculated using this data, and it will be adjusted as appropriate. The same data will also be used to calculate your ongoing quarterly tax reimbursements in the current year.

A. QUARTERLY PAYMENTS OF TAX REIMBURSEMENT

In the initial year that you become eligible for tax reimbursements on eligible IDB Group pension income, and after you submit SRP Form 765 to the Staff Retirement Plan and IDB Tax Form 1R to the Bank's third party provider, you will start receiving quarterly payments of tax reimbursement. You are expected to use the payments to pay estimated taxes on your taxable IDB Group retirement income received during the year. Form 1R, which you can download from the Retirees page on the Bank's website, will be used by IDB Group or the third party provider to estimate the appropriate tax reimbursement for your first year of eligibility.

In the second year, after you finalize your tax returns for the first year, you are required to confirm or update your personal tax data for the first year on Form 7R. The first year's tax reimbursement is then adjusted. The confirmed data for the first year is also used to estimate the tax reimbursement for the second year. This process repeats in subsequent years.

If there is a material change in your tax situation (e.g., a change in filing status, spouse income or state of residence, etc.), you may at any time submit an IDB Tax Form 2R which you can download from the Retirees page on the Bank's website. Upon receipt of an IDB Tax Form 2R, the Bank or its third party vendor will evaluate whether the change requested is reasonable, and if so, the amount of the quarterly tax payments will be recomputed. Of course, all quarterly payments are subject to adjustment in the following year.

The Bank reserves the right to adjust quarterly payments on account of changes in applicable tax laws or regulations.

Timing of quarterly payments

Tax reimbursements are paid on a quarterly basis, at least 15 days prior to the deadline for paying estimated taxes.

You may download IDB Tax Forms from the Retirees page on the Bank's website (www.iadb.org/en/retirees/taxes) or you may contact the

Bank's third party provider at taxconsultants@iadb.org to request a copy.

B. US TAX REIMBURSEMENT CONFIRMATION PROCESS

Submitting your Tax Form 7R and IRS Form 4506T

As noted above, quarterly payments of tax reimbursement are based on estimates, or projections, of your tax liability on taxable SRP pension income. If you receive quarterly payments of tax reimbursement, you are required in the following year by the first week in July to submit IDB Tax Form 7R. The Bank or the third party designated by the Bank, after reviewing your IDB Tax Form 7R, will compute your final tax reimbursement amount, based on your final actual tax information, including spouse income.

Each year you will also need to complete and sign IRS Form 4506-T and return it to the IDB Group. IRS Form 4506-T authorizes the IRS to provide information from your filed tax return to the third party vendor designated by the Bank. The Bank or the vendor may use this authorization to verify that the information on your Form 7R is consistent with the information on the tax return filed with the IRS.

Even if you did not receive quarterly payments during the preceding tax year, you may still request a tax reimbursement for that year if your pension is taxable by submitting IDB Tax Form 7R along with IRS Form 4506-T.

IDB Tax Form 7R together with IRS Form 4506-T may be downloaded from the [Retirees page](http://www.iadb.org/en/retirees/taxes) on the Bank's website (www.iadb.org/en/retirees/taxes) or you may contact the Bank's third party vendor by email at taxconsultants@iadb.org to request a copy.

Confirmation/Update of Basic Tax Data

All retirees receiving reimbursement of U.S. taxes on their IDB retirement income must complete Sections A, B and C of Form 7R.

Section A is a declaration that retirees must sign

to indicate, among other things, that they have complied with their U.S. tax obligations and made accurate and truthful representations to the Bank and its third party vendor in seeking tax reimbursement.

Section B requests basic data from your federal tax return. The Bank asks you to provide your adjusted gross income and your actual deductions only for purposes of computing the portion of your deductions allocable to your IDB retirement income and spouse income. However, in all cases no deduction greater than the standard deduction will be taken into account in computing tax reimbursements for retirees.

Section C requests information concerning state adjustments to federal adjusted gross income. If your filing status is married filing joint, you will also need to indicate the portion of any state adjustments that are allocable to your spouse.

Allocation of joint income to the spouse, in completing IDB Tax Form 7R

If your filing status is married filing jointly, you will need to complete Section D of Form 7R to specify the portion of your joint income that was received or earned by your spouse. This spouse income information is necessary to determine the appropriate reimbursement of the tax on the SRP pension and tax reimbursement. If you own income producing assets jointly with your spouse, the percentage of the income from such assets that should be attributed to your spouse should be the same as the spouse's ownership percentage; for most jointly owned assets, 50% of the income will be attributable to the spouse.

In section D of Form 7R, you will also be asked to identify any spouse income, such as qualified dividends and long term capital gains, that are taxed at special rates. Items of special rate income are excluded from the tax reimbursement calculation because they do not increase the tax rates applicable to IDB Group retirement income.

If you use a tax professional to assist you with the completion and filing of your tax return(s), you may want to consider also asking your tax advisor to assist you in completing IDB Tax Form 7R especially if you need help in allocating items of income

between you and your spouse or in completing other parts of the form.

Deadlines for submitting IDB Tax Form 7R:

IDB Tax Form 7R and other documents required for the confirmation of the preceding year's tax reimbursement should be submitted to the IDB Group no later than the first week of July. If the deadline is missed, the Bank cannot ensure that any adjustment is finalized by the payment date for the third quarter payment, at the end of August. Late submissions of documents may also result in the delay or suspension of future tax reimbursement payments.

Final deadline for U.S. citizens: for retirees who were US citizens upon their employment termination date, documents required for the confirmation of the preceding year's tax reimbursement must be submitted to the IDB Group no later than the next following October 31 in order to ensure that the reimbursement is processed and paid by December 31 of that same year. (These procedures are implemented in response to IRS regulation under section 409A of the U.S. tax code, that requires tax reimbursements to be paid by the IDB Group no later than the end of the tax year following the tax year during which the related taxes were remitted to tax authorities by the retiree).

Additional Limitation: requests for tax reimbursements will not be accepted by the Bank more than two years after the date on which the corresponding tax payments were due to the tax authorities.

Adjustments to the tax reimbursement resulting from the confirmation process

Since quarterly payments are calculated based on an estimate of the retiree's total tax liability on taxable SRP income, the total amount paid in the preceding year will in many cases be different than the final calculated amount for the year.

If the total amount of quarterly payments received by the retiree in the preceding year exceeds the final amount of tax reimbursement amount, the IDB Group will offset the balance due from any future tax reimbursement payments until the

overpayment is collected. Any balances owed by the retiree in excess of current year tax reimbursement payments are expected to be repaid by the retiree by December 31. If retiree fails to repay the Bank, all future payments of tax reimbursements will be stopped until the issue is resolved.

Conversely, if the final tax reimbursement amount exceeds the quarterly payments in the preceding year, the balance owed to the retiree will be paid in the month in which the Form 7R is processed.

If the retiree submits the complete tax documentation to the third party provider by the first week of July, the third party provider will prepare the corresponding calculation and communicate the results to the retiree by the last week in August.

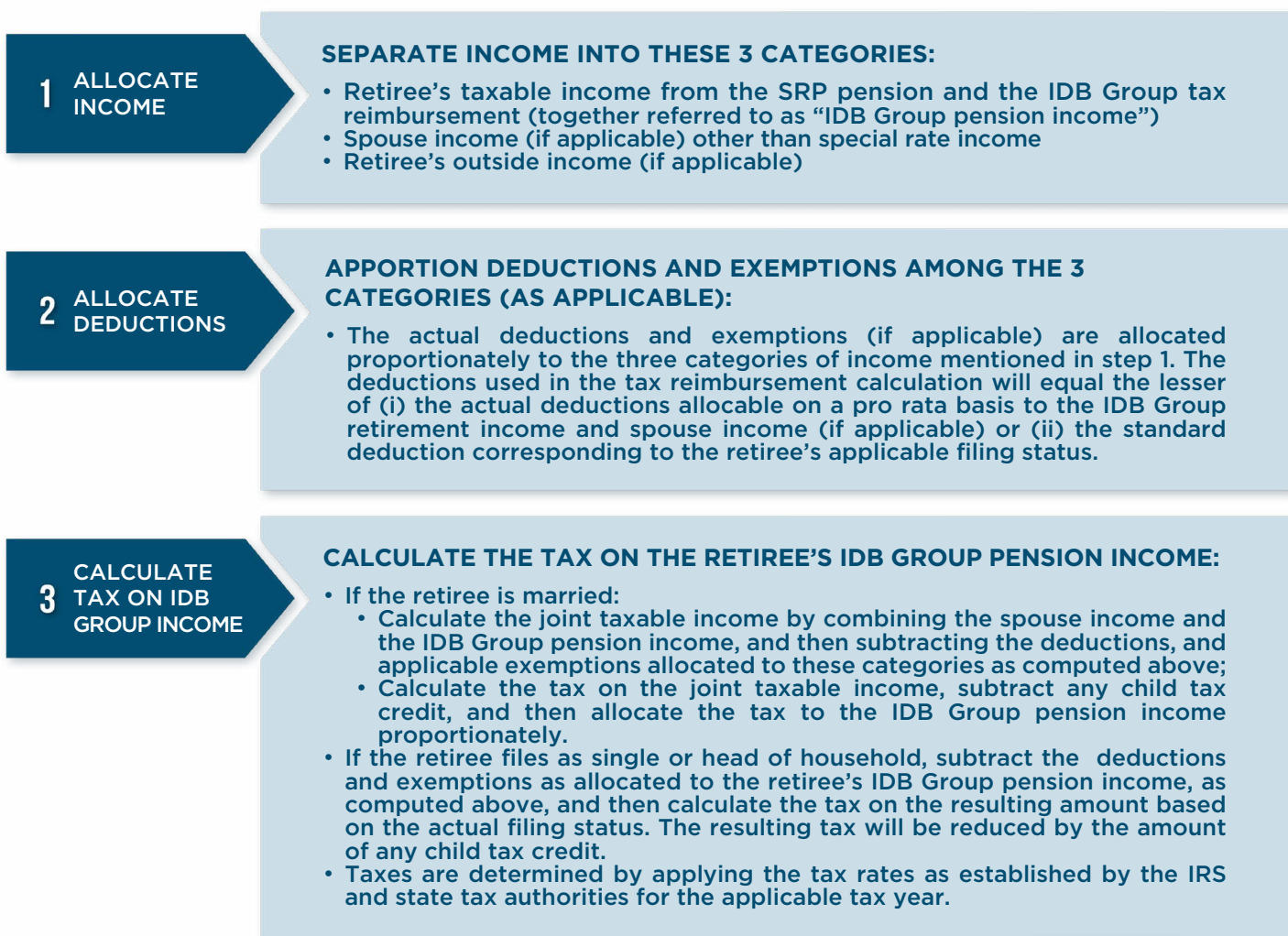
Any adjustments to the tax reimbursement for the preceding year will usually first be reflected in the third quarter payment, paid at the end of August.

C. US TAX REIMBURSEMENT CALCULATION

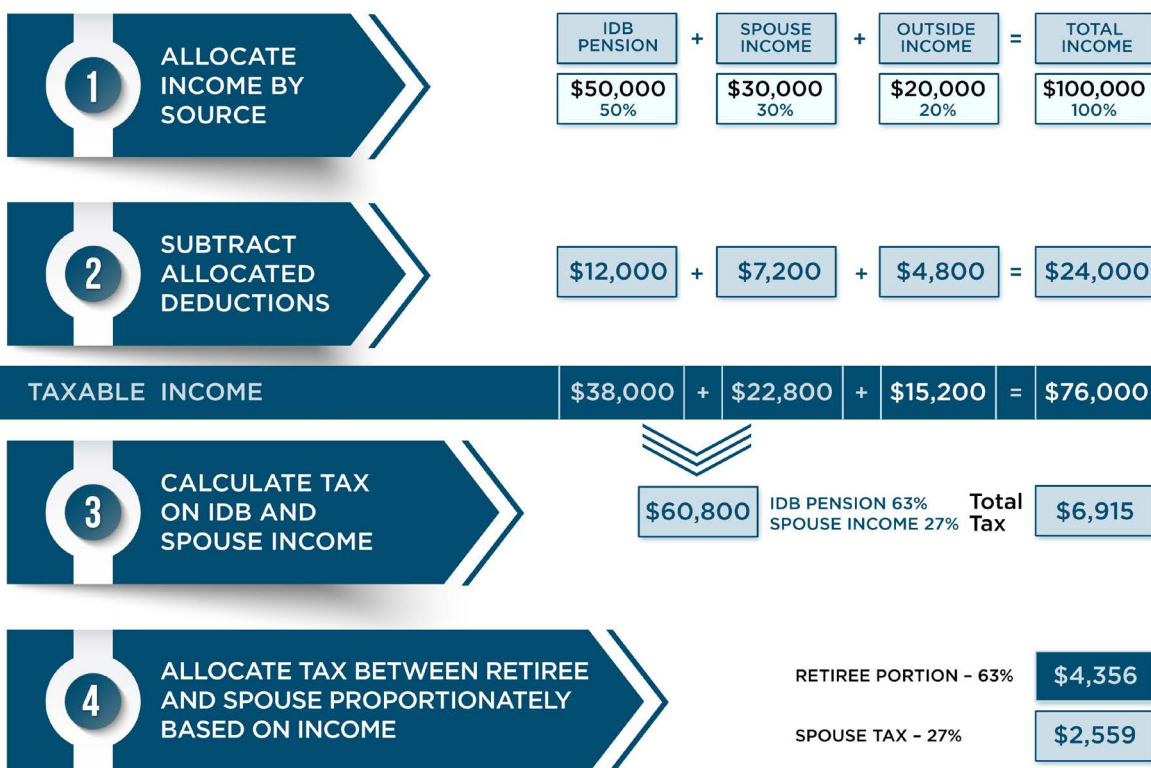
After you complete and submit the IDB Tax Form 7R, the Bank, or its third party vendor will perform a final tax calculation to determine the portion of your actual prior year tax liability that is allocable to the SRP pension and the tax reimbursement paid in the preceding year.

The final tax reimbursement amount is calculated according to the following steps, based on information from your IDB Tax Form 7R.

The flow chart below illustrates the calculation process:



EXAMPLE OF A RETIREE TAX REIMBURSEMENT CALCULATION



THE TAX REIMBURSEMENT = \$4,356, THE PORTION OF THE JOINT TAX ALLOCATED TO THE BANK RETIREMENT INCOME ON A PRO-RATA BASIS

Adjustments to tax reimbursements

The final tax reimbursement amount represents the total amount of taxes paid to the IRS and state authorities attributable to IDB retirement income under the IDB Group tax reimbursement methodology.

The final tax reimbursement amount is then compared to the quarterly tax payments already paid for that year, and the difference is either an amount due to the retiree or due to the IDB Group. (The payment of amounts owed to the retiree, or collection of amounts due from the retiree is discussed above under the heading: "Adjustments to the tax reimbursement resulting from the confirmation process".)

Determining the quarterly tax payment for the current year

Your estimated total tax reimbursement for the current year is determined based on two factors: an estimate of your total taxable IDB Group pension income for the current year and the tax data from your most recent Form 7R. (For the first year of retirement, you will need to complete Form 1R to provide the necessary data.) If your tax data has changed, you can update it at any time with Form 2R. The estimated total tax reimbursement is calculated using the same methodology that is used to compute your final tax reimbursement amount, as described above, and the amount includes the tax on the quarterly tax payments paid during the year, including adjustments to the tax reimbursement for the preceding years.

The individual quarterly payments are calculated by taking the estimated total tax reimbursement, subtracting any payments made for previous quarters, and then dividing the remainder by the number of remaining quarterly payments.

The Bank reserves the right to adjust quarterly payments on account of changes in applicable tax laws or regulations as well as any changes in the retiree's personal circumstances that will affect the estimated amount of tax reimbursement for the year.

Filing status used to calculate tax reimbursements

The filing status used to calculate the tax reimbursement is determined as follows:

- If you are unmarried, the IDB Group will use your actual filing status to calculate your tax reimbursement. If you are unmarried with dependents, you may be asked to consider filing using Head of Household status, if you are eligible.
- If you are married, the IDB Group will use the filing status of Married Filing Jointly to calculate your tax reimbursement. However, in exceptional cases, a retiree may present a request in writing to the Division Chief, Compensation, Benefits and HR Services, to authorize calculation of the tax reimbursement using Married Separate filing status for a particular year if one or more of the following reasons is presented:

- Using Married Separate filing status produces a lower tax reimbursement than using Married Filing Jointly status;
- The spouse is not a U.S. tax resident but would become a U.S. tax resident if the retiree and spouse were to file joint tax returns; and/or
- The retiree is unable to file a joint tax return with the spouse due to difficult marital circumstances, including legal separation or pending divorce.

A request for use of Married Separate filing status in the calculation may only be submitted and authorized one year at a time.

Requests for supplemental tax reimbursement

In accordance with paragraph 3.4 of Staff Rule PE-338-1, a retiree who is subject to an income tax liability on IDB Group retirement income that is not appropriately addressed by the calculation methodology described above may request a supplemental tax reimbursement. An example of an income tax liability for which a supplemental tax reimbursement may be payable is the federal alternative minimum tax, to the extent that such tax relates to IDB retirement income. A retiree requesting a supplemental tax reimbursement must submit to the Bank's third party provider, along with Form 7R, both a written request for supplemental tax reimbursement and a complete copy of the tax return, as filed, for the applicable year.

IV. REIMBURSEMENTS FOR TAXES IMPOSED OUTSIDE THE US

If you receive a monthly pension (or a commutation payment) from the SRP that is subject to income taxation by a jurisdiction outside the US, you are eligible for tax reimbursement on the same basis as US tax residents. See “Eligibility for Tax Reimbursement”, in section III. The tax reimbursement process for non-US income taxes is similar to the process for reimbursement of US taxes, but the computation methodology may vary somewhat depending upon differences in national tax laws.

Avoiding US tax residency if you plan to resettle outside the US

Because the SRP is considered a foreign trust under US tax law, only US tax residents are subject to US income tax on SRP benefits. Accordingly, if you are not a US tax resident, your SRP benefit will not be taxable in the US.

If you are assigned to Headquarters and hold a G-4 visa upon retirement, and if you plan to return to your home country or otherwise resettle outside the US, you should carefully review the section “Determining if you are a US tax resident” in section II above as well as IRS Publication 519 to ensure that you do not unintentionally become a US tax resident in the year of your retirement. Tax residency can in most cases be avoided by not being present in the US during the calendar year of your retirement for more than 183 days following your separation from IDB Group employment, but this may vary depending upon your circumstances.

If you remain in the US after you separate from the IDB and before you resettle outside the US, you may wish to consult with a personal tax advisor concerning possible US tax consequences.

Determining your tax residency status outside the US.

Whether or not you are a tax resident of a particular country will depend upon that country's tax laws and your individual circumstances. Most countries impose income taxes on the income of their tax residents, regardless of citizenship. Under some national tax laws, an individual will be subject to income tax only after having established residence or domicile in the country. Or, in some countries,

tax residency may be tied to a particular visa status. Some national tax laws will presume that individuals who are present in the country for a certain period of time or number of days are tax residents.

To determine if you are subject to income taxes in a particular country, you should review materials published by the country's tax authority, or consult with a tax professional with expertise in the tax laws of that country.

Taxation in multiple jurisdictions

If you are subject to tax in more than one jurisdiction, you will be expected to claim the benefit of any applicable double taxation treaties, and/or claim applicable foreign tax credits. The IDB Group will not pay a further tax reimbursement if it has already reimbursed the income tax on the same income imposed by a different jurisdiction.

Tax reimbursement for non-US income tax

In the first year you become subject to non-US income tax on your SRP pension, you may apply for a tax reimbursement by submitting Form 1R and supporting documentation to the IDB's designated third party provider. The tax reimbursement procedure is similar to that for retirees who are US tax residents and consists of a two-step approach. Tax reimbursement payments may be advanced to retirees if requested based on an estimate of the projected foreign tax liability for that tax year, taking into account applicable local requirements for paying estimated taxes. The advances are reconciled in the annual confirmation process, which requires retirees to provide copies of their tax returns once filed (due dates vary among countries) along with a completed and signed IDB Tax Form 7R INT. You can download IDB Tax Forms from the IDB's [Retirees page](#) on the Bank's website.

Some national tax authorities do not require estimated tax payments. In these cases, advances of tax reimbursement will not be necessary. Additionally, due to significant foreign exchange rate fluctuations, many retirees who pay non-US taxes opt-out of receiving tax advances. The retirees comply with their estimated tax payment obligations using their own funds and

are reimbursed annually following the calculation of the final tax reimbursement amount based on confirmed data and using the exchange rate at that time.

Tax reimbursement confirmation

Individuals who pay income taxes outside the US on an eligible SRP benefit will need to submit to the IDB Group's third party vendor the following documents:

- IDB Tax Form 7R INT for non-US filers; and
- A complete copy of the tax return(s) for the tax year.

The IDB Group reserves the right to request information directly from national tax authorities to verify the information you furnished to the IDB Group, and you may be required to provide authorization for this purpose.

The settlement amount is calculated following the same principles that govern the confirmation calculation for US tax residents, but the precise calculation methodology may vary from the US

method based on differences in the particular tax system.

As is the case for US tax residents, if you are a tax resident outside the US, you may request tax reimbursement after you file your tax returns as part of the confirmation process even if you did not receive advances during the particular tax year. Generally, the request for tax reimbursement for a given tax year should be submitted by the second week of July of the subsequent tax year.

IDB Tax Form 7R INT may be downloaded from the Retirees page on the Bank's website (www.iadb.org/en/retirees/taxes) or you may contact the Bank's third party vendor by email at taxconsultants@iadb.org to request a copy.

The time limitations that apply to tax reimbursement claims submitted by US tax residents apply as well to those who pay taxes outside the US. Please refer to "Additional Limitation" in Section III.

V. ADDITIONAL CONSIDERATIONS

The descriptions of the tax reimbursement procedures and calculation methodologies in this handbook are intended to improve understanding of the tax reimbursement system for pension benefits, established pursuant to Staff Rule No. PE-338-1 of the IDB and Staff Rule No. 35 of the IIC, which shall govern in all cases. The Vice President for Finance and Administration has the responsibility to interpret the tax reimbursement Staff Rules of the IDB Group and the Human Resources Department is responsible for its application.

This handbook may be updated or modified by the IDB Group from time to time. For the latest version, see: the Retirees page on the Bank's website. (www.iadb.org/en/retirees/taxes).

The IDB Group reserves the right to:

- adjust the amount of tax reimbursement taking into account any changes in applicable tax laws or regulations, as well as any changes in the employee's circumstances that are disclosed to the Bank and are expected to affect the employee's tax liabilities on Bank retirement income.
- in the case of overpayment, deduct amounts from future tax reimbursements,
- modify the procedures and calculation methodologies described in this Handbook consistent with Staff Rule No. PE-338-1 of the IDB and Staff Rule No. 35 of the IIC, or to make other adjustments as appropriate on account of tax law changes; and
- request appropriate documentation to support the information supplied by the retiree and relied upon by the IDB Group in the calculation of the tax reimbursement, and to require that compliance with such requests is a condition of the IDB Group's payment of future tax reimbursements.

Confidentiality of Personal Information

The Bank and its third party provider will take the utmost care to (i) protect the confidentiality of tax data and other personal information provided by retirees and surviving spouses for tax reimbursement purposes, and (ii) ensure the security of data transmission, electronic or otherwise. Access will be limited to those who need to review such data and information to perform their official duties for

the Bank or the Bank's provider, consistent with AM-350, "Personnel Records".

Consequences for misuse of tax reimbursements

Retirees and other recipients of tax reimbursements on pension benefits must use the tax reimbursements they receive to pay their income taxes to the taxing jurisdictions. Failure to do so may violate local and national law, as well as IDB Group policy. In cases where an individual receives a tax reimbursement without using the reimbursement to pay taxes as intended, the IDB Group reserves the right to treat the entire reimbursement as an overpayment that may be collected from future tax reimbursements, or to require evidence of payment of such taxes as a condition of receiving future tax reimbursements.

Bank audit rights

The IDB Group may conduct periodic audits to assess the appropriate payment of taxes by retirees and other individuals who receive a tax reimbursement on a SRP pension. For the purpose of conducting an audit, the IDB Group reserves the right to require, as a condition of receiving future tax reimbursements, any related documentation, including copies of filed tax returns. Any documentation so provided may, in the IDB Group's discretion, be submitted to other parties appointed by the IDB Group to assist the Bank in this process. All recipients of tax reimbursement have a duty to cooperate with any audit, investigation or other inquiry regarding payment of national and state taxes.

Failure to adequately pay federal and state taxes, as well as any corrupt practice, misrepresentation, falsification, or other fraud, failure to provide information when requested by the IDB Group or to cooperate with any related audit, investigation or inquiry, or any other wrongdoing related to payment of taxes, may jeopardize eligibility for future tax reimbursements.

The IDB Group may also refer any suspected violation of local or national law to the appropriate authorities.

