

Date:

Dear Taxpayer:

Why You Are Receiving This Letter

You have received or will be receiving punitive damage awards related to the 1989 Exxon Valdez oil spill. These court awards are taxable, and the IRS wants to help you understand the federal income tax issues related to these payments.

How To Report This Income

Generally, you should report the entire amount of the award (including any interest received) on the tax return for the tax year in which it was paid.

- 1. Report the award amount as "Other income" on line 21 of Form 1040.** Report the entire amount even if all or part of the award is levied by the IRS for payment of back taxes, child support, small business loans or college student loans. (For specific levy questions call (907) 271-6072. All messages will be returned within 72 hours.)
- 2. Report interest received on any of the award amount on Form 1040, line 8a.** (If the interest received is \$1500 or greater it must be reported on Form 1040 Schedule B.)

The award amounts received are not subject to payroll or self-employment taxes even if paid to a business or self-employed individual.

Note: Due to the recent passage of the Emergency Economic Stabilization Act of 2008 (H.R. 1424), Section 504, (Public Law No. 110-343), you may not have to report the entire amount of your award in the tax year in which it was paid. The Act may allow you to income-average settlement payouts over a three year period. It may also allow you to contribute up to \$100,000 to a traditional Individual Retirement Account, Roth IRA, Simplified Employee Pension IRA, or other retirement plans such as a 401(k) plan, a 403(b) plan or a 457 plan. The Act was effective October 3, 2008. **Additional guidance will be provided soon on the IRS Web site, www.irs.gov.**

How To Have Your Taxes Withheld For You

Since the award is not subject to mandatory withholding, estimated tax payments may be required to cover your tax liability. This is true even if all or any portion of your award has been levied by the IRS and applied to

payment of back taxes or other federal debts. Use Form 1040-ES, *Estimated Tax for Individuals*, to compute your estimated tax payments.

As an alternative to making estimated tax payments, you can enter into a voluntary withholding agreement by completing Form W-4V, *Voluntary Withholding Request*. You can request withholding of either a percentage of the award or a specific dollar amount. You can also use an equivalent form that is available on the Exxon Qualified Settlement Fund (EQSF) website at www.exspill.com. (Click on "Claims Center", then the link at the bottom of the page). To help you calculate the amount to have withheld, you can use the worksheet in the 2008 Form 1040-ES package. Mail completed voluntary withholding request forms to the address at the bottom of the EQSF website. If you have already submitted a voluntary withholding request form, you do not need to submit another one.

How To Get Help

If you are experiencing economic harm or a systemic problem, or are seeking help in resolving tax problems that have not been resolved through normal channels, you may be eligible for Taxpayer Advocate Service (TAS) assistance. You can reach TAS by calling the Alaska TAS office at 1-866-490-5449, the TAS toll-free case intake line at 1-877-275-8271, or TTY/TDD 1-800-829-4059.

You may also qualify for assistance from Low Income Taxpayer Clinics (LITCs). LITCs are independent organizations that provide low income taxpayers with representation in federal tax controversies with the IRS for free or for a nominal charge. The clinics also provide taxpayer education and outreach for taxpayers who speak English as a second language. Publication 4134, *Low Income Taxpayer Clinic List*, provides information on clinics in your area and is available at our website or your local IRS office.

If you have general technical tax law or account questions you can call 1-800-829-1040 (individuals) or 1-800-829-4933 (businesses) Monday through Friday, 7 a.m. to 10 p.m. your local time.

Where To Find Publications and Forms

You can download all IRS forms and publications mentioned in this letter at www.irs.gov/formspub or obtain them by calling 1-800-829-3676 (1-800-TAX-FORM).

Thank you for your cooperation in complying with your tax reporting and withholding requirements. We hope this information is helpful. Please do not hesitate to contact us if you have any questions.

Sincerely,

