

# TAX REIMBURSEMENT HANDBOOK

FOR IDB GROUP  
RETIREES



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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.*

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# I. OVERVIEW:

## REIMBURSEMENT OF INCOME TAXES ON STAFF RETIREMENT PLAN BENEFITS

## **A tax reimbursement is payable to IDB Group<sup>1</sup> 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, Annex I 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 reconciliation or “settlement” in the following year after you provide the IDB, or designated third party vendor, a copy of your tax returns along with a completed IDB Tax Form 7R.

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.

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<sup>1</sup> 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, Annex I 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:

- You are a US citizen;
- You hold a US permanent resident visa (also known as a “green card”);
- You file a joint tax return with your spouse who is a US tax resident; or
- 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.

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.



*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.*

## **If you become a US tax resident, you will need to inform the IDB Staff Retirement Plan as well as the IDB Tax Administration Office**

If you are or become a US tax resident in retirement, you will need to inform the IDB Tax Administration Office, in addition to the IDB Staff Retirement Plan, to ensure that a Form 1099-R is generated and transmitted to you and the IRS to report your taxable pension income and tax reimbursement settlement. Notifying the IDB Tax Administration Office of your status as a US tax resident will also ensure that you will receive the necessary information to apply for a tax reimbursement.

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.

## **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.

You should review the instructions to IRS Form 1040-ES (normally found at IRS.gov) for specific instructions on how to pay estimated taxes, which can be remitted by mail or electronically.

### **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*

### **Retiree responsibility for estimated taxes related to non-SRP income**

As explained in Section III, your quarterly tax reimbursement from the IDB Group will cover the federal income tax due only on your SRP retirement benefit. However, you will also be responsible for paying:

- taxes on your outside or investment income, or on any wages you receive;
- if you are married, income taxes that are not withheld from your spouse's income reported on your joint tax return.

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 tax reimbursement will 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 your taxable SRP retirement benefits (including tax reimbursement settlements) for the preceding year, and you will be provided a copy of the form.

## 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, these amounts are subject to future changes), you need to attach a completed 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.

*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 settlement process, your future tax reimbursement may be increased or decreased based on your final tax returns.



## 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. Additionally, retirees who elect to commute a portion of their monthly pension are eligible for tax reimbursement on the lump sum commutation, if taxable. However, withdrawal benefits and lump sum death benefits paid by the SRP are not eligible for tax reimbursement.

## Overview of the US tax resident reimbursement process

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

- 1. Quarterly advances of tax reimbursement during the tax year.** During a tax year, tax reimbursement payments are advanced on a quarterly basis to retirees based on the retiree's tax reimbursement calculated for the preceding year. For the first year for which a retiree requests tax reimbursement, the advances are based on the personal information provided by the retiree for that tax year, as indicated on IDB Tax Form 1R. The quarterly tax advances are deposited before each of the quarterly estimated tax payment due dates.
- 2. Settlement in the following year, to reconcile tax advances.** In the following year, IDB Group requires an annual reconciliation (known as a "settlement") that may result in an adjustment to reconcile any prior advances with the final tax reimbursement calculation. Once retirees file their annual income tax returns (generally by April 15th of the following year), the retirees must provide copies of their tax returns along with a completed signed IDB Tax Form 7R to the Tax Administration Office or a third-party provider who has been engaged by the Bank to calculate the annual tax settlement calculation.

Failure to submit IDB Tax Form 7R together with required tax documents to reconcile advances paid will result in the suspension of further tax reimbursements.

## A. QUARTERLY ADVANCES FOR US INCOME TAX

### Tax advances in your first year of eligibility

In the initial year that you become eligible for tax reimbursements on eligible IDB Group pension income, you may request quarterly advances to reimburse the estimated taxes on your taxable IDB Group pension income received during the year by submitting IDB Tax Form 1R to the Bank or the designated third party provider. This form will be used by IDB Group or the third party provider to estimate the appropriate tax reimbursement for your first year of eligibility. Following review of the estimate, the Bank will commence payment of quarterly tax advances to cover the anticipated tax liability on taxable IDB Group pension income.

If you become a US tax resident during your retirement, you will become eligible for tax reimbursement in your first year of tax residency, and you may apply to have quarterly advances commence by filing IDB Tax Form 1R at that time.

If you choose not to request advanced payment of tax reimbursement on IDB Tax Form 1R, you may still request, in the following year, reimbursement of the taxes due on your IDB Group pension income by submitting IDB Tax Form 7R, along with a copy of your filed tax returns for applicable year, through the settlement process.

### Tax advances in subsequent years

If you received tax reimbursements for the preceding tax year and subsequently submitted an IDB Group tax settlement request, you will automatically continue to receive tax advances for the current year unless you elect on Form 7R not to receive the tax advances.

Because the first two quarterly advances are usually paid before the settlement process is completed, the amount of each of these advances will equal 25% of the total advances paid in the preceding year, if the retiree was eligible for SRP tax reimbursement for the entire preceding year. Otherwise, the advances will equal 25% of the anticipated current year tax liability.

As part of the settlement process, the total amount of the advances for the current year will be determined by applying the effective tax rate reflected in the tax reimbursement settlement calculation for the preceding year to the sum of the expected current year taxable pension and the final tax reimbursement settlement amount for the preceding year. From this total amount of advances, the advances for quarters 1 and 2 will be subtracted, and one half of the remainder (subject to any adjustments due to settlement) will be advanced for quarters 3 and 4.

If you anticipate a material change in your tax situation from the preceding year (e.g. reduction or increase of itemized deductions, change in filing status or personal exemptions, etc.), you may submit a new IDB Tax Form 1R. Upon receipt of a revised IDB Tax Form 1R, the Bank or its third party vendor, will evaluate whether the change requested is reasonable, and if so, the amount of the quarterly tax advances will be recomputed. Of course, all advances of tax reimbursement remain subject to settlement in the following year.

## Timing of advances

The advances of tax reimbursement are paid on a quarterly basis, at least 15 days prior to the deadline for paying estimated taxes.

You may download Tax Form 1 (<http://www.iadb.org/en/retirees/taxes-forms,18626.html>) or you may contact the Bank's third party vendor at [taxconsultants@iadb.org](mailto:taxconsultants@iadb.org) to request a copy.

## B. US TAX REIMBURSEMENT SETTLEMENT PROCEDURE

### Submitting your tax documentation

Tax advances are provisional, as they are based on estimates, or projections, of your tax liability on taxable SRP pension income. If you receive advances of tax reimbursement, you are required in the following year by the first week in July to submit IDB Tax Form 7R along with a copy of your federal and state tax returns as filed. The Bank or the third party vendor designated by the Bank, after reviewing your IDB Tax Form 7R and tax returns, will compute your final tax settlement amount, based on your final actual tax

information, including spouse income, deductions and personal exemptions.

Each year, beginning with the 2015 tax 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 vendor may use this authorization to verify that the information on your federal tax return is consistent with the information on the tax return filed with the IRS. IRS Form 4506-T, with instructions, will be mailed to you separately from IDB Form 7R.

Even if you did not receive quarterly advances during the preceding tax year, you may still request a tax settlement for that year if your pension is taxable by submitting IDB Tax Form 7R, along with copies of your tax returns. The IDB Group will request a form 4506-T for every tax settlement requested.

IDB Tax Form 7R together with IRS Form 4506-T may be downloaded from the Bank's website (<http://www.iadb.org/en/retirees/taxes-forms,18626.html>) or you may contact the Bank's third party vendor by email at [taxconsultants@iadb.org](mailto:taxconsultants@iadb.org) to request a copy.

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

If you are married, IDB Tax Form 7R requires you to specify the portion of your joint income that was received or earned by your spouse, as this information is necessary to determine the appropriate reimbursement for 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; in most cases, 50% of the income will be attributable to the spouse.

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.

If you are not married and file your tax returns as



single or head of household, you will still need to submit IDB Tax Form 7R even though you have no spouse income (and you may therefore disregard sections B and C of the Form). This is because IDB Tax Form 7R also serves as a certification by the retiree that the tax documents presented to the third party vendor are valid and consistent with the tax returns filed with federal and state tax authorities.

### Option regarding continuation of quarterly advances

If you submitted an IDB Tax Form 7R and received a tax reimbursement for the preceding year, you will by default receive tax advances for the current year. The amount of your advances will be calculated using the effective tax rate for your final tax reimbursement for the preceding year, determined as part of the settlement process. (See “Determining the quarterly advances for the current year”.) However, you may opt-out of receiving quarterly tax advances by initialling section E of IDB Tax Form 7R.

### Deadlines for submitting IDB Tax Form 7R:

IDB Tax Form 7R and other documents required for the settlement 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 settlement of any underpayment (or overpayment) is finalized by the payment date for the third quarter advance, at the end of August. Late submissions of documents may also result in the delay or suspension of future tax reimbursement advances.

**Final deadline for U.S. citizens:** for retirees who were US citizens upon their employment termination date, documents required for the settlement 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 settlement process

Since quarterly advances are calculated based on an estimate of the retiree’s likely tax liability on taxable SRP income, the amount advanced will in many cases be different from the final settlement amount for the year. If the total amount of advances received by the retiree in the preceding year exceeds the settlement amount, the IDB Group will offset the balance due from any future tax advances until the overpayment is collected. Any balances owed by the retiree in excess of current year advances are expected to be repaid by the retiree by December 31. If retiree fails to repay the Bank, all future tax advances will be stopped until the issue is resolved.

Conversely, if the settlement amount exceeds the advances in the preceding year, the balance owed to the retiree will be paid in the month that the tax settlement 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 settlement calculation and communicate the results to the retiree by the last week in August, and adjustments to the quarterly advance amount, based on the settlement calculation, will usually first be reflected in the third quarter advance payment, paid at the end of August.

### The IDB Group will report the final tax reimbursement as taxable income on Form 1099-R

If you are a US tax resident, the IDB Group will treat your final tax reimbursement amount for the preceding year, calculated and fixed during the settlement process, as taxable income. This final amount will be added to the taxable pension paid in the current year and reported on IRS Form 1099-R for the current year. The IDB Group typically issues Form 1099-R by January 31st of the next

calendar year. In some cases, some retirees may have multiple settlements in a single year and all the settlement amounts will be considered taxable income in that year.

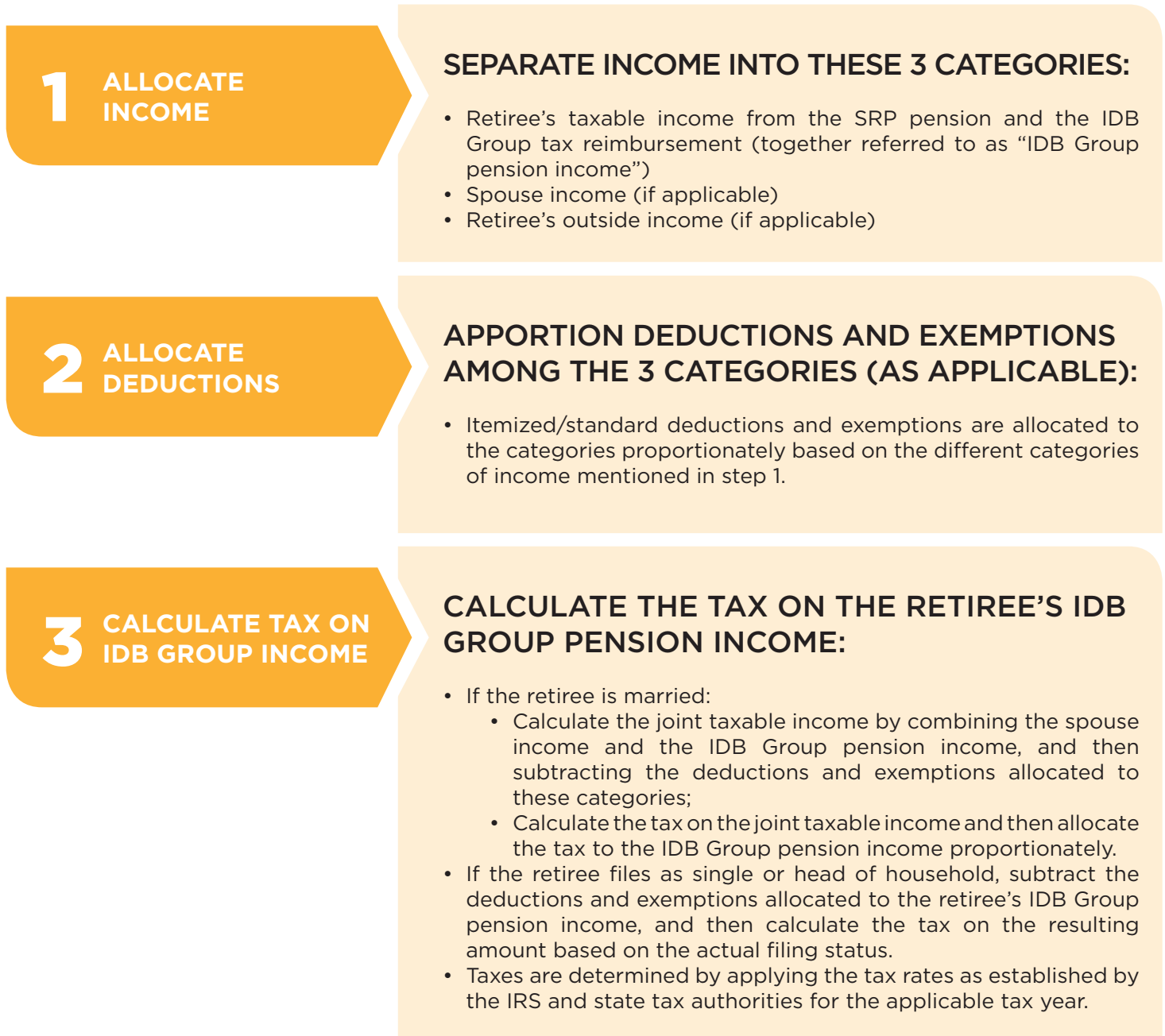
## C. US TAX REIMBURSEMENT SETTLEMENT CALCULATION

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

reimbursement settled in the preceding year. This amount is your final tax reimbursement for the preceding year, and is referred to as the tax settlement amount. This amount, along with your taxable SRP pension, will be reported on your Form 1099-R for the current year.

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

**The flow chart below illustrates the settlement calculation process:**





## Reconciliation of tax advances with the final tax settlement amount

The final tax settlement amount represents the total amount of taxes paid to the IRS and state authorities, if applicable, under the IDB Group tax reimbursement methodology.

The final tax settlement amount for the preceding year is then compared to the tax advances 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, was discussed under the heading: “Adjustments to the tax reimbursement resulting from the settlement process”.)

## Determining the quarterly tax advances for the current year

The total amount of your quarterly tax advances 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 effective tax rate of your tax reimbursement for the preceding year. Your estimated total taxable IDB Group pension income for the current year will equal the sum of (i) the expected amount of the taxable SRP pension to be paid in the current year, and (ii) the final tax settlement amount for the preceding year. This sum is then multiplied by the effective tax rate of your tax reimbursement for the preceding year, and the product is your total advance for the current year.

The effective tax rate for the preceding year is determined by dividing the total final tax settlement amount on IDB Group pension income (federal, state and AMT) by the taxable IDB Group pension income for that year.

The amount of the total tax advances for the current year is then compared to the advances paid for the current year thus far, and the difference is the balance that will be divided equally and advanced over the remaining quarters of the year.

If there is an amount due to the IDB Group from the settlement of the prior year tax reimbursement, this amount is offset from the current year

balance of advances and the net result is the total amount of tax advances that will be paid over the remaining quarters for the current year. If the net result is a negative amount, the retiree must repay this amount by December 31 of the current year; if the amount is not repaid by then, no further advances will be provided to the retiree.

The amount of the quarterly advances for the first and second quarter of the following year will in most cases equal 25% of the total advances for the current year, and the cycle will be repeated after settlement, beginning with the third quarter advance. For more details, see “Tax advances in subsequent years” in subsection A.

## Filing status used to calculate tax reimbursements

The filing status used to calculate the settlement 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.

# 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 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 advances for non-US income tax**

If you are subject to non-US income tax on your SRP pension, you may apply for a tax reimbursement. 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 are advanced to retirees if requested based on an estimate of the projected foreign tax liability for that tax year. The advances are reconciled in the annual settlement 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 Intl.

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 at the time of the settlement at the exchange rate of the day of the settlement.

## Tax reimbursement settlement

The process for the annual tax settlement of non-US taxes is the same as described for US tax residents, except that the retiree will need to submit IDB Tax Form 7R Intl. 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 Intl 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 settlement 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 settlement 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 end of the subsequent tax year.

IDB Tax Form 7R Intl may be downloaded from the the IDB retiree website (<http://www.iadb.org/en/retirees/taxes-forms.18626.html>) or you may contact the Bank's third party vendor by email at [taxconsultants@iadb.org](mailto:taxconsultants@iadb.org) to request a copy.

The time limitations that apply to settlement requests or other tax reimbursement claims submitted by US tax residents apply as well to those who pay taxes outside the US. Please refer to "Additional Limitations" 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, Annex I of the IDB and Staff Rule No. 35 of the IIC, which shall govern in all cases. The Human Resources Department has the responsibility to interpret the tax reimbursement Staff Rules of the IDB Group and to establish implementing procedures.

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. This handbook may be updated or modified by the IDB Group from time to time. For the latest version, see: the IDB's retiree website (<http://www.iadb.org/en/retirees/taxes,18203.html>).

The IDB Group reserves the right to:

- make appropriate adjustments to tax reimbursements in cases of an overpayment or underpayment relative to the retiree's actual tax liability attributable to SRP income, and in the case of overpayment, the IDB Group shall have the right to deduct amounts from future tax reimbursements,
- modify the procedures and calculation methodologies described in this Handbook consistent with Staff Rule No. PE-338, Annex I 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.

## 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.

