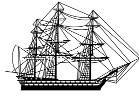


Taking a Company Stock Distribution From the Chevron Employee Savings Investment Plan

The tax treatment of Chevron stock distributions from the Chevron Employee Savings Investment Plan (ESIP) can vary significantly depending on how you take your assets. Before you decide how you want to receive your balance in the Chevron Common Stock Fund and the Chevron Leveraged ESOP Fund (referred to collectively as "company stock"), it's important to understand the potential effect on your tax liability.

This brochure describes the distribution options for your company stock and explains some of the tax consequences for each. Remember that what's best for you will depend on a variety of factors, so you may want to consult a professional tax advisor about your particular situation.

Tax Consequences

As with your other ESIP assets, your company stock holdings do not pose any tax issue as long as these contributions remain in the plan. However, once you take your balance in company stock from the ESIP, that amount may become subject to taxation.

The tax impact of a distribution is not necessarily immediate:

- **If you roll over your balance** to an IRA or another employer's eligible plan, your taxes remain deferred. The same is true if you roll over your company stock assets in kind (that is, as shares) to a brokerage IRA. In both cases, you will owe federal and state income taxes when you take a distribution of the assets transferred from the ESIP.

  There are important factors to consider when rolling over assets to an IRA or employer-sponsored plan or leaving assets in an employer retirement plan account. These factors include, but are not limited to, investment options in each type of account, fees and expenses, available services, potential withdrawal penalties, protection from creditors and legal judgments, required minimum distributions, and tax consequences of rolling over employer stock to an IRA.

- **If you choose to take a lump-sum distribution of your balance** and to take your company stock in kind, the situation is different. In such a case, regardless of whether you hold the shares yourself or place them in a brokerage account, you are liable for income tax on the average cost of the shares at the time they are distributed to you. You will also be liable for long-term capital gains taxes at the time you sell the shares.

At first glance, it might seem more advantageous to roll over your stock to an IRA because it preserves the tax-deferred status. However, because of tax rules regarding "net unrealized appreciation" (NUA), you may be better off taking an in-kind distribution of your stock and placing it in a *taxable brokerage account*.

Questions to Ask Yourself

Before deciding whether to roll over your company stock to another tax-deferred account or move it to a taxable brokerage account, here are some questions to consider:

- Is your company stock a large part of your retirement assets?
- Has your company stock appreciated dramatically?
- Do you plan to pass the stock on to your heirs?
- Are you in a high income tax bracket?

If you answered no to these questions, you may want to consider an in-kind rollover to a brokerage IRA. If you answered yes to any of them, you may want to consider an in-kind distribution to a taxable brokerage account. Here's why.

The Importance of Net Unrealized Appreciation (NUA)

NUA is the difference between the average cost basis (see Definitions) and the stock's **fair market value** when it is distributed to you. This NUA amount is taxed at long-term capital gains rates when you sell the stock. If you prefer, you can pay this tax when you receive the stock.

Note: If the stock appreciates in value between the time of the distribution and the time you sell your shares, the amount of the shares' appreciation will be taxed at either the long-term or the short-term capital gains rate, depending on how long you wait to sell the shares after receiving them. You will still owe this additional tax, if applicable, whether you elect to pay capital gains tax at the time of distribution or the time of sale.

Points to Remember

- Only shares of Chevron company stock in the ESIP are eligible for this kind of tax treatment.
- You must take your *entire* ESIP balance as a lump-sum distribution to qualify for the special NUA tax treatment. You can roll over any portion you choose to an IRA or other qualified plan to defer taxes on that portion.
- If you are no longer a Chevron employee and you take a partial withdrawal amount from the ESIP (this includes loan defaults, installments and required minimum distributions), the withdrawal disqualifies you from using NUA as part of a future-year total distribution unless there is a subsequent *triggering event.* A *triggering event* is defined as death, attaining age 59½ or total disability.

The following examples may help you better understand these rules:

- **Example 1:** Bob retires at age 56 and takes $30,000 out of the plan to cover miscellaneous expenses. At age 58, Bob decides to roll over the remainder of his balance except for his company stock balance and take his company stock in kind. Bob will not be able to use NUA on the company stock portion of his distribution because of the earlier withdrawal. Bob will be taxed at his ordinary income tax rate on the value of the stock at the time of distribution.
- **Example 2:** Susan retires at age 57 and takes $50,000 out of the plan to cover remodeling expenses. At age 60 she decides to roll over the remainder of her plan account and to take her company stock in kind. She is eligible to use NUA after her withdrawal because an additional *triggering event* had occurred (she reached age 59½).

> Definitions

Average cost basis. What the ESIP paid for your shares. This amount is taxed at ordinary federal income tax rates (currently a maximum of 39.6 percent) when the shares are distributed in kind. You will find the average cost basis of the company stock in your ESIP account on your quarterly statement from Vanguard. A Vanguard Participant Services associate can also provide you with your average cost basis.

Net unrealized appreciation (NUA). The difference between the average cost basis and the stock's fair market value when the shares are distributed to you. This amount is taxed at long-term capital gains rates (currently at a maximum of 20 percent) at the time you sell the stock unless you choose to pay the tax when you receive the stock.

Additional appreciation. The difference between the fair market value of the stock when the shares are distributed to you and what you receive when you sell the shares. This amount is also taxed at capital gains rates, which are typically lower than ordinary federal income tax rates.

Lump-sum distribution. This means you take your entire balance out of the ESIP within the same calendar year. Your balance can either be paid to you or rolled over to an IRA or other qualified plan.

An Example of How an In-Kind Distribution and NUA Can Pay Off: Diana's $31,500 Decision

Consider the hypothetical case of Diana, who is retiring at age 60. Her ESIP assets include 2,200 shares of Chevron company stock with a current fair market value of $200,000 and a cost basis of $20,000. Diana is in the 25 percent federal income tax bracket.

Diana comes out ahead — precisely $31,500 ahead — if she takes an in-kind distribution because her stock has a low cost basis compared with its fair market value. Diana makes her decision after projecting the tax consequences of the two different ways of handling **in-kind** distributions:

- **In-kind rollover to brokerage IRA.** Diana instructs Vanguard to transfer her company stock to a brokerage IRA. After holding the stock for more than one year, she sells it for $250,000 and withdraws the money from her account.

  Result: The full amount of the distribution is taxed as ordinary income. And because this amount is considered ordinary income for the year in which she took the distribution, it pushes Diana into a higher income tax bracket, 33 percent. **Total taxes paid: $82,500**.

- **In-kind distribution to taxable brokerage account.** Diana instructs Vanguard to transfer her company stock to a taxable brokerage account. After holding the stock for more than a year, she sells it for $250,000.

  Result: Diana pays ordinary income tax on the cost basis of her shares when she retires ($20,000 x 25% = $5,000). When she subsequently sells her shares, her gain of $230,000 is taxed at a long-term capital gains rate of 20 percent ($230,000 x 20% = $46,000). **Total taxes paid: $51,000.**

The bottom line: Diana can save $31,500 in taxes with an in-kind distribution to a taxable brokerage account.

Developing a Comprehensive Distribution Strategy

It's important to remember that this discussion has focused solely on company stock holdings in your ESIP. None of the other assets in your ESIP are eligible for the same kind of tax treatment, so you may be better off rolling them over to an IRA or another employer's plan.

You may also have reasons for ruling out an in-kind distribution of your stock to a taxable brokerage account. For example, you must be prepared to pay a potentially large tax bill (on the cost basis) when you take an in-kind distribution and move your holdings to a taxable brokerage account — and be prepared to possibly pay a 10 percent early withdrawal federal penalty tax if you're younger than age 59½. (You can avoid the 10 percent penalty if you're leaving Chevron and are at least age 55 during the calendar year when you leave.)

Distribution choice	Tax implications
Complete IRA rollover Direct rollover of entire ESIP balance.	• No tax until withdrawal. • Ordinary income tax upon withdrawal.
Combination distribution 1. In-kind distribution of company stock holdings to participant or non-IRA brokerage account. 2. Direct rollover of remaining balance to IRA.	• No tax on non-company-stock balances until withdrawal. • Tax on average cost basis of stock at ordinary income tax rates plus possible 10% federal penalty tax on early withdrawals. • Upon sale of stock, capital gains rates applied to value of stock in excess of average cost basis.
Lump-sum distribution All assets distributed directly to plan participant. Company stock distributed in kind.	• Ordinary income taxes plus possible 10% federal penalty tax on early withdrawals on all non-company-stock balances and average cost basis of company stock holdings. • If and when company stock is sold for more than its average cost basis, the difference between the sale value and the cost basis is taxed as a capital gain rather than as income.

If you elect a partial distribution after you terminate employment with Chevron and that distribution includes company stock, NUA is excludable from your income tax for the distribution year only if your distribution qualifies as a lump sum. A lump-sum distribution for NUA purposes is a payment of your entire balance in the ESIP (and any other similar 401(k) Chevron plans in which you participate) that is:

- Paid within the same calendar year.
- Payable either because you have separated from service with Chevron or on account of your death.

The following table summarizes the possible ways of receiving ESIP assets that include company stock and the tax implications, advantages and disadvantages of each approach.

Advantages	**Disadvantages**
• Deferred taxation. • Tax-deferred investment growth. • Purchase or sale of investments without tax implications.	• Upon distribution from IRA, taxed at ordinary income tax rates; no capital gains tax rate advantages. • Required minimum distributions starting at age 70½.
• Non-company-stock balances in tax-deferred IRA. • Tax-deferred investment growth of non-company-stock balances. • Purchase or sale of non-company-stock investments without tax implications. • Upon sale of company stock, difference between sale price and average cost basis taxed at capital gains rates rather than typically higher ordinary income tax rates.	• Immediate taxation of company stock's average cost basis at ordinary income tax rates. • Required minimum distributions from non-company-stock balances in IRA starting at age 70½. • Possibility that additional income from company stock distribution may place participant in higher tax bracket.
• Upon sale of company stock, difference between sale price and average cost basis taxed at capital gains rates rather than typically higher ordinary income tax rates.	• Immediate taxation of non-company-stock assets and company stock's average cost basis at ordinary income tax rates. • Possibility that additional income from distribution may place participant in higher tax bracket.

A Note about Traditional After-Tax Contributions

You can elect to have your traditional after-tax contributions paid in cash, in Chevron stock shares valued at market value or in Chevron stock shares valued at cost. If you elect to have the entire amount of your ESIP payment that is eligible for rollover directly rolled over but you choose to have after-tax contributions distributed to you, you will need to decide whether you want your after-tax contributions paid in cash or Chevron stock.

If you prefer to have your traditional after-tax contributions paid to you in shares in a final distribution or in a partial distribution, the plan administrator generally will give you a number of shares the market value of which at the time of distribution is equal to the dollar value of your after-tax contributions that must be distributed or refunded.

In a lump-sum distribution, however, you can elect to receive your after-tax contributions in shares using the Chevron cost basis rather than market value to determine the number of shares that will not be rolled over. This may result in rolling over fewer shares into an IRA. Please note that only the Chevron Common Stock Fund can be used in determining the number of shares to equate to your after-tax contributions; the Chevron Leveraged ESOP Fund shares cannot be included.

Get Help Before You Decide

Because your personal situation is unique, it's a good idea to review your options with a professional tax advisor or financial planner before you decide how to take your company stock. If you don't already have a planner, consider contacting these organizations:

Vanguard Financial Planning Services

Salaried planners who provide onetime and ongoing investor services.
1-800-547-3332
vanguard.com

National Association of Personal Financial Advisors

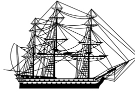
Planners who charge a fee, rather than receive commissions.
1-800-366-2732
napfa.org

Questions?

You can learn more about taking company stock at *vanguard.com/retirementplans*. The Vanguard site's company stock rollover calculator will allow you to preview the tax impact of various distribution options.

To speak with someone about your options, you can reach a Vanguard Participant Services associate by calling the HR Service Center at 1-888-825-5247 and selecting option 1 from 5:30 a.m. to 6 p.m., Pacific time (7:30 a.m. to 8 p.m., Central time), Monday through Friday, except on stock market holidays.

For information about opening a brokerage account, call Vanguard Brokerage Services® at 1-800-992-8327 Monday through Friday from 5 a.m. to 5 p.m., Pacific time (7 a.m. to 7 p.m., Central time), except on stock market holidays. If you're outside the United States and can't access a toll-free number, call 610-669-8595.



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All investing is subject to risk, including the possible loss of the money you invest. Because they concentrate on a single stock, the Chevron Common Stock Fund and the Chevron Leveraged ESOP Fund are considered riskier than a diversified stock mutual fund. Diversification does not ensure a profit or protect against a loss.

This communication provides only certain highlights of benefits provisions. It is not intended to be a complete explanation. It is neither a summary plan description nor a summary of material modification. If there are any discrepancies between this communication and legal plan documents, the legal plan documents will rule. Chevron,as the plan sponsor, reserves the right to amend, change or terminate these plans for any reason at any time. **Some benefit plans and policies described in this communication may be subject to collective bargaining and, therefore, may not apply to union-represented employees.**

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