

Frequently Asked Question and Answers:
Distribution and Taxation Matters

1. What is the taxable status of the payments I will receive from the Nortel estate?

Whether or not a distribution is taxable depends on what type of benefit you are receiving a payment for. All lump sum distributions that you receive are taxable and will be subject to withholding tax with the exception of:

- **Health and dental benefits** - the Canada Revenue Agency (“CRA”) confirmed its current administrative position that lump sum payments, if received from an employer who became insolvent prior to 2012, remain non-taxable. For more information please visit:
<http://www.cra-arc.gc.ca/gncy/bdgt/2011/qa07-eng.html>
- **LTD income benefits** - the CRA released a favourable advance ruling in respect of lump sum distributions from the Nortel HWT on account of termination of long-term disability income benefits.

All other payments are taxable in the year the payment is received. These payments will be subject to withholding tax at the rates prescribed by Federal and/or provincial taxing authorities. The Court Appointed Representative are appealing certain adverse rulings from the CRA with respect to the taxable status of distributions from the HWT in connection with the termination of group life insurance benefits (see Question 3 below) and the termination of survivor benefits.

2. What is the withholding rate on taxable benefits?

The Monitor is required to withhold tax on lump sum distributions that are taxable. Withholding rates are prescribed by the Canada Revenue Agency and other provincial taxing authorities. The amount of tax withheld from your distribution will depend on the amount of your payment. The CRA’s withholding rates for lump-sum payments are:

- 10% (5% for Quebec) on amounts up to and including \$5,000;
- 20% (10% for Quebec) on amounts from \$5,000 up to and including \$15,000; and
- 30% (15% for Quebec) on amounts over \$15,000.

You may have to pay additional tax on distribution amounts when you file your tax return.

3. Are life insurance benefits taxable?

Yes. The CRA has issued an adverse ruling on the taxable nature of lump sum distributions in respect of life insurance. This means that unless there is a change or reversal, your distribution for life insurance will be taxable and subject to withholding tax. To view a copy of the CRA ruling, please visit the Latest Developments section of KM website at www.kmlaw.ca.

The correctness in law of the CRA's adverse ruling is being appealed. Packages were sent in early October 2012 to those individuals who received payments from the HWT in connection with the termination of group life insurance benefits. If this challenge is successful the tax gross-up on life insurance will be removed as you would experience no prejudice as a result of receiving a payment in lump sum form.

4. These tax impacts will have a negative impact on me – how is that taken into account?

To address the negative consequences that you may experience as a result of receiving benefits in a lump sum distribution, there has been a net effective 10% gross up on the present value of your compensation claim values related to:

- a. Pensioner life, including Accidental Death Benefit (ADB) and all LTD life insurances;*
- b. Claims under the non-registered pension plans;*
- c. Claims for registered pension plan accruals; and*
- d. SIBs and STBs.*

5. When do I report taxable distributions as income?

You must report taxable distributions on your tax return in the year you receive the payment.

6. Will I receive a tax reporting slip?

Yes. The Monitor will issue T4s or T4As at the appropriate time.

7. How much money is in the Nortel estate? Estimate?

The assets in the Nortel Canadian estate are largely dependent on the result of the allocation mediation ordered by the Canadian and US Courts. The final percentage of your claim amounts that you will receive is uncertain at this point because it is dependent on a number of factors that are still to be resolved.

8. When can we expect to receive a distribution from the estate?

The timing of a distribution from the Nortel estate is unknown. The timing of distribution is dependent on a number of factors including the adjudication of individual claims, the resolution of individual disputes and the allocation of assets among the estates, among others. Nortel has assets in several jurisdictions, and there is a dispute over how the funds should be allocated. The Honourable W. Winkler, the Chief Justice of Ontario, has been appointed to supervise a mediation of the dispute.

Parties will do their best to move forward with a distribution as quickly as possible. However, there are many claims and issues to be resolved and your patience will be required.