Krosnowski & Scott LLC
Investment & Retirement Planning Specialists

REALTY INCOME
401(k) Savings Plan Net Unrealized Appreciation (NUA) Stock Distribution Strategy

I. NUA Defined – NUA is a special tax method. After you retire from REALTY INCOME, if you distribute your total Savings Plan balance during the same calendar year, you can elect to deliver a portion of your REALTY INCOME stock shares to a taxable (non-IRA) account. Normally, the cost basis of the shares is taxed as ordinary income during the tax year of the distribution. The capital appreciation is subject to capital gains tax rates during the year that the shares are liquidated.

II. NUA Stock Distribution Considerations –

A. Liquidity – Your "tax paid" or (pre-1987, post 1986) after tax balance can be used to provide liquid cash upon the distribution of your Savings Plan (if you roll your pre-tax assets to an IRA). It can also be applied to the cost basis of a portion of your NUA shares. This may enable you to distribute stock shares from the Savings Plan cost basis tax free (these are known as "tax paid" shares).

B. Estate Planning – In 2016, if your assets are properly titled, the estate tax exclusion amount that you can pass onto your beneficiaries is $5,450,000. If your net worth is in excess of the estate tax exclusion amount, it may be advisable to consider a NUA stock distribution from your Savings Plan. An NUA stock distribution may provide you with greater flexibility to "equalize" assets between you and your spouse. This may enable you to avoid unnecessary estate taxes. This may also enable your beneficiaries to inherit stock assets with a "step-up" in the cost basis of the shares. Inherited IRA assets are subject to ordinary income taxes. This could have significant tax implications for your beneficiaries.

C. Tax Planning - The benefit of rolling over pre-tax Savings Plan assets to an IRA is tax deferral. Income distributions from an IRA are taxed as ordinary income. NUA enables investors in higher income tax brackets to take advantage of more favorable long term capital gains tax rates.

Electing to receive NUA stock distributions can be very advantageous for investors who may otherwise have larger IRA balances which may cause them to be in a higher income tax bracket when mandatory IRA distributions occur. Upon turning age 70½, investors are required to receive IRA required minimum distributions (RMD).

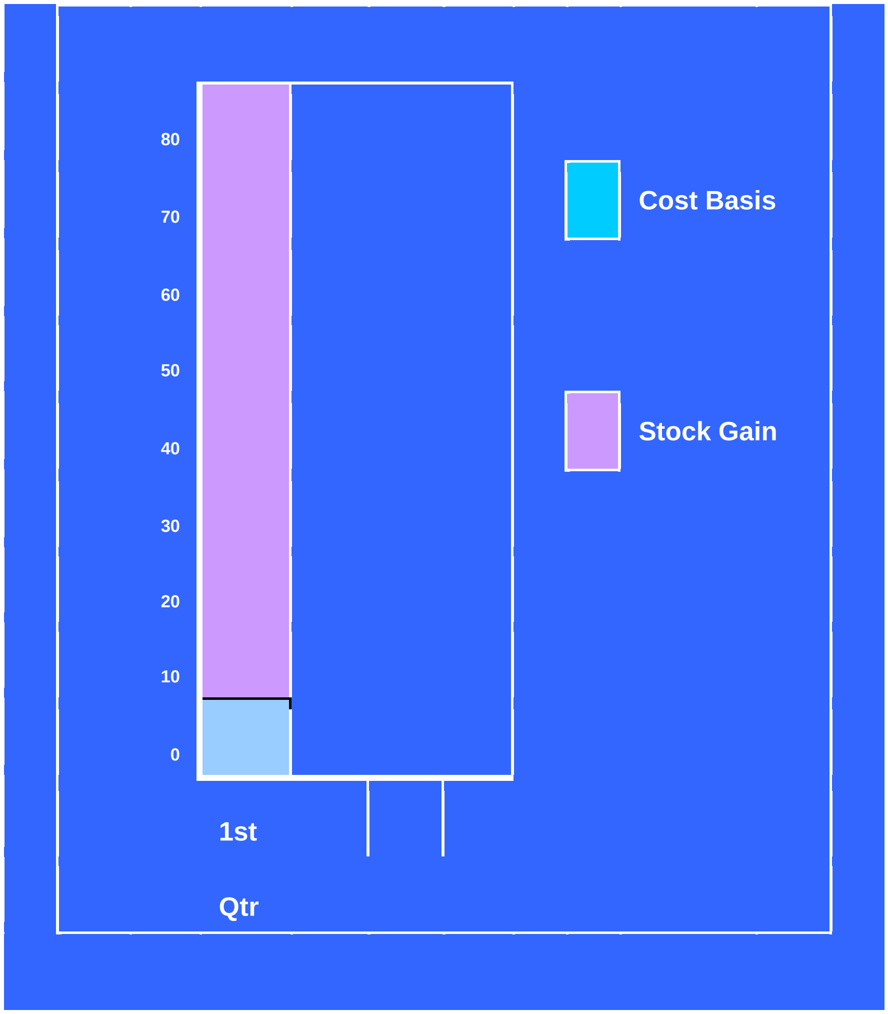
Another potential tax advantage of receiving a NUA stock distribution is that dividends paid from stocks held in a taxable account are taxed at the Federal dividend tax rate of 0%, 15% or 20% depending upon your tax bracket. Company Stock dividends paid out of a 401(k) Savings Plan are taxed as ordinary income. If your Federal Income tax bracket is greater than your dividend tax rate, then receiving stock dividends at the stock dividend tax rate may be financially beneficial for you.

NUA RMD - If you are retired and turning age 70 ½, you can utilize a NUA stock distribution to meet your qualified retirement plan balance (required minimum distribution) obligation. You can use the NUA complex stock distribution method (taxable distribution of the cost basis of your lower cost shares) and distribute taxable shares to meet your RMD. For example, using the previous example, you can take some of your $8 and $14 shares up to your RMD value of $24,000 and NOT apply your tax paid balance to the cost basis. This would create a taxable event that can be used to meet your retirement plan balance RMD.

III. NUA Stock Distribution Calculation Methods – There are two ways to calculate distributing company stock from the REALTY INCOME Savings Plan under the NUA tax guidelines.

A. Simple ("Tax Paid Share") - This method of stock distribution applies the Savings Plan participant's after-tax or "tax paid" balance (if available) to the maximum number of lower cost basis shares. This strategy enables corporate retirees to distribute a portion of their shares cost basis tax free. The cost basis of remaining taxable shares distributed are subject to ordinary income taxation. If the account owner distributes tax paid shares only then there is no reduction in the participant's retirement plan balance and the transaction is tax neutral (i.e. – the stock distribution has no effect on the participant's taxable income).

- $80 stock market value per share
- $10 stock cost basis per share (1000 shares)
- $10,000 "tax paid" balance
- $70 stock price appreciation per share



"Tax Paid" Shares (i.e. shares that you can distribute cost basis tax free):
Your Tax Paid Balance = $64,579

COST BASIS /SHARE	SHARES	COST BASIS ($)
$8	273.3	2,186.40
$14	3,247.7	45,467.80
$20	846.2	16,925
TOTAL	***4,367.2***	***$64,579.20***

Additional Shares (for planning purposes, shares you may wish to distribute with a taxable cost basis (at ordinary income tax rates)):

COST BASIS/SHARE	SHARES	COST BASIS ($)
$21*	1249.7	26,244
TOTAL	***1249.7***	***$26,244***

*Increasing your "tax paid" balance between now and retirement by making supplemental after-tax contributions to your Savings Plan will enable you to distribute additional shares cost basis tax free. You may want to consider setting a goal to increase your "tax paid" balance by $26,244. This would enable you to distribute your remaining cost basis shares cost basis tax free.

B. Complex "Maximum Share" – This method takes into consideration the effect the stock distribution would have on the Savings Plan participant's marginal income tax bracket. The first step is to identify the desired number of company stock shares to distribute. The second step is to calculate the total cost basis of these shares. The third step is to verify the individual's marginal federal income tax bracket during the year of the stock distribution. The fourth step is to calculate the ordinary income tax that would apply to the cost basis of the distributed shares. The fifth step is to use the "tax paid balance" to pay ordinary income tax liability created as a result of the stock distribution.

Tax Paid Balance = $67,404

Cost Basis/Share	Shares	*35% ordinary tax on cost basis	Cost Basis
$8 to $20	4,367.2	$22,602	$64,579
$21	1,249.7	9,185.	26,244
$25	3,957	34,627	98,934
TOTAL	***9,573.9***	***$66,414***	***$189,757***

*Estimated tax range for illustrative purposes only, it is recommended to review your tax situation with tax adviser before proceeding with a NUA stock distribution.

The “Complex” NUA stock distribution method may enable Savings Plan participants in lower marginal income tax brackets to distribute more “tax paid” shares than under the “Simple” NUA stock distribution method. The amount of after-tax assets withheld from the distribution to pay Federal and State income taxes using the complex method will reduce the participant’s retirement plan balance.

When comparing the two methods, the higher the participant’s income tax bracket during the year of the stock distribution, the more attractive the simple method may be.

We can generate a free initial REALTY INCOME 401(k) Savings Plan NUA Stock Distribution Analysis report for you if you provide us with a copy of your most recent 401(k) Savings Plan quarterly statement. To obtain a copy of your 401(k) Savings Plan statement, you can either login into your account or call your plan administrator.

We look forward to hearing from with you and answering any questions that you may have regarding this analysis.

Sincerely,

Andrew J. Krosnowski, CWS®
Senior Financial Consultant
email: akrosnowski@1stallied.com

Melissa Scott Paine, CFP®
Financial Consultant
email: mscott@1stallied.com

P.S. You are also invited to sign up for our free quarterly “Financial Fitness” newsletter email distribution list.