



Managing your Cummins stock

in the Cummins Retirement and Savings Plan
and Cummins Retirement and Savings Plan for
Certain Collectively Bargained Employees
(collectively referred to as the “RSP”)

Overview

This guide is to help you understand the tax implications when you take a distribution that relates to Cummins stock in the RSP. While this guide provides an overview and key definitions, please consult with tax and financial advisors about the tax treatment of distributions from the RSP, how the tax treatment will apply to you and affect your specific situation, and the best option for you.

1 Cummins stock investments in the RSP

You can choose how to invest your savings in the RSP from among a wide array of funds available, ranging from conservative to more aggressive.

Two types of Cummins stock investments

There are two investment alternatives in the RSP that relate to Cummins Common Stock.

- 1 Cummins Stock Fund.** One investment alternative is to allocate part of your contributions to the RSP — plus any Cummins matching contributions — in the Cummins Stock Fund.
- 2 Employee Stock Ownership Plan.** Another investment alternative relating to Cummins Common Stock is the Cummins Employee Stock Ownership Plan (ESOP). No new investments are allowed into the ESOP, but you may still have part of your RSP account invested in the Cummins ESOP from Cummins matching contributions that were made between 1989 and 2010.

These matching contributions were made in Cummins stock that was purchased by the RSP in 1989 under a special tax provision. The cost basis for these shares is based on the market value at the time they were purchased in 1989, which is significantly lower than the current market price. As participants received matching contributions, a portion was deposited at the cost basis at the time, and another portion was deposited at the 1989 cost basis. The last of the 1989 shares were contributed to the RSP in 2010.

Reminders about investing in single-company stock funds

Both the Cummins Stock Fund and the Cummins ESOP primarily invest in Cummins stock. This means that they are single-company stock funds and, unlike the other investments available in the RSP, are not diversified.

A diversified fund is one that holds different types of investments. So, if one investment loses significant value, other investments in a diversified fund may perform better and offset some of the loss. Financial experts encourage diversification of long-term savings to protect against the possibility that a single investment is disproportionately affected by adverse market conditions. Your portfolio may not be considered diversified if more than 20% of your total wealth (both inside and outside the RSP) is invested in a single company or industry.

Please note: The investments held by other funds may be of a similar type (for instance, the stocks of other large companies) and continue to carry the risk of that type of investment going up or down. You should carefully consider your asset allocation — how your savings are spread across different types of investments.

2 Dividend payments on Cummins stock in the RSP

An important part of understanding your investment in Cummins stock through the RSP is understanding the effect of dividends. Many companies pay dividends on their stock. A dividend is one way to provide added value to shareholders. Periodically — often once per quarter — the company may pay a dividend based on the number of shares owned.

Cummins stock that is held in the Cummins Stock Fund and the Cummins ESOP is entitled to dividend payments. In general, these dividends are reinvested and used to purchase additional shares of Cummins stock. If you hold part of your savings in the Cummins Stock Fund or the Cummins ESOP, you will see an increase in the shares held in your account each quarter if a quarterly dividend payment is made.

You can choose to have your dividends paid to you directly rather than have them reinvested, even if you are employed with Cummins. If you decide to have the dividends paid to you, when applicable, you will receive a check each quarter and you will be required to pay current taxes on those dividends. In addition, by taking the dividend payments instead of reinvesting them, your account balance is unlikely to increase as fast as it will for participants who reinvest the dividends. Please consult a tax advisor to understand how receiving Cummins dividends in cash could impact your tax situation.

No action is necessary if you wish to have your dividends reinvested. To have your dividends paid to you instead, you can make an election on the **Your Benefits Resources** website. From the Home page, select “RSP & Pension” and then “Make Your Dividend Payout Choice”. You can also make this election by calling the Cummins Retirement Benefits Service Center at **1-800-682-8788** (or **1-847-883-2076** if you are outside the United States, Puerto Rico or Canada).

3 Considerations in taking RSP distributions relating to Cummins stock

Distributions from the RSP are subject to a number of requirements that will not be fully addressed in this guide. Please refer to the Summary Plan Descriptions for the RSP for information about when distributions from the RSP are available. The purpose of this section of this guide is to inform you about some special considerations involved in taking distributions from the RSP relating to your investments in Cummins stock.

If you have investments in the Cummins Stock Fund or the Cummins ESOP, you may have the option to take a portion of your distribution in Cummins stock after you leave Cummins, depending on your balances in these funds.

The tax treatment for distributing shares of stock differs from that of cash distributions or rollovers. Rollovers are addressed below under *Rollover Options with Shares of Stock*.

Taxes are complicated. It is advisable to seek qualified financial and tax guidance when considering a stock distribution. Be sure to consult with a tax advisor to understand how to properly report stock distributions and sales when you file your taxes.



Definitions: What does it mean?

Cost basis: Cost basis is the average purchase price of your total shares. This is calculated by combining the purchase price of all shares in the relevant stock fund and dividing it by the number of units of shares in the plan.

Distribution: This is when you withdraw some or all of your assets from your Cummins RSP account. An in-plan Roth conversion is also treated as a distribution for purposes of the rules on Net Unrealized Appreciation (NUA). See below under *What are some other tax considerations?* for a brief discussion and a recommendation that you consult with your tax advisor before electing such a conversion.

Sell: This is when you sell the shares of Cummins stock that you previously withdrew from your RSP.

Net Unrealized Appreciation (NUA): The amount of gain the shares experience while held in the RSP that may receive special tax treatment by being taxed at long-term capital gains rates instead of ordinary income tax rates under certain circumstances.

Long-term capital gains rates: These rates are generally lower than ordinary income tax rates or short-term capital gains rates.

What are the tax implications of taking my distribution in shares?

An important consideration in receiving a distribution of shares in your name (required to take advantage of *NUA* tax treatment) is that tax will be due on the cost basis of those shares in the year of distribution.

- If you choose to roll over the cash portion of your distribution (the portion of your RSP account that is not being paid in shares) to an IRA or another employer's 401(k) plan, then no taxes will be withheld with respect to your distribution and you'll be responsible for paying taxes on the cost basis of the shares you receive.
- If you instead were to choose to receive the cash portion of your RSP account directly (not rolled over to an IRA or another employer's 401(k) plan) at the same time you receive your shares of Cummins stock, then your cash portion will be reduced for taxes on both the cash payment and the cost basis of the shares.

When you receive a *distribution* of your shares of stock paid as an 'in-kind' distribution (which means that you receive the shares in your name and they are not rolled into an IRA), the tax treatment varies depending on whether you do or do not satisfy the requirements for *NUA* tax treatment.

- If *NUA* tax treatment does not apply, then the market value of the shares at the time of distribution is taxed as ordinary income, unless you roll the shares into an IRA (if permissible). A 10% tax on early distributions may also apply.
- If *NUA* tax treatment does apply, then:
 - the *cost basis* of the shares is taxed as ordinary income in the year of distribution, and
 - when you *sell* your shares of stock, the amount of gain the shares experienced while held in the RSP, receives a special tax treatment.

The *NUA* is taxed at *long-term capital gains rates* instead of ordinary income tax rates. You will also be subject to capital gains tax on any increase in the share value that occurs after the distribution.

Find your cost basis online:

Go to the **Your Benefits Resources** website and from the *Home* page, select "RSP & Pension" and then "Investments". Your cost basis is available on the *Portfolio* tab.

Requesting a distribution in shares

If you want to receive a portion of your distribution in shares of Cummins stock, you should make that election at the time you request a total or partial distribution. You can do so on the **Your Benefits Resources** website by going to the section *Withdrawals and Rollovers Out* and requesting a total or partial distribution. You will have the option to select your distribution in either all cash or cash and share equivalents. Choose "cash and share equivalents" and then specify the number of shares you wish to receive, up to the total available.

You can also make your election by calling the Cummins Retirement Benefits Service Center at **1-800-682-8788** (or 1-847-883-2076 if outside the United States, Puerto Rico or Canada). Please make sure to specify that you want to take a portion of your distribution in shares.

When does NUA apply?

There are eligibility requirements for *NUA* tax treatment to apply. *NUA* tax treatment will apply if you meet the following criteria:

- You take a distribution of your account as a:
 - Single payment of your entire account balance after termination (or multiple payments within a single calendar year as long as the entirety of your account is paid in that calendar year) or
 - Distribution of your entire account balance on or after reaching age 59.5, even if partial distributions were taken before age 59.5
- You take a share payment (either partial or total payment) where the Cummins shares were purchased with after-tax contributions (not earnings)
- Your beneficiary takes a total distribution of your account after your death



What are some other tax considerations?

If a portion of your account comes from after-tax contributions, then your ordinary income tax burden would be reduced compared to the ordinary income tax burden that would result if your entire account came from pre-tax contributions.

If you elect an in-plan Roth conversion for the portion of your RSP balance that is in the Cummins Stock Fund, then you generally will recognize taxable income in the amount of the fair market value of the converted RSP balance in the year of conversion. You will then receive a stepped-up cost basis in your RSP balance in the Cummins Stock Fund and the shares that may subsequently be distributed to you. Accordingly, such an in-plan Roth conversion may reduce any NUA that would otherwise potentially have received long-term capital gains rates if all of the NUA requirements were met. For that reason, if you are considering an in-plan Roth conversion and you hold shares of Cummins stock in your account, you should talk with your tax advisor before converting because you may lose an opportunity for special tax treatment.

When you sell your shares of Cummins stock, you'll pay capital gains tax on the difference between your selling price and the amount on which you already paid taxes (including any after-tax contributions). In general, you will pay long-term capital gains tax on the appreciation. However, if you sell your stock within 12 months after distribution, you will pay:

- Short-term capital gains on any appreciation following your distribution, and
- Long-term capital gains on the remainder of the appreciation.

An example:

Assume you leave Cummins and part of your RSP balance is in the Cummins Stock Fund. The difference between the current market value and your cost basis would equal your NUA. If the value of your Cummins shares at the time of distribution is \$10,000 and your cost basis in those shares is \$8,000, then your NUA would be calculated like this:

▪ Cummins Stock Fund market value	\$10,000
▪ Minus Cummins Stock Fund cost basis	<u>\$8,000</u>
▪ Net Unrealized Appreciation (NUA)	\$2,000

If you qualify for NUA treatment (by electing to receive a distribution of the full balance of your account in a single calendar year) and take your distribution in shares of stock, you will pay ordinary income tax on the cost basis — or \$8,000 — and can continue to hold Cummins stock. If you receive a distribution prior to age 55, a 10% additional tax may also apply on the cost basis.

Remember: If your investment in the Cummins Stock Fund was made through after-tax contributions, your taxes will be lower.

If you continue to hold that Cummins stock for at least a year and it continues to rise in value until you sell it, your tax at the time of sale will be calculated as follows:

▪ Value of Cummins stock when sold	\$11,000
▪ Minus cost basis on which you already paid tax	<u>\$8,000</u>
▪ Amount subject to long-term capital gains tax	\$3,000

Rollover options with shares of stock

If you take a total distribution that includes shares of Cummins stock, you may be able to roll the shares into an IRA and defer taxes until a later date. However, you will not carry your cost basis into the IRA. The special NUA treatment is only provided for shares paid directly to participants from employer plans such as the RSP. If you subsequently receive a payment of shares from your IRA, different tax rules will apply. Not all institutions will accept rollovers that include shares of stock. Please check with your IRA administrator before you request a rollover of shares.

Even if you do not roll over the shares of Cummins stock, you can roll over the cash portion of your distribution into an IRA. In that case, you would pay taxes on the cost basis (or the market value, if lower) of the shares at the time of distribution and defer taxes on the cash portion of your distribution.

Although this document contains information about Cummins benefit plans, it is not intended to provide every detail. Details are included in the plan documents and the related contracts under which benefits are provided. If there is any difference between the information provided in this document and the plan documents and/or related contracts, the plan documents and/or related contracts will govern. The Company reserves the right to adjust, amend, modify, suspend or terminate benefit plans and/or programs at any time and for any reason. This document is not a contract of employment and is not intended to affect the employment-at-will status of any employee in any way whatsoever. In all cases, it is the participant's responsibility to consider and understand the financial impacts of their individual investment and distribution elections.