

TAX INFORMATION

A major advantage of the ASP is that you will defer income taxes on your pre-tax contributions, catch up contributions, company matching contributions, any Lucent special company contributions, roll-in contributions and all investment earnings while that money is in the Plan. However, you must pay taxes on that money when you receive a withdrawal or distribution from the ASP.

Remember, you will not owe any taxes on your after-tax contributions because you already paid taxes on them before they went into your ASP account. However, this does not mean that your entire after-tax contribution account is not taxed; you will owe taxes on the investment earnings on your after-tax contributions.

Depending on where you live, you also may owe state and local taxes on your distribution.

Special tax treatment may apply if your distribution qualifies as a lump sum. Tax laws are complex and change from time to time. You should consult a tax professional for specific advice about your personal financial situation before you receive a withdrawal or distribution. The information in this section provides only general tax information. The Company cannot give tax advice. Also, before you request a withdrawal or distribution from the ASP, you should review the Special Federal Tax Notice Regarding Plan Payments in your distribution package. Copies of that notice also are available on NetBenefits and upon request from the Avaya 401(k) Plan Service Center.

Mandatory Withholding

The Plan is required by law to withhold 20% of your withdrawal or distribution (excluding after-tax contributions) if you do not elect to directly roll your payment over into another qualified plan or an IRA. Generally, the taxable portion of your payment qualifies as an eligible rollover, and can be rolled over into an IRA or another employer's qualified plan that accepts rollovers. A hardship withdrawal is not an eligible rollover distribution and is not subject to the 20% withholding. The 20% tax withholding from your payment is sent to the IRS to be credited against your taxes.

Additional 10% Tax if You Are Under Age 59½

If you receive a distribution from the ASP *before* you reach age 59½, you may have to pay an additional 10% tax on your payment. This tax is in addition to any other federal, state or local taxes you may owe on your payment.

The additional 10% tax does *not* apply if the payment is:

- Rolled over into an IRA or another employer's qualified plan within 60 days

- Paid to you because you terminated your employment with Avaya or a participating company during or after the year you reach age 55
- Paid to you in equal (or almost equal) payments over your life or life expectancy
- Used to pay certain medical expenses
- Paid to your beneficiary or estate after your death
- Paid to your spouse or former spouse, child or other dependent pursuant to a Qualified Domestic Relations Order (QDRO)
- Paid to you because you retire due to disability

IRS Publications

You can find more specific information on the tax treatment of payments from qualified retirement plans in:

- IRS Publication 575, Pension and Annuity Income
- IRS Publication 590, Individual Retirement Arrangements
- IRS Form 5329 which addresses the additional 10% tax
- IRS Form 4972 which addresses special tax treatment for lump sum distributions

These publications are available from your local IRS office, by calling 1-800-TAX-FORM or logging on to the Internal Revenue Service Web site at <http://www.irs.gov>.