
Information on itemized deduction recoveries for World Plus, Inc./Atlantic Pacific Funding Corporation investors

A recovery is a return of an amount you deducted as an itemized deduction in an earlier tax year. If you took an itemized deduction for amounts paid to World Plus, Inc. or Atlantic Pacific Funding Corporation, or amounts paid to the bankruptcy trustee, the return of a portion of your investment represents a recovery.

Recoveries are taxable in the year received, to the extent of your tax benefit in previous years. The "tax benefit" for any year you claimed a deduction associated with your investment is the difference between the prior tax year's itemized deductions (subject to the overall deduction limitation) and the deductions that would have been claimed if the proper amount of tax had been paid and no recovery was made. In other words, you have to include in income the **smaller** of:

- Your total itemized deductions less your standard deduction amount,
- The amounts deducted on Schedule A as a result of World Plus (either as a theft loss of your investment or Miscellaneous Itemized Deductions taken for repayments to the bankruptcy trustee), **or**
- Your recoveries

Once you have included recovery amounts up to the smaller of 1) your total itemized deductions less your standard deduction amount, or 2) the casualty or theft loss amount deducted on Schedule A, any further recoveries do not need to be included in your taxable income.

Here are some examples:

- ❑ In 1996, you had a theft loss of \$2,000 and no other itemized deductions, so you took the standard deduction of \$4,000 for a single person. You have recovered \$500 of your loss.

<i>Itemized deduction</i>	<i>\$0</i>
<i>Theft loss deduction</i>	<i>\$0</i>
<i>Tax Benefit</i>	<i>\$0</i>

You received no tax benefit from your loss in 1996, so you should not include any of the recovery in your 2002 taxable income.

- ❑ In 1996, you itemized deductions of \$8,000, including a \$6,000 theft loss deduction. Your standard deduction for Married Filing Joint would have been \$6,700. You have recovered \$3,000.

<i>Itemized – Standard deduction</i>	<i>\$8,000 - \$6,700 = \$1,300</i>
<i>Theft Loss deduction</i>	<i>\$6,000</i>
<i>Tax Benefit</i>	<i>\$1,300</i>

You must include \$1,300 in your 2002 income.

- ❑ In 1996, you itemized deductions of \$20,000, including a \$10,000 theft loss deduction for World Plus. As a single person, your standard deduction in 1996 would have been \$4,000. In 1998, you paid the bankruptcy trustee \$3,000. On your 1998 tax return you were able to

deduct \$1,800 of that amount, after reducing the total by 2% of your Adjusted Gross Income. Your total itemized deductions were \$12,000 in 1998; your standard deduction would have been \$4,250.

1996:		
1) Itemized – Standard deduction	$\$20,000 - \$4,000 =$	$\$16,000$
2) Theft Loss deduction		$\$10,000$
	1996 Tax Benefit	$\\$10,000$
1998:		
1) Itemized – Standard deduction	$\$12,000 - \$4,250 =$	$\$7,750$
2) Theft loss deduction		$\$1,800$
	1998 Tax Benefit	$\\$1,800$
	Total Tax Benefit	$\\$11,800$

In the year you receive the recovery, you will include in your income any recoveries up to \$11,800.

- In 1996, you itemized deductions of \$5,000, including a \$4,500 theft loss deduction. Your standard deduction would have been \$4,000. In 2000, you recovered \$400 of your loss; in 2002, you recovered an additional \$800.

Itemized – Standard deduction	$\$5,000 - \$4,000 =$	$\$1,000$
Theft Loss deduction		$\$4,500$
	Tax Benefit	$\\$1,000$

You would include the \$400 recovery on your 2000 tax return. In 2002, you need only pay tax on \$600 more, to total the \$1,000 tax benefit received in 1996.

Your itemized deductions are considered to have reduced your tax in the year reported on your Schedule A, even if the deductions resulted in or increased a loss that was carried over to another tax year.

Any amounts recovered in earlier years should have been treated as taxable income under the same rules. If you did not include the appropriate amount, you should amend your tax return by filing a Form 1040X for the year of the earlier recovery. It is our understanding that the first distribution was received in October of 2000.

For more information...

The tax rules for recoveries are discussed in more detail in IRS Publication 525, Taxable and Nontaxable Income, which can be found on the web at www.irs.gov.



Department of the Treasury
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