PILOT TAX EQUALIZATION PROGRAM

EXECUTIVE SUMMARY
Prepared by PricewaterhouseCoopers, L.L.P

The Company recognizes that the assignment of employees to positions outside their home country can alter the tax posture of those employees. In addition to the employee's base salary, FedEx will pay certain overseas allowances such as housing, storage, and foreign income tax liabilities. This can increase the employee's gross income for U.S. income tax purposes. In addition, the employee is usually subject to tax in the foreign country of assignment. To address the tax consequences of the increased level of income and the accompanying tax burden, the Company has established a program of tax equalization for its overseas employees.

The objective of tax equalization is to provide a mechanism whereby employees may be transferred internationally without incurring a financial loss due to income and social tax cost differences arising between the U.S. and the country of assignment ("Host Country"). The Program is designed to ensure that these employees incur a total tax burden on stay-at-home ("Hypothetical") income and net personal income consistent with that which would have arisen had they remained employed by the Company in the U.S. The tax equalization program is designed and intended to yield neither an economic benefit nor detriment to the employee on foreign assignment.

FedEx Express
U.S. Pilot Tax Equalization Program

I. Introduction

The income taxes incurred by overseas employees will usually be significantly higher than those incurred prior to the assignment. The higher tax results because an overseas employee's taxable income includes not only base salary, but also overseas assignment allowances and tax reimbursements, such as housing, storage, and other foreign service allowances. Furthermore, the overseas employee's income may be subject to taxation in both the U.S. and the foreign country where a higher tax may apply. A typical W-2 for a pilot on assignment may be similar to the following example:

	Total Compensation
Base Wages (employee pays tax on)	$215,000
Housing Allowance	32,400
Foreign Taxes	56,722
Storage	4,000
Moving Allowance	10,000
Tax Fees	4,000
Hypothetical Withholding	(45,355)
Total W-2 Taxable Wages (company pays tax on)	$276,767

To neutralize the impact of increased individual income and social taxes on overseas employees, the Company has established a Tax Equalization Program ("the Program"). The Program has three major objectives:

a. to ensure that the overseas employees bear an annual tax cost approximately equivalent to the tax that would have arisen had the employees remained employed in the U.S.;
b. to foster good corporate citizenship worldwide by establishing a program which promotes full individual tax compliance in every foreign location in which the Company operates; and,
c. to establish practices and procedures which legally minimize the Company's excess tax reimbursement costs.

II. Overseas Employee's Responsibilities

The Company expects that all overseas employees shall fully comply with U.S. and foreign country tax rules. Specifically, the Company requires that all overseas employees:

a. comply with all foreign country and U.S. domestic tax laws;
b. exercise reasonable care and attention in minimizing their liabilities to foreign country and U.S. taxes in accordance with the tax planning techniques and filing positions recommended by PricewaterhouseCoopers, L.L.P. ("PwC"); and,

c. provide PwC with the annual tax filing information required to prepare U.S. and foreign country tax returns and tax equalization settlements. In order to achieve timely U.S. tax compliance, overseas employees must adhere to certain deadlines provided below.

III. Implementing the Tax Equalization Process

a. In general, the process provides that the overseas employee will bear a total annual tax cost approximately equivalent to the income tax cost which would have arisen had the individual resided and worked in the United States.

Tax equalization is accomplished through the collection of a Hypothetical federal, state and local income tax from the overseas employee. In consideration for the collection of the Hypothetical income tax, the Company pays, either directly or through reimbursement, the overseas employee's actual U.S. federal income, state and local income, foreign income and social tax obligations. U.S. social security tax ("FICA") will continue to be the obligation of the overseas employee and is withheld by the Company from paid compensation.

b. At the beginning of the assignment under withholding procedures similar to those applying to U.S. based employees, the Company will retain an estimate of the overseas employee's Hypothetical income tax liability. The estimated Hypothetical income tax shall be calculated at the beginning of the assignment and recalculated when normal salary adjustments take place and when the Company is notified of changes to the overseas employee's family size or marital status.

When determining the amount of the overseas employee's estimated Hypothetical tax, Hypothetical deductions will be considered only as follows. If an overseas employee's anticipated actual itemized tax deductions or adjustments to gross income exceed net personal income by $15,000, these deductions may be utilized when determining the employee's estimated Hypothetical income tax. Otherwise, the standard deduction amount will be used by the Company when determining the overseas employee's estimated Hypothetical income tax.

It is the overseas employee's responsibility to advise PwC of actual itemized deductions or adjustments to gross income which exceed the standard deduction if such amounts are to be considered for purposes of the Estimated Hypothetical income tax withholding amount. PwC will be engaged to calculate the Hypothetical income tax withholding amount at the beginning of the overseas employee's assignment, and can then revise the calculation annually. A sample Hypothetical income tax withholding calculation is attached as Appendix I.

c. During the year, the Company will reduce the overseas employee's base salary each pay period by a pro-rata portion of the estimated Hypothetical federal and state income tax. The "net" amount will be included in U.S. gross income reportable to the Internal Revenue Service ("IRS").

Estimated U.S. income tax payments on non-FedEx personal income (e.g., gains on sale of stock) may be required. **(<u>If so, it is the responsibility of the overseas employee to make these payments</u>.)** These payments, net of any tax refunds, will be credited against the overseas employee's final Hypothetical income tax liability.

d. After year end, PwC will be engaged to prepare the overseas employee's tax return. In **January** tax data organizers will be forwarded to all authorized overseas employees with instructions for completing the organizer, where to send completed documents, and the name of PwC contact in the U.S. and at the overseas work location. Completed organizers must be submitted to PwC by **March 1**. The filing deadline for overseas employees abroad is **June 15**. PwC will prepare extensions for time to file when necessary.

After the overseas employee's U.S. income tax return has been completed, PwC Charlotte will prepare a tax equalization calculation. A sample tax equalization is attached as Appendix II. This calculation will determine the overseas employee's final Hypothetical federal and state income tax and compare it to the employee's net tax payments (estimated Hypothetical withholding) as described below. If excess taxes were paid during the year, the Company will pay a reimbursement to the overseas employee. If, on the other hand, the overseas employee's final Hypothetical income tax exceeds the net tax payment; an additional payment will be due to the Company.

Note: Overseas employees who do not comply with the dates provided above will be responsible for all penalty and interest costs arising after June 15th from late filing, late payment, and/or underpayment of actual U.S. income tax liabilities.

e. For purposes of determining the final Hypothetical income tax obligation each year, the following items shall be considered as **Hypothetical income**:

i. <u>Company Income</u>

Company income shall consist of salary, less employee's incentive savings plan contributions and other pre-tax deductions (i.e., pre-tax medical, etc.), plus seed money currently received by the overseas employee.

Note: All overseas assignment allowances (storage, housing, etc.) shall be removed from the overseas employee's estimated and final hypothetical income tax calculations to ensure that the employee bears no tax cost generated by these payments. That is, all overseas reimbursements and allowance will be provided to the overseas employee on a "tax-free" basis.

ii. Net Personal Income

Net personal income includes all income actually or constructively received from non-Company sources as determined in accordance with U.S. income tax principles. Net personal income includes, but is not limited to, the following items:

(a) Spousal employment income,
(b) Dividends,
(c) Interest,
(d) Net capital gains,
(e) Net rental income, and
(f) Net partnership income.

iii. Tax rates, Filing Status, Exemptions and Computations

When computing the overseas employee's estimated and final Hypothetical income tax, the tax filing status and number of exemptions claimed on the employee's actual U.S. income tax return(s) shall be used. Actual exemption amounts, tax rates, phase-out of itemized deductions, etc. will be consistent with U.S. income tax laws when applied to the calculation of an overseas employee's Hypothetical income tax.

AUTHORIZED TAX SERVICES PROVIDED BY PwC

The Company has engaged PwC to assist the overseas employees in meeting the tax compliance obligations in the U.S. and the foreign country of assignment. A description of the types of services PwC is authorized to provide to the overseas employee is listed below.

A. Prior to Undertaking the Foreign Assignment

A Company tailored "pre-assignment" tax consultation will be provided to acquaint the overseas employee with the tax aspects of his (her) overseas work assignment.

B. While in the Foreign Country

Annual income tax return preparation (foreign country, U.S. and state/local) and related services will be provided, including assistance with tax examinations involving assignment-related issues and preparation of Company tax equalization calculations.

C. After Returning to the United States

Preparation of all income tax returns reporting assignment - related income and related services, including assistance with tax examinations involving assignment-related issues and preparation of final Company tax equalization calculation will be provided.

A post-assignment tax consultation may be provided to familiarize the overseas employee with specific tax situations that are likely to arise upon repatriation.

Fees for the above services will be paid by the Company. Should the overseas employee request PwC to provide additional services, such as personal financial planning, review of investment strategies, etc., he (she) will be billed directly by PwC and the fee will not be reimbursed by the Company.

Frequently Asked Questions

Q: When is my tax return due?

A: The deadline for filing a U.S. tax return for an overseas employee abroad is **June 15**. PwC will prepare extensions for time to file when necessary. In many cases, the return will be required to be extended until completion of the foreign income tax return.

Q: What if I sell my principal residence?

A: The new tax legislation took effect May 1997 and permits an overseas employee to exclude $250,000 of gain ($500,000 if married filing jointly) on the sale of a principal residence. In general, the exclusion is allowed for each sale or exchange of a principal residence, provided it had been treated as the principal residence for at least two of the five preceding years.

Any actual income tax resulting from the gain on the sale of the overseas employee's principal residence is the employee's tax responsibility. It should be noted that losses on the sale of a principal residence are never tax deductible on either the U.S. individual income tax return or the Company tax equalization calculation.

CAUTION: **Special issues regarding the sale of a U.S. principal residence that has been rented during the foreign assignment.**

If the overseas employee sells a principal residence, which was temporarily rented out while on foreign assignment, the depreciation taken on the home is not eligible for the exclusion.

Q: How will my spouse's income be treated for tax equalization purposes?

A: Income earned by the overseas employee's spouse during the overseas assignment shall be considered net personal income and included in the final Hypothetical income tax calculation. Accordingly, all **foreign** country income, social, wealth, etc., taxes generated by spousal foreign earned income shall be the sole responsibility of the spouse and will not be reimbursed by the company.

Q: How does the overseas assignment affect my state and local income taxes?

A: Estimated and final hypothetical state and local income taxes will be computed on Company income allowing deductions and exemptions as determined under the laws of the tax jurisdiction the overseas employee was relocated from.

Q: Will I still qualify for Alternative Minimum Tax (AMT) while on assignment?

A: The Alternative Minimum Tax (AMT) is computed by adding to regular taxable income items of tax preference. Such items include: accelerated depreciation, along with disallowed itemized deductions such as state and local taxes and miscellaneous deductions. Alternative minimum taxable income is reduced by an exemption ($40,000 for joint taxpayers, $30,000 for single individuals and $20,000 for married individuals filing separately) which is phased out at higher income levels. A flat rate of 28% applies for AMT.

The overseas employee's Hypothetical federal income tax will be the higher of the regular final Hypothetical income tax liability or the Hypothetical AMT liability.

Q: What are the tax consequences if I purchase foreign property?

A: Mortgage interest on foreign properties is deductible for U.S. tax purposes, and will be deductible for the employee's hypothetical tax liability. Any gain from the sale of the property which results in tax liability (U.S. or foreign) will be regarded as personal income and the responsibility of the employee.

Q: How will reimbursements by the company be treated for tax purposes?

A: Whenever the Company reimburses foreign country or U.S. income taxes (either currently, or in a subsequent year), such reimbursements themselves constitute income for U.S. income tax purposes and, in most cases, for foreign tax purposes as well. Under the Program, any additional tax generated by such reimbursements will be fully borne by the Company.

Overseas employees who repatriate and who receive tax reimbursements during a year following their international assignment will be made whole through a gross-up calculation. The gross-up will be calculated at the overseas employee's estimated marginal income tax rates in effect at the time of payment.

Q: Will the one time payment, housing, storage, tax equalization payments, and professional fee benefit be taxable to me?

A: Each of these items represents a taxable company paid benefit which will be included in your annual US W-2. In addition, the items may represent taxable income in the foreign jurisdiction. Under the tax equalization program, the Company will pay all US and foreign taxes related to these items, so in effect they are tax-free to the pilot.

Q: How is Social Security handled while I am on assignment?

A: While on assignment, the pilot will remain on the US payroll and FICA/Medicare will be deducted from salary. His (her) US social security contribution would be the same as if stationed in the U.S. FedEx will continue to contribute the required employer share toward social security. Any social security/Medicare taxes related to additional compensation items related to the assignment (one time payment, housing, etc.) will be paid by FedEx. In most cases, no foreign social security tax will be required, but if so, FedEx will remit on behalf of the pilots.

Q: How are my itemized deductions related to my home handled, such as mortgage interest and real estate taxes, if I retain or sell my home during the assignment?

A: If the home is retained, the mortgage interest/real estate taxes paid by the taxpayer are deductible in determining his (her) hypothetical U.S. taxes. If the home is sold, no deduction will be taken in the computation since no payments are being made by the taxpayer. In the case where an individual purchases a home in the foreign location, the mortgage interest would be deductible, similar to the US home, but please review the housing section of the LOA due to adjustment in monthly allowance.

Q: How does the $91,400 annual tax exclusion relate to tax equalization?

A: The objective of tax equalization is to provide the pilot with a "tax neutral" position as if he (she) remained stationed in the U.S. It is designed to yield neither a tax benefit nor loss to the employee for taking the assignment. Under tax equalization, the employee does not receive the $91,400 income exclusion, as would be the case if stationed in the US. The majority of pilots would incur a financial loss without the tax equalization mechanism regardless of the exclusion due to these factors:

1) the pilots will be liable for foreign income taxes in the host locations
2) the housing, seed money, storage, etc. are taxable income
3) under recent IRS changes in 2006 related to the $91,400 exclusion, taxpayers are unable to use the lower US tax brackets after utilizing the exclusion of the remainder of their taxable income

Under the tax equalization program, the taxes related to all three of these items are a cost to FedEx not to the pilot. Without tax equalization, the pilot would need to become proficient in tax regulations in the various foreign locations and the interplay with US tax credit computation. Under tax equalization, they will be "hypothetically taxed" under familiar US rules and the cost of tax preparation in both the home and foreign location will be a FedEx paid benefit.

Q: What if I want to live in a country other than the "Hub" locations?

A: If a pilot lives in a separate country other than the Hub location, the pilot will remain taxable in the "Hub" country, and as such, under tax equalization FedEx will remit the foreign taxes in the "Hub" country. In some cases, the pilot may trigger a third country taxation or, at minimum a tax filing requirement due to his (her) residence in that third country. If so, the pilot would be responsible for the tax filing and tax liability, if any, without assistance from FedEx. Note that this does not pertain to pilots residing in Hong Kong serving the China Hub.

Q: Do US tax treaties exempt pilots from foreign tax?

A: Under certain tax treaties between the US and foreign jurisdictions, crew members are tax exempt when flying in/out of airport locations globally in order to enhance global commerce. These Articles do not apply to pilots living in the foreign locations, where he (she) will be regarded as tax residents in that particular country.

Q: Does tax equalization consider value added tax (sales tax), motor vehicle taxes, etc?

A: No, tax equalization program is to provide a mechanism to provide a Federal and state tax liability to the assignee similar to the employee residing in the US. Other taxes and licenses are not included in this computation.

PRICEWATERHOUSECOOPERS

Appendix I

To:	Captain Pilot - FedEx
From:	PwC
Date:	April 23, 2009
Subject:	Captain Pilot Hypothetical Withholding Calculation

Please find below our calculation of the hypothetical federal income tax for Captain Pilot as per the wage and deduction information furnished by you. Assumptions include MFJ rates, home state is TN and two children.

If you have any questions, please contact PwC Contact Person.

	Name	
Filing Status:	MFJ	
Base Salary	$215,000	
Gross Income	$215,000	
Exemptions* (4*3,300)	(13,200)	
Standard Deduction	(10,300)	
Taxable Income	$191,500	
Federal Tax	$45,355	
Total Tax	$45,355 / 24	= $1889.79 Per pay period

Marginal Federal Tax Rate 33%

* may be subject to phase-out/reduction for high incomes

2009 FedEx Tax Adjustment 30-Apr-09

Name: Assignee
Foreign Country:

	Per U.S. Tax Return	Hypothetical U.S. Tax Return
Earned Income		
Base Wages	$215,000	$215,000
Less Hypothetical Tax	(45,355)	0
Housing-Rent	32,400	0
Moving Allowance	10,000	0
Tax Prep Fees	4,000	0
Storage	4,000	0
Foreign Taxes Paid	56,722	0
Subtotal	276,767	215,000
Section 911 Exclusion	(105,984)	0
Gross Earned Income	170,783	215,000
Passive Income		
Interest	2,000	2,000
Dividends - Qualifying	0	0
Dividends - Other	1,500	1,500
Capital Gain or Loss	10,000	10,000
Rental Income (Loss)	0	0
Retirement Distributions	0	0
Business Income	0	0
Gross Income	184,283	228,500
Adjustments To Income		
One-half of Self-Employment Tax	0	0
Adjusted Gross Income	184,283	228,500
Deductions		
Itemized Deductions or Standard Deduction	(15,500)	(15,500)
Plus phase-out of itemized deductions	243	686
Personal Exemptions ($3300 *4)	(14,000)	(14,000)
Plus phase-out of personal exemptions	0	0
Taxable Income	$155,026	$199,686
Final U.S. Tax	$10,677	$47,161
Final State Tax	0	0
Final Foreign Tax	56,722	0
Total Tax Liability	$67,399	$47,161
	Company Liability	Pilot Liability

Calculation of Allowable Itemized Deductions:
Higher of Actual or Standard

Actual:		Standard Decduction	
State and local taxes	0	Standard	(11,900)
Real estate taxes	(3,000)		
Home mortgage interest, points, & Investment Int.	(12,000)		
Personal Property Taxes	0		
Charitable Contributions	(500)		
Other- Misc. Deductions	0		
Subtotal	(15,500)		
Hypo Phase-out	243		
Deduction	(15,257)		(11,900)

This letter was not intended or written to be used, and it cannot be used, for the purpose of avoiding U.S. federal, state or local tax penalties.

FedEx Express
Assignee
REMITTANCE SUMMARY

Total Hypothetical tax - final		47,161
Less: Amounts Paid by Employee		
Hypothetical Tax Withheld	(45,355)	
Estimated Payments	0	
Federal Actual Withholdings from FedEx Express	0	
Federal Withholdings from Retirement Distributions	0	
Excess Social Security	0	
Payments to Federal Government (extensions or final return)	(10,677)	
Credits taken on tax return related	0	
to items paid by employee	0	
Dependent Care Credit-Federal	0	
Total Amounts Paid by Employee		(56,032)
Plus: Amounts Received by Employee		
Advances	0	
Refunds from Federal Government	0	
Total Amounts Received by Employee		0
Net Taxes to be Reimbursed to:		
(Employee)		**(8,871)**
FedEx		