Life Partners Position Holder Trust

2017 EXPLANATION OF TAX REPORTING INFORMATION – GIVE TO YOUR TAX PREPARER

The LIFE PARTNERS POSITION HOLDER TRUST (“the PHT” or ”the Trust”) was formed pursuant to the Revised Third Amended Joint Chapter 11 Plan of Liquidation confirmed on November 1, 2016, for the benefit of creditors with certain allowed claims. The Trust is a qualifying Liquidating Trust under Treas. Reg. §301.7701-4(d). A liquidating trust is treated as an I.R.C. §671 Grantor Trust with the beneficiaries of the trust treated as if they directly own undivided interests in the trust's assets. Accordingly, in computing his or her tax, a trust beneficiary includes items which are attributable to his/her ownership in the trust. For interests held for part of a year (e.g. inheritance), tax items have been apportioned based on the time held by each beneficiary.

General Tax information

I.R.C. §6034A requires that a statement be provided to each Grantor/Beneficiary detailing information to be reported on their tax returns. Pursuant to Treas. Reg. §1.671-4(a), this statement is provided to you, a Trust beneficiary, to inform you of your share of income, deduction, and credit from the Trust for the tax year ended December 31, 2017. **Please provide this letter to your tax advisor and consult with such professionals to determine the federal and state impact, if any, to your personal income tax situation. This information is provided for information purposes and is not tax advice. Please consult your tax advisor about how you should report this information.**

Allocation of Income and Expenses

The Trust is a grantor trust for income tax purposes. A grantor trust is disregarded for income tax purposes, and the grantors (the beneficiaries of the trust) are treated as if they directly owned the undivided interests in the trust assets. The beneficiaries report their share of tax items from the Trust on their individual tax returns. This letter represents your share of tax items from the Trust allocated to you in proportion to your beneficiary ownership percentage in the Trust.

Types of Income and Deductions Reported

The Trust recognizes **ordinary income** on the maturity of the portion of a Life Insurance Policy owned by the Trust – in an amount equal to the excess of the death benefit received by the Trust over the Trust’s adjusted basis in the Policy. This portfolio income is reported on line 4 of page of 1 of Schedule E for Form 1040. This income is not subject to self-employment tax. Please select ‘8’ for the type of property and input ‘other portfolio income’. The activity is not a passive activity under Code Section 469.

Your pro rata share of **ordinary dividends** earned by the Trust should be reported on Form 1040, page 1, line 9a and on line 5 of Schedule B of Form 1040, if required. These dividends are not qualified dividends reported on Form 1040, page 1, line 9b.

Your pro rata share of **interest income** earned by the Trust should be reported on Form 1040, page 1, line 8a and on line 1 of Schedule B of Form 1040, if required.

Legal and professional fees should be deducted on line 10 of page 1 of Schedule E for Form 1040.

Investment interest expense should be deducted on line 13 of page 1 of Schedule E for Form 1040.

Individual and trust beneficiaries should use Form 4952 to compute the amount of deductible investment interest expense. Your share of the Trust’s interest expense should be reported on line 1 of Form 4952. The sum of your ordinary portfolio income, your interest income, and your dividend income should be input on line 4a of Form 4952. Your deduction for legal and professional fees should be entered on line 5 of Form 4952. The computations on Form 4952 may limit the amount of interest expense you can deduct on line 13 of page 1 of schedule E.

Taxable Income does not Equal Cash Distributions Received

You are required to report your share of taxable items on your tax return even though the net amount of taxable items does not equal the amount of cash, if any, distributed to you during the year. Typically, the amount of cash distributed to you and the amount of net taxable items reported to you will be different from each other every year.