

Return of Capital Distributions FAQs

1. **A majority of the dividend payable on March 22, 2013 will be treated as a return of capital to U.S. shareholders. Why is Eaton making this change?**

The acquisition of Cooper resulted in Eaton reincorporating to Ireland. This change in the capital structure of Eaton changed the U.S. tax treatment of cash distributions to U.S. shareholders. In some cases, these distributions are treated as a return of a portion of a shareholder's original investment (return of capital), and in others this distribution is a return of profits. The portion of the distribution that is treated as a return of capital versus a return of profits is dependent upon the capital structure of the company.

2. **How is a return of capital distribution treated for income tax purposes in the U.S. and Ireland?**

For U.S. income tax purposes, the return of capital portion of the distribution is non-taxable and treated as a reduction in the tax basis of the Eaton Corporation plc shares of U.S. shareholders. Once the tax basis is exhausted, it is treated as a capital gain. For Irish income tax purposes, the return of capital distribution is treated as a regular dividend and is taxable to Irish shareholders. Shareholders are encouraged to consult their own tax advisors regarding their particular income tax consequences of the distributions.

3. **In the U.S., does a return of capital distribution receive similar tax treatment for state income tax purposes?**

Generally yes, unless the state tax law specifically diverges. For example, in Ohio the tax treatment follows federal rules. Shareholders in other states should consult their tax advisors.

4. **Do I need to file any additional documentation or paperwork as a result of this change?**

No, although shareholders will need to track their Eaton Corporation plc shares tax basis in their tax return work-paper files, if tax basis information is not maintained by their broker or the shares are not held in a brokerage account.

5. **How do I calculate the change in tax basis resulting from the receipt of this return of capital?**

Eaton is required to complete IRS Form 8937 for each distribution that affects shareholder basis and post it on the Investor Relations portion of our website within 45 days of the dividend payment date. This form will provide details on the expected changes in the tax basis of the shares. The final determination of the tax treatment of annual distributions (dividends vs. return of capital) is reported to U.S. shareholders on Form 1099-DIV. This form will be mailed to U.S. shareholders in early 2014 for distributions received in 2013. Shareholders that are tax resident in non-U.S. jurisdictions should consult their tax advisors.

6. **Now that a portion of the distribution is a return of capital, will it impact the process or timing of future dividend payments or the cash I receive as a shareholder?**

The timing will not be impacted. The amount of the dividend is also not impacted at the gross distribution level. However, many U.S. shareholders may retain more cash on an

after-tax basis, but factors such as when the underlying share is sold, future tax rates and personal tax situations will impact the ultimate net cash received.

7. Does Eaton expect to maintain this treatment into the future?

Yes, in the medium-term, Eaton is expected to maintain this treatment.

8. Where can I find further information regarding the U.S. tax treatment of return of capital distributions?

See IRS Publication 550, Investment Income and Expenses.

Return of Capital Distribution Example

An individual who is a citizen of the United States owns one share of Eaton Corporation plc ("ETN") stock. This share was purchased on December 31, 2012 for \$50.00. During 2013, the shareholder receives total distributions of \$1.68 on his share of ETN stock. Assume that in 2014 Eaton Corporation plc communicates to its shareholders that for U.S. tax purposes, 85% of the 2013 distributions should be treated as a return of capital and 15% should be treated as a dividend. Therefore for U.S. tax reporting, this shareholder should treat \$1.43 of the \$1.68 distribution as a return of capital and \$0.25 of the \$1.68 distribution as a dividend.

The portion of the distribution which is treated as a dividend for U.S. tax purposes is taxable to the shareholder in the year in which the dividend is received. Accordingly, this shareholder should report \$0.25 of dividend income on his 2013 U.S. Income Tax Return.

The portion of the distribution which is treated as a return of capital for U.S. tax purposes will reduce the shareholder's basis in his stock and will therefore impact the amount of the taxable gain or loss recognized by the shareholder in the year in which he sells his stock. Assuming that this shareholder sells his ETN share for \$60.00 on June 1, 2014, his U.S. taxable gain should be calculated as follows:

Original adjusted basis	\$50.00
Less: return of capital distributions	<u>(\$ 1.43)</u>
New adjusted basis	\$48.57
Sale proceeds	\$60.00
Less: new adjusted basis (above)	<u>(\$48.57)</u>
Capital gain reportable in 2014	<u>\$11.43</u>