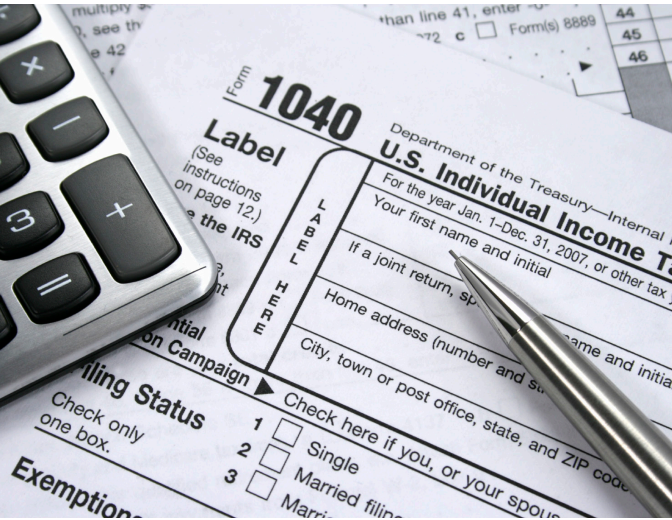


# 2011



# Mutual Fund Tax Guide



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## Purpose of This Tax Guide

This tax guide provides some basic information about the tax forms you have received or that may be mailed to you later this year. The information on pages 6-14 lists the various tax forms, who will receive them, and when the forms are required to be mailed. We have included a detailed explanation of each tax form, frequently asked questions and answers, and where to go for further information.

**Although this guide may assist you in preparing your tax return, it is not designed to provide specific tax advice or guidance. Given the scope and complexity of our tax laws, you should consult your tax or financial advisor who may have knowledge of your personal financial history and who can best assist you in preparing your tax return.**

## Tax Items of Interest

### **Mandatory Cost Basis Reporting**

The Emergency Economic Stabilization Act of 2008 requires mutual funds to report cost basis information for shares purchased on or after January 1, 2012. Shareholders will generally be required to use the cost basis information provided by the mutual fund for shares purchased on or after that effective date. Eligible accounts currently have their cost basis tracked using the IRS single-category average cost method. The long-term or short-term designation of a gain/loss associated with a redemption (or exchange) of mutual fund shares is also required under the Act, beginning with the 2012 tax year.

### **The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (“the Act”)**

Signed in December 2010, this Act extended several tax provisions beneficial to mutual fund shareholders.

The current, reduced tax rates on long-term capital gains and qualified dividend income have been extended through December 31, 2012.

<b>2011 – 2012</b>		
<b>Ordinary Income Tax Rate</b>	<b>Ordinary Dividend Tax Rate</b>	<b>Qualified Dividend Tax Rate (QDI)</b>
10%	10%	0%
15%	15%	0%
25%	25%	15%
28%	28%	15%
33%	33%	15%
35%	35%	15%

Furthermore, the exemption from NRA withholding on qualified interest income and short-term capital gains paid to certified foreign shareholders has been extended through all fiscal tax years for mutual funds which begin prior to January 1, 2012.

Section 3406(b) of the Internal Revenue Code requires backup withholding to occur upon certain payments being made to a mutual fund shareholder, including dividends, short-term and long-term capital gains, and redemptions/exchanges. The backup withholding rate was scheduled to rise to 31% on January 1, 2011 but instead will remain at 28%.

The Pension Protection Act provision allowing an income exclusion of up to \$100,000 for qualified charitable distributions from IRAs which were paid directly to certain charitable organizations after the IRA owner attained the age of 70 ½ expired at the end of 2009. This provision is now extended through December 31, 2011. A transition provision does exist allowing IRA owners to elect to have qualified charitable distributions made in January 2011 only to be treated as having been made on December 31, 2010. Therefore that distribution must be recorded on their 2010 federal tax returns, even though that distribution event will be reported to the IRA owner and the IRS on the 2011 tax year Form 1099-R.

The tax benefits of Coverdell education savings accounts were slated to expire on December 31, 2010, however, the Act extended such provisions for two years, through December 31, 2012, to include but not limited to the following: \$2,000 annual contribution amount, tax-free status of distributions when used for qualified higher, secondary, and elementary expenses, age rules for special needs beneficiaries, and the extended time frame during which contributions can be made and excess contributions removed without additional tax.

The American Opportunity Tax Credit, previously known as the Hope Credit, was modified to make the credit available to a broader range of taxpayers to assist with payment of qualified tuition and related education expenses and is now available through December 31, 2012 to qualified taxpayers based upon their modified AGI. For more information regarding this credit, please see the IRS Publication 970, Tax Benefits for Education.

The Act allows for an estate tax exclusion amount of \$5 million in 2011 and will be indexed for inflation for decedents dying January 1, 2012 and forward with a maximum estate tax rate of 35 percent. The same thresholds apply to gifts made after December 31, 2010. These annual exclusion amounts and tax rates are scheduled to expire after December 31, 2012.

Federal Insurance Contributions Act (FICA) tax applicable to employees is

reduced by the Act from 6.2 percent of total covered wages to 4.2 percent for the 2011 tax year only.

**Maximum Contribution Limits** – Taxpayers can contribute up to the amounts listed below for the 2011 tax year. “Catch-up” contributions, for those shareholders age 50 or over on December 31 of each year are also provided below.

<u>2011 Tax Year</u>	<u>Contribution “Catch-Up”</u>	
Traditional IRA	\$5,000	\$1,000
Roth IRA	\$5,000	\$1,000
SEP IRA	\$49,000*	\$5,500
SIMPLE IRA	\$11,500	\$2,500
Coverdell Education Savings (CESA)	\$2,000	N/A

\*or the lesser of 25% of your 2011 compensation

### **Savers Credit**

If you make eligible contributions to an employer-sponsored retirement plan or to an IRA, you may be able to take a tax credit. To be eligible for the credit you must be at least 18 years of age, not a full-time student, and cannot be claimed as a dependent on another person’s federal tax return. The tax credit may be up to \$1,000 or up to \$2,000 if married filing jointly. Please review IRS Publication 590 and IRS Form 8880 for more details.

### **Gift Tax Exclusion**

Gift tax is a tax on the transfer of property by one individual to another while receiving nothing, or less than full value, in return. The tax applies whether the donor intends the transfer to be a gift or not. The annual exclusion for gifts made to a donee during the calendar year has increased to \$13,000, for the 2009 and future tax years.

## TAX FORMS

### Form 1099-DIV

**Purpose** - Reports all dividend and capital gain earned from distributions (cash or reinvested) on non-retirement accounts. If there were no taxable capital gain or dividend distributions, you will not receive a 1099-DIV. Dividend information is reported on either IRS Form 1040, 1040A, or 1040 Schedule B. Capital gain information may be required on IRS Form 1040 Schedule D. You will not receive a Form 1099-DIV if your total dividends for a fund are less than \$10. Even if you do not receive Form 1099-DIV, you must still report all of your taxable dividends and capital gains on your tax return.

**Who Will Receive It?** - Individuals, trusts, estates, partnerships and certain other institutions. Retirement plan accounts will NOT receive this form.

**Required Mailing Date** - February 17, 2012

**Box 1a:** Reports total ordinary dividends, including short-term capital gains (will include amount from box 1b)

**Box 1b:** Reports qualified dividend income that may be taxed at a reduced rate depending on your tax bracket

**Box 2a:** Reports total long-term capital gains

**Box 3:** Reports a return of your initial investment, also known as return of capital

**Box 4:** Reports backup withholding to include on your tax return as taxes withheld

**Box 6:** Reports foreign tax paid

## **Form 1099-B**

**Purpose** - You will receive Form 1099-B if you have performed a redemption or exchange from a non-retirement or non-money market account. The information displayed on Form 1099-B is reported on the IRS Form 1040, Schedule D and Form 8949. Basis reporting for mutual funds is not required on Form 1099-B until the 2012 tax year. However, if you receive a 2011 tax year 1099-B it may include basis information, as a courtesy, even though that basis information is not being reported to the IRS.

**Who Will Receive It?** - All accounts which had redemptions during 2011 except for retirement plan, corporate, and certain institutional accounts.

**Required Mailing Date** - February 17, 2012

**Box 1a:** Date of acquisition of the fund shares that were sold; will display "Various" if shares acquired at different dates are included in the transaction

**Box 2:** Reports gross proceeds from sale

**Box 3:** Reports cost basis of the fund shares that were sold

**Box 4:** Reports backup withholding to include on your tax return as taxes withheld

**Box 5:** Reports the loss amount disallowed due to wash sale rules

**Box 6:** Indicates whether cost basis is required to be reported to you and the IRS (not required for 2011 tax year)

**Box 8:** Indicates whether holding period was short-term or long-term

## **Form 1099-R**

**Purpose** - Reports distributions from a Traditional IRA, Roth IRA, SEP IRA, SIMPLE IRA and certain Qualified Plans. This information must be reported on IRS Form 1040 or Form 1040A, and may be reported on Form 8606 and Form 5329.

**Who Will Receive It?** - Individuals who took a distribution in 2011. Any IRA trustee to trustee transfers are not reportable.

**Required Mailing Date** - January 31, 2012

**Box 1:** Gross distributions including rollovers or transfer conversions to a Roth IRA or a recharacterized IRA contribution

**Box 2a:** The taxable amount for distributions from IRAs is generally not computed

**Box 4:** Federal withholding

**Box 7:** Codes that identify the type of distribution made. See the reverse side of Form 1099-R for detailed descriptions of the codes

**Box 12:** State withholding

## **Form 1099-Q**

**Purpose** - Reports distributions from Coverdell ESA accounts.

**Who Will Receive It?** - Individuals who took a distribution in 2011. Trustee to trustee transfers are considered reportable on this form.

**Required Mailing Date** - January 31, 2012

**Box 1:** Gross distributions including rollovers and transfers

**Box 2:** Only displays earnings made on excess contributions, otherwise not applicable for 2011

**Box 3:** N/A

**Box 4:** Reports if the distribution in Box 1 was a trustee to trustee transfer

## **Form 1099-INT**

**Purpose** - Reports tax-exempt interest dividends on non-retirement accounts. See the appropriate 1040 tax return instructions to determine the proper manner in which to report this information to the IRS.

**Who Will Receive It?** - Individuals, trusts, estates, partnerships and certain other institutions. Retirement plan accounts will NOT receive this form.

**Required Mailing Date** - February 17, 2012

**Box 1:** Reports interest income

**Box 4:** Reports backup withholding to include on your tax return as taxes withheld

**Box 8:** Reports tax-exempt interest dividends - Reportable on line 8b of Form 1040 or 1040A

**Box 9:** If applicable, reports tax-exempt interest AMT dividends – See the Instructions for Form 6251, Alternative Minimum Tax - Individuals

## **Form 592-B**

**Purpose** - Reports State of California backup withholding on redemptions and long-term capital gains.

**Who Will Receive It?** - Accounts which are subject to federal backup withholding and also reflect a residence of California.

**Required Mailing Date** - January 31, 2012

**Part IV Box 1:** total income subject to backup withholding (amount matches Box 2 on IRS Form 1099-B or Box 2a on IRS Form 1099-DIV)

**Part IV Box 2:** Reports total California backup withholding

**Part IV Box 3:** Reports total backup withholding for both federal and State of California (amount matches Part IV Box 2 of the 592-B tax form plus any amounts from box 4 on IRS Form 1099-DIV and Box 4 on IRS Form 1099-B).

## **Form 1042-S**

**Purpose** - Used to report dividends (including short term capital gains) subject to withholding paid to nonresident aliens.

**Who Will Receive It?** - Foreign investors who are not U.S. citizens.

**Required Mailing Date** - March 15, 2012

**Box 1:** Income code

**Box 2 :** Gross income paid

**Box 5:** Country withholding rate

**Box 6:** Exemption code

**Box 7:** Federal tax withheld

**Box 13b:** Type of Recipient

**Box 16:** Country code

**Box 17-20:** Non-Qualified Intermediary information

## **Form 5498**

**Purpose** - Reports IRA contributions, rollovers, conversions, and recharacterizations. These amounts are reported on one of the IRS Forms 1040, 1040A or Form 8606.

**Who Will Receive It?** - Individuals who contributed to a Traditional, Roth, SEP, or SIMPLE IRA for 2011. Assets transferred between like arrangements from one custodian or trustee to another will not generate this form.

**Required Mailing Date** - May 31, 2012 (except for fair market value information which is supplied via an annual statement by January 31, 2012)

**Box 1:** Traditional IRA contributions made in 2011 and through April 17, 2012 for 2011

**Box 2:** Rollover contributions

**Box 3:** Amount converted or reconverted to a Roth IRA from a Traditional, SEP or SIMPLE IRA

**Box 4:** Amount recharacterized from one IRA type to another

**Box 5:** Fair market value at year end

**Box 7:** Type of IRA

**Box 8:** SEP contributions made in 2011

**Box 9:** SIMPLE contributions made in 2011

**Box 10:** Roth IRA contributions made in 2011 and through April 17, 2012 for 2011

**Box 11:** Reports to the IRS if a Required Minimum Distribution is required to be taken for the tax year of 2012

## **Form 5498-ESA**

**Purpose** - Reports Coverdell ESA contributions, rollovers, and transfers.

**Who Will Receive It?** - Individuals who contributed to a Coverdell ESA account on behalf of a beneficiary for the tax year of 2011. A shareholder who transferred assets from one custodian or trustee to another will also receive this form.

**Required Mailing Date** - April 30, 2012

**Box 1:** Coverdell ESA contributions made in 2011 and through April 17, 2012 for 2011

**Box 2:** Rollovers and transfers made during 2011

## Special Tax Considerations

### Dividends from U.S. Government Obligations

Some states do not tax their residents on mutual fund income received that is earned directly from U.S. Government obligations. Short-term capital gain distributions, although treated as ordinary income are generally not eligible for state tax-exemption. A statement may accompany your Form 1099-DIV indicating the percentage of income your fund earned that was attributable directly to U.S. Government obligations.

### Alternative Minimum Tax

The Alternative Minimum Tax (AMT) was created to prevent excessive use of tax deductions and credits. Its goal is to ensure that individuals who benefit from these deductions pay a minimum amount of federal income tax. Refer to the instructions for Form 1040 or Form 6251 to determine if this tax applies to you. The AMT calculation begins with your regular taxable income and adjusts for certain "tax-preference" items. One of these "tax-preference" items that would be added back to your regular taxable income is tax-exempt interest from private activity bonds. Private activity bonds are municipal bonds issued to benefit private, for-profit operations. If you own shares of a fund that invests in private activity bonds, you must include that portion of the funds distributions that are attributable to private activity bonds as a "tax-preference" item in your AMT calculation. If a fund invests in private activity bonds, a letter will generally be sent that reports to its shareholders the amount of distributions subject to the AMT.

## **Capital Losses**

Taxpayers who redeemed mutual fund shares at a capital loss during the year may be able to use those losses to offset other capital gains or in some cases ordinary income. The IRS has created several rules in order to discourage loss-oriented selling. Two of these rules are:

### **Wash Sales**

If you purchase shares of a mutual fund (including reinvested dividends) within 30 days before or after you redeemed shares of the same mutual fund for a loss, the redemption will be considered a “wash sale” and some or all of your capital loss will be deferred. The amount of your deferred loss increases the cost basis of the shares purchased which created the wash sale. When those shares are subsequently sold the deferred loss is then allowed. Please consult your tax advisor for more information about wash sale rules.

### **Long-Term Capital Gain Distributions**

Capital gain distributions from a mutual fund are generally reported as long-term capital gains regardless of how long you owned shares in a fund. However, if you owned shares for less than six months, received a capital gain on these shares, and sold them at a loss, part or all of the loss on the sale of the shares (which would normally be short-term based on the holding period) may be recharacterized as long term instead. The amount of the loss equal to or less than the capital gain distribution is the amount which will be recharacterized as long term. The amount of the loss greater than the capital gain distribution remains short term.

## QUESTIONS AND ANSWERS

### **Q - How can I request duplicate tax forms?**

A - After February 17, 2012, you can contact U.S. Bancorp Fund Services, LLC to receive duplicate copies of your tax forms.

### **Q - Will I receive Cost Basis Information?**

A - If you redeemed shares from a taxable account during 2011, your Form 1099-B may include cost basis information. However, that cost basis information is provided to you as a courtesy and will not be reported to the IRS. Please remember, cost basis information is required only for covered shares purchased after January 1, 2012 and therefore is not required on your 2011 Form 1099-B. It remains your responsibility to calculate and report basis information to the IRS for non-covered shares (generally acquired prior to January 1, 2012). Please see the IRS instructions for Forms 8949, Schedule D and 1040 for details on how to report basis information.

### **Q - Can I spread the taxable portion of a conversion to a Roth IRA over future tax years?**

A - Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) only allowed that option for conversions which occurred during the 2010 calendar year. Beginning with 2011, the taxable portion of a conversion to a Roth IRA must be included in your taxable income for the year in which the conversion was performed.

### **Q - At what point can I no longer recharacterize a Roth IRA for the 2011 tax year?**

A - A Roth IRA can be recharacterized through October 15, 2012.

**Q - What is a capital gain distribution and how is that different from a capital gain that is incurred when shares of my account are sold?**

A - A Fund Capital Gain Distribution can occur when a fund buys and sells stocks and other securities within the fund's portfolio. This activity may create a net capital gain for the fund. This capital gain distribution is taxable for non-retirement accounts. A Shareholder Capital Gain occurs when the shareholder sells shares for a gain in a taxable, non-retirement, non-money market account.

**Q - Do I have to report reinvested capital gains & dividends on a non-retirement account?**

A - Yes, capital gain and dividend distributions are considered income in the year they are distributed regardless whether they are paid in cash or reinvested. The amount of the reinvested dividends and capital gains are then added to the cost basis when a redemption occurs. This is to avoid being taxed twice on the same dollars.

**Q - Why are SEP and SIMPLE contributions that were made in 2012 for the 2011 tax year NOT on Form 5498?**

A - IRS rules state that only contributions made to a SEP and SIMPLE IRA during the calendar year are to be reported on Form 5498. Only contributions made during the 2011 calendar year will be reported on the 2011 Form 5498, regardless of which tax year those contributions were directed.

**Q - What happens if I make an excess contribution?**

A - You will receive Form 5498 (Form 5498-ESA for a Coverdell ESA account) that details the total amount of your contribution. If the excess contribution is removed, you will receive Form 1099-R (Form 1099-Q for a Coverdell ESA account) detailing the removal of that excess, including any earnings. Please consult IRS Publications 590 and 970 for more information regarding the IRS penalties associated with excess contributions.

**Q - Why was there backup withholding on my taxable account?**

A - Generally, backup withholding applies when the Fund did not receive either a properly completed application or IRS Form W-9. Another reason is that the IRS may have instructed the Fund to withhold due to a TIN/Name mismatch on your account or due to your failure to pay federal taxes.

**Q - Do I have to report capital gains and dividends on an IRA account?**

A - No, if they were reinvested in the same IRA. Yes, if taken as a cash distribution.

**Q - What tax forms are mailed to nonresident aliens?**

A - Form 1042-S is mailed to nonresident aliens who received Fund capital gain or dividend distributions on their taxable account or liquidated assets from a retirement account. A nonresident alien is not a U.S. citizen.

**Q - Where can I get more information on completing my tax return?**

A - Please refer to the Additional Resources section in this tax guide for more information, or consult a tax advisor.

## Additional Resources

**IRS Web Site** - Download forms, instructions, and publications: [www.irs.gov](http://www.irs.gov)

**IRS Tele Tax Topics** - Touch tone service on topics, 24 hours/day, 7 days/week (rotary service will vary) 1-800-829-4477

**\* See the IRS Form 1040 instructions or IRS Publication 910 for a complete list of Tele Tax Topics**

### \*Topic

<u>Number</u>	<u>Subject</u>
155	Forms/Publications
307	Backup Withholding
309	Roth IRA Contributions
310	Coverdell Education Savings Accounts
404	Dividends
409	Capital Gains & Losses
410	Pensions and Annuities
412	Lump-Sum Distributions
413	Rollovers from Retirement Plans
424	401(k) Plans
451	IRAs
553	Tax on a Child's Investment Income
556	Alternative Minimum Tax
557	Tax on Early Distributions from Traditional and Roth IRA's
558	Tax on Early Distributions from Retirement Plans
610	Retirement Savings Contribution Credit
652	Notice of Underreported Income

**Tax Forms** - Forms, instructions, and publications can be found at your local IRS office, bank, post office, library, or by calling the IRS Forms Distribution Center at 1-800-TAX-FORM.

**IRS General Information** - 1-800-829-1040

**\*\*Key IRS Publications** - Please see IRS Publication 17 or 910 for a complete list.

<b><u>Number</u></b>	<b><u>**Title</u></b>
3	Armed Forces' Tax Guide
17	Your Federal Income Tax (For Individuals)
54	Tax Guide for US Citizens and Resident Aliens Abroad
505	Tax Withholding & Estimated Tax
514	Foreign Tax Credit for Individuals
515	Withholding of Tax on Nonresident Aliens and Foreign Entities
525	Taxable and Nontaxable Income
526	Charitable Contributions
530	Tax Information for Homeowners
550	Investment Income and Expenses
552	Recordkeeping for Individuals
553	Highlights of Tax Changes
554	Tax Guide for Seniors
560	SEP, SIMPLE, and Qualified Plans
590	IRAs
593	Tax Highlights for U.S. Citizens and Residents Going Aboard
907	Tax Highlights for Persons with Disabilities
929	Tax Rules for Children & Dependents
970	Tax Benefits for Education

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