



**2007  
Mutual Fund  
Tax Guide**

April 15

# TABLE OF CONTENTS

<b>Part 1</b> - Tax Items of Interest for 2007 .....	3-6
<b>Part 2</b> - Tax Forms .....	7-14
Form 1099-DIV .....	7
Form 1099-B .....	8
Form 1099-R .....	9
Form 1099-Q .....	10
Form 1099-INT .....	11
Form 1042-S .....	12
Form 5498 .....	13
Form 5498-ESA.....	14
<b>Part 3</b> - Special Tax Considerations .....	15-18
<b>Part 4</b> - Questions and Answers .....	19-21
<b>Part 5</b> - Additional Resources .....	23-24

## 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 7-14 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 for 2007

### ***The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA)*** –

TIPRA was enacted into law on May 17, 2006. Section 6049 of the Internal Revenue Code was amended as a result of TIPRA to require reporting of tax-exempt interest dividends paid to shareholders of mutual funds. This change is effective beginning with the 2006 tax year. Shareholders who receive tax-exempt interest dividends in their mutual fund account can expect to be mailed IRS Form 1099-INT by January 31, 2008. Form 1099-INT may also report the tax-exempt AMT interest dividends received in your account. Mutual funds that distributed both tax-exempt and taxable interest dividends for the 2007 tax year will also be required to provide you an IRS Form 1099-DIV, to report the taxable interest dividend portion of those distributions.

TIPRA extended through 2010 the 15% maximum tax rate on long-term capital gains and qualified dividend income. Under current law, the 5% minimum tax rate on long-term capital gains and qualified dividend is 0% for 2008-2010.

The current Roth IRA Conversion income restrictions of (a) filing status of married filing separately, and (b) a modified adjusted gross income greater than \$100,000 will be eliminated, beginning with the 2010 tax year.

### ***The Heroes Earned Retirement Opportunities Act (HERO)*** –

HERO was enacted into law on May 29, 2006. The HERO Act allows certain combat pay to be treated as income for purposes of limits on contributions to IRAs. The HERO Act is effective for taxable years retroactively to 2004. See IRS Publication 3 Armed Forces Guide for further details.

### ***The Pension Protection Act of 2006 (PPA) –***

PPA was enacted into law on August 17, 2006. This Act allows for up to \$100,000 per year (for 2006 and 2007) in "qualified charitable distributions" from an IRA to be excluded from gross income. Shareholders who are 70 1/2 or older may take tax-free distributions from their IRA and donate up to \$100,000 to qualified charities in 2006 and 2007. Charitable organizations are further described in the IRS Code under section 170(b) and within IRS Publication 526.

PPA makes permanent the EGTRRA contribution limit, catch-up contribution, retirement plan portability and Saver tax credit provisions that would have expired after 2010.

Income restrictions for deductible Traditional IRA contributions and for Roth IRA eligibility will be adjusted for inflation using an IRS cost-of-living adjustment.

Beginning in 2008, qualified employer sponsored retirement plan assets will be allowed to convert directly to a Roth IRA.

PPA guardsmen and reservists are able to take penalty-free distributions from IRAs and qualified retirement plans, and repay the amount to an IRA, within two years following their period of active duty.

Furthermore, PPA allows non-spouse beneficiaries to roll inherited qualified retirement plan assets into inherited IRAs.

**Qualified Dividends** – A portion of ordinary income that is paid to you may represent Qualified Dividend Income (QDI) earned by the fund. This amount may be taxed at a lower rate. QDI is defined as dividends from domestic corporations and qualified foreign corporations that meet certain requirements under current tax law. The rate on qualified dividend income is 15% for most taxpayers and 5% for those in the lowest income tax bracket. See box 1b titled “Qualified Dividends” of your 2007 Form 1099-DIV for applicable totals from your fund.

Please see the instructions for forms 1040/1040A for more information on how to report these dividend totals.

**Maximum Contribution Limits** – Taxpayers can contribute up to the amounts listed below for the 2007 tax year. “Catch-up” contributions, for those shareholders age 50 or over on December 31, 2007 are also provided below.

<u>2007</u>	<u>Contribution</u>	<u>“Catch-Up”</u>
Traditional IRA	\$4,000	\$1,000
Roth IRA	\$4,000	\$1,000
SEP IRA	\$45,000*	\$5,000
SIMPLE IRA	\$10,500	\$2,500
401K	\$15,500	\$5,000
Coverdell Education Savings (CESA)	\$2,000	N/A

\*or the lesser of 25% of your 2007 compensation

**Retirement Savings Contribution Credit** – Taxpayers may be able to take a tax credit, which can reduce your tax liability dollar for dollar, for contributions to a qualified retirement plan, an eligible deferred compensation plan, or to a traditional or Roth IRA. A credit of up to 50% of the amount contributed is available, if your modified adjusted gross income is below certain thresholds.

## REMINDER

### Coverdell Education Savings Account

Distributions from Coverdell Education Savings Accounts (ESA) may be used to pay for higher education, secondary and elementary school expenses. Qualified higher education expenses may include tuition, fees, books, supplies, and equipment required for enrollment or attendance of the designated beneficiary at the eligible educational institution. Certain room and board expenses as well as special needs expenses may also be included as qualified higher education expenses. Qualified elementary and secondary expenses may include tuition, academic tutoring, special needs, room and board, uniform, and transportation expenses.

You can claim the Hope or lifetime earning credit in the same year you take a tax-free distribution from a Coverdell Education Savings Account, provided the distribution from the Coverdell Education Savings Account is not used for the same expenses for which the credit is claimed.

You can make contributions to Coverdell Education Savings Accounts and qualified tuition programs in the same year for the same beneficiary. Coverdell Education Savings Accounts may not be transferred or rolled over to a Roth IRA.

**As with all items within this brochure, please consult your tax advisor to discuss how these changes may affect your own situation.**

## 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. 1099-DIV information is reported on either IRS Form 1040, Schedule B or Form 1040A, Schedule 1. Your capital gain may be reported on Schedule D. See the instructions for filing Schedule D. You will not receive a Form 1099-DIV if your total dividends for a fund are less than \$10 as the IRS does not require you to report those dividends 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** - January 31, 2008

**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 non-taxable portion of a dividend distribution

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

**Box 6:** Reports foreign tax paid

## **Form 1099-B**

***Purpose*** - If you have made any redemptions, exchanges, or payments from non-retirement or non-money market accounts, a Form 1099-B will be sent. The information from the 1099-B is reported on the IRS Form 1040, Schedule D. Sales of municipal income fund shares are taxable and are reported on IRS Form 1040, Schedule D.

***Who Will Receive It?*** - All accounts which had redemptions during 2007 except for retirement plan, corporate, and certain institutional accounts.

***Required Mailing Date*** - January 31, 2008

***Box 1a:*** Trade date fund shares were sold

***Box 2:*** Reports gross proceeds from sale, is reported on Schedule D

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

***Box 5:*** Reports number of shares that were sold

***Box 7:*** Description, including share price and number of shares of transaction

## **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.

***Who Will Receive It?*** - Individuals who took a distribution in 2007. Any IRA trustee to trustee transfers are not reportable.

***Required Mailing Date*** - January 31, 2008

***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 tax

***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 10:*** State withholding tax

## **Form 1099-Q**

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

**Who Will Receive It?** - Individuals who took a distribution in 2007. Trustee to trustee transfers are considered reportable on this form.

**Required Mailing Date** - January 31, 2008

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

**Box 2:** Only displays earnings made on excess contributions, otherwise not applicable for 2007

**Box 3:** Not applicable for 2007

**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** - January 31, 2008

**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 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 17, 2008

***Box 1:*** Income code

***Box 2 :*** Gross income paid

***Box 5:*** Country withholding rate

***Box 6:*** Exemption code

***Box 7:*** Federal tax withheld

***Box 15:*** Recipient's country of residence

***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 2007. Assets transferred between like arrangements from one custodian or trustee to another will not generate this form.

**Required Mailing Date** - June 2, 2008 except for fair market value information, which is reportable by January 31, 2008.

**Box 1:** Traditional IRA contributions made in 2007 and through April 15, 2008 for 2007

**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 2007

**Box 9:** SIMPLE contributions made in 2007

**Box 10:** Roth IRA contributions made in 2007 and through April 15, 2008 for 2007

**Box 11:** Reports to the IRS if a Required Minimum Distribution is required to be taken for the tax year of 2008.

## **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 2007. A shareholder who transferred assets from one custodian or trustee to another will also receive this form.

***Required Mailing Date*** - April 30, 2008

***Box 1:*** Coverdell ESA contributions made in 2007 and through April 15, 2008 for 2007.

***Box 2:*** Rollovers and transfers made during 2007

## Special Tax Considerations

### Cost Basis Statements

Shareholders who took a distribution from their mutual fund accounts may receive an Average Cost Basis Statement. Retirement plan accounts or those accounts which have had a change of ownership or control will not receive an Average Cost Basis Statement.

In addition to fund and shareholder registration information, your statement will show:

- Trade date
- Number of shares redeemed
- Redemption price
- Redemption proceeds
- Average cost basis
- Gain (loss)

The dollar amount of your gain (loss) is calculated by using the IRS-approved “Average Cost-Single Category” method of accounting. Cost basis is a way of measuring the dollar amount of your investment for tax purposes. The basis of stocks, bonds and mutual fund shares includes acquisition cost, commissions and fees paid, as well as other adjustments. The Average Cost-Single Category method uses an average basis of shares you own, taking into consideration those shares acquired at different times with different prices. For example, a shareholder makes three share purchases: 100 shares on 1/2/07 at \$10.00 per share, 100 shares on 6/1/07 at \$12.00 per share and 100 shares on 12/1/07 at \$20.00 per share. The 300 shares purchased cost a total of \$4,200. The average cost per share is \$14.00 (\$4,200 divided by 300 shares.) If you sell 150 shares, the basis of those shares sold is \$2,100 (150 shares multiplied by \$14.00 average cost per share)

A wash sale transaction occurs when you sell shares at a loss and purchase new shares (including reinvested dividends) in

the same fund within a 61 day period, beginning 30 days prior to the sale and ending 30 days after the sale. With wash sales, you may not be able to claim some or all of the capital loss immediately. The amount of any postponed loss is added back to the cost basis of the remaining shares you own. When you eventually sell those shares, your average cost will reflect the postponed loss amount.

Before you elect to use the average cost basis statement for reporting purposes, you should consider the several ways to calculate the cost basis of shares sold. Please consult with your tax advisor to determine whether or not the average cost basis method is the most advantageous method for your specific financial situation.

### **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 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. See IRS Publication 564 or consult a tax advisor before making this calculation.

## QUESTIONS AND ANSWERS

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

**A** - After January 31, 2008, you can contact U.S. Bancorp Fund Services, LLC to receive duplicate copies of your tax forms.

### **Q - *Will I receive an Average Cost Basis Statement?***

**A** - You should receive an Average Cost Basis Statement if you meet ALL of the following criteria:

- You redeemed shares from a non-IRA account in 2007
- You received Form 1099-B
- Your account was opened after January 1, 1987

Average Cost Basis Statements are mailed by January 31, 2008, in conjunction with Form 1099-B. There are certain situations such as transfers of shares which may prevent you from receiving a cost basis statement. Please contact U.S. Bancorp Fund Services, LLC to inquire about your specific account.

### **Q - *How will Roth conversions be shown on tax forms?***

**A** - They will be shown on Form 5498, box 3 and on Form 1099-R, box 1 and 2a and distribution code 2 or 7 in box 7

### **Q - *At what point can I no longer recharacterize a Roth IRA for 2007?***

**A** - A Roth IRA can be recharacterized through October 15, 2008.

### **Q - *How will Roth IRA recharacterizations be shown on tax forms?***

**A** - Recharacterizations will be shown as a gross distribution on Form 1099-R, box 7, with code N for current year and code R for prior year. Form 5498 will show the recharacterized amount in box 4.

**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-IRA accounts. A Shareholder Capital Gain occurs when the shareholder sells shares for a gain in a taxable, non-IRA, non-money market account.

**Q - *Do I have to report reinvested capital gains & dividends on a non-IRA 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 2008 for the 2007 tax year, not shown 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. Contributions made in 2007 for 2006 will be reported on the 2007 Form 5498.

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

**A -** Generally there is withholding because the fund did not have a signed application or IRS Form W-9 on file, or the IRS has instructed the fund to withhold on distributions made from your account.

**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 capital gain and/or dividend distributions on their account in 2007. A nonresident alien is not a US 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 150 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**

<u>*Topic 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
555	Ten-Year Tax Option for Lump-Sum Distributions
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.

<u>Number</u>	<u>**Title</u>
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 Non Resident Aliens and Foreign Entities
525	Taxable and Nontaxable Income
526	Charitable Contributions
550	Investment Income and Expenses
552	Recordkeeping for Individuals
553	Highlights of Tax Changes
554	Tax Guide for Seniors
560	Retirement Plans for Small Businesses
564	Mutual Fund Distributions
575	Pension and Annuity Income
590	IRAs
593	Tax Highlights for U.S. Citizens Going Abroad
907	Tax Highlights for Persons with Disabilities
929	Tax Rules for Children & Dependents
970	Tax Benefits for Higher Education

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