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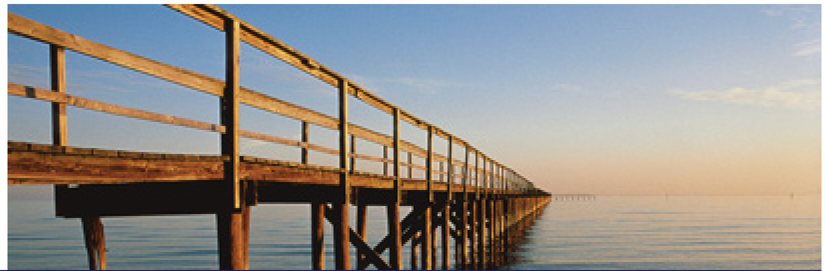

THE WHITE PAPER

Strategies for Managing Your Assets

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Calculating Taxes on Mutual Funds

For mutual fund investors, earnings come from two sources: fund distributions -- dividends or capital gains -- and the sale of fund shares.[1] Income from these sources may be taxable. Fund companies typically send year-end statements to shareholders that summarize the information used to report investment gains or losses to the IRS. Here's a look at how taxes on your mutual funds are calculated.

Taxable Distributions: Dividends and Capital Gains

As a shareholder, you must pay taxes on dividends or capital gains passed on to you in the year they were received, even if they were automatically reinvested to buy additional fund shares. In general, dividends and capital gains attributable to a fund's underlying investments are taxed as follows:

Long-term capital gains and qualified dividends are taxed at 0% for taxpayers in the 10% and 15% tax brackets, 15% for taxpayers filing singly with incomes less than $413,200 ($464,850 for those who are married filing joint tax returns), and are subject to a top rate of 20% for single taxpayers with income in excess of $413,200 and joint filers with income in excess of $464,850. In addition, net investment income for taxpayers with AGIs in excess of $200,000 (single filers) or $250,000 (married filing jointly) may be subject to the 3.8% Medicare surcharge.

Regular interest income and short-term capital gains on securities held in a fund for less than 12 months are taxed at your ordinary federal income tax rate. Keep in mind that funds with higher turnover (i.e., funds that buy and sell securities often) can result in higher tax liabilities.

Capital Gains From the Sale of Fund Shares

Gains can also be realized when you sell fund shares that have appreciated in value since purchase. Before you can calculate the tax owed on the sale, you have to know your cost basis -- or how much money you paid for the shares, including shares purchased with distributions.

If you sell all of your shares, your cost basis is your total investment (all purchases and reinvested distributions). If, however, you sell some of your shares, determining your cost basis is somewhat complicated. The next section outlines the IRS-approved accounting methods for conducting this calculation.

Calculating Your Cost Basis

- Specific shares: You identify which shares to sell. This method gives you the most control over the amount of gain or loss you report.
- First-in, First-out: This method assumes the first shares purchased are the first to be sold. If you do not indicate otherwise, the IRS assumes you use this method.
- Average cost, single method: With this method you calculate your gain or loss based on the average price you paid for all shares, regardless of how long you have held them. This is the method most mutual fund companies use to provide information to you.
- Average cost, double method: This is the same calculation as above, except shares are divided into short-term and long-term categories and a separate average cost is computed for each.

Keep in mind that net losses incurred from fund investments may be deductible from your income taxes, and that investments in tax-deferred retirement plans, such as a 401(k)s, traditional IRAs, or variable annuities, allow you to defer taxes on all investment earnings until the funds are withdrawn.[2]

Because federal tax laws are complex and fast changing, consult a tax advisor to determine how they apply to your situation.

This information is general in nature and should not be construed as tax advice. Always consult a qualified specialist regarding tax affairs.

[1] *Investing in mutual funds involves risk, including loss of principal. Mutual funds are offered and sold by prospectus only. You should carefully consider the investment objectives, risks, expenses and charges of the investment company before you invest. For more complete information about any mutual fund, including risks, charges and expenses, please contact your financial professional to obtain a prospectus. The prospectus contains this and other information. Read it carefully before you invest.*

[2] Withdrawals from qualified plans taken before age 59½ are generally subject to a 10% additional federal tax -- on top of any regular income taxes owed -- although there are a few exceptions to this rule.

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