

The logo for BAIRD is a dark blue parallelogram tilted to the right, containing the word "BAIRD" in white, serif, all-caps font.

BAIRD



2016 MUTUAL FUND TAX GUIDE

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The purpose of this tax guide is to provide basic information about the 2016 tax forms you may receive this year.

Please note that 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 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.

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Mailing Dates and Deadlines

3

Tax Filing Deadline

The Federal Tax Return filing deadline for the 2016 tax year is **April 18, 2017**. April 15, 2017 falls on a Saturday, and Emancipation Day - a legal holiday in the District of Columbia - is observed the following Monday, April 17, moving the entire nation's tax return filing deadline to Tuesday, April 18, 2017.

Traditional IRA, Roth IRA, and CESA Contribution Deadline

Contributions coincide with the Federal Tax Return filing deadline of April 18, 2017.

| Shareholder Tax Form Mailing | | |
|--|--------------------|---------------------------------|
| Form | Required Mail Date | Duplicate Tax Form Availability |
| 1099-Q , 1099-R , 592-B | January 31, 2017 | February 7, 2017 |
| 1099-B , 1099-DIV , 1099-INT | February 15, 2017 | February 22, 2017 |
| 1042-S | March 15, 2017 | March 22, 2017 |
| 5498-ESA | May 1, 2017 | May 8, 2017 |
| 5498 | May 31, 2017 | June 7, 2017 |

Duplicate Tax Form Requests

Should you require a duplicate tax form, please refer to the table above for the corresponding dates of availability. Please do not hesitate to contact one of our representatives at 1-866-442-2473 if you have any questions, concerns, or need additional clarification regarding your account.



Tax Form Information

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Form 1099-B

5

What Does Form 1099-B Report?

Form 1099-B reports redemptions or exchanges from a non-retirement or non-money market account. The information displayed on Form 1099-B is used to report gain/loss information on IRS Form 1040, Schedule D, and Form 8949.

The section titled 'Not Reported to the IRS' may provide cost basis information on non-covered shares. This section may provide the cost basis method for a transaction, please see the Form 1099-B Backer for further information.

Gain/Loss data is provided as a courtesy. This figure may require adjustment, please see the IRS instructions for Forms 8949, Schedule D, and 1040 for reporting details.

Who will receive Form 1099-B?

Individuals, trusts, estates, partnerships, S corporations, and certain other institutions with redemptions during 2016.

Retirement plan accounts will NOT receive this form.

Required Mail Date

February 15, 2017

How does Cost Basis information Pertain to Form 1099-B Reporting?

If you redeemed shares from a taxable account during 2016, your Form 1099-B may include cost basis information. Please note, cost information is required only for covered shares purchased on or after January 1, 2012 and only those shares are reported to the IRS. 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.



Form 1099-B (cont'd)

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How Is Basis Reported?

Form 1099-B reporting consists of up to five holding periods, based upon the combination of the length of time that the depleted shares were held and the basis reporting requirements of those shares.

- Short-Term transactions for which basis is reported to the IRS (Short-Term, Basis Reported to IRS)
- Short-Term transactions for which basis is not reported to the IRS (Short-Term, Basis NOT Reported to IRS)
- Long-Term transactions for which basis is reported to the IRS (Long-Term, Basis Reported to IRS)
- Long-Term transactions for which basis is not reported to the IRS (Long-Term, Basis NOT Reported to IRS)
- Transactions for which basis is not reported to the IRS and for which Short-Term or Long-Term determination is not available (Unknown)

Reporting of basis information to the IRS depends upon the depleted share designation as covered, non-covered, or unknown.

An IRS basis reporting requirement exists for covered shares generally acquired after 01/01/2012. Basis for non-covered shares may be available (and reported on Form 1099-B as a courtesy), however, it is not reported to the IRS.

Example of Multiple Holding Periods

A single redemption or exchange transaction may contain multiple holding periods, as displayed in the example below.

A redemption depletes the following shares:

| Date of Share Acquisition | Holding Period | Reported to IRS (Covered) |
|---------------------------|----------------|---------------------------|
| 12/05/2011 | Long-Term | No |
| 04/14/2012 | Long-Term | Yes |
| 08/06/2016 | Short-Term | Yes |

The above example would result in three separate holding periods on Form 1099-B.

- **Short-Term, Basis Reported to IRS** holding period for the shares originally acquired 08/06/2016
- **Long-Term, Basis Reported to IRS** holding period for the shares originally acquired 04/14/2012
- **Long-Term, Basis NOT reported to IRS** holding period for the shares originally acquired 12/05/2011



Form 1099-B (cont'd)

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| Box | Description |
|-----|--|
| 1a | Description of property including share price and quantity sold |
| 1b | Date of acquisition of the fund shares that were sold; will be blank if shares acquired at different dates are included in the transaction or if Box 5 shows YES |
| 1c | Reports date shares sold |
| 1d | Reports net proceeds from sale |
| 1e | Reflects the cost or other basis of shares redeemed. If Box 5 shows YES, Box 1e may be blank |

| Box | Description |
|------|--|
| 1f/g | Shows the amount of nondeductible loss in a wash sale transaction |
| 4 | Reports backup withholding to include on your tax return as taxes withheld |
| 5 | If this box displays YES, the shares sold were non-covered (cost basis not reported to the IRS) and boxes 1b, 1e, and 1f/1g may be blank |

FORM 1099-B • PROCEEDS FROM BROKER & BARTER EXCHANGE TRANSACTIONS • 2016

| (1a) Description of Property | | | (1b) | (1c) | (1d) | (1e) | (1g) | (4) | (5) |
|------------------------------|---------------|-----------------|---------------|-----------------------|--------------|---------------------|---------------------------|-----------------------------|----------------------|
| Transaction | Share Price** | Quantity Sold** | Date Acquired | Date sold or disposed | Net proceeds | Cost or other basis | Wash sale loss disallowed | Federal income tax withheld | Non-covered security |
| Fund: | | | | Fund-Acct. no.: | | | | PAYER'S Fed. ID no.: | |



Form 1099-DIV

8

What Does Form 1099-DIV Report?

Form 1099-DIV reports all tax reportable dividend, tax-exempt dividend and capital gain earned from distributions (cash or reinvested) on non-retirement accounts.

Dividend information may require reporting on either IRS Form 1040, 1040A, or 1040 Schedule B while capital gain information may require reporting on IRS Form 1040 Schedule D.

Unless backup withholding applies, you will not receive Form 1099-DIV if the total amount of dividends and capital gains for an account is 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 Form 1099-DIV?

Individuals, trusts, estates, partnerships, S corporations, and certain other institutions.

Retirement plan accounts will NOT receive this form.

Required Mail Date

February 15, 2017

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 *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 distribution occurs when the shareholder sells shares for a gain in a taxable, non-retirement, non-money market account.

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

Yes, capital gains and dividend distributions are considered income in the year they are distributed regardless of whether they are paid in cash or reinvested. The amount of the reinvested dividends and/or capital gains are then added to your account basis.



Form 1099-DIV (cont'd)

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| Box | Description |
|-----|--|
| 1a | Reports total ordinary dividends, including short-term capital gains (will include amount from Box 1b) |
| 1b | Reports qualified dividend income that may be taxed at a reduced rate depending on your tax bracket |
| 2a | Reports total long-term capital gains |
| 3 | Reports a return of your initial investment, also known as return of capital |

| Box | Description |
|-----|---|
| 4 | Reports backup withholding to include on your tax return as taxes withheld |
| 6 | Reports foreign tax paid |
| 10 | Reports tax-exempt interest dividends which are reportable on line 8B of Form 1040 or 1040A |
| 11 | If applicable, reports tax-exempt interest AMT dividends. See the instructions for Form 6251, Alternative Minimum Tax – Individuals |

| FORM 1099-DIV | | • DIVIDENDS AND DISTRIBUTIONS • | | | | | | 2016 | | |
|--|--------------------------------|--|------------------------------------|------------------------------------|-------------------------------------|---------------------------------------|-----------------------------|--|--|--|
| (1a) Total ordinary dividends | (1b) Qualified dividends | (2a) Total capital gain distributions | (2b) Unrecap. sec. 1250 gain | (2d) Collectibles (28%) gain | (3) Nondividend distributions | (4) Federal Income tax withheld | (6) Foreign tax paid* | (8) Cash liquidation distributions | (10) Exempt- interest dividends | (11) Specified private activity bond interest dividends |
| Fund: | | Fund-Acct. no.: | | | PAYER'S Fed. ID no.: | | | | | |
| | | | | | | | | | | |



Form 1099-INT

10

What Does Form 1099-INT Report?

Form 1099-INT reports bank deposit-type 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 Mail Date

February 15, 2017

| Box | Description |
|-----|---|
| 1 | Reports interest income |
| 4 | Reports backup withholding to include on your tax returns as taxes withheld |

| FORM 1099-INT • INTEREST INCOME • 2016 | | | |
|---|------------------------|---|------------------------------------|
| Fund-Acct. no. | (1) Interest income | (3) Interest on U.S. savings bonds and treasury obligations | (4) Federal Income tax withheld |
| Fund: | | | |
| | | | |



Form 592-B

11

What Does Form 592-B Report?

Form 592-B reports State of California backup withholding on redemptions and long-term capital gains.

Who Will Receive Form 592-B?

Accounts subject to federal backup withholding and also reflect a residence of California.

Required Mail Date

January 31, 2017

| Box | Description |
|-----|--|
| 1 | Total income subject to backup withholding |
| 3 | Reports total backup withholding for the State of California |

California Form 592-B • Resident and Nonresident Withholding Tax Statement • 2016

Part III Type of Income Subject to Withholding. Check the applicable box(es).

- | | | |
|--|--|--------------------------------------|
| A <input type="checkbox"/> Payments to Independent Contractors | E <input type="checkbox"/> Estate Distributions | <input type="checkbox"/> Other _____ |
| B <input type="checkbox"/> Trust Distributions | F <input type="checkbox"/> Elective Withholding | (describe) |
| C <input type="checkbox"/> Rents or Royalties | G <input type="checkbox"/> Elective Withholding/Indian Tribe | |
| D <input type="checkbox"/> Distributions to Domestic (U.S.) Nonresident Partners/Members/ Beneficiaries/S Corporation Shareholders | H <input type="checkbox"/> Allocations to Foreign (non-U.S.) Nonresident Partners/Members | |

Part IV Tax Withheld

| (1) Total income subject to withholding | (2) Total California tax withheld (excluding backup withholding) | (3) Total backup withholding |
|---|--|------------------------------------|
| Fund: | Fund-Acct. no.: | |
| TOTALS | | |



Form 1099-R

12

What Does Form 1099-R Report?

Form 1099-R 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 8329.

Who Will Receive Form 1099-R?

Individuals who took a distribution from their Traditional IRA, Roth IRA, SEP IRA, SIMPLE IRA, or certain Qualified Plans in 2016. IRA trustee to trustee transfers are not reportable.

Required Mail Date

January 31, 2017

| Box | Description |
|-----|---|
| 1 | Gross distributions including rollovers, conversions to a Roth IRA, or recharacterized IRA contributions |
| 2a | The taxable amount for distributions from IRAs is generally not computed |
| 4 | Federal withholding |
| 7 | Codes that identify the type of distribution made (see the reverse side of 1099-R for detailed descriptions of codes) |

| Copy C For Recipient's Records | | |
|---|---------------------------------------|--------------------------|
| This information is being furnished to the Internal Revenue Service. (Keep for your records) | | |
| Fund-Acct. no. | RECIPIENT'S identification number | |
| 1 Gross distribution | PAYER'S federal identification number | |
| 2a Taxable amount | 4 Federal Income tax withheld | |
| 2b Taxable amount not determined <input type="checkbox"/> | 7 Distribution code(s) | IRA/SEP/SIMPLE |
| Total distribution <input type="checkbox"/> | | <input type="checkbox"/> |



Form 5498

13

What Does Form 5498 Report?

Form 5498 reports IRA contributions, rollovers, conversions, and recharacterizations. These amounts are reported on IRS Forms 1040, 1040A, or 8606. Form 5498 also reports the fair market value (FMV) of an IRA as of December 31, 2016, for purposes of determining Required Minimum Distribution amounts for the following tax year.

Who Will Receive Form 5498?

Individuals with an IRA who performed a contribution, rollover, recharacterization, or conversion to a Traditional, Roth, SEP, or SIMPLE IRA for 2016. Trustee to trustee transfers are not required to be reported on this form.

Required Mail Date

May 31, 2017, except for FMV information, which is supplied via the annual investor statement in January.

Reportability of Capital Gains and Dividends on IRAs

Capital gains and dividends reinvested within an IRA account are not reportable, however, those distributions, if paid as cash, are reportable on Form 1099-R.

Why are SEP and SIMPLE IRA contributions that were made in 2017 for the 2016 tax year not on Form 5498?

IRS rules require calendar year Form 5498 reporting of contributions made to a SEP or SIMPLE IRA. While your investor statement may provide a breakdown of the specific tax year of your SEP or SIMPLE IRA contributions, your 2016 Form 5498 is required to report those contributions made during the calendar year of 2016, regardless of the tax year to which those contributions apply.

Maximum Contribution Limits

Taxpayers can contribute up to amounts shown below for the 2016 tax year. "Catch-Up" contributions, for those shareholders obtaining age 50 by December 31, 2016, are also provided. See [IRS Publication 590-A](#) or [IRS Publication 560](#) for further eligibility requirements.

| IRA Type | Contribution Limit | "Catch-Up" Contribution |
|-----------------|--------------------|-------------------------|
| Traditional IRA | \$5,500 | \$1,000 |
| Roth IRA | \$5,500 | \$1,000 |
| SEP IRA | \$54,000 | N/A |
| SIMPLE IRA | \$12,500 | \$3,000 |



Form 5498 (cont'd)

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| Box | Description |
|-----|---|
| 1 | Traditional IRA contributions made in 2016 and through April 18, 2017 for the 2016 tax year |
| 2 | Rollover contributions |
| 3 | Amount converted or reconverted to a Roth IRA from a Traditional, SEP, or SIMPLE IRA |
| 4 | Amount recharacterized from one IRA type to another |
| 5 | Fair market value as of 12/31/2016 |

| Box | Description |
|-----|---|
| 7 | Type of IRA |
| 8 | SEP IRA contributions made in 2016 |
| 9 | SIMPLE IRA contributions made in 2016 |
| 10 | Roth IRA contributions for 2016 tax year |
| 11 | Will be selected if a Required Minimum Distribution is required for tax year 2016 |

| FORM 5498 | | • IRA CONTRIBUTION INFORMATION • | | | | | | 2016 |
|--|----------------------------|----------------------------------|-----------------------------------|---|-----------------------|--------------------------|-----------------------------|---|
| (1) IRA contributions (other than amounts in boxes 2-4 and 8-10) | (2) Rollover contributions | (3) Roth IRA conversion amount | (4) Recharacterized contributions | (5) Fair market value of account as of 12-31-16 | (8) SEP contributions | (9) SIMPLE contributions | (10) Roth IRA contributions | (11) If checked, required minimum distribution for 2017 |
| FUND: | | | | Fund-Acct. no.: | | (7) Type of IRA: | | |
| | | | | | | | | <input type="checkbox"/> |
| FORM 5498 | | | | | | | | |



Form 1099-Q

15

What Does Form 1099-Q Report?

Distributions from CESA accounts.

Who Will Receive Form 1099-Q?

Individuals who took a distribution from their CESA account in 2016. Trustee to trustee transfers are reportable on this form.

Required Mail Date

January 31, 2017

| Box | Description |
|-----|--|
| 1 | Gross distributions including rollovers and transfers |
| 2 | Only displays earnings made on excess contributions, otherwise not applicable for 2016 |
| 4 | Reports if the distribution in Box 1 was a trustee to trustee transfer |

| Form 1099-Q • 2016 | | | | | |
|--|-------------------------|-----------------|-----------|-----------------------------------|------------------|
| PAYMENTS FROM QUALIFIED EDUCATION PROGRAMS (UNDER SECTIONS 529 AND 530) | | | | | |
| Fund-Acct. no. | (1) Gross distribution* | (2) Earnings ** | (3) Basis | (4) Trustee -to- trustee transfer | (5) Program type |
| Fund: | | | | <input type="checkbox"/> | |
| Form 1099-Q * For Coverdell ESA Accounts, please see Publication 970 (Tax Benefits for Education) for information about how to calculate the earnings portion of the gross distribution. ** For Coverdell ESA Accounts, the earnings amount shown includes earnings on excess contribution returns only. | | | | | |



Form 5498-ESA

16

What Does Form 5498-ESA Report?

Form 5498-ESA reports contributions, rollovers and transfers into a CESA.

Who Will Receive Form 5498-ESA?

Individuals who contributed to a CESA account on behalf of a beneficiary for the tax year 2016. A shareholder who transferred assets from one custodian or trustee to another will also receive this form.

Required Mail Date

May 1, 2017

Maximum Contribution Limit

Contributions up to \$2000 are allowed for the 2016 tax year. See [IRS Publication 970](#) for further eligibility requirements.

| Box | Description |
|-----|--|
| 1 | CESA contributions made in 2016 and through April 18, 2017 for the 2016 tax year |
| 2 | Rollovers and transfers made in 2016 |

| FORM 5498 - ESA • COVERDELL ESA CONTRIBUTION INFORMATION • 2016 | | |
|---|---------------------------------|----------------------------|
| Fund-Acct. no. | (1) Coverdell ESA contributions | (2) Rollover contributions |
| FUND: | | |
| FORM 5498-ESA | | |



Form 1042-S

17

What Does Form 1042-S Report?

Dividends and capital gains from taxable accounts, and distributions from IRA and Qualified Plan accounts paid to a non-U.S. citizen.

Who Will Receive It?

Form 1042-S is mailed to a non-U.S. citizen who received Fund capital gain or dividend distributions on their taxable account, or liquidated assets from a retirement account.

Required Mail Date

March 15, 2017

| Box | Description |
|-----|--|
| 1 | Income code |
| 2 | Gross income paid |
| 3 | Chapter 3 withholding – Y/N |
| 3a | Chapter 3 exemption code |
| 3b | Chapter 3 tax rate |
| 4 | Chapter 4 withholding – Y/N |
| 4a | Chapter 4 exemption code |
| 4b | Chapter 4 tax rate |
| 7 | Federal tax withheld |
| 10 | Total withholding credit |
| 13e | Recipient's country code |
| 13h | Recipient's Governmental Issued ID Number (GIIN), if any |

| | | | | | | |
|--|----------------|--|-----------------------|--|---|-------------------------------|
| 1 Income code | 2 Gross income | 3 Chapter indicator. Enter "3" or "4" | | 13e Recipient's U.S. TIN, if any | | |
| | | 3a Exemption code | 4a Exemption code | 13f Ch. 3 status code | | 13g Ch. 4 status code |
| | | 3b Tax rate | 4b Tax rate | | | |
| 5 Withholding allowance | | | | 13h Recipient's GIIN | 13i Recipient's foreign tax identification number, if any | 13j LOB code |
| 6 Net income | | 7d Check if tax not deposited with IRS pursuant to escrow procedure <input type="checkbox"/> | | | | |
| 7a Federal tax withheld | | | | | | |
| 8 Tax withheld by other agents | | | | 13k Recipient's account number | | 13l Recipient's date of birth |
| 9 Tax paid by withholding agent | | | | | | |
| 10 Total withholding credit | | | | 14a Primary Withholding Agent's Name (if applicable) | | |
| 11 Amount repaid to recipient | | | | 14b Primary Withholding Agent's EIN | | |
| 12a Withholding agent's EIN | | 12b Ch. 3 status code | 12c Ch. 4 status code | 15a Intermediary or flow-through entity's EIN, if any | 15b Ch. 3 status code | 15c Ch. 4 status code |
| 12d Withholding agent's name | | | | 15d Intermediary or flow-through entity's name | | |
| 12e Withholding agent's Global Intermediary Identification Number (GIIN) | | | | 15e Intermediary or flow-through entity's GIIN | | |
| 12f Country code | | 12g Foreign taxpayer identification number, if any | | 15f Country code | 15g Foreign tax identification number, if any | |
| 12h Address (number and street) | | | | 15h Address (number and street) | | |
| 12i City or town, state or province, country, ZIP or foreign postal code | | | | 15i City or town, state or province, country, ZIP or foreign postal code | | |
| 13a Recipient's name | | 13b Recipient's country code | | 16a Payer's name | | 16b Payer's TIN |
| 13c Address (number and street) | | | | 16c Payer's GIIN | | 16d Ch. 3 status code |
| | | | | | | 16e Ch. 4 status code |
| 13d City or town, state or province, country, ZIP or foreign postal code | | | | 17a State income tax withheld | 17b Payer's state tax no. | 17c Name of state |

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Tax Items of Interest

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Income Tax Rates

[The American Taxpayer Relief Act \(H.R.8\)](#) made permanent or extended several tax provisions beneficial to mutual fund shareholders. Current tax rates on Long-term Capital Gains and Qualified Dividend Income (QDI) are shown below.

| Ordinary Income Tax Rate | Ordinary Dividend Tax Rate | QDI and Long-Term Capital Gains Tax Rate |
|-----------------------------|-------------------------------|---|
| 10% | 10% | 0% |
| 15% | 15% | 0% |
| 25% | 25% | 15% |
| 28% | 28% | 15% |
| 33% | 33% | 15% |
| 35% | 35% | 15% |
| 39.6% | 39.6% | 20% |

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 fund’s 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.



Tax Items of Interest (cont'd)

Backup Withholding on Taxable Accounts

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. The current backup withholding rate is 28%.

Section 3406(b) of the Internal Revenue Code requires 28% 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.

Schedule K-1

A partnership that invests in a mutual fund is eligible to receive Forms 1099-B and 1099-DIV. The partnership is then required to provide Schedule K-1 to each underlying partner, reporting each partner's share of the partnership income. The partnership is additionally required to file a copy of Schedule K-1 with the IRS. Schedule K-1 inquiries should be forwarded directly to the partnership.

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. For 2016 and 2017, a gift of up to \$14,000 per donee per calendar year can be given without paying a gift tax. For example, a gift of \$15,000 to a donee requires that tax is only paid on \$1,000.

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.



Tax Items of Interest (cont'd)

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Return of Capital

On occasion, an income distribution may have a portion that is considered a return of capital. The return of capital portion of the original income distribution is not considered income. Therefore, it is returned to you by decreasing the basis in your account by the return of capital amount. If applicable, Box 3 of Form 1099-DIV will contain the return of capital amount.

Foreign Tax Credit

To avoid double taxation, foreign sourced income already taxed by a foreign country may be passed through to your account as a foreign tax credit. If applicable, Box 6 of Form 1099-DIV will report the foreign tax credit amount, while Box 1a will be increased by that same amount as shown in Box 6. See [IRS Publication 514](#) for additional details.

Dividends Received Deduction (DRD)

A dividend received by a corporation due to stock ownership in another corporation is included in its gross income. At year-end, that income is taxed to the corporation. When the income is paid out to shareholders in the form of a dividend, it is again taxed to the shareholder. When the dividend payment is made to a corporate shareholder and the distributee corporation subsequently pays these earnings out to its shareholders, triple taxation of the earnings can result. To help relieve this triple taxation, corporations are allowed a Dividends Received Deduction (DRD) for the dividends received from other domestic corporations and from certain foreign corporations.

A Regulated Investment Company (mutual fund) is not entitled to the DRD when computing its taxable income. Instead, because of a mutual fund's conduit treatment, the corporate shareholders of a mutual fund are generally entitled to take the DRD with respect to the qualified ordinary income dividends paid by the mutual fund to such shareholders. It should be noted that capital gain distributions by a mutual fund do not qualify for the DRD, as these distributions are treated as long-term capital gains by the shareholders. DRD designation must be made within 60 days of fiscal year end, therefore the DRD is generally included as a footnote in the mutual fund's financial statements.



Tax Items of Interest (cont'd)

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, wash sales and long-term capital gain distributions, are detailed below.

Wash Sales

If you purchase shares of a mutual fund, including reinvested dividends or capital gains, 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 gain regardless of how long you owned shares in a fund. However, if you received a capital gain on shares owned for less than six months, and subsequently sold the shares at a loss, part or all of the loss on the sale of the shares that would normally be considered 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.



Tax Items of Interest (cont'd)

Qualified Charitable Contributions

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, was extended through December 31, 2014. Distributions from a SEP or SIMPLE IRA do not qualify for this type of designation. The PATH Act of 2015 permanently extended this provision for 2015 and future tax years.

Excess Contributions

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

Conversions, Recharacterizations, and Reconversions

A *conversion* occurs when you move assets directly from a Traditional, SEP, or SIMPLE IRA into a Roth IRA. Conversions are reported based upon the calendar year in which they are received.

A *recharacterization* occurs when you undo a prior IRA contribution or conversion. Recharacterizations may be applicable to both current and prior year contributions. The opportunity may exist to perform a recharacterization up to 6 months after the federal tax return filing due date.

A *reconversion* occurs when you move assets directly from a Traditional, SEP, or SIMPLE IRA into a Roth IRA. You cannot reconvert within the same calendar year as a conversion, nor within the 30 day period immediately following a recharacterization.

Please consult IRS [Publication 590-A](#) and [Publication 590-B](#) for conversion, recharacterization, and reconversion qualification rules.



Tax Help and Resources

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Online Tools and Resources

- Resolve nearly every tax issue online or by phone using the [Let Us Help You](#) page available on the IRS website.
- Use the [Interactive Tax Assistant](#) or [Publication 17, Your Federal Income Tax](#), a comprehensive tax guide for individuals to locate information quickly.
- The [IRS Tax Map](#) allows taxpayers to search by topic or keyword for information.
- Visit [irs.gov/Get Ready](https://irs.gov/Get-Ready) to access useful information and reminders for this tax year.

IRS Services Guide

Check [Publication 5136](#) for additional information on available services from the IRS.

Contact Your Local Office

Locate the closest Taxpayer Assistance Center to make an in-person appointment by visiting the [Taxpayer Assistance Center Office Locator](#) or by calling 844-545-5640.

| Publication | Title |
|-------------|--|
| 3 | Armed Forces' TaxGuide |
| 17 | Your Federal Income Tax (For Individuals) |
| 54 | Tax Guide for US Citizensand Resident AliensAbroad |
| 505 | Tax Withholding & Estimated Tax |
| 514 | Foreign Tax Creditfor Individuals |
| 515 | Nonresident Aliens and ForeignEntities |
| 525 | Taxable and Nontaxable Income |
| 526 | Charitable Contributions |
| 530 | Tax Informationfor Homeowners |
| 550 | Investment Income and Expenses |
| 554 | Tax Guide forSeniors |
| 560 | SEP, SIMPLE and Qualified Plans |
| 590-A | IRA Contributions |
| 590-B | IRA Distributions |
| 907 | Tax Highlights for Personswith Disabilities |
| 929 | Tax Rules for Children& Dependents |
| 970 | Tax Benefits for Education |
| 5136 | IRS Services Guide |

Access IRS [Forms and Publications](#) page to view publications.

