

# NEW MUTUAL FUND COST BASIS REPORTING

EAGLE | Asset  
Management

## WHAT IT MEANS TO ME

New IRS regulations require mandatory cost basis reporting for mutual funds beginning Jan. 1, 2012. Cost basis is defined as the cost of the shares in your account and is used to calculate the gain or loss on a redemption or exchange. The new regulation treats the sale of mutual fund shares (both redemptions and exchanges) differently, depending on their purchase date. The IRS classifies shares as noncovered or covered.

### NONCOVERED SHARES

- | Noncovered shares are those purchased or reinvested before 2012.
- | For noncovered shares, the reporting process remains the same. Just as prior to the regulation change, you are responsible for reporting all gains or losses on the sale of your shares.

### COVERED SHARES

- | Shares purchased or reinvested in 2012 and beyond.
- | For covered shares, additional cost basis information is reported to the IRS and is included on Form 1099-B starting in tax year 2012. Form 1099-B includes:
  - | The amount of your mutual fund sale.
  - | The cost basis amount when your covered shares are sold.
  - | If the shares were held short-term or long-term.<sup>1</sup>
  - | If the sale included a wash sale and the amount.<sup>2</sup>

**What do I need to do?** Please complete the Cost Basis Method Election Form that was mailed to you (or print the form below) and mail or fax the form to us by Dec. 31, 2011. A Cost Basis Reference Guide that contains specific information regarding each of the available cost basis methods is also included below. If you choose not to return the Cost Basis Method Election Form, your account(s) will default to the Average Cost method described in the Reference Guide. Consult your tax advisor to determine which cost basis method best suits your specific situation.

**Who do I contact with questions?** For more information on how the Cost Basis Method you elect may impact tax reporting on your account, please visit the IRS website at [www.IRS.gov](http://www.IRS.gov) or contact your tax advisor. Please contact our Fund Services Department at 800.421.4184, Ext. 73550 for general cost basis and other tax reporting questions.

<sup>1</sup>Short-term holdings are shares sold within one year of purchase. Long-term holdings are shares sold more than one year after purchase.

<sup>2</sup>Wash sale is an Internal Revenue Service (IRS) rule prohibiting a taxpayer from claiming a loss on the sale of an investment when the same investment was purchased within 30 days before or after the sale date. For more detail, see [www.IRS.gov](http://www.IRS.gov) or consult your tax advisor.

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EFD-1011-776, Exp. 12/31/12

# Cost Basis Method Election Form

Mail to:  
Eagle Family of Funds  
880 Carillon Parkway  
St. Petersburg, FL 33716

Use this form to make the initial Cost Basis Method election for your non-retirement account or to change a previously elected method. The Cost Basis Method you elect applies to all covered shares acquired from January 1, 2012 forward and to all identically registered existing and future accounts you may establish, unless otherwise noted. The Cost Basis Method you select will determine the order in which shares are redeemed and how your cost basis information is calculated and subsequently reported to you and to the Internal Revenue Service (IRS) on Form 1099-B. A change to your existing Cost Basis Method applies to all covered shares up until the date of the first redemption from your account. The impact of a Cost Basis Method change on or after the date of the first redemption of covered shares is dependent upon your current Cost Basis Method.

If a Cost Basis Method has not been elected, your account will default to the **Average Cost** method. **Please consult your tax advisor to determine which Cost Basis Method best suits your specific situation.**

## 1 Investor Information

**A Cost Basis Method election applies only to identically registered accounts; a separate form is required for differing account types.**

ACCOUNT REGISTRATION / NAME(S) OF REGISTERED OWNER(S)

ACCOUNT NUMBER(S)

## 2 Cost Basis Method

### Primary Method (Select only one)

*Note: Except for Single Account Average Cost, the Cost Basis Method you choose will only affect covered shares purchased from January 1, 2012 forward.*

- Single Account Average Cost** – By checking this box: (1) I request to use the Average Cost method for all shares in my account regardless of acquisition date, (2) to confirm that all shares I acquire prior to January 1, 2012 are tracked via the Average Cost method, and (3) to confirm that I am NOT combining the basis of this account with any other holdings. This method places non-covered shares, originally excluded from the IRS basis reporting requirement, into a covered share status.
- Average Cost** – averages the purchase price of acquired shares
- First In, First Out** – oldest shares are redeemed first
- Last In, First Out** – newest shares are redeemed first
- Low Cost** – least expensive shares are redeemed first
- High Cost** – most expensive shares are redeemed first
- Loss/Gain Utilization** – depletes shares with losses prior to shares with gains and short-term shares prior to long-term shares
- Specific Lot Identification** – you must specify the share lots to be sold at the time of a redemption (This method requires you elect a Secondary Method below, which will be used for systematic redemptions and in the event the lots you designate for a redemption are unavailable.)

**Secondary Method – applies only if Specific Lot Identification was elected as the Primary Method (Select only one)**

- First In, First Out**
- Last In, First Out**
- Low Cost**
- High Cost**
- Loss/Gain Utilization**

*Note: If a Secondary Method is not elected, First In, First Out will be used.*

## 3 Signature (all owners must sign)

SIGNATURE OF OWNER\*

DATE (MM/DD/YYYY)

SIGNATURE OF JOINT OWNER\*

DATE (MM/DD/YYYY)

\* If shares are to be registered in (1) joint names, both persons must sign, (2) a custodian for a minor, the custodian should sign, (3) a trust, the trustee(s) should sign, or (4) a corporation or other entity, an officer should sign and print name and title on the space provided for the Joint Owner.

# Cost Basis Reference Guide

## What is Cost Basis?

Cost basis (also referred to as Basis) is defined as the cost of the shares in your account and is used to calculate the gain or loss on a redemption or exchange. The original cost basis of your shares depends upon how those shares were acquired. If your account contains purchased shares and/or shares acquired via a reinvestment of dividends and capital gains, the original cost basis is generally equal to the purchase price, including commissions. Cost basis may be adjusted by various tax items including return of capital and wash sale rules.

The original cost basis for shares acquired via inheritance is generally equal to the market value of those shares on the date of death of the original owner. Various factors are taken into consideration when calculating the original cost basis for gifted shares including, but not limited to, the date of the gift, the market value of the gifted shares on the date of the gift, the donor's original acquisition date(s) of the gifted shares, and the adjusted basis of the donor's gifted shares.

## What is a Cost Basis Method?

A cost basis method is an accounting method used to determine how shares in your account are depleted upon redemption or exchange and for purposes of calculating the basis and therefore the gain or loss on those shares. The cost basis method you select will determine both the depletion order of the shares which are redeemed or exchanged and how your cost basis information is calculated and subsequently reported to you and to the Internal Revenue Service (IRS).

The cost basis method you elect is generally only applicable to shares acquired after January 1, 2012, and can be changed at any time, prospectively. Failure to elect a cost basis method may limit the options available to you at the time of a redemption or exchange. If a cost basis method has not been elected, your account will default to the Average Cost method. A cost basis method election will apply to all identically registered accounts unless you inform us otherwise.

## What Cost Basis Methods are available?

(1) **Single Account Average Cost** - A cost basis method in which the purchase prices of all shares in the account, which may include shares acquired both before and after the mandatory cost basis legislation effective date of January 1, 2012, are averaged to determine the basis. The Single Account Average Cost method is generally applicable only to an account which contains shares acquired prior to January 1, 2012. A Single Account Average Cost method election requires you to request usage of the Average Cost method for all shares in your account regardless of acquisition date, to confirm that all shares acquired prior to January 1, 2012, are tracked via the Average Cost method, and to confirm that you are NOT combining the basis of your account with any other holdings.

(2) **Average Cost** - A cost basis method in which the purchase prices of covered shares in an account are averaged to determine the basis. A cost basis method change to or from the Average Cost method applies prospectively. Covered shares acquired prior to such a cost basis method change are averaged and contain an identical cost per share upon redemption or exchange.

The following table is an example of the Average Cost method calculation. The 75 shares displayed in the following table would result in a total averaged cost basis amount for those shares of \$1,350 (or \$18.00 per share).

Date	Purchase Amount	Shares	Price Per Share
January 23, 2012	\$1000	50.000	\$20.00
March 5, 2012	\$50	5.000	\$10.00
July 18, 2012	\$300	20.000	\$15.00
Total cost basis = \$1,350		Averaged price per share = \$18.00	

(3) **First In, First Out (FIFO)** - A cost basis method which depletes covered shares in order of acquisition date with the oldest shares being redeemed first. In the above example, shares acquired on January 23, 2012, would be redeemed prior to shares acquired on March 5 and July 18, 2012.

(4) **Last In, First Out (LIFO)** - A cost basis method which depletes covered shares in order of acquisition date with the newest shares being redeemed first. In the above example, shares acquired on July 18, 2012, would be redeemed prior to shares acquired on January 23 and March 5, 2012.

(5) **Low Cost** - A cost basis method which depletes covered shares in order of lowest cost per share with the least expensive shares being redeemed first. In the above example, shares acquired at a price per share of \$10.00 would be redeemed prior to shares acquired at prices per share of \$15.00 and \$20.00.

**(6) High Cost** - A cost basis method which depletes covered shares in order of highest cost per share with the most expensive shares being redeemed first. In the above example, shares acquired at a price per share of \$20.00 would be redeemed prior to shares acquired at prices per share of \$15.00 and \$10.00.

**(7) Loss/Gain Utilization** - Current IRS regulations designate shares held for one year or less as Short-Term while shares held for longer than one year are deemed Long-Term. The Loss/Gain Utilization cost basis method generally depletes covered shares with losses prior to covered shares with gains and Short-Term shares prior to Long-Term shares.

The following describes the order in which covered shares are depleted via the Loss/Gain Utilization method:

1. Shares with a Short-Term loss (in descending share order with the shares containing the greatest loss per share redeemed first)
2. Shares with a Long-Term loss (in descending share order with the shares containing the greatest loss per share redeemed first)
3. Short-Term shares with no gain or loss
4. Long-Term shares with no gain or loss
5. Shares with a Long-Term gain (in ascending share order with the shares containing the smallest gain per share being redeemed first)
6. Shares with a Short-Term gain (in ascending share order with the shares containing the smallest gain per share being redeemed first)

**(8) Specific Lot Identification** - A cost basis accounting method in which you are required to identify the specific shares in your account to be redeemed or exchanged, each time shares are sold. Election of the Specific Lot Identification method allows you the option to designate a Secondary Cost Basis method to be used in the event you neglect to inform us which specific lots to redeem or exchange or when the lots designated are unavailable, such as for a systematic exchange. Available Secondary Cost Basis methods are (1) First In, First Out; (2) Last In, First Out; (3) Low Cost; (4) High Cost; and (5) Loss/Gain Utilization.

#### **How do I elect a Cost Basis Method for my account?**

For new accounts, complete the Cost Basis Method section within the taxable account application. For existing accounts, complete the Cost Basis Method Election Form.

#### **What are Covered and Non-Covered Shares?**

Covered shares are shares containing an IRS requirement for the Eagle Family of Funds to report basis to you and the IRS on Form 1099-B upon redemption or exchange. Covered shares generally consist of shares acquired after the January 1, 2012, legislation effective date. However, an election of the *Single Account Average Cost* method may deem shares acquired prior to that date as covered shares.

Non-covered shares DO NOT contain an IRS requirement for the Eagle Family of Funds to report basis to you or the IRS on Form 1099-B upon redemption or exchange. Non-covered shares generally consist of shares acquired prior to the January 1, 2012, legislation effective date. However, if your account presently contains an average cost basis and you elect the Average Cost method, we may, as a courtesy, provide you with basis information on the IRS Form 1099-B upon redemption or exchange of those non-covered shares.

#### **What is a Bifurcated Account?**

A bifurcated account is an account which contains two buckets of shares; one containing non-covered shares (without an IRS basis reporting requirement) and a second containing covered shares (IRS basis reporting is required). Different cost basis methods may be used for each bucket of shares. However, note that basis for non-covered shares, if available, would be calculated via the Average Cost method and may, as a courtesy, be reported to you upon redemption or exchange on IRS Form 1099-B. Cost basis information is only reported to the IRS for covered shares.

#### **How is Basis Information reported for my account?**

Existing accounts containing a valid average cost figure were historically eligible to receive an Average Cost Statement reporting basis information, in conjunction with IRS Form 1099-B which reported redemption or exchange information. Beginning with the 2011 tax year, all basis information will now be reported to you on IRS Form 1099-B. That form will additionally report the designation of shares as either covered or non-covered and whether the holding period of those shares is short-term or long-term. Remember, the IRS does not receive basis information for non-covered shares.

#### **Where do I report Cost Basis information?**

Cost basis information is a critical component of your federal and state tax return filings. The basis information provided to you on Form 1099-B may be required to complete, at a minimum, IRS Form 8949, IRS 1040 Schedule D, and the IRS 1040 tax return. Please visit the IRS website at [www.IRS.gov](http://www.IRS.gov), the website for the state in which you pay taxes, and contact your tax advisor for more details on where to report the information contained within IRS Form 1099-B.

#### **Who do I contact with questions?**

For more information on how the Cost Basis Method you elect may impact tax reporting on your account, please visit the IRS website at [www.IRS.gov](http://www.IRS.gov) or contact your tax advisor. Please contact our Fund Services Department at 800.421.4184, Ext. 73550 for general cost basis and other tax reporting questions.