

CAPITAL GAIN DISTRIBUTIONS

Each year, mutual fund companies are required under tax law to distribute a certain percentage of funds' net income (gross income minus deductions) to investors. The timing, frequency and taxation of these payouts can be complicated so we're providing this Q&A to help investors understand capital gain distributions and their implications. As always, your investment advisor or tax consultant is your best resource for questions related to your particular circumstances.

Q1: What is a capital gain or a capital loss?

A capital gain is the profit made on the sale of securities. Conversely, a capital loss is a loss made on the sale of securities. Either can occur when a mutual fund sells underlying securities. When a mutual fund company sells securities at a profit, net capital gains (capital gains in excess of capital losses) are distributed to fund shareholders and reported to the IRS and shareholders on Form 1099-DIV, Dividends and Distributions.

Example 1: Capital gain distribution generated by a mutual fund

XYZ Mutual Fund purchases 100,000 shares of Acrobat Technologies on April 5, 2022 at \$40/share. On August 5, 2024, when the share price reaches the fund's target of \$55/share, XYZ Mutual Fund sells the shares for \$5.5 million, realizing a net capital gain of \$1.5 million (\$5.5 million minus \$4 million). Since the shares were held by the fund for over one year, the \$1.5 million capital gains will be netted against any losses and the remainder will be distributed to the shareholders of record as a long-term capital gain distribution and taxed accordingly. In this case, appreciation in the value of the fund's holding, Acrobat Technology, is reflected in a higher per share value (NAV) benefiting shareholders either in the form of a cash payout or reinvested shares.

Q2: Can shareholders also experience gains or losses when selling mutual fund shares?

When shareholders sell shares of a mutual fund, either through redemptions or exchanges, they can also experience a capital gain or a capital loss depending on the cost basis of those shares. For non-retirement accounts, these gains/losses are reported to both the shareholder and the IRS on Form 1099-B, Proceeds from Broker and Barter Transactions for the year that the shares were sold.

Example 2: Capital loss incurred by a shareholder as the result of a mutual fund share redemption

On September 10, 2023, Mr. Marquette purchases 1,000 shares of ABC Mutual Fund for \$5/share in his non-retirement account. Nine months later, Mr. Marquette sells his shares. The ABC Fund share price on June 10, 2024 when Mr. Marquette redeems his shares is \$4 so he incurs a capital loss of \$1,000. This capital loss will be reported on his 2024 taxes and appear on Form 1099-B from his broker. When filing his 2024 taxes, Mr. Marquette may use this capital loss to offset capital gains he may have incurred.

Q3: What are the key dates for capital gain distributions?

- **Record date** – the date by which a shareholder must own shares of the fund in order to qualify for the distribution.
- **Ex-dividend date** – the date the fund's net asset value (NAV) drops by the per share distribution amount. For those shareholders who opt to reinvest their distributions, this new lower NAV is the one used to process the reinvested distribution.
- **Payable date** – the date when distributions are either paid in cash or reinvested in the shareholder's account.

Q4: How do distributions affect a mutual fund's Net Asset Value (NAV)?

When a mutual fund pays a capital gain distribution, the fund's NAV is reduced by the per share amount of the dividend on the ex-dividend date. For example, if a shareholder owns 100 shares of ABC Mutual Fund valued at \$10.00/share and the fund pays a dividend of \$1.00/share, the NAV for ABC Mutual Fund would drop to \$9.00/share on the ex-dividend date. In this example, the account value for a shareholder who opted for a cash dividend would go from \$1,000 to \$900 ($1,000 \times \$10.00$ vs. $1,000 \times \$9.00$). This reduction is offset by the \$100 the

shareholder would receive as a cash payout. For shareholders reinvesting dividends, the additional 111.111 shares received offsets the drop in NAV and the value of the account remains \$1,000 (111.111 shares X \$9.00).

Q5: What is the difference between long-term capital gains/losses and short-term capital gains/losses?

Long-term capital gains/losses are generated on the sale of securities held by the fund for more than one year. Conversely, short-term capital gains/losses are generated on the sale of securities held by the fund for one year or less. Remember, the holding period of the securities within the fund determines whether the gains/losses are considered long- or short-term and not the amount of time the shareholder owns shares of the fund.

Q6: Are capital gain distributions in a non-retirement account taxable?

Yes, capital gain distributions are taxable, whether paid in cash or reinvested in additional shares. Net short-term gains (for securities held for one year or less) are included in the fund's ordinary income distribution, distributed as income dividends and taxed at the shareholder's ordinary income tax rate. Long-term capital gain distributions (for securities held more than one year) are generally taxed at a rate of 0%, 15% or 20% depending on the taxpayer's tax bracket. (Certain higher income taxpayers may also consider the 3.8% surtax applicable to net investment income.)

As always, we recommend you contact your tax consultant with any questions about the tax implications of distributions. The final amount and character of mutual fund distributions is reported to shareholders on Form 1099-DIV.

Q7: If I am not a shareholder of record on the record date, will I still be entitled to the fund's capital gain distribution?

No, only shareholders of record by the close of business on record date qualify to receive the capital gain distribution.

Q8: What causes increased capital gain payouts?

While the reasons for increased capital gains may vary from fund to fund, there are some general factors to be aware of:

- Increases in stock and bond markets can increase the value of many portfolio securities, raising the likelihood of realized gains when securities in the fund's portfolio are sold.
- Mutual funds are allowed to carry forward net capital losses realized in a given year (capital losses in excess of capital gains) and may use those capital loss carryovers (CLCs) to offset realized gains in the following years.

Q9: How often do Columbia mutual funds make capital gains distributions?

Most Columbia mutual funds pay capital gains annually, in December. A number of Columbia mutual funds also pay capital gains semi-annually, normally in June and December. Please refer to your fund's prospectus to determine if it is scheduled to pay a mid-year capital gain distribution.

Q10: What time period do the capital gain distributions cover?

For mutual funds that pay capital gains annually, the December distribution is generally for the period from November 1 of the prior year through October 31 of the current year. For funds that pay capital gains semi-annually, the December distribution is generally for net realized gains in the fund's current fiscal year to date.

Columbia Threadneedle Investments does not offer tax or legal advice. Consult with a tax advisor or attorney.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

Columbia Funds are distributed by Columbia Management Investment Distributors, Inc., member FINRA and managed by Columbia Management Investment Advisers, LLC.