

## COST BASIS FAQs

The following information may be useful when reviewing your cost basis tax forms and statements. This discussion is specific to mutual fund shares held directly with Columbia Management Investment Services Corp. (CMIS). If you hold your shares in a brokerage account, you will receive your tax forms and statements from your broker, and you should contact your broker for tax reporting information. For additional information about these tax forms, talk to your tax advisor. Additional information is available at [irs.gov](http://irs.gov), where you can find applicable tax forms, instructions and relevant IRS publications.

Below are some frequently asked questions regarding cost basis and determining your cost basis. In addition to the information below, our tax guide has additional frequently asked questions.

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## Section 1- Cost Basis Basics

### Q1.1: What is cost basis?

**A1.1:** Cost basis is generally the amount of money in your account you have already paid taxes on. This includes your original investment and subsequent purchases (including reinvested dividends and capital gains). Cost basis is used to calculate the amount of gain or loss realized on redemptions of fund shares. The capital gain or loss is equal to the difference between the cost basis of the shares redeemed and the proceeds on a redemption. The cost basis allocable to a redemption is determined based on the cost basis accounting method you use. Additionally, if you receive new shares of a fund because of a fund split or merger, the cost basis of your old shares may need to be adjusted and cost basis of your new shares must be established.

Certain activity such as fund splits or reverse splits, return of capital distributions, wash sales, transfers by gift or inheritance, etc. could adjust the cost basis. A tax professional can review your records and help you determine if any adjustments need to be made.

A simplified example: John makes a \$1,000 purchase of mutual fund XYZ at a price of \$10 a share. For his \$1,000, John receives 100 shares. He does not reinvest dividends. Two years later, John sells those 100 shares at a price of \$10.50 a share and receives \$1,050. John has a \$50 capital gain on his investment. It's a long-term capital gain because John held the shares for more than one year.

### Q1.2: Is the determination of cost basis a new requirement?

**A1.2:** No, taxpayers have always been required to determine their cost basis, so they can report any capital gains or losses as part of Schedule D of Form 1040. What changed beginning with mutual fund shares acquired on or after January 1, 2012 is that brokers, including mutual fund companies, are now required to track the basis and holding period of shares on behalf of the shareholder, and in the event of a sale or redemption of the security, the basis and holding period of the security will be reported to both the shareholder and the IRS.

**Q1.3: What is the difference between a covered security and a non-covered security on my Form 1099-B?**

**A1.3: Securities on your 1099-B are broken into two categories:**

- **Covered shares** are shares acquired on or after January 1, 2012. We are required to report the cost basis for any sales or exchanges of covered shares to the investor and the IRS.
- **Noncovered shares** are shares acquired before January 1, 2012, and any shares for which cost basis is unknown. We are not required to report cost basis for these shares to the IRS.

Columbia Threadneedle Investments is not required to report cost basis for non-covered securities. We will continue to report gross proceeds on all transactions and provide cost basis data if available on your Form 1099-B. This will assist you with your obligation to report cost basis for all securities bought and sold on your Schedule D and/or Form 8949.

**Q1.4: What methods are available to calculate cost basis?**

**A1.4:** The following methods (further described in the [Glossary](#)) are available for covered mutual fund shares purchased direct-at-fund, through Columbia Management Investment Services, Corp. Noncovered shares will be sold prior to covered shares unless the method chosen is Specific Lot Identification.

- Average Cost
- First In, First Out (FIFO)
- Last In, First Out (LIFO)
- High Cost, First Out (HIFO)
- Low Cost, First Out (LOFO)
- Loss/Gain Utilization (LGUT)
- Specific Lot Identification (SLID)

Investors who purchased their mutual fund or exchange traded fund (ETF) shares through a broker will need to contact the broker to determine which cost basis methods the broker supports.

**Q1.5: What is a holding period and how is it calculated?**

**A1.5:** A holding period is the length of time an investor owns shares, which determines whether capital gain or loss from share redemptions is considered long-term or short-term. Each tax lot (defined below) has its own holding period, including reinvested dividends.

- Long-term shares are held for more than one year.
- Short-term shares are held for one year or less.

Special rules apply to losses from the sale of shares held six months or less if the investor received capital gain distributions on those shares. Please consult a tax professional for more information.

**Q1.6: What is a tax lot?**

**A1.6:** A tax lot (commonly referred to as a lot) is a group of shares that are purchased (or sold) on the same day at the same price and have the same attributes for tax reporting purposes.

- **Open Lot** - A lot that is currently held in your account. For example, shares that have been purchased but not yet sold would be considered open. All of the shares of an open lot have the same acquisition date, cost per share and holding period.
- **Closed Lot** - A lot that is no longer held in your account. For example, shares that have been purchased and sold would be considered closed. All of the shares of a closed lot have the same acquisition date, cost per share, closing transaction date, closing price per share and holding period.

**Q1.7: For accounts with both covered and noncovered shares, which shares will be redeemed first?**

**A1.7:** Noncovered shares will be redeemed before covered shares unless you select the specific lot identification method and identify covered shares to be redeemed.

**Q1.8: What is a wash sale?**

**A1.8:** Wash sales occur when shares are purchased within a 61-day window of shares being sold at a loss. The sale date is the middle day and the other 60 days are divided into the 30 days prior and the 30 days after the sale. The sale and purchase of substantially identical shares in this 61-day window will trigger a wash sale. Columbia Threadneedle will track and report on wash sales based on this activity occurring within a single CUSIP (same fund).

For example, if shares were sold at a loss on May 31 the time window for a potential wash sale to occur is from May 1 to June 30.

When a wash sale occurs, the loss from the shares sold is disallowed. The loss amount is then added to the basis of the shares purchased (replacement shares). The loss will not be realized until these replacement shares are sold. Wash sales cannot occur on a full liquidation of shares unless the shares are re-purchased within the time horizon for the wash sale, or the same shares are purchased in a different account within that time horizon. The IRS expects shareholders to make their own wash sale adjustments if the same security is held in different accounts and a wash sale is triggered based on activity in those accounts.

Any combination of purchase and redemption type transactions can cause a wash sale. Purchases include direct purchase via check or bank account, automatic investment plans, reinvested earnings (capital gains and/or dividends) and incoming exchanges. Redemptions include direct redemptions via check or to a bank, systematic withdrawal plans, outgoing exchanges and can also include payment of some fees or tax withholding. Events that don't cause a wash sale include incoming or outgoing transfers and account re-registrations, or fund mergers.

## Section 2- Tax Reporting

**Q2.1: How do I find a mutual fund's cost basis if it wasn't reported on a 1099-B, or I don't know when it was purchased?**

**A2.1:** For mutual funds purchased at Columbia Threadneedle where cost basis is not available, you can find the original purchase price on any of the following documents to calculate your original cost:

- Tax records
- Quarterly and year-end statements
- Trade confirmations

Each reinvested dividend is considered a new purchase, increasing cost basis. The IRS expects you to keep and maintain records that identify the cost basis of your fund. For this reason, you may want to consult a tax professional.

If you purchased your mutual fund or ETF shares through a broker, contact the broker to determine which records the broker maintains and provides.

**Q2.2: What kind of accounts are subject to mandatory cost basis reporting?**

**A2.2:** All taxable accounts that are subject to 1099-B reporting are subject to mandatory cost basis reporting. This includes the following types of taxable accounts:

- Individual accounts
- Joint accounts (including, but not limited to, Joint Tenants with Rights of Survivorship and Tenants in Common)
- Uniform Gift and Transfer to Minor Accounts (UGMAs and UTMAs)
- Partnership accounts
- Trust accounts
- S corporations (but not C Corporations or other exempt recipients)

Retirement accounts, such as IRAs, and certain education savings accounts, such as 529 Plan accounts and Coverdell education savings accounts are exempt from cost basis reporting and 1099-B reporting.

**Q2.3: How are S corporations impacted by cost basis reporting?**

**A2.3:** Account owners that have indicated they are an S corporation, and corporate accounts where we do not have documentary evidence (A current Form W-9, indicating that they are a C corporation), are subject to Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, reporting. This means that the cost basis and holding period information will be reported to the account owner and the IRS for sales of covered shares. This change is effective for covered mutual fund shares acquired by S corporations on or after January 1, 2012.

**Q2.4: Why is cost basis not reported for shares held in an IRA account?**

**A2.4:** The IRS does not require cost basis reporting for shares held in an IRA account (or other qualified retirement plans) because IRAs generally don't pay tax on gains and losses in the account. Thus, Columbia Threadneedle will not track or report cost basis on shares bought and sold within an IRA. Tax reporting is required for money coming into the account (IRS Form 5498) and leaving the account (IRS Form 1099-R), but not for earnings, gains and losses in the account.

A traditional IRA can have a cost basis if, for example, the owner makes nondeductible contributions to the account. However, the basis of the IRA is not affected by gains and losses in the account. See IRS Publication 590-A and the instructions to IRS Form 8606 for more information on IRA cost basis.

**Q2.5: I was under the impression that beginning in 2012, I would no longer need to determine my gains and losses myself. Why aren't you reporting gains and losses for all my trading activity?**

**A2.5:** The cost basis reporting rules require mutual fund companies and brokers to report to you and the IRS information about the cost of the shares you sell, but only if the shares sold are covered. The regulations specify a four-year phase-in period, during which time new purchases of different security classes become covered securities and subject to the new 1099-B reporting. The phase-in of these security classes was scheduled as follows:

- **2011:** Stocks, including domestic and foreign stocks, real estate investment trusts, American Depository Receipts (ADR) and exchange-traded funds (ETF) that are not registered as regulated investment companies (RIC)
- **2012:** Open-end and closed-end mutual funds, ETFs\* and unit investment trusts (UIT) that are classified as RICs
- **2014:** Options, less-complex debt instruments, rights and warrants
- **2016:** More-complex debt instruments

For Columbia Threadneedle (or your broker) to report net gain or loss to the IRS and the shareholder on the Form 1099-B, the shares must be considered a covered security. A security can

only be a covered security if it is bought or acquired after the applicable date. A security cannot mature into covered status if acquired before the applicable date.

Mutual fund shares purchased before 2012 are noncovered; they will not become covered. Cost basis information and reporting will not be retroactive to these noncovered shares. Columbia Threadneedle will not be responsible for reporting cost basis information to the IRS for noncovered tax lots. The cost basis information that we provide to shareholders for noncovered securities will not change; what changes is the addition of tracking and reporting for covered securities to the IRS.

*\*Note that some brokers treat ETF shares as being covered beginning in 2011.*

**Q2.6: Why would Columbia Threadneedle not provide average cost basis on some accounts with noncovered shares?**

**A2.6:** We are only required to report basis on mutual fund shares purchased on or after January 1, 2012. We generally cannot determine the average cost basis for accounts opened on or before January 1, 1989, and for accounts with noncovered shares acquired by transfer. Also, if you select the specific lot identification method for covered shares, we will not be able to provide average cost information for the noncovered shares.

Columbia Threadneedle will not report this information to the IRS. For non-covered securities, you are responsible for determining cost basis when filing your tax return. We will continue to report gross proceeds on all sale/redemption transactions.

## Section 3- Locating Information Online

**Q3.1: Is my cost basis available online?**

**A3.1:** Cost basis information can be accessed online including a record of available tax lots, and the average price per share is available online, for covered shares and certain noncovered shares, if you purchased shares direct-at-fund through Columbia Management Investment Services, Corp. See [Q3.2](#) for instructions on accessing those records when logged into your account online. If you purchased shares through a broker, contact the broker to determine how to access your cost basis information.

**Q3.2: Where can I find my cost basis?**

**A3.2:** Once logged in to your account, on the Account Summary page, you would go to the *Select an Action* dropdown menu and select *Account Position*. On this page, the *Average Rate Per Share* for covered and noncovered shares will be displayed in the bottom left, as well as the total number of covered and noncovered shares. If you multiply the average rate against the number of shares, you would obtain an approximate cost basis. Additionally, you can use the *Select an action* drop-down menu on this page to select *Cost Basis Transaction Activity* and click *Go*. This will take you to a page that displays various pieces of information including a totaled gain/loss figure for covered and non-covered shares broken down into short- and long-term figures. This will report for the current and two prior tax years based on any reportable redemption or exchange activity you have had. The top right of this page will display what cost basis accounting method you are currently using and whether cost basis information is available for your non-covered shares in the field *Non-Covered Average Cost*. If this field says *Yes*, cost basis is being calculated for your non-covered shares using the average cost method and will report solely to you on the 1099-B tax form. If this field says *No*, we will be unable to provide you with cost basis information on your non-covered shares.

If you are looking for a detailed record of the tax lots on your account, you would click the button labeled *Account Tax Lot Activity* on this Cost Basis Transaction Activity screen. This will open a

pop-up window. If you are having trouble accessing this screen, please make sure pop-up blockers are turned off on your computer. This new screen will show you a detailed record of tax lots on your account. If you right-click in this window, you should also have an option to export this information into Microsoft Excel.

**Q3.3: Can I download my 1099 information into tax software?**

**A3.3:** The third-party vendors that support tax form integration with Columbia Threadneedle include Turbo Tax, Quicken and HR Block. We cannot guarantee document integration for other software. Tax information that is not shown on your 1099s generally won't import into tax preparation software, including most of the supplemental tax information on our website. You may need to manually input this information, if applicable. If you purchased your mutual fund or ETF shares through a broker, contact your broker to determine if their tax information integrates with tax preparation software.

**Q3.4: Where do I go to choose my cost basis method?**

**A3.4:** If you purchased your shares direct-at-fund, through Columbia Management Investment Services, Corp., in a taxable account, you may elect a cost basis method for your covered mutual fund shares by logging into your online account. The cost basis methods available are listed above (A1.4) and defined in the Glossary of Terms below. On the Account Summary page, you would go to the *Select an Action* dropdown menu and select *Update Mandatory Cost Basis*. On the Cost Basis Options click the radial button to either *Apply one method for all funds* (default setting) or *Specify methods for each fund*. Next, use the *Cost Basis Accounting Method* dropdown menu to select your desired cost basis method going forward. This method change will only apply to covered shares, and as a reminder, any noncovered shares will be sold before covered shares.

Please note that if you select Specific Lot Identification as the method, any cost basis tracking will be removed from noncovered shares. This cannot be reversed. Additionally, you will be required to select a back-up method for cost basis accounting when using the Specific Lot Identification method.

Once you have selected your new cost basis method for your covered shares and selected to apply it to one or all funds, you should click the *Continue* button at the bottom of the page. The next screen will display a confirmation of the update; you must click the *Continue* button again on the bottom of the screen to submit the change.

If you are unable to or do not wish to make this change when logged into your account online, you may submit the Cost Basis Election Form to request the change. This form can be found online under the Resources tab, then select *Forms and Applications* or can be requested via mail by calling 1-800-345-6611 and speaking with a representative during our hours of operation. Please note that this form must be signed by all shareholders and does not require any authorization stamp.

If you purchased your mutual fund or ETF shares through a broker, contact your broker to determine which cost basis methods the broker supports.

**Q3.5: Can I view my estimated gain or loss before placing a redemption?**

**A3.5:** Yes. Log into your account online and choose either *Exchange* or *Redeem* from the select an action dropdown menu and click Go. The next screen will have you confirm where the funds are going and enter an amount. After the amount has been entered, click the *Estimate Gain/Loss* button, which open a pop-up window displaying a gain/loss estimate using the prior market close NAV.

## Section 4- Additional Questions & Resources

### Q4.1: How does a reverse stock split affect shareholder cost basis?

**A4.1:** The total cost basis of an account will not change, but the cost basis per share would increase. For example, in a 1 for 4 reverse stock split, cost basis per share quadruples and the NAV per share of the fund also quadruples, and should allow for no material impact to current hypothetical gain/loss totals.

### Q4.2: After a reverse stock split, how will the new cost basis be calculated?

**A4.2:** The following example assumes a 1 for 4 reverse stock split on an account with 2,000 shares, a current value of \$10,000 and an original cost basis of \$8,000 (average cost method of accounting):

	Total cost basis	Cost basis per share	Gain/loss on full sale
Before	\$8,000 total cost basis	\$4 cost basis per share (\$8,000 / 2,000 shares)	\$10,000 Value - \$8,000 cost basis = \$2,000
Split actions	–	(\$8,000 / 500 shares)	–
After	\$8,000 total cost basis	\$16 cost basis per share	\$10,000 Value - \$8,000 = \$2,000

### Q4.3: What happens if I change brokers? Will I lose the cost basis information on those shares?

**A4.3:** No, the cost basis on covered shares is portable. If you change brokers, the basis on any covered shares will be sent to the receiving broker.

### Q4.4: What is my cost basis and holding period for securities acquired through a gift or inheritance?

**A4.4:** In cases of inheritance, the cost basis will equal the fair market value of the security on the date of death, unless an estate representative says otherwise. For mutual fund shares, the fair market value is the net asset value (NAV) per share of the fund on that date. For ETF shares, the fair market value is average of the high and low prices on that date. The holding period for inherited securities is considered long-term, regardless of how long the decedent or the recipient held the securities. In situations of joint ownership, half of the account is considered to belong to each owner and the basis on that half is adjusted as noted above, while the other half of the account would maintain the original basis. For accounts owned by entities such as trust accounts, there may be no basis adjustment. Questions about adjusting the cost basis on an entity account should always be directed to a tax professional.

To figure the basis of a gifted security, you must know the donor's basis just before it was gifted and its fair market value at the time it was gifted unless the cost basis method is Average Cost. Average Cost will require the gift recipient to accept and use fair market value of the security on the date of the gift and the original cost basis would no longer be considered. If the gift recipient does not make a cost basis election for the gifted shares, the cost basis method will default to First In, First Out. If the person receiving the gifted shares does not use the Average Cost method, the following rules apply:

- If the fair market value at the time of the gift is equal to or greater than the donor's adjusted basis, then the donor's adjusted basis should be used for calculating gain or loss when you redeem the shares. Additionally, the donor's holding period should be tacked on to your holding period.
- If the fair market value at the time of the gift is less than the donor's adjusted basis, your basis when you redeem the shares will depend on whether the redemption price:



- Is less than the value at the time of the gift (your basis = the value at the time of the gift)
- Is greater than the donor's basis in the shares (your basis = donor's basis) or
- Falls between these two amounts (basis = proceeds, no gain or loss)

**Q4.5: What happens if I wish to change the cost basis method on my account in the future?**

**A4.5:** A change of the cost basis method on your account will only apply to covered shares and can be made at any time.

- If you change from any method other than Average Cost to any method other than Average Cost, this method change will apply to all covered shares in the account.
- If you elect to change an account from Average Cost to another method before selling any mutual fund covered shares, the method change will apply to covered shares currently owned and those that you acquire in the future.
- If you elect to change an account from Average Cost to another method after selling any mutual fund covered shares, the method change will apply only to shares acquired after the date we receive your written request. Any shares remaining in the account after the redemption will retain the average basis as their basis.

Any change to or from Average Cost must be made in writing, which includes changes made at [columbiathreadneedle.com/us](http://columbiathreadneedle.com/us).

**Q4.6: Why do I need to choose a secondary cost basis method if I want Specific Lot Identification on my account?**

**A4.6:** We ask that you provide us with a secondary cost basis method for two main reasons. First, if you have requested a redemption and the lots identified for the redemption do not equal the amount of the redemption, the secondary method would be used to complete the transaction. The secondary method also allows for the processing of systematic redemption transactions on your account.

**Q4.7: How do I add or edit my cost basis information?**

**A4.7:** We are unable to add or edit cost basis information for your shares. Columbia Threadneedle uses the Average Cost method for cost basis reporting on noncovered shares when cost basis records are available. If you have been using a method other than Average Cost, you can continue to use that method for noncovered shares. You should consult a tax professional for questions about your individual situation.

**Q4.8: How many years of trade-related information does Columbia Threadneedle keep?**

**A4.8:** Columbia Threadneedle keeps annual statements for six years and tax documents for seven years. Documentation beyond this period may have limited availability. Record requests beyond current and prior years records may be subject to fees and all document reproduction requests are subject to processing time, which may be up to or beyond ten business days. The Duplicate Year-End Statement and Tax Form Request Form is available to complete, and a check made payable to Columbia Threadneedle can be enclosed for orders subject to fees. This form can be found by selecting the Resources tab on our website and then selecting Forms and Applications. Please note that only listed shareholders on the account as it was registered may request the form and all listed shareholders must sign the request. To obtain the form via mail, for fee-related questions, or any other inquiries, you may contact a representative at 800.345.6611 during our hours of operation.

**Q4.9: Does Columbia Threadneedle have any information to send me on the cost basis rules, such as literature or IRS information?**

**A4.9:** Columbia Threadneedle does not have any proprietary information on the mandatory cost basis rules, other than this FAQ document. For more information about the cost basis rules and regulations, visit [IRS Third Party Information Reporting](#). The IRS has the following information available related to 1099-B reporting and cost basis.

- Form 8949 (including instructions)
- Publication 550: Investment Income and Expenses
- Publication 551: Basis of Assets
- Cost Basis Reporting FAQs
- Instructions for Form 1099-B

## Section 5- Glossary of Terms

### Average cost

Average Cost is a method of calculating the adjusted cost basis for mutual fund shares and most ETF shares. All of the purchase costs and basis adjustments for all shares are added together in an aggregate cost amount. The cost per share is then determined by dividing the aggregate cost amount by the total number of shares in the account. The basis of the shares redeemed is determined by multiplying the number of shares redeemed by the cost per share. Other tax adjustments, such as wash sales, for example, may also be applied to adjust average cost basis.

### Bifurcation

For the purposes of cost basis reporting, bifurcation means to create two pools of shares in a single account. Each pool can then have a separate cost basis method applied to it. An account with both covered and noncovered shares is bifurcated.

### Cost basis method

A cost basis method is a method of identifying which shares are redeemed and the cost basis associated with those shares.

### Covered shares

Covered shares are mutual fund shares and most ETF shares acquired on or after January 1, 2012 that require cost basis and gain/loss reporting to the shareholder and to the IRS. Note that some brokers treat ETF shares as being covered beginning in 2011.

### First In, First Out (FIFO)

FIFO is a cost basis method that identifies the shares redeemed based on the date each share was acquired, first redeeming shares with an unknown acquisition date (if any), and then redeeming the oldest shares.

### Fund default method

The fund default cost basis method is the method that will be assigned to an account if the cost basis method is not specified by the shareholder for the account. Columbia Threadneedle has a fund default method of Average Cost. If you purchased your mutual fund or ETF shares through a broker, you will need to contact the broker to determine that broker's default cost basis method.

### Gifted shares

Shares given from one person or entity to another person or entity. Gifted shares do not include shares that were either received from a spouse or those received through an inheritance from a decedent. Shares

acquired as a gift may generally retain the adjusted cost basis of the donor or may be adjusted due to gift tax paid.

### **High Cost, First Out (HIFO)**

HIFO is a cost basis method that identifies the shares redeemed based on the highest cost basis for the available covered shares. The available lots with the highest cost are sold first.

### **Holding period**

The holding period for shares redeemed is the duration between the acquisition date (the trade date of the purchase) and the redemption date (the trade date of the sale). Currently, if the holding period is greater than one year, the gain or loss at redemption will be long-term. If the holding period is equal to or less than one year, the gain or loss will be short-term.

### **Inherited shares**

Inherited shares are those acquired through an inheritance after the previous owner has died. The cost basis of shares acquired through inheritance is generally the market value of the shares (NAV) on the date of death or the alternate valuation date.

### **Last In, First Out (LIFO)**

LIFO is a cost basis method that identifies the shares redeemed based on the date each share was acquired, first redeeming shares with an unknown acquisition date (if any), and then redeeming the newest shares.

### **Long-term gain or loss**

Net realized profits or losses from the redemption of fund shares held for more than one year. Long-term capital gains are taxed at a lower rate than ordinary income or short-term capital gains.

### **Loss/gain utilization (LGUT)**

Loss/Gain Utilization is a cost basis method that identifies the shares redeemed in the following order: tax lots with short-term losses are redeemed first, then long-term losses, then long-term gains and, finally, short-term gains.

### **Lot or tax lot**

A tax lot is a block of shares purchased in an account with common characteristics like acquisition date and cost per share. A tax lot will be built for each transaction that increases shares in an account.

### **Low Cost, First Out (LOFO)**

LOFO is a cost basis method that identifies the shares redeemed based on the lowest cost basis for the available covered shares. The available lots with the lowest cost are sold first.

### **Non-covered or uncovered shares**

The shares held by the shareholder that do not require reporting of cost basis information, holding period or gain/loss information. These are mutual fund shares and most ETF shares purchased prior to January 1, 2012, or shares acquired after the effective date where the cost basis is uncertain or unknown. Note that some brokers treat ETF shares as noncovered if acquired prior to January 1, 2011.

### **Return of capital**

A mutual fund or ETF distribution that exceeds the fund's earnings. A return of capital is giving the shareholder part of their original investment back. The return of capital amount is determined by multiplying the distribution amount by the return of capital percentage. The dividend reallocation process determines

the percentage of a distribution that should be reclassified as a return of capital (capital surplus). That amount is not subject to tax. The basis of the shares receiving the return of capital must be reduced by that amount.

### **Short-term gain or loss**

Short-term gains or losses are net realized profits or losses from the redemption of shares held for one year or less. They are taxable at the shareholder's ordinary income tax rates.

### **Specific lot identification (SLID)**

Specific Lot Identification is a cost basis method that can have two meanings:

First, Specific Lot Identification can mean any cost basis method other than Average Cost. Each lot of shares is tracked separately by acquisition date and cost per share. Shares with the same acquisition date and cost per share are grouped in the same lot. The adjusted basis of the shares redeemed is determined by multiplying the number of shares redeemed from each lot by the cost per share of that lot. Redemption sequences that may be used are: First In, First Out; Last In, First Out; High Cost, First Out; Low Cost, First Out; Loss/Gain Utilization and a listing of specific lots to be redeemed.

Second, Specific Lot Identification can also mean a cost basis method where the shareholder specifically identifies the shares to be redeemed by manually selecting the shares at the time of redemption.

### **Stock splits and reverse stock splits**

Mutual fund and ETF shares can be split or reverse split.

- **In a stock split**, the number of outstanding shares increases, resulting in a decrease in the value (NAV) per share. The increased number of shares is offset by a decreased NAV per share so that the value of affected shareholder accounts remains the same.
- **In a reverse stock split**, the number of outstanding shares decreases, resulting in an increase in the NAV per share. The decreased number of shares is offset by an increased NAV per share so that the value of affected shareholder accounts remains the same.

### **Wash sale**

This refers to a tax rule, which defers losses when a shareholder sells shares at a loss and, within 30 days before or after the sale, purchases additional shares. The shareholder is only able to claim a loss on the number of shares redeemed that exceeds the number of shares that were purchased within the thirty-day periods on each side of the redemption. The repurchased shares will assume the deferred loss and the acquisition date of the redeemed shares.

For further information on tax matters, visit the IRS website, or you may wish to call the Internal Revenue Service at 1-800-TAX-1040 (829-1040). To receive federal tax forms, visit the IRS website or call 1-800-TAX-FORM (829-3676). Information on cost basis and other mutual fund tax matters is available in IRS Publication No. 550, IRS Publication 551, and [the IRS Cost Basis Reporting FAQs page](#). In addition, information on individual retirement accounts can be found at IRS Publication 590-A: Contributions to Individual Retirement Arrangements (IRAs) and 590-B: Distributions from Individual Retirement Arrangements (IRAs).

Columbia Threadneedle and its associates do not provide legal or tax advice. Please consult your independent legal counsel and/or professional tax advisor regarding any legal or tax issues.

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