

# **Tributary Funds**

## **TAX GUIDE**

**2011**

**The information presented in this guide should not be considered a substitute for legal or tax advice. This information cannot be used for the purpose of avoiding penalties that may be imposed on a taxpayer. The rules governing the taxation of mutual fund distributions can be complex. Please consult your tax adviser regarding the proper characterization and reporting of fund distributions.**

This guide is intended to help you better organize and understand the portion of your income tax return that involves your investments in the Tributary Funds (each a “Fund,” and together the “Funds”). If you need more assistance, please speak with your tax adviser or refer to relevant Internal Revenue Service (“IRS”) publications.

The information presented in this guide should not be considered a substitute for legal or tax advice. This information cannot be used for the purpose of avoiding penalties that may be imposed on a taxpayer. The rules governing the taxation of mutual fund distributions can be complex. Please consult your tax adviser regarding the proper characterization and reporting of Fund distributions.

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## **WHAT INVESTORS SHOULD KNOW**

### **Cost Basis Information**

On October 3, 2008, the Emergency Economic Stabilization Act, HR 1424, was signed into law requiring mutual funds to provide cost basis reporting information to their customers and the IRS.

**The Tributary Funds will provide cost basis information to you and the IRS for shares purchased on and after January 1, 2012 (covered shares) using the IRS Tax Form 1099-B.** The elected method will be used for all current accounts and any **future** accounts established.

**The Tributary Funds default accounting method is Average Cost. If you are currently using the Average Cost calculation provided to you, and you would like to continue receiving Average Cost, NO ACTION is required.**

If you do not utilize the Average Cost calculation provided, you may elect to utilize a different accounting method for your future depletion activity. This method may be elected by utilizing our website at [www.tributaryfunds.com](http://www.tributaryfunds.com), or by sending your written request to:

Tributary Funds  
PO Box 219022  
Kansas City, MO 64121-9022

*Note: The Tributary Funds will satisfy any of your future redemptions by depleting all uncovered shares first (pre-effective and post-effective date) according to the cost basis method elected for the account.*

### **Cost Basis Accounting Methods Tributary Funds offers:**

- **Average Cost** – Calculates the cost of shares in an account by averaging the cost of all purchases made after January 1, 2012. Shares will be redeemed in a first-in first-out order.
- **First-In First-Out** – Shares acquired first in the account are the first shares depleted.
- **Specific Lot** – Shareholder selects which lots to deplete at time of each depletion. **Note:** When selecting Specific Lot, please choose a secondary method from the list below to be used as an alternate for systematic withdrawals and as a default, in the event specific lot depletion information is not provided.
  - **First-In First-Out** – Shares acquired first in the account are the first shares depleted.
  - **Last-In First-Out** – Shares acquired last in the account are the first shares depleted.

- **High Cost** – Shares acquired with the highest cost per share are the first shares depleted.
- **Low Cost** – Shares acquired with the lowest cost per share are the first shares depleted.
- **Loss/Gain Utilization** – Depletes shares with losses before gains, consistent with the objective of minimizing taxes. For shares that yield a loss, shares owned one year or less (short-term) will be redeemed before shares owned more than one year (long-term). For gains, long-term shares will be redeemed before short-term gains. With favorable long-term gains rates, long-term gains are given priority over short-term gains to reduce tax liability.

**Please contact Tributary Shareholder Services at 1-800-662-4203 should you have any questions.**

### **Qualified Dividend Income (QDI)**

The tax rate on certain ordinary dividends is 15% (0% for those in the 10% and 15% income tax brackets.) This rate applies to dividends received from domestic corporations and certain foreign corporations (referred to as qualified dividend income). Your Form 1099-DIV will show the amount of qualified dividend income that may be eligible for the reduced tax rate.

**Note:** Although the Form 1099-DIV shows the amount of dividends that may be eligible for the reduced tax rate, you must meet the holding period requirements for the shares you own to qualify for the reduced rate. Generally, to qualify for the reduced rate, you must have held your shares for at least 61 days during the 121-day period beginning 60 days before the Fund's ex-dividend date. Other special rules and considerations may apply. Refer to the instructions for line 9b "Qualified Dividends," on Form 1040 or Form 1040A and/or consult your tax adviser to determine the amount of dividends you received that qualify for the reduced rate.

### **Capital Gains**

The maximum tax rate on long-term capital gains is 15% for most taxpayers and is 0% for taxpayers in the 10% and 15% income tax brackets. These rates apply only to shares you sold that were held more than one (1) year. Fund shares you sold that were held for one year or less are considered short term. Long-term capital gain distributions paid by the Fund are taxed at the maximum long-term rate regardless of how long you held your shares.

## 2011 TAX FORMS

### **Form 1099-DIV**

If your Fund(s) paid a taxable distribution of capital gains and/or ordinary income of \$10 or more, or if Federal income tax has been withheld from your account as required by the IRS, a Form 1099-DIV will be sent to you. The Form 1099-DIV details all of your Fund's taxable distributions. All taxable distributions paid in 2011 must be reported on your Federal income tax return, regardless of whether they were paid in cash or reinvested.

Please refer to the instructions to Form 1099-DIV for information regarding the amounts reported on this form.

Form 1099-DIV is not issued for certain accounts, including those registered in the names of certain corporations, nonresident aliens, certain tax-exempt organizations, and certain financial institutions.

**Note:** IRS Regulations do not require issuing a Form 1099-DIV when taxable income on an account is less than \$10. However, you must report all of your distributions (including amounts less than \$10) on your tax return.

### **Form 1099-B**

If you redeemed or exchanged shares in your Fund(s), a Form 1099-B will be sent to you. Form 1099-B is used to report gross proceeds from the redemption or exchange of shares of mutual funds. For Federal income tax purposes, the IRS treats an exchange of shares of one mutual fund to another as a redemption of shares from the first fund and a purchase of shares of the second fund.

Please refer to the instructions to Form 1099-B for information regarding the amounts reported on this form.

Form 1099-B is not issued for certain accounts, including those registered in the names of certain corporations, nonresident aliens, certain tax-exempt organizations, and certain financial institutions.

### **Cost Basis Information**

If you redeemed or exchanged shares of your Fund(s) in 2011 and received a Form 1099-B you may receive an Average Cost Basis Statement that may be useful in preparing your Federal income tax return. The Average Cost Basis Statement contains the cost basis, resulting gain or loss and the holding period of the shares redeemed or exchanged.

Please refer to the statement instructions for specific information regarding the amounts reported on this statement.

The information reported uses the Average Cost/Single Category method of accounting. Although this accounting method is commonly used, it is one of four (4) IRS approved methods for calculating gains or losses on sales of mutual fund shares (see page 11).

**This Average Cost Basis information is for informational purposes only and will not be reported to the IRS. However, beginning in 2012, the cost basis on sales of certain shares purchased after 1/1/2012 will be required to be reported to the IRS on Form 1099-B**

If you currently use another accounting method, you may switch by writing “average cost” on your Form 8949. However, if you redeemed shares prior to the tax year and used a method other than average cost to determine your cost basis, you may not be able to use the Average Cost Basis provided on this statement.

You are encouraged to consult your tax adviser to determine whether you are eligible to use the accounting information provided on this statement and whether this method is best for you. You can also refer to IRS Publication 550, “Investment Income and Expenses” for help in determining which accounting method best fits your situation.

**Note-** Due to the change in legislation effective 1/1/2012, shares purchased in a mutual fund after 1/1/2012 are generally considered to be “covered shares” and shares purchased prior to 1/1/2012 may be “noncovered”. The rules allow for a fund to track covered shares as if they are in a separate account from noncovered shares for cost basis purposes. Thus, this statement will not show a wash sale for any covered share purchase made in 2012 that may have otherwise triggered a wash sale on a 2011 redemption reported to you. The taxpayer is still required to make that adjustment on their own tax return. Please refer to the instructions for Form 8949.

## FREQUENTLY ASKED QUESTIONS

Here are some of the most frequently asked shareholder tax questions and their answers.

### ***What forms and other tax information might I receive and when can I expect them?***

<b>Type of Communication</b>	<b>What it Reports</b>	<b>Who Receives It*</b>	<b>Mail Date</b>
2011 Year End Account Statement	All 2011 Fund distributions	All Fund shareholders	Early January
Form 1099-DIV	Taxable distributions of capital gains and/or ordinary income, and any federal income tax withheld as well as any foreign taxes paid	All Fund shareholders* who receive taxable distributions of \$10 or more	Late January
Form 1099-B**	Gross proceeds from the redemption or exchange of shares and any federal income tax withheld	All Fund shareholders* who redeemed or exchanged shares in 2011	Late January

\*Form 1099-DIV and Form 1099-B are not issued for certain accounts, including those registered in the names of certain corporations, nonresident aliens, certain tax-exempt organizations and certain financial institutions.

\*\*If cost basis information is available for your shares, a separate Average Cost Basis Statement will be sent with your Form 1099-B.

***I misplaced my Form 1099. Can I get a duplicate?***

You may receive a duplicate copy of Form 1099-DIV or Form 1099-B upon request.

If you purchased your shares directly from the Funds, you may obtain a duplicate copy of your Form 1099 by calling the **Tributary Funds** at 1-800-662-4203, Monday through Friday, 8:00 a.m. to 4:00 p.m. Central Time. You may also request a duplicate by logging into your account at [www.tributaryfunds.com](http://www.tributaryfunds.com).

If you purchased your shares of the Funds from a broker-dealer or through a financial adviser, you must call or write that firm to receive a duplicate copy of your Form.

***What is qualified dividend income (QDI) and how do I find out how much qualified dividend income I received from my Fund in 2011?***

Generally, qualified dividend income consists of dividends your Fund received in 2011 from domestic and certain foreign corporations. These dividends are eligible for a lower tax rate than other ordinary income and are generally reported in Box 1b of Form 1099-DIV.

**NOTE:** The amount reported in Box 1b represents the amount of dividends that may be eligible for the lower tax rate. To qualify for the lower tax rate you must have held your shares for at least 61 days during the 121-day period beginning 60 days before the Fund's ex-dividend date. In addition, other special rules and considerations may apply. Refer to the instructions for line 9b "Qualified Dividends," on Form 1040 or 1040A and/or consult your tax adviser to determine the amount of dividends you received that qualify for the reduced rate.

***Form 1099-DIV reports ordinary dividends and capital gains in separate boxes. What do these amounts represent and where should they be reported?***

Ordinary dividends may result from taxable income earned from securities, as well as, amounts realized upon the sale of securities held by your Fund for one (1) year or less (short-term capital gains). These amounts should be reported on Form 1040 or Form 1040A on line 9a (and Schedule B of Form 1040 or Form 1040A, if required). Long-term capital gains result from the sale or maturity of securities held by your fund for more than one (1) year and may need to be reported on Schedule D of Form 1040.

***I received capital gain distributions from several funds in 2011. Do I need to report these distributions on Schedule D of Form 1040?***

Yes. The rules for reporting capital gain distributions received from mutual funds changed effective for tax years beginning in 2011. Please see the Schedule D instructions for where to report these distributions.

***My Form 1099 indicates that federal income tax was withheld from my Fund's distribution. Why? How can I avoid this in the future?***

Under federal law, there is a requirement to withhold 28% of federal taxable dividends, capital gain distributions, and proceeds from the sale of shares if:

(1) you have not provided a correct and certified Social Security Number or Taxpayer Identification Number, or (2) the IRS has determined that you are subject to backup withholding for other reasons.

If you purchased your shares directly from the Funds, you may call the **Tributary Funds** at 1-800-662-4203, Monday through Friday, 8:00 a.m. to 4:00 p.m. Central Time, to request a Form W-9. By completing a new Form W-9 you may correct your Social Security Number or Taxpayer Identification Number. When you have completed a revised Form W-9, please mail the completed form to the following address:

**Tributary Funds**  
P.O. Box 219022  
Kansas City, MO 64121-9022

If you purchased your shares of the Funds from a broker-dealer or through a financial adviser, you must call or write that firm to receive a new Form W-9.

***I redeemed shares in 2011. How do I determine the amount of a capital gain or loss?***

The amount of gain or loss is the difference between the amount you "realize" and your "cost basis." If you realize more than your cost basis, you have a capital gain. If you realize less than your cost basis, you have a capital loss. The amount you realize is usually the money you receive for the shares minus any expenses paid on the redemption or exchange. It is reported on your Form 1099-B.

The cost basis of any shares redeemed or exchanged usually is the original price you paid for the shares, including any purchase cost and sales commissions you incurred. If you elected to have any of your dividends reinvested, be sure the cost basis of your shares have been properly adjusted to reflect dividend reinvestments prior to calculating the taxable gain or loss on the sale of your shares. You may wish to consult your tax adviser or IRS Publication 550, "Investment Income and Expenses," for assistance in calculating the cost basis of your shares.

**NOTE:** For certain accounts, you will be provided with an Average Cost Basis Statement.

***Can Tributary provide me with cost basis information?***

If you purchased and redeemed your shares directly with the Tributary Funds, you may receive an Average Cost Basis Statement.

If you purchased your shares of the Funds from a broker-dealer or through a financial adviser, you must call or write that firm to receive cost basis information.

**NOTE:** The Tributary Funds use the Average Cost/Single Category Method in preparing the cost basis information (see page 11). This information is provided only to assist you at tax time. It is not sent to the IRS. You should consult your tax adviser to determine if you can use this information and whether this method for calculating cost basis is the most suitable for your situation.

***What is a wash sale?***

A “wash sale” occurs when shares are redeemed or exchanged at a loss and shares of the same Fund are purchased within a 61-day period beginning 30 days before the redemption or exchange and ending 30 days after the redemption or exchange. These losses are not currently deductible. These losses are deferred. The amount of the loss is added to the cost basis of the new shares acquired. Generally, your Average Cost Basis Statement will reflect all wash sale adjustments. However, if you redeemed or exchanged shares at a loss in December 2011 and reacquired shares of the same Fund in January 2012, you should consult your tax adviser.

***Am I taxed on reinvested amounts of income and/or capital gain dividends?***

Yes. All ordinary income and capital gain distributions are taxable, regardless of whether you receive them in cash or reinvest them in additional Fund shares.

## METHODS OF CALCULATING COST BASIS

Listed below is a brief summary of the four acceptable methods that can be used to calculate your cost basis and resulting capital gains and losses on the redemption or exchange of mutual fund shares. Each method may give you a different tax result that may significantly impact your tax consequences. We strongly recommend that you consult your tax adviser to discuss the various methods and to determine which one best fits your individual circumstances.

**Average Cost/Single Category Method** – The average cost basis for each share is determined by adding the total purchase cost of all shares held at the time of sale and dividing the sum by the total number of shares in your account at the time of sale. When determining whether the character of the gain is short term or long term, you must assume (per an IRS requirement) that the first shares sold are the oldest available shares.

**Average Cost/Double Category Method** – Under this method all shares in the account are separated into two categories at the time of sale: short term (holding period of one year or less) and long term (holding period greater than one year). Similar to the Average Cost/Single Category Method the average cost per share in each category is determined by adding the cost basis of all shares in each category and dividing the sum by the total number of shares in each respective category. **Note:** You may no longer use this method for sales occurring on or after April 1, 2011. If you were using the double category method for shares acquired before April 1, 2011 and you sell, exchange or otherwise dispose of those shares on or after April 1, 2011, you must figure the average basis of your shares using the single category method described above.

**Specific Identification** – This is considered to be the most flexible method as it allows you to identify the specific shares you want sold. You must specify (in writing) to your broker-dealer or financial adviser: (1) the number of shares, (2) the purchase date, and (3) the purchase price of the shares you are selling. Your broker-dealer or financial adviser must provide you with written confirmation of the transaction within a reasonable time.

**First In/First Out (FIFO)** – This is often the easiest method to use. Basically, it calculates a capital gain or loss based on the assumption that the first shares purchased are the first shares sold.

## **IF YOU NEED MORE INFORMATION**

If you need further assistance and have established your account directly with the Tributary Funds, you may call the **Tributary Funds** at 1-800-662-4203, Monday through Friday, 8:00 a.m. to 4:00 p.m. Central Time.

If you purchased your shares of the Funds from a broker-dealer or through a financial adviser, you should call or write that firm to receive additional information.

### **Internal Revenue Service**

IRS representatives are available throughout the year to answer your questions. Call 1-800-829-1040 during normal business hours in your time zone to speak with an IRS representative. If you prefer to speak with someone in person, you can visit your local IRS office.

The IRS publishes free pamphlets on various subjects including Publication 550, "Investment Income and Expenses." For a complete list of these publications and information on other free IRS services, call 1-800-829-3676 and ask for Publication 910, "IRS Guide to Free Tax Services." This information also is available online at [www.irs.gov](http://www.irs.gov). In addition, many public libraries have copies of most IRS forms and publications.

### **Financial Professionals**

This document is not meant to provide tax advice. Your financial adviser or tax professional also may be able to assist you. Your financial adviser can help you plan a sound investment tax strategy, while your tax professional can answer your tax questions and help prepare your income tax return.