

2004 MUTUAL FUND TAX GUIDE



APRIL 15

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Purpose of This Tax Guide

This tax guide provides some basic information about the tax forms you have received or that may be mailed to you later this year. The information on pages 6-12 list the various tax forms, who will receive them, and when the forms are required to be mailed. We have included a detailed explanation of each tax form, frequently asked questions and answers, and where to go for further information.

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 our 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.

Tax Items of Interest for 2004

Qualified Dividends – A portion of ordinary income that is paid to you may represent Qualified Dividend Income (QDI) earned by the fund. This amount may be taxed to you at a lower rate. QDI is defined as dividends from domestic corporations and qualified foreign corporations that meet certain other requirements under current tax law. The rate on qualified dividend income is 15% for most taxpayers and 5% for those in the lowest income tax bracket. See box 1b titled “Qualified Dividends” of your 2004 Form 1099-DIV for applicable totals from your fund.

Please see the instructions for forms 1040/1040A for more information on how to report these dividend totals.

Form 1099DIV change – The maximum rate on long-term capital gain distributions received from your fund has been lowered to 15%. Boxes 2b (Post-May 5 Capital Gain Distribution) and 2c (Qualified 5-Year Gain) have been removed from Form 1099DIV as a result.

Maximum Contribution Limits – For the 2004 tax year, taxpayers can contribute up to \$3,000 per year to a Traditional or Roth IRA, and up to \$2,000 per year to a Coverdell Education Savings Account. Taxpayers can also contribute up to \$13,000 to a 401(k) plan for 2004.

“Catch-up” Contributions – Individuals age 50 or over (as of December 31, 2004) can contribute an additional \$500 per year to a Traditional or Roth IRA, and an additional \$3,000 to a 401(k) plan for 2004.

Retirement Savings Contribution Credit –

Taxpayers may be able to take a tax credit, which can reduce your tax liability dollar for dollar, for contributions to a qualified retirement plan, an eligible deferred compensation plan, or to a traditional or Roth IRA. A credit of up to 50% of the amount contributed is available, if your modified adjusted gross income is below certain thresholds.

As with all items within this brochure, please consult your tax advisor to discuss how these changes may affect your own situation.

REMINDER

Coverdell Education Savings Account

Distributions from Coverdell Education Savings Accounts (ESA) may be used to pay for higher education, secondary and elementary school expenses. Qualified higher education expenses may include tuition, fees, books, supplies, and equipment required for enrollment or attendance of the designated beneficiary at the eligible educational institution. Certain room and board expenses as well as special needs expenses may also be included as qualified higher education expenses. Qualified elementary and secondary expenses may include tuition, academic tutoring, special needs, room and board, uniform, and transportation expenses.

You can claim the Hope or lifetime earning credit in the same year you take a tax-free distribution from a Coverdell Education Savings Account, provided the distribution from the Coverdell Education Savings Account is not used for the same expenses for which the credit is claimed.

You can make contributions to Coverdell Education Savings Accounts and qualified tuition programs in the same year for the same beneficiary. Coverdell Education Savings Accounts may not be transferred or rolled over to a Roth IRA.

TAX FORMS

Form 1099-DIV

Purpose - Reports all dividends and capital gains earned from distributions (cash or reinvested) on non-retirement accounts. If there were no taxable capital gain or dividend distributions, you will not receive a 1099-DIV. 1099-DIV information is reported on either IRS Form 1040, Schedule B or Form 1040A, Schedule 1. Your capital gain may be reported on Schedule D. See the instructions for filing Schedule D. You will not receive a Form 1099-DIV if your total dividends for a fund are less than \$10 as the IRS does not require you to report those dividends on your tax return.

Who Will Receive It? - Individuals, trusts, estates, partnerships and certain other institutions. Retirement plan accounts will not receive this form.

Required Mailing Date - January 31, 2005

Box 1a: Reports total ordinary dividends, including short-term capital gains (will include amount from box 1b)

Box 1b: Reports qualified dividend income that may be taxed at a reduced rate depending on your tax bracket.

Box 2a: Reports total long-term capital gains

Box 3: Reports non-taxable portion of dividend distribution

Box 4: Reports backup withholding to include on your tax return as taxes withheld

Box 6: Reports foreign tax paid

Form 1099-B

Purpose - If you have made any redemptions, exchanges, or payments from non-retirement or non-money market accounts, a Form 1099-B will be sent. The information from the 1099-B is reported on the IRS Form 1040, Schedule D. NOTE: Sales of municipal income fund shares are taxable and are reported on IRS Form 1040, Schedule D.

Who Will Receive It? - All accounts which had redemptions during 2004 except for retirement plan, corporate, and certain institutional accounts.

Required Mailing Date - January 31, 2005

Box 1a: Trade date fund shares were sold

Box 2: Reports gross proceeds from sale, is reported on Schedule D

Box 4: Reports backup withholding to include on your tax return as taxes withheld

Box 7: Description, including share price and number of shares of transaction

Form 1099-R

Purpose - 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.

Who Will Receive It? - Individuals who took a distribution in 2004. Any IRA trustee to trustee transfers are not reportable.

Required Mailing Date - January 31, 2005

Box 1: Gross distributions including rollovers or transfer conversions to a Roth IRA or a recharacterized IRA contribution

Box 2a: The taxable amount for distributions from IRAs is not computed; the amount in Box 2a is the same as Box 1

Box 4: Federal withholding tax

Box 7: Codes that identify the type of distribution made. See the reverse side of Form 1099-R for detailed descriptions of the codes

Form 1099-Q

Purpose - Reports distributions from Coverdell ESA accounts.

Who Will Receive It? - Individuals who took a distribution in 2004. Trustee to trustee transfers are considered reportable on this form.

Required Mailing Date - January 31, 2005

Box 1: Gross distributions including rollovers and transfers.

Box 2: Only displays earnings made on excess contributions, otherwise not applicable for 2004

Box 3: Not applicable for 2004

Box 4: Reports if the distribution in Box 1 was a trustee to trustee transfer

Form 1042-S

Purpose - Used to report dividends (including short term capital gains) subject to withholding paid to nonresident aliens.

Who Will Receive It? - Foreign investors living outside the United States and who are not U.S. citizens.

Required Mailing Date - March 15, 2005

Box 1: Income code

Box 2 & 4: Gross and net income paid

Box 5: Country withholding rate (if no treaty, 30%)

Box 6: Exemption code

Box 7: Federal tax withheld

Box 15: Recipient's country of residence

Box 16: Country code

Box 17-20: Non-Qualified Intermediary information

Form 5498

Purpose - Reports IRA contributions, rollovers, conversions, and recharacterizations. These amounts are reported on one of the IRS Forms 1040, 1040A or Form 8606.

Who Will Receive It? - Individuals who contributed to a Traditional, Roth, SEP, or SIMPLE IRA for 2004. Assets transferred between like arrangements from one custodian or trustee to another will not generate this form.

Required Mailing Date - May 31, 2005 except for fair market value information, which is reportable by January 31, 2005.

Box 1: Traditional IRA contributions made in 2004 and through April 15, 2005 for 2004

Box 2: Rollover contributions

Box 3: Amount converted or reconverted to a Roth IRA from a Traditional, SEP or SIMPLE IRA

Box 4: Amount recharacterized from one IRA type to another

Box 5: Fair market value at year end

Box 7: Type of IRA

Box 8: SEP contributions made in 2004

Box 9: SIMPLE contributions made in 2004

Box 10: Roth IRA contributions made in 2004 and through April 15, 2005 for 2004

Box 11: Reports to the IRS if a Required Minimum Distribution is required to be taken for the tax year of 2005.

Form 5498-ESA

Purpose - Reports Coverdell ESA contributions, rollovers, and transfers.

Who Will Receive It? - Individuals who contributed to a Coverdell ESA account on behalf of a beneficiary for the tax year of 2004. A shareholder who transferred assets from one custodian or trustee to another will also receive this form.

Required Mailing Date - May 02, 2005

Box 1: Coverdell ESA contributions made in 2004 and through April 15, 2005 for the tax year of 2004.

Box 2: Rollovers and transfers made during 2004

Special Tax Considerations

Cost Basis Statements

Shareholders who took a distribution from their mutual fund accounts may receive an Average Cost Basis Statement. Retirement plan accounts or those accounts which have had a change of ownership or control will not receive an Average Cost Basis Statement.

In addition to fund and shareholder registration information, your statement will show:

- Trade date
- Number of shares redeemed
- Redemption price
- Redemption proceeds
- Average cost basis
- Gain (loss)

The dollar amount of your gain (loss) is calculated by using the IRS-approved “Average Cost-Single Category” method of accounting. Cost basis is a way of measuring the dollar amount of your investment for tax purposes. The basis of stocks, bonds and mutual fund shares includes acquisition cost, commissions and fees paid, as well as other adjustments. The Average Cost-Single Category method uses an average basis of shares you own, taking into consideration those shares acquired at different times with different prices. For example, a shareholder makes three share purchases: 100 shares on 1/2/02 at \$10.00 per share, 100 shares on 6/1/02 at \$12.00 per share and 100 shares on 12/1/02 at \$20.00 per share. The 300 shares purchased cost a total of \$4,200. The average cost per share is \$14.00 (\$4,200 divided by 300 shares.) If you sell 150 shares, the basis of those shares sold is \$2,100 (150 shares multiplied by \$14.00 average cost per share)

A wash sale transaction occurs when you sell shares at a loss and purchase new shares (including reinvested dividends) in

the same fund within a 61 day period, beginning 30 days prior to the sale and ending 30 days after the sale. With wash sales, you may not be able to claim some or all of the capital loss immediately. The amount of any postponed loss is added back to the cost basis of the remaining shares you own. When you eventually sell those shares, your average cost will reflect the postponed loss amount.

Before you elect to use the average cost basis statement for reporting purposes, you should consider the several ways to calculate the cost basis of shares sold. Please consult with your tax advisor to determine whether or not the average cost basis method is the most advantageous method for your specific financial situation.

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 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-Exempt Dividends (Municipal Bond Funds only)

Income dividends paid from a fund that invests primarily in securities issued by cities, states or other local government units are generally exempt from federal taxation, (capital gain distributions, including short term capital gain dividends included in Box 1a on Form 1099-DIV, would still be subject to federal income tax) and may be

partially exempt from state taxation. Many states do not tax their own residents on income earned from bonds issued in their own state. Generally, a letter will be sent listing the percentage of income your fund earned from each state. The tax-exempt dividends will not be reported to the IRS. However, for informational purposes, you are required to report tax-exempt dividends on your federal tax return (Form 1040, line 8b). You may be able to exclude a portion of your dividend income from state taxable income. Refer to your state income tax instructions for proper reporting.

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 funds 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.

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 are:

Wash Sales

If you purchase shares of a mutual fund (including reinvested dividends) 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 gains regardless of how long you owned shares in a fund. However, if you owned shares for less than six months, received a capital gain on these shares, and sold them at a loss, part or all of the loss on the sale of the shares (which would normally be 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. See IRS Publication 564 or consult a tax advisor before making this calculation.

QUESTIONS AND ANSWERS

Q - *How can I get duplicate tax forms?*

A - After January 31, 2005 you can contact U.S. Bancorp Fund Services, LLC to receive duplicate copies of your tax forms.

Q - *Will I receive an Average Cost Basis Statement?*

A - You should receive an Average Cost Basis Statement if you meet ALL of the following criteria:

- You redeemed shares from a non-IRA account in 2004
- You received Form 1099-B
- Your account was opened after January 1, 1987

Average Cost Basis Statements are mailed by January 31, 2005. There are certain situations such as transfers of shares which may prevent you from receiving a cost basis statement. Please contact U.S. Bancorp Fund Services, LLC to inquire about your specific account.

Q - *How will Roth conversions be shown on tax forms?*

A - They will be shown on Form 5498, box 3 and on Form 1099-R, box 1 and 2a and distribution code 1, 2 or 7 in box 7

Q - *At what point can I no longer recharacterize a Roth IRA for 2004?*

A - A Roth IRA can be recharacterized through October 18, 2005.

Q - *How will Roth IRA recharacterizations be shown on tax forms?*

A - Recharacterizations will be shown as a gross distribution on Form 1099-R, box 7, with code N for current year and code R for prior year. Form 5498 will show the recharacterized amount in box 4.

Q - *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 - 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-IRA accounts. A Shareholder Capital Gain occurs when the shareholder sells shares for a gain in a taxable, non-IRA, non-money market account.

Q - *Do I have to report reinvested capital gains & dividends on a non-IRA account?*

A - Yes, capital gain and dividend distributions are considered earned income in the year they are distributed regardless whether they are paid in cash or reinvested. The amount of the reinvested dividends and capital gains are then added to the cost basis when a redemption occurs. This is to avoid being taxed twice on the same dollars.

Q - *Why are SEP and SIMPLE contributions that were made in 2005 for the 2004 tax year, not shown on Form 5498?*

A - IRS rules state that only contributions made to a SEP and SIMPLE IRA during the calendar year be reported on Form 5498. Contributions made in 2005 for 2004 will be reported on the 2005 Form 5498.

Q - *Why was there withholding on my account?*

A - Generally there is withholding because the fund did not have a signed application or IRS Form W-9 on file, or the IRS has instructed the fund to withhold on distributions made from your account.

Q - *Do I have to report capital gains and dividends on an IRA account?*

A - No, if they were reinvested in the same IRA. Yes, if taken as a cash distribution.

Q - *What tax forms are mailed to nonresident aliens?*

A - Form 1042-S is mailed to nonresident aliens who received short-term capital gain and/or dividend distributions on their account in 2004. A nonresident alien is not a US citizen and lives outside the United States.

Q - *Where can I get more information on completing my tax return?*

A - Please refer to the Additional Resources section in this tax guide for more information, or consult a tax advisor.

Additional Resources

IRS Web Site - Download forms, instructions, and publications:
www.irs.ustreas.gov

IRS Tele-Tax Topics - Touch tone service on 150 topics, 24 hours/day, 7 days/week (rotary service will vary) 1-800-829-4477

*** See Form 1040 instructions or IRS Publication 17 for complete list of IRS Tele-Tax Topics**

*Topic Number	Subject
123	Directory of Topics
155	Forms/Publications
252	Electronic Filing
309	Roth IRA Contributions
310	Coverdell Education Savings Accounts
404	Dividends
409	Capital Gains & Losses
410	Pensions and Annuities
412	Lump-Sum Distributions
413	Rollovers from Retirement Plans
422	Nontaxable Income
424	401(k) Plans
451	IRAs
553	Tax on a Child's Investment Income
556	Alternative Minimum Tax
557	Tax on Early Distributions from Traditional and Roth IRA's
558	Tax on Early Distributions from Retirement Plans
610	Retirement Savings Contribution Credit

Tax Forms - Forms, instructions, and publications can be found at your local IRS office, bank, post office, library, or by calling the IRS Forms Distribution Center at 1-800-TAX-FORM.

IRS General Information - 1-800-829-1040

****Key IRS Publications -** Please see IRS Publication 17 or 910 for a complete list.

<u>Number</u>	<u>**Title</u>
17	Your Federal Income Tax (For Individuals)
54	Tax Guide for US Citizens and Resident Aliens Abroad
505	Tax Withholding & Estimated Tax
514	Foreign Tax Credit for Individuals
515	Withholding of Tax on Non Resident Aliens and Foreign Corporations
525	Taxable and Nontaxable income
550	Investment Income and Expenses
552	Recordkeeping for Individuals
553	Highlights of Tax Changes
554	Older Americans' Tax Guide
560	Retirement Plans for Small Businesses
564	Mutual Fund Distributions
575	Pension and Annuity Income
590	IRAs
907	Tax Highlights for Persons with Disabilities
910	Guide to Free Tax Service
929	Tax Rules for Children & Dependents
939	General Rule for Pensions and Annuities
970	Tax Benefits for Higher Education
1431	IRS Telephone Assistance
3007	Questions and Answers for Taxpayers

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