

Qualified Dividend Income Distribution Information

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (“2003 Tax Act”) generally lowers the federal income tax rate of qualified dividend income to 15% (or to 5% for taxpayers in the lowest two brackets). To qualify as Qualified Dividend Income (“QDI”), dividends must generally be paid from domestic corporations or certain qualified foreign corporations, the investment must have been held for the requisite period of time and meet certain other criteria as stated in the 2003 Tax Act. The new rates potentially apply to QDI received by a mutual fund after December 31, 2002 and subsequently distributed to the fund shareholder.

Those ordinary dividends that may qualify to be taxed at one of the new lower rates are reported as qualified dividends in column 1b of Form 1099-DIV. Ordinary dividends that are not reported as qualified may be taxed at the shareholder’s ordinary income tax rate.

Please use the *2003 Table of Qualified Dividends* in combination with your dividend information to estimate the amount of the dividends that may qualify for the new lower rates.

Fund Shareholder Responsibility

For shareholders who purchased and/or sold mutual fund shares in 2003, not all potential qualified dividends will be taxable at one of the new lower tax rates. **In order for the potential qualified dividend reported by the fund to be taxable at one of the new lower rates, the shareholder also needs to have met the requisite holding period for the mutual fund shares.** If the shareholder did not hold the fund for the requisite holding period, the dividend is then non-qualified and may be taxed at the shareholder’s ordinary tax rate. For shareholders who neither bought or sold shares in 2003, the qualified dividend calculation will be relatively simple. Please see an example of these calculations under *How to Determine the Holding Period*.

How to Determine the Holding Period

Shareholders must hold the dividend-paying mutual fund for more than 60 days out of the 120-day period that began 60 days before the ex-dividend date. To help calculate the portion of dividend income received that can be taxed at one of the new lower rates, we are providing in the *2003 Table of Qualified Dividends* mutual fund ex-dividend dates, the total dividend per share, and the percentage of that total dividend that qualifies for the new lower rates. Shareholders should consult the appropriate form 1040 or their individual tax advisors with any additional questions concerning reporting qualified dividend income. See below for an example of how to determine if you meet the holding period requirement.

Shareholders which purchased or sold shares of a mutual fund during 2003 will need to determine whether or not they meet the holding period requirement. There are basically 3 steps to determine the actual amount of qualified dividends at an individual shareholder level.

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Step 1 – Did the shareholder hold the mutual fund for 61 days during the 120-day period?

For this example, mutual fund ABC paid a dividend on ex-dividend date May 2, 2003.

The shareholder purchased 5,000 shares of ABC fund on April 30, 2003 but sold 1,000 of those shares on June 1, 2003. The shareholder continued to hold the remaining 4,000 shares.

The shareholder held 1,000 shares for 32 days (from May 1, 2003 to June 1, 2003) during the 120-day period and 4,000 shares for 61 days (from May 1, 2003 to June 30, 2003) during the 120-day period.

Therefore:

The dividend income from the 1,000 shares held 32 days **is not** qualified dividend income.

The dividend income from the 4,000 shares held 61 days **is** qualified dividend income.

Note: when counting the number of days the stock was held, include the day the stock was sold but not the day it was purchased.

Step 2 – How much of the total dividend paid in the quarter is qualified.

For this example, assume the dividend paid on May 2, 2003 was \$.25 per share and that 40% is qualified.

Total Dividend/Share in Second Quarter	X	Percentage Qualified	=	Total Qualified Dividend/Share in Second Quarter
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Therefore: \$.25 X 40% = \$.10 per share qualified.

Step 3 – How much of the qualified dividends from Step 2 will be taxable at one of the new lower tax rates for this particular shareholder.

Number of Shares from Step 1 that “qualify”	X	Qualified Dividend/Share from Step 2	=	Amount of Actual Qualified Dividend
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Therefore: 4,000 shares X \$.10/share = \$400

In Conclusion: Of the \$1,250 reported as dividends for this shareholder, only \$400 is taxable at one of the new lower tax rates. The remaining \$850 should be taxable at the individual shareholder’s ordinary income tax rate.

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