



## Mandatory Cost Basis Reporting

As part of the Emergency Economic Stabilization Act of 2008, mutual fund companies will be required to report cost basis information for taxable accounts to the Internal Revenue Service (IRS) for any sale of mutual fund shares acquired after the effective date of January 1, 2012. Shares acquired after the effective date are considered covered shares, as further defined below.

### 1. What is Cost Basis?

Cost basis is the original purchase price paid for a security, such as mutual fund shares. It includes commissions and fees, return of capital distributions, stock splits, reinvested dividends and capital gains distributions, and other adjustments that may be applicable. It is used to determine if you have a capital gain or capital loss when you sell your shares.

The difference between your cost basis and the value of the asset when you sell your shares determines whether you need to report a capital gain or capital loss to the IRS.

### 2. What Cost Basis Calculation Methods are available?

Below are the cost basis methods available at Gabelli Funds:

- **First In First Out (FIFO)** – A standing order to sell the oldest shares in the account first.
  - **Last In First Out (LIFO)** – A standing order to sell the newest shares in an account first.
  - **High Cost First Out (HIFO)** – A standing order to sell the most expensive shares in the account first.
  - **Low Cost First Out (LOFO)** – A standing order to sell the least expensive shares in the account first.
  - **Loss/Gain Utilization (LGUT)** – A method that evaluates losses and gains and then strategically selects lots based on that gain/loss in conjunction with a holding period.
  - **Specific Lot Identification (SLID)** – The shareholder designates specific shares for their redemption.
3. **Average Cost (ACST)** – A method to calculate the gain/loss by adding up the number of shares owned as well as the total dollar amount of the cost of the shares; the dollar amount is divided by the number of shares.
- ### 4. What is Gabelli Funds' default method?

If you do not elect a cost basis method, Gabelli Funds' default method of Average Cost will be selected as your cost basis method.

## **5. What are Covered Shares?**

Covered shares are mutual fund shares acquired after the effective date, January 1, 2012. All covered shares are subject to the new cost basis reporting legislation; we will report the cost basis for all covered shares to both the IRS and you.

This information will be reported on IRS Form 1099-B. You must use the cost basis information reported on Form 1099-B when filing your federal income tax return.

## **6. What are Non-Covered Shares?**

Non-covered shares include mutual fund shares held prior to the effective date of the new cost basis reporting requirements and are generally not affected by the new regulations. Gabelli Funds has been supplying Average Cost information for redemptions of non-covered shares. This will not change. We will continue reporting Average Cost information, if available, for redemptions of shares acquired prior to January 1, 2012. As in the past, this information will not be reported to the IRS; you may choose to use this information as appropriate.

## **7. What shares will be used when I make a redemption?**

All non-covered shares will be depleted before the covered shares. The non-covered shares will be depleted starting with the oldest shares first. For shareholders who proactively elect a method other than Average Cost or Specific Lot Identification, you have the option to use the same cost basis accounting method that you have chosen for your covered shares to deplete non-covered shares.

## **8. Am I able to change my election?**

Effective January 1, 2012, if you have not proactively elected a basis method and the fund's default is average cost you may retroactively change the fund's default to another method before the date of the first redemption or transfer. Whether you are changing from average cost to another basis method or changing to average cost from another basis method, that request must always be in writing. You may always change your cost basis method on future purchases, no matter what cost basis method you choose.

## **9. What cost basis method is best for me? How can I decide?**

It depends on your personal tax situation. You should consult with a tax advisor to decide what option is best for you.

## **10. How will my gain/loss be reported?**

You will receive a Form 1099-B showing sales proceeds for each sale transaction. Basis information will be reported along with the calculated gain or loss on the trade. The gain or loss will be classified on the form as short-term or long-term based on the acquisition date of the security. The information reported to you on Form 1099-B will also be reported to the IRS.

If you have any questions, please call a Gabelli Funds representative at 800-422-3554. Please note, however, that we cannot provide tax advice.