ALLIANCEBERNSTEIN

Cost Basis Reporting Overview

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This section provides background information and explanations of current cost basis regulations along with AllianceBernstein's default method.

This page provides an explanation of the AllianceBernstein default method as well as other cost basis reporting methods available to shareholders.

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This section offers answers to the most commonly asked questions about cost basis and the new regulations.

ALLIANCEBERNSTEIN

SUMMARY

BACKGROUND

On October 3, 2008 the Emergency Economic Stabilization Act, HR 1424, was signed into law and new regulations were placed on financial intermediaries such as mutual funds to report accurate adjusted cost basis to investors and the IRS for mutual funds on or after January 2012.

The new rules require that mutual funds offer shareholders multiple cost basis methods to calculate their gains and losses. For shareholders who do not make a choice, mutual funds are allowed to select a default method to be applied to their shareholders' accounts.

WHAT IS COST BASIS?

Generally, cost basis is the purchase price of a security or share, including commissions and expenses if applicable. You use your cost basis to determine if you have a capital gain or a capital loss at the time you sell your shares. You must report capital gains and losses to the IRS for purposes of tax computations.

When you sell or exchange your shares, the price is usually different than the original purchase price. If you sell your shares for higher than the original cost you incur a capital gain and must report that to the IRS. Likewise, if you sell your shares for lower than the original price you incur a capital loss and can report that to the IRS as well.

WHAT IS ALLIANCEBERNSTEIN'S DEFAULT COST BASIS METHOD?

The AllianceBernstein funds have selected Average Cost as the default calculation method. In October of this year a letter will be sent to all impacted AllianceBernstein shareholders requesting their choice of Cost Basis Calculation Method.

- If you wish to use the Average Cost Method, no action is necessary. AllianceBernstein will automatically apply this method to your accounts on January 1, 2012 if you do not choose a different method.
- If you would like to choose a different option, return your selection on the Cost Basis Accounting Method Election Form before January 2012.

AllianceBernstein

UNDERSTANDING YOUR OPTIONS

COST BASIS REPORTING METHODS

The new rules apply only to "covered" shares, which are defined as shares that have been purchased on or after January 1, 2012. "Non-covered" shares are shares acquired before January 1, 2012. "Non-covered" shares will continue to be reported to the IRS as they have in the past, with only the gross proceeds of the sale or exchange of the shares being reported on the IRS Form 1099-B.

For "covered shares", shareholders can select from the following options to use as their Cost Basis accounting method:

- **Average Cost** - A method for valuing the cost of covered shares in an account by averaging the effect of all covered transactions (purchases / corporate actions such as mergers, etc.) in the account. The gain/loss is calculated by taking the cumulative dollar cost of the shares owned and dividing it by the number of shares in the account. **The AllianceBernstein funds have selected Average Cost as the default calculation method.**
- **First-In First-Out** — A standing-order accounting method that assumes shares acquired first in the shareholder's account are the first shares depleted to determine the shareholder's cost basis, gain or loss, and holding period. Shares may be used only once to calculate the cost basis.
- **Specific Identification Methods** — A cost-basis accounting method that requires tracking the shares associated with a purchase lot or reinvestment lot until the shares are redeemed. A shareholder may select the shares to be redeemed from any of the purchase lots that have shares remaining. A shareholder chooses one of the following five priority sequence options to determine which share lots are used for a sale or exchange:

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/gains and strategically selects lots based on the loss/gain in conjunction with a holding period.
Specific Lot Identification (SLID)	The shareholder designates specific shares for redemption.

WHY DID ALLIANCEBERNSTEIN CHOOSE THE AVERAGE COST BASIS METHOD?

AllianceBernstein has been voluntarily reporting Average Cost on applicable shareholder accounts for approximately 20 years. It is our belief that continuing to provide this calculation methodology will provide continuity and consistency to our shareholders. Based on information reported by industry peers offering multiple accounting methods, the vast majority of shareholders regularly choose Average Cost.

WHAT ARE THE APPLICABLE ACCOUNTS?

The new reporting rules only apply to what are known as 1099-B eligible accounts. Typically, these are taxable accounts which have reportable gains or losses when you sell or exchange shares. The following types of accounts will not be affected by the new regulations as there is no 1099-B reporting for these accounts:

- CollegeBound*fund* (529 college savings plans)
- Money Market fund
- Tax Deferred/Retirement (IRA's, Roth IRA's, etc.)

WHAT DO I NEED TO DO?

- If you have an account that it is impacted and you wish to select the Average Cost method, no action is necessarily. We will automatically apply this method to your accounts.
- If you have an account that is impacted, but you are unsure which method to choose, or do not wish to select the Average Cost Basis accounting method, we strongly recommend consulting a qualified tax consultant to determine the most appropriate method. Once you have decided, return your selection on the Cost Basis Method Election Form before January 1, 2012.

DOCUMENTS

SHAREHOLDER COST BASIS NOTIFICATION LETTER

In October, 2011 AllianceBernstein sent Shareholder Cost Basis Notification Letters to all applicable shareholders explaining the new cost basis regulations and providing details as to what actions, if any, were required in electing a cost basis accounting method for their accounts.

Shareholder Cost Basis Notification Letter

SHAREHOLDER COST BASIS ACCOUNTING METHOD ELECTION FORM

This form was included with the above noted Shareholder Cost Basis Notification Letter sent to shareholders in October, 2011.

It should be used **only** by shareholders that **do not** want Average Cost, the AllianceBernstein default cost basis accounting method, applied to their non retirement/non education savings accounts.

Cost Basis Accounting Method Election Form

1099-B

IRS Form 1099-B is used to report information on the sale or exchange of mutual fund shares in most non-retirement/non education savings accounts. This form has been recently modified to accommodate the new Cost Basis Legislation reporting requirements.

1099B

1099-B Form Instructions (From IRS.GOV)

W-9

Corporations that own mutual fund shares are now required to identify themselves as either a C-Corporation or an S-Corporation.

- **S-Corporations:** An 'S-Corporation' is a regular corporation that has up to 100 shareholders and passes through net income or losses to shareholders in accordance with Internal Revenue Code, Chapter 1, Sub-chapter S. This means any profits earned by the corporation are not taxed at the corporate level, but rather at the level of the shareholders.
  Corporations must meet specific IRS requirements to be taxed under Sub-chapter S eligibility criteria, and they must notify the IRS of their choice to be taxed as an S-Corporation within a certain period of time.
- **C-Corporations**: A 'C-Corporation' is a business that is legally and completely separate from its owners. Most publicly-traded companies (and all major ones) fall under this classification. For United States tax purposes, C-Corporations are required to pay income taxes on their profits. A disadvantage of a C-Corporation is that it is taxed and its individual shareholders are also taxed on dividends.

In order to comply with IRS regulations pertaining to differentiating between S and C corporations, AllianceBernstein sent a letter and W9 to each corporation with an AB retail mutual fund account. The letter explains the new regulation and requests that each corporation complete a new W9. The recently revised W9 includes fields which can be used by corporate account holders to indicate which type of corporation they are.

W-9 Form

FAQ

WHAT IS COST BASIS?

Generally, cost basis is the purchase price of a security or share, including commissions and expenses if applicable. You use your cost basis to determine if you have a capital gain or a capital loss at the time you sell your shares. Capital gains and losses must be reported to the IRS for purposes of tax computations.

When you sell or exchange your shares, the price is usually different than the original purchase price. If you sell your shares for higher than the original cost you incur a capital gain and must report that to the IRS. Likewise, if you sell your shares for lower than the original price you incur a capital loss and can report that to the IRS as well.

WHAT IS THE NEW COST BASIS LEGISLATION?

On October 3, 2008, Congress passed the Emergency Economic Stabilization Act, which requires brokers to report adjusted cost basis for taxable accounts to the IRS and taxpayers via Form 1099-B starting with tax year 2011. The legislation applies to mutual fund shares acquired on or after the effective date of January 1, 2012.

The legislation also requires that the new Form 1099-B indicate if the gain or loss is short-term or long-term, and the amount of any loss disallowed under the wash sale rules.

WHAT ARE COVERED AND NON-COVERED SHARES?

- Covered shares are obtained by the shareholder after January 1, 2012, and require cost basis and gain/loss reporting to the shareholder and the IRS.
- Non-covered shares are those purchased prior to January 1, 2012, or shares transferred into an account with unknown cost basis.

DO I HAVE TO RETURN THE COST BASIS ACCOUNTING METHOD ELECTION FORM?

No, if you have an account that it is impacted and you wish to select the Average Cost method, no action is required. We will automatically apply the default method (Average Cost) to your accounts.

WHAT DO I NEED TO DO IF I DO NOT WANT THE AVERAGE COST METHOD APPLIED TO MY ACCOUNT(S)?

If you have an account that is impacted, but you are unsure which method to choose, or do not wish to select the Average Cost Basis method, we strongly recommend consulting a qualified tax consultant to determine which method is most appropriate for you. Once you have decided, return your selection on the Cost Basis Accounting Method Election Form before January 1, 2012.

WHAT COST BASIS METHODS ARE AVAILABLE?

Not all cost basis methods listed will be available for every fund. The following cost basis methods may be available to you:

- **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.
- **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 shares; the dollar amount is divided by the number of shares. The average price of covered securities is calculated separately from non-covered securities, as if they were in two accounts. This is called bifurcation.

WHAT COST BASIS METHOD IS BEST FOR ME? HOW CAN I DECIDE?

- If you have an account that is impacted, but you are unsure which method to choose, or do not wish to select the Average Cost Basis method, we strongly recommend consulting a qualified tax consultant to determine which method is most appropriate for you.
- Selecting your cost-basis method is a critical decision, and may ultimately affect the amount of taxes you pay on the sale or exchange of your shares. AllianceBernstein is unable to provide tax guidance when you make an election.

DO I HAVE THE OPTION TO CHOOSE DIFFERENT COST BASIS METHODS FOR EACH FUND?

Yes. Each fund/account number can have its own method of cost basis.

WHAT SHARES WILL BE USED WHEN I REQUEST 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.

WHAT IF I WANT TO CHANGE MY ELECTION?

Changes can be made at any time up to and including the first sale or exchange of covered shares.

HOW IS THIS COST BASIS CALCULATION DIFFERENT FROM WHAT ALLIANCEBERNSTEIN USED TO PROVIDE TO SHAREHOLDERS BEFORE?

- Prior to new legislation, some mutual fund companies chose to provide shareholders with an optional cost basis accounting statement using the Average Cost method. This information was not provided to the IRS and shareholders were under no obligation to utilize it.
- Beginning in tax year 2012, cost basis information will be reported to the IRS. We will now support the use of the three IRS approved accounting methods: First-In First-Out (FIFO), Specific Share Identification, and Average Cost.

WHEN DO I HAVE TO DECIDE WHICH COST BASIS ACCOUNTING METHOD TO USE?

- All existing shareholders must have a cost basis method associated with their account by January 1, 2012. If the shareholder has not provided an election, the fund default will be assigned.
- New accounts established by shareholders after January 1, 2012 will be asked to provide their accounting election at the time they open the account.

WHAT'S A WASH SALE?

- This refers to an IRS rule, which defers losses when a shareholder sells mutual fund shares at a loss and purchases additional shares in the same account within 30 days, before or after, the sale. The shareholder is only able to claim a loss on the amount of shares redeemed that exceeds the number of shares that were purchased within the thirty-day period on each side of the redemption. The repurchased shares will assume the deferred loss and the acquisition date of the redeemed shares. Uncovered shares that are redeemed at a loss cannot be washed against covered repurchase shares and vice versa since those will be treated as if they are in separate accounts for cost basis purposes.
- Although taxpayers must comply with the wash sale rules, for sales of securities that are substantially similar, funds are only required to report wash sales when the securities have the same CUSIP number. Furthermore, they are only required to report wash sales when the purchase and sale occurs in the same account.