

# ORGANIZATIONAL ACTIONS AFFECTING COST BASIS

## Federated U.S. Government Bond Fund

October 8, 2012

### Issuer's Statement

#### **COST BASIS – FUND MERGERS / RETURN OF CAPITAL**

##### **General Cost Basis Information**

IRS regulations effective on January 1, 2012 require mutual funds to report cost basis on any covered shares, which are defined as shares purchased and subsequently redeemed after January 1, 2012. The IRS also requires mutual fund companies to provide additional information to assist shareholders in cost basis reporting. Specifically, for mutual funds that have participated in merger events, or those that have undergone return of capital, the IRS requires that mutual fund companies make available to shareholders an Issuer's Statement containing information about the funds involved in mergers or those that have experienced returns of capital.

##### ***COST BASIS AND FUND MERGERS***

Fund mergers will affect the cost basis calculation for mutual fund accounts. If you own a fund that is merged into another fund, your holding period and total cost basis normally are not affected. However, since the number of shares you have after a merger will most likely be different than the number before the merger, the average cost basis per share changes. If this is the case, when calculating gains and losses you must determine the number of shares acquired in each transaction based on the number of shares received in the merger.

##### *Guidance on how to determine and allocate tax basis for merger transactions/quantitative effect on cost basis*

While fund mergers are non-taxable events, shareholders will need to adjust their records to take the basis of their merged fund shares and allocate that basis to the new fund shares received. See the example below:

- On April 4 2012, John Smith purchased 1,000 shares of XYZ Fund. The total cost basis of these shares was \$5000.00.
- On June 10, 2012, the XYZ Fund was merged into the ABC Fund.
- At the time of the merger:
  - John's cost for his 1,000 shares was \$5,000.00.
  - The price per share of the XYZ Fund was \$5.00.
  - The price per share of the ABC Fund was \$10.00.
  - The merger ratio was 0.5000 (meaning John would receive one half share of the ABC Fund for every one shares of XYZ Fund he owned)
- After the merger:
  - John owned 500 shares of the ABC Fund.
  - John's total cost basis for his 500 shares of ABC Fund is \$5,000.00.

## Mutual Fund Mergers<sup>1</sup>

Below is a table with fund-specific information you will need to calculate your cost basis.

Issuer's Name and EIN	Class	CUSIP	Symbol	Organizational Action	Date of Action	Applicable Tax Year	NAV	Acquiring Fund	Class	CUSIP	Symbol	NAV	Merger Ratio
Federated U.S. Government Bond Fund – 25-1502815	SS	314284100	FEDBX	Fund Merger	August 25, 2012	2012	\$10.135	Federated Total Return Government Bond Fund – 25-1772145	SS	31429A204	FTGSX	\$11.80	0.858898305

## OTHER INFORMATION YOU MAY NEED TO KNOW

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1 The Reorganization will constitute a 'reorganization' within the meaning of Section 368(a) (1) of the Internal Revenue Code (the Code), and the Selling Fund and the Buying Fund will each be "a party to a reorganization" within the meaning of Section 368(b) of the Code.

Under Section 354 of the Code, no gain or loss will be recognized by the shareholders of the Selling Fund upon the exchange of their Selling Fund shares for Reorganization Shares of the Buying Fund.

Under Section 358 of the Code, the aggregate tax basis of Reorganization Shares that a Selling Fund shareholder receives in the Reorganization will be the same as the aggregate tax basis of the Selling Fund shares exchanged therefor.

Under Section 1223(1) of the Code, a Selling Fund shareholder's holding period for the Reorganization Shares received in the Reorganization will be determined by including the shareholder's holding period for the Selling Fund shares exchanged therefor, provided the shareholder held such Selling Fund shares as capital assets.



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