

Cost Basis Reporting – Frequently Asked Questions

As part of the Emergency Economic Stabilization Act of 2008, the Internal Revenue Service will require mutual funds to report cost basis information on Form 1099-B beginning with tax year 2012 on all redemptions and exchanges done in a taxable account with The Munder Funds®.

If your account with The Munder Funds is subject to the new cost basis reporting requirements, you may have already received a notice regarding election of a cost basis method to be used when redeeming or exchanging shares. We encourage you to consult with your tax advisor concerning your cost basis reporting options as there are tax implications associated with each available method.

We have provided the following frequently asked questions that we hope will provide you with additional information regarding cost basis reporting.

What is cost basis?

The cost basis of your mutual fund shares is typically the price you paid, including any sales charges, when you purchased your shares. It is used for income tax purposes to determine whether or not you recognize a gain or loss when you redeem or exchange fund shares. The cost basis may also be adjusted for certain events such as reinvestment of dividend and capital gains distributions, stock splits and return of capital distributions.

What is changing?

As a shareholder, your responsibilities regarding cost basis have not changed. What has changed is the requirement that mutual funds, like The Munder Funds, are now required to report to the IRS cost basis information on any fund shares that you redeem or exchange that were purchased on or after January 1, 2012. Prior to this change, mutual fund shareholders were expected to maintain their own cost basis information and use it to calculate gains and losses. Beginning with the 2012 tax year, mutual funds will be required to report gross proceeds and cost basis information to the IRS and to shareholders.

How does this change affect me?

The new cost basis reporting requirements apply only to fund shares that are purchased on or after January 1, 2012. As a result, your shares will be classified into one of two categories - covered shares or noncovered shares:

Covered shares will be any shares that you purchase **on or after** January 1, 2012. When covered shares are redeemed or exchanged, both the gross proceeds and cost basis information will be reported to the IRS and to you.

Noncovered shares will be any shares you purchased **prior** to January 1, 2012, as well as any shares for which cost basis is unknown. When noncovered shares are redeemed or exchanged, only the gross proceeds will be reported to the IRS and to you. Cost basis information will not be provided to the IRS.

Depending upon whether the shares you redeem or exchange are covered or noncovered, your responsibilities in determining your gain or loss on your tax return will be different.

Cost Basis Reporting – Frequently Asked Questions

How will cost basis information be reported to me?

For all tax years beginning with 2012, cost basis information on any covered shares redeemed or exchanged will be reported to you and the IRS on Form 1099-B and will be provided to you by February 15th of the following year. For all tax years beginning with 2012, cost basis information on any noncovered shares redeemed or exchanged will be provided to you as a courtesy on a Cost Basis Statement along with Form 1099-B, but that cost basis information will not be reported to the IRS. Additionally, beginning in January of 2012 we intend to provide cost basis information on transaction confirmations and quarterly statements when you redeem or exchange any covered shares.

What types of accounts are impacted?

The new cost basis reporting requirements are applicable only to taxable accounts that require reporting on Form 1099-B when fund shares are sold. Accounts that do not require Form 1099-B reporting, such as IRA's and other retirement accounts, generally are not impacted by these changes.

What is a cost basis method?

There are several different methods the IRS allows you to use in deciding how to calculate the cost basis on fund shares that you redeem or exchange. Each of these methods is used to identify which shares are being redeemed or exchanged and the cost basis of each of those shares.

What cost basis methods will The Munder Funds offer?

The Munder Funds will offer shareholders the following methods to choose from for determining cost basis:

Average Cost – shares are depleted on a first in, first out basis, with the cost basis calculated by taking the shares redeemed multiplied by the average price per share paid for all your shares.

First in, First Out (FIFO) - oldest shares are the first ones redeemed, cost basis is the amount paid for the shares sold.

Last in, First Out (LIFO) - newest shares are the first ones redeemed, cost basis is the amount paid for the shares sold.

Highest Cost In, First Out (HIFO) – shares with the highest cost basis are redeemed first.

Lowest Cost In, First Out (LOFO) – shares with the lowest cost basis are redeemed first.

Highest Cost Long Term In, First Out (HILT) – shares with the highest cost basis held greater than one year are redeemed first.

Highest Cost Short Term In, First Out (HIST) – shares with the highest cost basis held less than one year are redeemed first.

Lowest Cost Long Term In, First Out (LILT) – shares with the lowest cost basis held greater than one year are redeemed first.

Lowest Cost Short Term In, First Out (LIST) – shares with the lowest cost basis held less than one year are redeemed first.

Specific Lot Depletion – The shares depleted are specifically chosen by you at the time of redemption.

Cost Basis Reporting – Frequently Asked Questions

How to I elect a cost basis method?

You may designate any of the available methods that The Munder Funds offer by logging on to our Account Access at www.munder.com or by completing a Cost Basis Election Form. If you decide that Average Cost is the method you would like to use for your covered shares, there is nothing further that you need to do as we will apply our default method of Average Cost to all shareholder accounts that do not make an election.

How do I change my cost basis method?

You may change your cost basis method by logging on to our Account Access at www.munder.com or by completing a Cost Basis Election Form. You have until the time of your first redemption or exchange to change your election. A change from Average Cost to any other method taking place after a redemption or exchange of covered shares will only apply to shares purchased after the change is made.

How does my cost basis election apply to my covered and noncovered shares?

Any cost basis election that is applied to your account will be applicable only to any covered shares (those purchased after January 1, 2012). For any noncovered shares that you redeem or exchange, we will generally provide you with a Cost Basis Statement that utilizes the Average Cost method for determining cost basis. The information on that Cost Basis Statement, which may assist you in preparing your tax return, is provided to you as a courtesy and is not reported to the IRS.

How is cost basis calculated?

Below are some examples of how cost basis is calculated using the methods of Average Cost, FIFO, and HIFO:

Sample Account Transaction History

Date	Action	Amount	Price	Shares	Total Shares
1/15/2012	Purchase	\$1,000	\$10.00	100.000	100.000
3/15/2012	Purchase	\$1,000	\$12.50	80.000	180.000
6/30/2012	Reinvested Dividend	\$450	\$15.00	30.000	210.000
7/15/2012	Redemption	(\$500)	\$20.00	(25.000)	185.000

Average Cost Example

Using the sample account history above, using Average Cost the cost basis of your shares would be calculated first by determining the Average Cost per Share:

$$\begin{array}{r} \text{Total Cost} \\ \hline \text{\$2,450} \end{array} \quad / \quad \begin{array}{r} \text{Total Shares} \\ \hline \text{210.000} \end{array} = \begin{array}{r} \text{Average Cost per Share} \\ \hline \text{\$11.67} \end{array}$$

Then by determining the cost basis of the shares redeemed:

$$\begin{array}{r} \text{Average Cost per Share} \\ \hline \text{\$11.67} \end{array} \quad \times \quad \begin{array}{r} \text{Shares Redeemed} \\ \hline \text{25.000} \end{array} = \begin{array}{r} \text{Cost Basis} \\ \hline \text{\$291.75} \end{array}$$

Cost Basis Reporting – Frequently Asked Questions

Then calculating the gain or (loss) of the redemption:

<u>Dollar Amount of Redemption</u>	-	<u>Cost Basis</u>	=	<u>Gain or (Loss)</u>
\$500.00	-	\$291.75	=	<u>\$208.25</u>

First In, First Out (FIFO) Example

Using the sample account history above, using FIFO the cost basis of your shares would be calculated first by determining the cost basis of the oldest lot of shares you purchased:

<u>Oldest Lot of Shares</u>	<u>Shares in Lot</u>	=	<u>Purchase Price</u>
1/15/2012	100.000	=	\$10.00

Then by determining the cost basis of the shares redeemed:

<u>Oldest Lot Purchase Price</u>	X	<u>Shares Redeemed</u>	=	<u>Cost Basis</u>
\$10.00	X	25.000	=	<u>\$250.00</u>

Then calculating the gain or (loss) of the redemption:

<u>Dollar Amount of Redemption</u>	-	<u>Cost Basis</u>	=	<u>Gain or (Loss)</u>
\$500.00	-	\$250.00	=	<u>\$250.00</u>

Highest Cost, First Out (HIFO) Example

Using the sample account history above, using HIFO the cost basis of your shares would be calculated first by determining the cost basis of the lot(s) of shares you purchased with the highest cost:

<u>Highest Cost Lot of Shares</u>	<u>Shares in Lot</u>	=	<u>Purchase Price</u>
6/30/2012	30.000	=	\$15.00

Then by determining the cost basis of the shares redeemed:

<u>Highest Cost Lot Price</u>	X	<u>Shares Redeemed</u>	=	<u>Cost Basis</u>
\$15.00	X	25.000	=	<u>\$375.00</u>

Then calculating the gain or (loss) of the redemption:

<u>Dollar Amount of Redemption</u>	-	<u>Cost Basis</u>	=	<u>Gain or (Loss)</u>
\$500.00	-	\$375.00	=	<u>\$125.00</u>

This information cannot be used to avoid any tax penalties and is not intended to serve as tax, accounting or legal advice. We recommend that you consult your tax advisor for further information on your particular circumstances.

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