

# Simplifying Tax Time for Investors



For many Americans, the date April 15 conjures feelings of anxiety or even dread. Often, what causes these unpleasant feelings is not just the financial pain of paying taxes but also the insecurity of not knowing the rules as far as what's taxable and at what rate.

This information sheet is designed to help Homestead Funds' investors figure out who may need to pay investment-related taxes and what forms and paperwork are necessary.

## Tax-deferred accounts, such as IRAs

*If your money is in an individual retirement account (IRA), your account earnings are tax-deferred or tax-free, depending on the type of IRA you have. That means you will not have to pay any tax until you make a withdrawal from the account.*

**If you have a Traditional or Rollover IRA and took money out of that account**, you will owe income tax on the amount you withdrew, called a "distribution." (That's true unless you funded your IRA with non-tax-deductible contributions, in which case only the earnings are taxable.) Furthermore, if you had not reached the qualified retirement age (59 ½, as defined by the government) when you made the withdrawal, you may possibly face a 10% tax penalty on the amount withdrawn.

**If you have a Roth IRA and took money out of your account**, your distribution is tax- and penalty-free, provided you are age 59 ½ or older and your account was open for at least five years. Other exemptions may include disability, the first-time purchase of a home or a beneficiary distribution due to death.

**If you are retired and have a Traditional or Rollover IRA**, you should be aware that the government requires you to start taking money from your IRA soon after you reach age 72. Homestead Funds will send you a reminder when it's time to start taking these Required Minimum Distribution payments. Roth IRAs are not subject to the same Required Minimum Distribution payments. Please see the Helpful Tips fact sheet Taking Your Required Minimum Distribution for more information.



*"We often get calls from investors who need help understanding their responsibilities regarding taxes on mutual fund investments. This information will help you understand what action to take regarding your investment earnings when filing your federal tax return this year."*

– Makia Tillman  
Registered Representative



This guide is meant as a starting point to understanding your federal tax responsibilities. State tax laws vary and are not addressed here.

## Tax-friendly investment strategies

**You don't have to be rich to make use of the following tax-friendly investment strategies:**

### Invest in tax-deferred accounts.

To help you save more for retirement, most retirement accounts delay the tax due on your investment earnings until you begin withdrawals. These are called tax-deferred accounts. Examples of tax-deferred accounts are 401(k) and 403(b) plan accounts and individual retirement accounts (IRAs). In addition, there are tax-deferred accounts for education savings, such as Education Savings Accounts.

### Invest in tax-free accounts.

If you invest in a Roth IRA and keep your money there at least five years and withdraw it after age 59 ½, your investment earnings are tax-free.

*Distributions from IRAs may be subject to income tax and, if taken before age 59 ½, are subject to a 10% premature distribution penalty. Earnings on distributions from Education Savings Accounts used for expenses other than qualified education expenses may be subject to federal or state income taxes as well as penalty taxes.*

## Taxable accounts

If your money is in a regular taxable account, you'll owe tax on the amount of money your fund earned for you. A fund's earnings are distributed to shareholders in the form of income or capital gains, which are either paid to you in cash or automatically reinvested in your account. Your share of any Homestead Funds earnings distributions will be reported to you on Form 1099-DIV, sent to you in January.

Also, if you sold shares or made an exchange from one fund to another, you'll need to determine if your

transaction resulted in a capital gain or loss and the amount of any tax due. To calculate this, you'll need to know the cost of the shares that you sold, called your "basis," as well as the sale price and your holding period. Your year-end account statements include purchase and sale prices for all of your fund transactions in any given year. Once you have your statements in hand, you can refer to IRS Publication 564, Mutual Fund Distributions, or see your tax professional to calculate your cost basis and determine any tax due.

Homestead Funds does not offer legal or tax advice. Please consult the appropriate professional regarding your individual circumstance.

## Forms and paperwork you will need

While gathering the necessary forms and documents for tax time may feel like a burden, thanks to technology most of what you'll need is available on the Internet or is a phone call away. Here are the papers you'll want to have handy at tax-filing time:

- **Your Homestead Funds' year-end statements.** You may need to refer to current and prior year statements when calculating cost basis so you can determine the amount of tax you owe as a result of selling or exchanging shares held in taxable accounts.
- **IRS Form 1099-DIV**, which Homestead Funds sends to you at the end of January, reports any dividends or capital gains earned by your funds. Mutual funds are required to pass these distributions through to shareholders. For investors in taxable accounts, these distributions — whether paid or reinvested — are generally taxable to you in the year earned.

- **IRS Form 1099-B** lists proceeds from any sale or exchange of fund shares held in a taxable account. Refer to this form plus your year-end account statements to calculate your basis and determine the amount of any tax due.
- **IRS Form 1099-R** reports any distribution taken from an IRA or other type of retirement account and the amount withheld for payment of federal or state income tax.

### View tax forms online

If you misplaced any of these tax forms, log in to your account at [homesteadfunds.com](http://homesteadfunds.com). Tax forms are posted online after they are mailed to shareholders. Tax forms for the current tax year are typically available in late January of the following year.



*Save all of your year-end mutual fund statements. You'll need these to calculate your cost basis if you own taxable accounts.*

## Do you have more questions?

Just call us at 800.258.3030 to speak with one of our friendly client services associates and to request a prospectus. *Investors should carefully consider fund objectives, risks, charges and expenses before investing. The prospectus contains this and other information about the funds and should be read carefully before investing. To obtain a prospectus, call 1-800-258-3030 or visit [homesteadfunds.com](http://homesteadfunds.com).*

## Helpful resources

*Homestead Funds is here for you.* If you need a duplicate statement or tax form mailed to you, call one of our friendly associates at 800.258.3030. Please allow us a few weeks to retrieve and mail this information to you.

*The Internal Revenue Service* has a comprehensive website with forms and explanatory publications you can download. You may also be eligible to file your federal taxes electronically free of charge if you go through the IRS site. Go to the official website for the IRS at [irs.gov](http://irs.gov).

We have helpful tips on other investment topics, too!

**Download a complimentary fact sheet about any of the following topics from our website at [homesteadfunds.com](http://homesteadfunds.com), or call one of our friendly associates at 800.258.3030 to request by mail.**

- Building Your Retirement Savings
- Deciding What to Do with Your 401(k)
- Handling Investment Risk
- Managing Your Savings in Retirement
- Saving for Education
- Taking Your Required Minimum Distribution
- Understanding Mutual Fund Costs

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**Investing in mutual funds involves risk, including the possible loss of principal.**

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