WHAT THE NEW COST BASIS REGULATIONS MEAN TO YOU

Effective tax planning can help you save money and refine your investment strategy. That's why Integrity Viking Funds is committed to providing you with the latest information you need for your tax preparations. New regulations concerning the reporting of cost basis to the Internal Revenue Service (IRS) are on the horizon. The regulations stem from legislation, enacted in October 2008 as part of the Emergency Economic Stabilization Act, which requires the financial services industry to report their customers' cost basis to the IRS as part of Tax Form 1099-B, beginning in 2011 and phased through 2013 as follows, subject to any changes by the IRS.

Accounts which do not generate Tax Form 1099-B, such as IRAs and other retirement plans, generally are not impacted by these changes.

Type of Security	*Purchase Date*	*Effective Tax Year*	*1099-B Mail Date*
Equities (Common, Preferred, and Foreign Stock)	On or after 01-01-11	2011	2012
Mutual Funds/Dividend Reinvestment Plan (DRIP) Shares	On or after 01-01-12	2012	2013
Options/Bonds/Other	On or after 01-01-13	2013	2014

The Basics of Cost Basis

Cost basis is used for income tax purposes and reflects the original purchase price or value of an asset, such as a security or mutual fund, including fees and commissions, as adjusted for stock splits, return of capital, reinvested distributions, and other applicable adjustments. Cost basis also is known as tax basis and is used to determine the capital gain or loss of the asset when it is sold or disposed. The capital gain or loss is the difference between the cost basis of the asset and the current market value of the asset when sold or disposed.

Current Market Value - (Original Value + Fees + Commissions + Reinvested Distributions + Corporate Actions + Other Applicable Adjustments) = Gain or Loss

Cost basis is the key element in determining the amount of tax you owe on securities you sell. A higher cost basis may result in a tax loss or minimize capital gain and the amount of tax owed.

When You Purchased the Shares Matters

Purchase date determines if shares are non-covered or covered. It's important to remember the mandatory tracking of cost basis only applies to shares purchased **after** the effective date. This includes shares acquired through dividends and transfers. For mutual funds, this means:

Non-covered shares Shares purchased before 1/1/2012	Investment companies are not required to track and report these shares.
Covered shares Shares purchased after 1/1/2012	As required by the new regulations, we will provide cost basis information for all clients using the method elected by the client or the default of FIFO if no method is elected.

Cost Basis Calculation Methods

Mutual fund clients in taxable, non-money market accounts:
When you are ready to make or change your election, please print and return the **Cost Basis Election Form**.

Select the primary cost basis method that works best for your accounts. You may select a different method per account or one method that covers all of your accounts. The options you have depend on the type of shares you own. Review the options and the examples below to understand your choices.

Options

Mutual Fund Shares	Primary Cost Basis Calculation Methods
☛	**First In, First Out (FIFO)** - The first shares purchased are sold first.
☛	**Average Cost*** - The shares in the account at the time of the sale are averaged to determine the cost.
☛	**Specific Share ID (also called Specific Lot)** - The shares to be sold are specified by the client.
☛	**Last In, First Out** - The most recently purchased shares are sold first.
☛	**Highest Cost** - The shares with the highest cost are sold first.
☛	**Lowest Cost** - The shares with the lowest cost are sold first.

**According to the IRS guidelines, only the single category applies after January 1, 2012.*

What Happens When No Method Is Selected?

We will select the First In, First Out, (FIFO) default method in the event we do not receive an election from you. Keep in mind, our default is not a recommendation and may not be the best choice for your situation. If you prefer a method other than FIFO and acquire shares after January 1, 2012, you must inform us in writing before the time of a redemption or transfer.

Integrity Viking Funds	Cost Basis Default
Mutual Fund	First In, First Out (FIFO)

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You should always keep copies of your year-end statements or confirmations to accurately calculate your cost basis.
First In, First Out (FIFO), Specific Identification, and Average Cost are explained below with illustrative examples. For simplicity purposes, we ignore commissions, fees, corporate actions, and other applicable adjustments in these examples.

First In, First Out (FIFO)

The FIFO method is a form of Specific Identification (see below) that dictates that the first shares purchased must be sold first. This is the simplest method to use for taxes, but may create the largest amount of income to be taxed, because the longer you own a stock, the bigger your capital gain is likely to be. FIFO is the default method used by the IRS if another method is not chosen. FIFO is calculated as follows:

You purchased 10 shares of a mutual fund on a monthly basis for 5 years. Assume you bought the first 10 shares at $20 each and in subsequent months the stock rose by a dollar each month. You decide to sell 50 shares. For FIFO, you will use the cost paid per share for each of the first 5 months.

(10 shares x $20) + (10 shares x $21) + (10 shares x $22) + (10 shares x $23) + (10 shares x $24) = $1,100

Specific Identification

The Specific Identification method requires the largest amount of recordkeeping, but allows you to manage the amount of income tax owed by identifying the specific shares that may be most beneficial from the tax point of view. For example, you may identify as sold those shares that have been owned for more than a year to avoid a short-term capital gain. This method may help you to pay taxes at the lower rate for long-term investments. Eventually, you may sell the older, and possibly less expensive, shares and be responsible for income tax on that gain — unless they are part of your estate, in which case your heirs may be able to step-up the cost basis to the fair market value of the shares as determined by the estate administrator. The Specific Identification method is calculated as follows:

You purchased 10 shares of a mutual fund on a monthly basis for 5 years. Assume you bought the first 10 shares at $20 each and in subsequent months the stock rose by a dollar each month. You decide to sell 50 shares. You identify a particular set of 50 shares from purchases made in months 16 to 20.

10 shares x ($20 + $15) = $350.00
10 shares x ($20 + $16) = $360.00
10 shares x ($20 + $17) = $370.00
10 shares x ($20 + $18) = $380.00
10 shares x ($20 + $19) = $390.00

Total Cost Basis for the 50 Specific Shares = $1,850.00

In using Specific Identification the actual cost basis of each stock, bond, or mutual fund purchase is used to calculate gains when shares are sold:
(Purchase Price of the Selected Specific Shares Sold = Cost of Shares Sold)

Average Cost

The Average Cost method is used to determine the average cost per share and generally results in moderate income tax. This method is available for calculating cost basis on mutual fund shares (and shares acquired through dividend reinvestment plans starting in 2012). The most commonly used method is Average Cost Single Category.

Average Cost Single Category

The Average Cost Single Category method uses the average cost per share of all shares held in the account and any shares that are sold are considered to be those held longest in the account.

You own 120 shares of a mutual fund purchased in the past at a price of $8.00 per share, for a total cost of $960.00. The fund pays a dividend of $0.40 per share, so you are due to receive $48.00 in dividends, but you reinvest the dividends in the fund. The current share price of the fund is $12.00, so you are able to purchase four more shares with the dividends. Your average cost per share now becomes $8.1290 ($1,008/124 shares owned).

120 x $8 = $960 + (120 x $0.40) = $1,008
120 x $0.40 = $48 ÷ $12 (current price) = 4 shares + 120 = 124 shares

$1,008 ÷ 124 = $8.1290 average cost

Tax Implications of Cost Basis Calculation Methods

Understanding the implications of different cost basis methods on your personal tax strategy is important. There are some key factors you should keep in mind when considering your strategy:

Beginning in 2012 for mutual fund shares purchased on or after January 1, 2012, your mutual funds (through their transfer agents or your brokerage firm) will be required to report the cost basis of shares sold on Tax Form 1099-B. Therefore, you will be asked to choose a cost basis method for your mutual fund shares or you will be defaulted to a method acceptable to the IRS. Note that if you decide to use Average Cost for a particular fund, you must use that method for as long as you own that fund, unless you are permitted by the IRS to change that method or you are permitted to revoke that method under the IRS regulations. In general, you may use a different method for another fund.

If you reinvest dividends and capital gains, keeping good records of the cost basis is especially important. Distributions to you generally are taxable even if you reinvest them. The reinvested distributions increase the cost basis of your investment, so it is important to keep a record of all investments, including shares acquired by reinvestment of distributions.

For example, you bought 100 shares of a Fund for $1,000 last year and reinvested dividends of $100 in Year 1. The following year, you reinvested $200 in distributions. Because reinvested distributions are taxable, even though you didn't have the cash in hand, using the average cost or specific identification method yields an adjusted cost basis of $1,300 when the shares are sold. If you sell all the shares for $1,500, the taxable gain or income would be $200 ($1,500 - $1,300). If you record the cost basis as $1,000, you'll end up paying more taxes ($1,500 - $1,000 = $500).

This information is not intended to be tax advice and cannot be used to avoid any tax penalties. We recommend that you consult your personal tax advisor or, for further information on tax matters, you may wish to call the Internal Revenue Service at 1-800-TAX-1040 (829-1040) or visit the IRS website.