

2008 Tax Guide

Tax Withholding

If you are subject to backup withholding, the Internal Revenue Service (IRS) may require Columbia Management Services, Inc. (CMSI) to withhold taxes from certain payments, including fund distributions and redemption payments. If federal income tax was withheld from your distributions or redemption payments, the withholding amounts appear under column 4, Federal Income Tax Withheld, on Form 1099-DIV, 1099-INT and Form 1099-B. Once backup withholding has been initiated, it will continue until the IRS instructs CMSI to discontinue withholding or, in some cases, until we receive a properly certified Form W-9.

Payments made to you are subject to backup withholding under the following circumstances:

- You do not have a properly certified Social Security Number (SSN) or Taxpayer Identification Number (TIN) on file with CMSI.
- The IRS notifies CMSI that you furnished an incorrect TIN.
- You did not certify your TIN when required by completing Form W-9, Request for Taxpayer Identification Number and Certification.
- The IRS notifies you that you are subject to backup withholding.
- The IRS instructs CMSI to initiate backup withholding because you have underreported earned interest or dividends on your tax return. (The IRS will do this only after it has mailed you four notices over a period of at least 120 days.)

For retirement accounts, if you have elected to have federal taxes withheld from your distributions, the amount of the taxes will appear in column 4 of Form 1099-R. If a dollar amount appears in column 4 on Form 1099-R, you must attach Copy B to your federal tax return. For more information, please consult your tax advisor.

If at any point during the year you have been a certified Non-Resident Alien (NRA) shareholder and subject to NRA withholding, those withholding amounts will be reported on Form 1042-S, to be mailed in March 2009.

Form 1099-DIV: Dividends and Distributions

Purpose: This form reports to you and the IRS any taxable ordinary dividends or capital gains distributed in 2008. Form 1099-DIV also reports any taxes withheld from your dividends. You will receive Form 1099-DIV even if you reinvested all fund distributions.

- You may not receive Form 1099-DIV if your taxable distributions equal less than \$10 and your account was not subject to backup withholding during the year.
- Per IRS regulations, Form 1099-DIV is not issued for IRAs, pension plans, profit-sharing plans, accounts owned by corporations, nonresident aliens and certain tax-exempt organizations.

Do I need to meet any requirements in order to be eligible for the qualified dividends reported in column 1(b) on Form 1099-DIV?

Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), dividends received on certain corporate stock may be eligible for the 15% or zero capital gain rates, provided certain requirements have been met. One such requirement, which is applicable to both the fund and the fund's shareholders, pertains to the length of time the shares paying the dividend were held. Generally, in order to be eligible for lower capital gains rates on the qualified dividends reported in column 1(b) on Form 1099-DIV, you must have held the shares of your fund paying the dividend for more than 60 days in the 121-day period starting 60 days before the ex-dividend date. Please consult your tax advisor to determine if you are eligible for any qualified dividends reported to you.

Why am I paying taxes on my tax-exempt fund?

Capital gains paid by mutual funds, including your tax-exempt funds, are taxable. You will receive Form 1099-DIV for your tax-exempt fund if it distributed capital gains or taxable ordinary income in excess of \$10.

NOT FDIC INSURED	May Lose Value
NOT BANK ISSUED	No Bank Guarantee

Do I need to report dividends and capital gains on my 2008 federal income tax return if I reinvested the distributions?

Yes. All distributions must be reported on your federal tax return regardless of how you received the distribution.

Additional Important Information Regarding Form 1099-DIV**Potential state tax savings**

Many states do not tax the portion of your fund's ordinary distributions that comes from U.S. Treasury securities. Also, there are some states that do not tax the portion of the fund distributions that comes from securities of U.S. government obligations.

The table on the back of the tax mailer page lists the percentage of the distributions from funds that were derived from these securities. California, Connecticut and New York exempt dividend income to the extent that a mutual fund meets certain quarterly minimum investments in certain government securities. If a fund listed in this table did not meet these minimum requirements for these states, it is marked with an asterisk (*). Since there could be additional states with exemption requirements, and because state tax laws vary, be sure to consult your state tax authority or tax advisor before excluding any of your distributions from state and local tax returns.

If your fund is not listed in the table on your Form 1099-DIV, your fund does not qualify for this exclusion. Please note that our service representatives cannot provide tax advice.

How to calculate your state tax benefit

Step 1. Multiply the amount in column 1(a), Ordinary Dividends, on your Form 1099-DIV by the applicable percentage that is exempt from your state and local taxes.

Step 2. Your total will be the amount of income that may be exempt from state and local taxes.

Step 3. To determine how much of your distribution is taxable, simply subtract your exempt income from the total amount shown in column 1(a) of your Form 1099-DIV.

A note on nondividend distributions

The amount, if any, shown under column 3 of your Form 1099-DIV, Nondividend Distributions, is generally not taxed because it is a return of capital. This distribution effectively lowers the tax cost basis of your shares and is a key factor in determining whether you have a gain or a loss when you sell your shares. For example, assume you sold shares. The original cost of your shares was \$1,000, and there was a \$50 return of capital. Your adjusted cost basis would be \$950 — your original cost of \$1,000, less the \$50 return of capital. Nondividend distributions you receive in excess of your cost (or other basis) must be reported as capital gains. (See Pub. 550, Investment Income and Expenses.)

Form 1099-INT: Interest Income

Purpose: This form reports to you and the IRS any tax-exempt income distributed in 2008. In many instances, interest from municipal bonds is tax-exempt in the state from which the bonds were issued, but not in other states. Interest from municipal bonds issued by Guam, Puerto Rico and the Virgin Islands is also tax-exempt in most states. Please see the 2008 Income Earned by State Information included with your Form 1099-INT for further information on calculating the amount of income that may be taxable. Please contact your tax advisor or state tax authority for advice on reporting tax-exempt income on your federal and state returns.

Form 1099-INT also reports any taxes withheld from your tax-exempt income and the amount subject to the alternative minimum tax. You will receive Form 1099-INT even if you reinvested all fund distributions.

- You may not receive Form 1099-INT if your tax-exempt distributions equal less than \$10 and your account was not subject to backup withholding during the year.
- Per IRS regulations, Form 1099-INT is not issued for IRAs, pension plans, profit-sharing plans, accounts owned by corporations, nonresident aliens and certain tax-exempt organizations.

Note to California Residents

The state of California requires that CMSI report tax-exempt income earned by California residents to the California Franchise Tax Board. We recommend consulting your state tax advisor with any questions regarding this matter.

Form 1099-B: Proceeds from Broker and Barter Exchange Transactions

Purpose: This form reports to you and the IRS the proceeds from any redemption or exchange of shares from one fund to another. For tax purposes, an exchange of shares is treated as a redemption of the first fund and a purchase of the second fund. The proceeds from the sale, less the cost basis of the shares sold, may be taxable.

- You will not receive a Form 1099-B if your redemptions occurred in a money market account.
- If you redeemed or exchanged fund shares through your broker, you will receive a Form 1099-B from your brokerage firm rather than from CMSI.
- Per IRS regulations, Form 1099-B is not issued for IRAs, pension plans, profit-sharing plans, accounts owned by corporations, nonresident aliens and certain tax-exempt organizations.
- If we are unable to generate cost basis information for your account, you will receive Form 1099-B without any cost basis information.

Why did I receive a Form 1099-B if I exchanged but did not redeem shares?

For tax purposes, the IRS considers an exchange of shares to be the redemption of one fund and the purchase of a different fund. As a result, the exchange is a taxable event and must be reported on Form 1099-B.

What purpose does the average cost basis information on Form 1099-B serve?

- The average cost basis information on Form 1099-B details the cost of shares sold or exchanged in order to help calculate your tax gain or loss using the single-category average cost method. Note: This information will not be reported to the IRS.
- If you had a “wash sale” in December — that is, you sold shares at a loss during December and repurchased shares of the same fund in January (and the repurchase occurred within 30 days of the sale), a corrected Average Cost Basis Statement will be available in February 2009.

What is cost basis?

Cost basis pertains to the amount of money you have invested in your shares. The cost basis is usually the original price of the shares, including any sales charge and reinvested dividends.

How do I determine cost basis?

Consult your confirmation statements to obtain the price paid when shares were bought and the price per share when shares were sold or exchanged. There are four ways of determining the gain or loss — specific share lot identification, first in/first out (FIFO), average cost/single category and average cost/double category. You should discuss these methods and your personal circumstances with a qualified tax or investment professional.

How does Columbia Management Services determine my average cost basis?

Like many mutual fund complexes, Columbia Management uses the average cost/single-category method to determine an investor’s cost basis. Average cost basis is a method frequently used in cases where shares were acquired at various times and prices. The single-category method calculates the average cost of all the shares owned at the time of each redemption or exchange, regardless of how long they were owned. This method may not be appropriate for all investors. Please speak with your tax advisor or investment professional to discuss other options.

Why can't Columbia Management Services generate average cost basis information for my account?

CMSI may be unable to generate average cost basis information if:

- Your account was established prior to January 1, 1989.
- There has been a transfer between accounts with unlike Social Security Numbers or Taxpayer Identification Numbers (the average cost method may be inappropriate for this situation).
- Your account is a money market account.
- You did not have a reportable redemption or exchange in 2008 (Form 1099-B).

Please note: There may be other circumstances that preclude you from receiving average cost basis information.

Form 1099-R: Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, etc.

Purpose: This form reports to you and the IRS any reportable distributions paid from your retirement account during 2008.

I rolled over my IRA to another institution, so why did I receive Form 1099-R?

Although a rollover is considered a nontaxable event, it is still a reportable transaction and must be shown on your income tax return. In addition, you should receive a Form 5498 from the other institution reflecting the rollover purchase or contribution. Form 5498 is mailed in May.

Do I receive Form 1099-R for each of my accounts?

Form 1099-R is issued for each account from which you took a distribution. If you took more than one type of distribution, you will receive a separate Form 1099-R for each distribution type. Every distribution type has a unique number or letter code that will appear in column 7 on your Form 1099-R. The codes are explained on the back of the form.

Can I have state taxes withheld from my distributions, in addition to federal taxes?

Certain states require state income tax withholding from retirement distributions wherever federal withholding is required. If you are a resident in the state of Arkansas, California, Delaware, Iowa, Kansas, Maine, Massachusetts, Nebraska, North Carolina, Oklahoma, Oregon, Vermont or Virginia and request that federal taxes be withheld from your distribution, Columbia Management must also withhold state taxes based on the specific rate for your state.

Why didn't I get Form 1099-R when I took a distribution from my Coverdell Education Savings Account?

Distributions from Coverdell Education Savings Accounts are now reported on Form 1099-Q. If you did not receive Form 1099-Q for your distribution, please contact a Shareholder Services representative. (Please refer to the contact information on the back of your tax forms.)

Certain states may tax a rollover or transfer of funds from an IRA or Coverdell Education Savings Account to another state's 529 plan. Please contact your tax advisor or state tax authority regarding the state tax treatment of such transfers.

Form 1099-Q: Payments from Qualified Education Programs (Under Sections 529 and 530)

Purpose: This form reports to you and the IRS payments made from a Coverdell Education Savings Account (formerly known as the Education IRA). Distributions made to you, as well as payments made directly to another qualified education program, will be reflected on Form 1099-Q.

- The fair market value of your account (as of December 31, 2008) is reflected on Form 1099-Q.
- Columbia Management is not required to report the earnings and basis of your distributions for 2008.
- Only earnings distributed as a result of an excess contribution will be reported in column 2.

I transferred my Coverdell Education Savings Account to another institution and it is not taxable income, so why did I receive Form 1099-Q?

Although not taxable, the transfer from one Coverdell Education Savings Account to another Coverdell or other tuition savings program (for example, 529 Plan) is considered a reportable transaction. Certain states may tax the rollover of funds from one Coverdell Education Savings Account into another or into another state's 529 plan. Please contact your tax advisor or state tax authority regarding the state tax treatment of such transfers.

Form 5498: IRA Contribution Information

Purpose: This form reports to you and the IRS any regular or rollover IRA contributions, or Roth contributions, as well as the fair market value of your retirement account(s) as of December 31, 2008. Form 5498 will be mailed by May 31, 2009 to shareholders who have made contributions for tax year 2008. Please note: The fair market value of your retirement account(s) as of December 31, 2008, is also listed on your year-end statement. You do not need Form 5498 to file your tax return.

Additional Information

In addition to the information contained in this guide, valuable information regarding your tax forms can be found on the back of the tax forms themselves. If you would like to access 2008 tax forms online, visit us at www.columbiamanagement.com and click on the 2008 Tax Information link. Please note that if you receive

Forms 1099-DIV, 1099-B, 1099-R, 1099-INT or 1099-Q, the information on your form, except Average Cost Information and U.S. Government Obligations is being reported to the IRS.

Obtaining Duplicate 2008 Tax Forms and Year-end Statements

Duplicate 2008 tax forms and year-end statements can be obtained using the following methods:

- **Online account access:** Access your 2008 tax forms and enclosures online. Visit our Web site at www.columbiamanagement.com to download forms and view your account history.
- **Contact a Shareholder Services Representative:** Please refer to the contact information on the back of your tax forms or call a Shareholder Services representative at 800.345.6611 if you have questions or need duplicate statements. Representatives will be available Monday through Friday, 8 a.m. to 8 p.m. Eastern. Please note that there may be a fee for each duplicate statement requested.

Although we cannot provide tax advice, our representatives are available to answer questions on how we prepared the tax forms for your account. Please consult your tax advisor if you have any questions about how to report 2008 tax information.

- **Additional information about IRS tax forms:** You can obtain IRS tax forms and free publications by calling the IRS at 800.829.3676 (800.TAXFORM), or by downloading the information you need from www.irs.gov.

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