Capital Gains Distributions

(FAQs)

Frequently Asked Questions	Answers
What is a capital gain?	There can be two sources of capital gains for a mutual fund shareholder: **The first source is a gain from a sale.** If you sell or exchange your mutual fund shares, you must pay tax on any gains arising from the sale, just as you would from a sale of any other securities. Shares held longer than one year are considered long-term and taxable at a rate of 15% (for the tax year 2018, shareholders in the 12% or lower tax bracket will be subject to a rate of 0% and shareholders in the highest tax bracket will be taxed at 20%). Shares held for one year or less are considered short-term and are taxable at the shareholder's ordinary income tax rate. (Note: Taxation of capital gains for state and local purposes may differ from federal.) Redemptions of mutual fund shares are reported to you on Form 1099-B. Remember that redemptions from municipal bond funds are also considered taxable transactions. **The second source is a gain from a distribution.** Capital gains are realized by the fund when a portfolio manager sells a security for more than he/she paid for it. The taxable consequence of that gain is passed through to the shareholders proportionately, according to the number of shares they own on the capital gain distribution record date. These amounts are reported on Form 1099-DIV. (Short-term capital gains are included in Box 1a of Form 1099-DIV. Long-term capital gains are identified as such on Form 1099-DIV, Box 2a.)
How does the American Taxpayer Relief Act of 2012 affect the reporting of ordinary income and capital gains?	Qualified dividends will be taxed at a rate of 15% for most tax brackets for 2018, taxpayers in the 10% or 12% tax brackets will be subject to a rate of 0% and taxpayers in the 35% or 37% tax bracket will be subject to a rate of 20%. Qualified dividends are dividends received from domestic corporations and certain foreign corporations. A mutual fund may flow through to its shareholders the qualified dividends it receives from its investment in equity securities. Dividends paid by the fund from interest income received and short-term capital gains will not qualify for the lower tax rates. Box 1a of Form 1099-DIV will report the amount of total ordinary dividends received. Box 1b will report the portion of total ordinary dividends that are qualified dividends.
If I am not subject to the long-term capital gain rate of 15%, what rate would apply to my capital gain distributions?	Long-term capital gains will be taxed at a rate of 15% for the 22%–32% tax bracket, taxed as 0% for the 10%–12% tax bracket and taxed as 20% for the 35%–37% tax bracket for 2018.
What factors influence the size of a capital gain distribution?	It's important for shareholders to remember that the capital gain distribution reflects the gains recognized by the trading activity of the fund manager during the year, which in turn are based on when and at what price the manager originally purchased the security. Therefore, even though the value of the securities in a fund's portfolio may currently be down, and as a result the fund's share price as well, the sale of those securities by the fund's manager can still result in capital gains which are distributed to shareholders, particularly if they have been held in the portfolio for a long time.

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Questions continued

Answers continued

Does the size of the fund have any impact on my capital gain distribution?

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How could there be a capital gain distribution if the net asset value of my fund has gone down during the year?

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Do I have to pay taxes on distributions that are reinvested in my account?

Yes. It doesn't matter to the IRS whether you take them in cash or reinvest them. There are two exceptions:

1. Income dividends from municipal bond and municipal money market funds are usually exempt from federal taxation, and all or a portion may be exempt from state and local taxation.
2. Income dividends and net capital gains distributed to IRA and other retirement accounts are tax-sheltered until withdrawn.

Keep in mind that reinvested income dividends and capital gain distributions increase your original cost basis in all non-retirement accounts.

If I sell shares or exchange from one fund to another, do I need to report my gain or loss?

Yes, unless the sale occurred in a tax-sheltered retirement plan. An exchange of assets from one fund to another is the same as a sale and purchase for tax purposes. In January, we report proceeds of sales (redemptions) made during the year to the IRS and to you on Form 1099-B.

Does the "wash sale" rule apply to mutual fund shares?

Yes. If you sell shares at a loss, you can't claim the loss if you purchased additional shares in that fund within 30 days before or after the sale.

In order to reduce my taxable consequence, would it make sense for me to redeem shares in the fund before the record date for the capital gain distribution?

That depends on several factors — how long you have held shares in the fund, charges that might be associated with fund exemptions, and your individual tax situation. By redeeming shares in the fund, you'll realize a capital gain (which will be either short- or long-term) to the extent that the sales proceeds exceed your tax basis. Remember, the acceleration of a large taxable gain could offset any tax benefit you might achieve by avoiding the capital gain distribution.

Shareholders need to carefully consider their total tax situation before making this decision. Keep in mind that the tax implications of a sale should never outweigh investment considerations that dictate whether to hold an asset or sell it. Furthermore, if you redeem fund shares in order to avoid a capital gain distribution, you run the risk of missing out on returns should the value of the fund increase while you are not invested.

Can I offset my capital gain distribution with the loss in value of my fund shares?

No. Capital gain distributions can only be offset with capital losses you have incurred during the year. As long as you continue to hold your fund shares, their loss in value is unrealized. That reduction in value can only be used to offset your capital gain distribution if you actually sell those shares, at a loss, before the end of the year.

Are there different capital gains tax rates for various holding periods?

Yes. The applicable rate depends on how long you held the shares, or in the case of a mutual fund distribution, how long the fund held the securities that were sold. (Dreyfus will mail you Form 1099-DIV to tell you how your funds' capital gain distributions are taxed.)

Short-term gains for securities held one year or less are reported as ordinary income and are taxable at your ordinary income rate. A rate of 15% for sales or exchanges after May 5, 2003 (or 0% for investors in the 12% or lower tax bracket and 20% for the higher tax bracket for 2018.)

Questions continued

Answers continued

How does a fund's investment strategy affect my taxes?

Several factors generally affect a fund's likelihood of passing along a taxable distribution: the kinds of securities the fund invests in, the portfolio's turnover rate and the fund's investment policies.

MONEY MARKET FUNDS[1] pay ordinary dividends from the income produced by their portfolio investments. Because these funds own only short-term securities, which are normally held to maturity, they do not ordinarily generate capital gains or losses. Whether the income dividend they pay are taxable depends on the nature of the fund. Money market funds that invest in municipal securities produce income that is generally not subject to federal income tax and, in a state-specific fund, may also be exempt from state and local taxes.

BOND FUNDS typically produce higher levels of income dividends (which again may be taxable in whole or in part, depending on the nature of the fund). However, because the prices of bonds fluctuate in response to changing interest rates as well as credit risk, it is possible to have taxable capital gain distributions from bond funds, even tax-exempt bond funds.

STOCK FUNDS may pass along ordinary income from dividends paid by stocks held in the fund as well as from capital gains from the sale of stocks. Because stock prices fluctuate considerably, you are generally more likely to realize a larger capital gain or loss when selling shares of a stock mutual fund than when selling shares of bond funds. To help gauge the potential tax impact, know your stock fund's objective to learn whether it emphasizes older, larger, well-established companies, or newer, smaller companies just starting out (the stocks of the latter are normally more volatile). Also determine whether it concentrates on value stocks or growth stocks; growth stocks tend to be more volatile. A mutual fund's investment strategy can also affect the taxes of shareholders in the fund. Capital gain distributions result from the profitable sale of securities by the fund. Therefore, frequent selling by a fund makes the fund more likely to produce annual taxable distributions than a fund that follows a strategy of "buy-and-hold."

Types of Mutual Funds and Their Potential Taxable Distributions

Types of Fund	Potential for Federal Taxable Income	Potential of Capital Gains
Taxable money market	HIGH	VERY LOW
Tax-exempt money market	VERY LOW	VERY LOW
Taxable bond	HIGH	LOW
Tax-exempt bond	VERY LOW	LOW
Balanced (stocks and bonds)	MEDIUM TO HIGH	MEDIUM TO HIGH
Growth and income stock	MEDIUM TO HIGH	MEDIUM TO HIGH
Growth stock	LOW	HIGH
Value stock	LOW	HIGH

[1] All or a portion of income dividends paid to certain fund investors may be subject to the federal Alternative Minimum Tax (AMT). Income may also be subject to state and local taxes.

Questions continued	Answers continued
If I invest in a fund that generates some income subject to the alternative minimum tax (AMT), am I subject to this tax?	Only a small, but growing, percentage of taxpayers who derive income from so-called "tax preference items" (incentive stock options and certain private purpose or private activity municipal bonds) or who take certain deductions (like state and local taxes) are subject to this tax. Income from these items generally must compose a significant percentage of the taxpayer's total income from all sources before triggering AMT liability. **For information regarding your specific situation, please consult a tax advisor.**
Must I pay state and local income taxes on fund income earned on U.S. government securities?	States (and localities) do not tax income earned on direct U.S. government obligations. However, a few states require that a minimum percentage of a mutual fund's assets — usually at least half —be invested in these securities to qualify for the exemption. Consult your state's taxing authority regarding the law in your state.

Investors should consider the investment objectives, risks, charges, and expenses of the fund carefully before investing. Download a prospectus that contains this and other information about the fund, and read it carefully before investing.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation, or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in a money market fund. As a measure of current income, seven-day yield is more reflective of the fund's income generating ability than total return.

Short-term corporate, asset-backed and municipal securities holdings (where applicable), while rated in the highest rating category by one or more NRSRO (or if an unrated municipal, deemed of comparable quality by Dreyfus), involve credit and liquidity risks and risk of principal loss.

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