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Invesco Unit Trusts

**Unit Investment Trust  
Tax Reporting Q&A Guide  
For Tax Year 2011**

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## **Contacts**

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Price Quotes	800.953.6785
Internal Revenue Service	800.829-1040

## FREQUENTLY ASKED QUESTIONS

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### LISTED BELOW ARE COMMON TAX QUESTIONS AND ANSWERS.

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#### QUESTION:

*I own a tax-free unit investment trust (UIT). I never received a "Detail for Interest Income" page (IRS Form 1099-INT) before. Why did I receive one? Is the interest taxable now? Why did I receive a "Proceeds from Broker and Barter Exchange Transactions Page" (IRS Form 1099-B)?*

#### ANSWER:

Although your Trust generates federally tax-free income, the IRS now requires that the interest distributions be reported on the "Detail for Interest Income" page. You may also need to report the interest on your state return. The percentage of interest income collected by the state section of the Trustee's Annual Report will provide you with the percentage of interest collected by state or territory. You can determine possible state and local exemptions by taking the percentage collected from your state, plus Puerto Rico and Guam and multiplying by the amount of income received. For example: You received \$850 of interest income and reside in New York. From the Trustee's Annual Report you determine that 10% of the Trust's income was from New York and there was no income from Puerto Rico or Guam. Multiplying 10% times \$850 equals \$85. The \$85 figure is exempt from New York State taxes.

The IRS also requires that principal distributions and redemption transactions be reported on the "Proceeds from Broker and Barter Exchange Transactions" page. The amounts shown on this page should be reported on Schedule D (Capital Gains and Losses) on your tax return (IRS Form 1040). You should consult with your tax advisor or the IRS to find out how to reconcile the amounts on Schedule D.

**NOTE: STATE LAWS VARY WITH RESPECT TO THE TAXATION OF MUNICIPAL OBLIGATIONS. UNITHOLDERS ARE ADVISED TO CONSULT WITH A TAX ADVISOR OR THE IRS REGARDING APPLICABLE LAW.**

#### QUESTION:

*How do I know if I incurred a capital gain or loss on the principal distributions reported on the "Proceeds from Broker and Barter Exchange Transactions" page (IRS Form 1099-B) and how do I calculate my gain or loss?*

#### ANSWER:

You should speak with a qualified tax professional or the IRS to determine how to reconcile the amounts on your tax return. However, for record keeping purposes, you should treat these principal distributions as partial returns of your original investment. As there are several methods to calculating gains/losses you should also speak with a qualified tax professional.

## FREQUENTLY ASKED QUESTIONS (CONTINUED)

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### QUESTION:

*Why are the “Total Ordinary Dividends” boxes on my “Detail for Dividends and Distributions” page (IRS Form 1099-DIV) more than the total income distributions I received during the year?*

### ANSWER:

In registered investment company (RIC) Trusts, this usually occurs because the auditors of the RIC determine that some of the principal distributions you received during the year were actually a short-term capital gain. The IRS requires that short-term capital gains be reported as ordinary dividends; therefore, part of the principal is reported in Box (1a). For Grantor Trusts, this discrepancy is attributable to expenses or timing differences where the Trust received funds in 2010, but will not distribute them until 2011.

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### QUESTION:

*Why doesn't the “Non-Dividend Distributions” on my “Detail for Dividends and Distributions” page (IRS Form 1099-DIV) match the principal amounts received?*

### ANSWER:

For RIC Trusts, the principal distributions you receive during the year are paid from the capital account of the Trust. At the end of the year, the auditors of the RIC determine what portion of the distributions paid represents a short-term capital gain, long-term capital gain and a return of original capital. Only the portion that is a return of original capital is reported as a “Non-Dividend Distribution” (Box 3). Long-term capital gains are reported as “Total Capital Gain Distributions” (Box 2a), and short-term capital gains are reported as “Total Ordinary Dividends” (Box 1a).

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### QUESTION:

*Why doesn't the “Cash Liquidation” box on my “Detail for Dividends and Distributions” page (IRS Form 1099-DIV) match the final maturity proceeds I received?*

### ANSWER:

When a RIC Trust terminates, the remaining securities were sold. The portion that was considered a profit is reported as a capital gain; consequently, some of your proceeds were reclassified in Box (2a), “Total Capital Gain Distributions”.

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## FREQUENTLY ASKED QUESTIONS (CONTINUED)

### QUESTION:

*Why aren't capital gains reported during the year when the principal distributions are paid (Why don't you "reclassify" during the year)?*

### ANSWER:

In a RIC Trust, when bonds are removed from the portfolio and principal distributions are made, some transactions may result in a gain, others may result in a loss. Since gains and losses offset each other, the auditors of the Trust can only determine what the final calculations will be after taking into account all transactions that occurred between January 1 and December 31.

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### QUESTION:

*What does the "Detail for Supplemental Information" page represent?*

### ANSWER:

This page shows a unitholder's share of the Trust's investment expenses for the year. These expenses are deducted from the overall income of the Trust before distributions are made. Investment expenses can be entered on Schedule A of your tax return (IRS Form 1040) if you itemize your deductions.

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### QUESTION:

*Why is the "Interest Income" box on my "Detail for Interest Income" page (IRS Form 1099-INT) greater than my monthly distributions?*

### ANSWER:

For Grantor Trusts, Box 1, "Interest Income", represents your portion of the total interest income received by the Trust during the year, before deducting expenses. These expenses are deducted before making distributions to you, so they do not reflect on your statements. In addition, the IRS requires that interest be taxed when it is received by the Trust, not when it is distributed to unitholders. Consequently, the Trust may have collected income that has not yet been distributed.

Additionally, if you redeemed your units during the year, or if the Trust matured, the interest portion of your check will be included in Box 1. The principal portion is reported on the "Proceeds from Broker and Barter Exchange Transactions" page (IRS Form 1099-B).

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## FREQUENTLY ASKED QUESTIONS (CONTINUED)

### QUESTION:

*I received a "Detail for Original Issue Discount" page (IRS Form 1099-OID), but the amount in Box (1) Original Issue Discount (OID) for 2010, was never distributed to me. Why?*

### ANSWER:

The "Detail for Original Issue Discount" page (IRS Form 1099-OID) is used to report income on OID securities (i.e. zero coupon securities), which defer payment of income until the security matures. For tax purposes, the securities accrue income on a daily basis which is reportable as income on the "Detail for Original Issue Discount" page (IRS Form 1099-OID).

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### QUESTION:

*What is the Trustee's Annual Report? Does any information on it need to be reported to the IRS?*

### ANSWER:

The Trustee's Annual Report is a form generated to outline the performance of the overall fund for the past year. It does not reflect your own personal account information. It is provided to customers for their own use. However, in the "Statement of Interest" section, the percentage of interest collected from bonds issued in the listed states or U.S. territories is provided. These figures are important for the unitholders that live in those states which impose state taxes. In addition, the year-end value (multiplied by the number of units you own) may be required if you have to file an intangible tax.

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### QUESTION:

*I must file an intangible tax in my state. How can I determine the value of my Trust at year-end?*

### ANSWER

Your Trustee's Annual Report will list the year-end price (per unit) under the section titled "year-end value (per unit)". In addition, we can give this to you now based on our UIT price screen. Multiply this by the number of units you own. If you own a tax-exempt Grantor Trust it will also be listed on your year-end statement.

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## FREQUENTLY ASKED QUESTIONS (CONTINUED)

### QUESTION:

*During 2011, I opted to take part in a rollover transaction. Are there any tax consequences involved with this transaction?*

### ANSWER:

Taking part in a rollover transaction is a reportable event. For Grantor Trusts, a "Proceeds from Broker and Barter Exchange Transactions" page (IRS Form 1099-B) will be issued to all rollover participants, reporting the final proceeds generated from the redemption or termination of the trust. For RICs, a "Details for Dividends and Distributions" page (IRS Form 1099-DIV) will be issued. We suggest you contact a qualified tax advisor regarding the treatment of these proceeds on your individual tax return as well as changes to your cost basis with respect to your new trust.

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### QUESTION:

*What is qualified dividend income (QDI) and how do I find out how much qualified dividend income I received from my portfolio?*

### ANSWER:

Generally, these are dividends your portfolio received from domestic and certain foreign corporations. These dividends are eligible for a lower tax rate than other ordinary income and are generally reported in Box 1b on the "Detail for Dividends and Distributions" page. We suggest you contact a qualified tax professional regarding treatment of these dividends.

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### QUESTION:

*I requested that my units of my equity-based UIT be redeemed in-kind. The component shares are now held in my brokerage account. How do I calculate my cost basis?*

### ANSWER:

The calculation of cost basis for a RIC Trust, even if you take an in-kind redemption, must be done on the trust level. The basis for your new underlying securities is taken as of the day that the in-kind is processed.

For Grantor Trusts, you do not need to calculate a cost basis until you sell some or all of those shares received from the in-kind redemption. To calculate the cost basis you will need to determine the price of each share as of the date(s) that you purchased your units and compare the prices to your sell price. Please note that corporate actions, such as stock splits, may have to be factored into your calculation to determine any gain or loss. Accordingly, we recommend that you consult with a qualified tax advisor or accountant familiar with your individual circumstances to determine the best method that you should use.

## FREQUENTLY ASKED QUESTIONS (CONTINUED)

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### QUESTION:

*I am a holder in a tax-exempt municipal trust, organized as a RIC, why are some of my distributions considered taxable?*

### ANSWER:

RICs must distribute taxable income but are not required to distribute tax-exempt income. Tax-exempt income distributions made by the RIC trusts can be reclassified to ordinary dividends or capital gains if such trusts had short-term or long-term capital gains by the end of the year.

In certain situations, the tax law requires that all or some of the distributions from the Trusts be treated as taxable ordinary dividends by its investors. This may arise where the Trust has realized net short-term capital gains, has sold bonds originally purchased with market discount at a gain, or in certain situations where total annual distributions have exceeded its net tax-free income.

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### QUESTION:

*I own a trust that is comprised of tax-exempt municipal bonds. Why did I receive a "Detail for Dividends and Distributions" page? Why is there an amount reported in Box 1a Total Ordinary Dividends?*

### ANSWER:

Your trust is organized as a RIC, therefore you will receive a "Detail for Dividends and Distributions" page. When reclassification of the trust income occurs, a portion may be attributable to capital gains the trust incurred.

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### QUESTION:

*Why did I receive a return of capital on my fixed income trust?*

### ANSWER:

The income distributions from the fixed income trusts are determined under the terms set forth in the prospectus and are based on an estimated annual income or rate of return per unit. The estimated annual income or rate of return per unit is based upon estimated interest income and estimated expenses of the trust. The distribution dates are also set forth in the prospectus.

Interest economically accrues to the trusts on a daily basis to provide for interest distributions in approximately equal amounts based on the estimated annual income while interest is generally paid to the trusts on a semi-annual basis; therefore, in the first year of a trust, there will be a mismatch between the actual interest payments received by the trust and the interest accrued and distributed by the trust. The economic interest income that accrues and is distributed will exceed the interest income actually received which is the amount that is considered for tax purposes. (Note: the Trustee is authorized to advance amounts necessary to make the interest income distributions according to the distribution schedule.) For tax purposes, the mismatch between interest income received and interest income distributed results in a return of capital to the unitholders of the trust.

There is no assurance that a unit investment trust will achieve its investment objective. An investment in this unit trust is subject to market risk, which is the possibility that the market values of securities owned by the trust will decline and that the value of trust units may therefore be less than what you paid for them. This trust is unmanaged. Accordingly, you can lose money investing in this trust.

An investment in the trust should be made with an understanding of the risks associated therewith, such as the inability of the issuer or an insurer to pay the principal of or interest on a bond when due, volatile interest rates, early call provisions and changes to the tax status of the bonds. As interest rates rise, bond prices fall.

Investments in this trust may be subject to interest rate risk. If interest rates rise, the value of the bonds in a trust may decline and if interest rates decline the value of the bonds may increase. Also, the longer the period to maturity, the greater the sensitivity to interest rate changes tends to be.

**Invesco and its representatives do not provide tax advice. Individuals should consult with their personal tax advisors before making any tax-related investment decisions.**

<b>NOT FDIC INSURED</b>	<b>MAY LOSE VALUE</b>	<b>NO BANK GUARANTEE</b>
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**Before investing, investors should carefully read the prospectus and consider the investment objectives, risks, charges and expenses. For this and more complete information about the trust(s), investors should ask their advisers for a prospectus or download one at [invesco.com/unittrust](http://invesco.com/unittrust).**

Note: Not all products, materials or services available at all firms. Advisers, please contact your home office.

All data provided by Invesco unless otherwise noted.

BNY Mellon Asset Servicing is not affiliated with Invesco Ltd.

*Invesco's history of managing unit investment trusts was acquired through its Predecessor firm, Van Kampen Funds Inc., in June 2010 by Invesco Ltd. Invesco unit investment trusts are distributed by the sponsor, Van Kampen Funds Inc., and broker dealers including Invesco Distributors, Inc. Both firms are wholly owned, indirect subsidiaries of Invesco Ltd.*

Invesco Distributors, Inc.