

SteelPath MLP Tax Time FAQ

	Master Limited Partnership	Mutual Fund, ETF with more than 25% MLPs	Mutual Fund with less than 25% MLPs
Tax structure	Partnership	Regular corporation	Regulated investment company
Federal tax reporting	Schedule K-1	Form 1099	Form 1099
Taxation of distributions	Mostly return of capital	Mix of return of capital and qualified dividend income	Mix of ordinary income, capital gains and return of capital
Generates UBTI?	Yes	No	No

If you own an MLP mutual fund

After receiving distributions from the MLPs that it holds, and deducting expenses, the fund makes a managed distribution amount to its clients. Tax characterization of a distribution is dependent on the holding period of the investment and portfolio turnover, among other things and classified as either return or capital or qualified dividends at the end of the fiscal year. Any distributions characterized as return of capital are tax-deferred and will reduce your cost basis.

Assume you bought a fund for \$1,000 and receive a \$50 annual distribution payment, \$40 of which is considered return of capital. After one year, the cost basis of the fund would drop to \$960, and you'd pay normal dividend income tax rates on the remaining \$10.

The fund will receive and process K-1s from the MLPs. The investor will receive a Form 1099 in February. On 1099-DIV, return of capital distributions will appear as non-dividend distributions in Box 3; taxable distributions will appear in Box 1a and qualified dividends will appear in Box 1b. Box 1b is the portion of Box 1a that is considered qualified dividends.

What causes dividends to be classified as qualified dividend income?

To the extent a c-corp structured mutual fund has positive earnings & profits (E&P) for the fiscal year ending 11/30/XX, then a percentage of the distributions that were paid out during the calendar year are classified as qualified dividend income (QDI) and the remainder are classified as return of capital (ROC).

Key components that can drive positive earnings & profits for the c-corp structure include:

- Realized gains within the portfolio,
- M&A activity,
- Pass-through income from underlying holdings,
- Higher portfolio turnover, and/or
- Depreciation adjustments on real assets.

How to understand the breakdown between QDI and ROC

If E&P is a positive number, then that amount is divided by the total distributions paid by the fund, and the result equals the percentage classified as qualified dividend income. For example, if the fund paid \$100 in total distributions throughout the year, and generated \$40 in E&P, then 40% of those distributions would be classified as qualified dividend income and the investor would owe taxes in the current year at long term capital gains rates. The remainder would be classified as return of capital and would reduce the investor's cost basis. Importantly, taxes would then be owed when the fund is sold on the difference between the sales proceeds and the adjusted cost basis. If the investor's cost basis reached zero, then each distribution would be taxed in the current year.

When does Invesco SteelPath know return of capital versus qualified dividend percentages?

Late January. If the funds produced return of capital during the year, a Form 8937 will be available on Invesco's website which shows the classification breakdown of the distributions. If the distributions are classified as 100% qualified dividends, then no Form 8937 will be generated.

Historical Return of Capital (ROC) and Qualified Dividend Income (QDI)

	Alpha		Income		Select 40		Alpha Plus	
	ROC	QDI	ROC	QDI	ROC	QDI	ROC	QDI
2010	100%	0%	91%	9%	100%	0%	-	-
2011	100	0	100	0	100	0	-	-
2012	100	0	90	10	100	0	100%	0%
2013	100	0	100	0	100	0	100	0
2014	92	8	100	0	100	0	100	0
2015	100	0	100	0	100	0	100	0
2016	100	0	100	0	100	0	100	0
2017	0	100	87	13	82	18	53	47
2018	95	5	100	0	72	28	100	0
2019	94	6	100	0	83	17	67	33
2020	100	0	100	0	100	0	100	0
2021	100	0	100	0	100	0	88	12
2022	0	100	68	32	60	40	0	100
2023	0	100	0	100	0	100	0	100
2024	0	100	0	100	0	100	0	100

Qualified dividend income is taxed at long term capital gains tax rates.

Where can I find the cost basis of my investment? Is it listed anywhere?

In late January, Invesco sends return of capital information, if applicable, for dividends paid in the previous year to all our partner firms. Typically, firms then adjust the client's cost basis on the January or February statement to reflect the return of capital for the previous calendar year.

Invesco does not offer tax advice. Please consult your tax adviser for information regarding your own personal tax situation.

A change in current tax law, or a change in the underlying business mix of a given MLP, could result in an MLP being treated as a corporation for U.S. federal income tax purposes. This would result in such MLP being required to pay US federal income tax on its taxable income and could result in a reduction of the value of the MLP. Most MLPs operate in the energy sector and are subject to the risks generally applicable to companies in that sector, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. MLPs are also subject to the risk that regulatory or legislative changes could eliminate the tax benefits enjoyed by MLPs which could have a negative impact on the after-tax income available for distribution by the MLPs and/or the value of the portfolio's investments. Although the characteristics of MLPs closely resemble a traditional limited partnership, a major difference is that MLPs may trade on a public exchange or in the over-the-counter market. Although this provides a certain amount of liquidity, MLP interests may be less liquid and subject to more abrupt or erratic price movements than conventional publicly traded securities. The risks of investing in an MLP are similar to those of investing in a partnership and include more flexible governance structures, which could result in less protection for investors than investments in a corporation. MLPs are generally considered interest-rate sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns.

Before investing, investors should carefully read the prospectus and/or summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund(s), visit [invesco.com](https://www.invesco.com) for a current prospectus.