



# Form 2439

## Deemed Distribution of Long-Term Capital Gains and Tax Paid

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### Frequently Asked Questions (FAQs)

*American Capital does not provide advice regarding a shareholder's federal, state, or local tax liability and this notice does not constitute such advice. Please consult with your personal tax adviser regarding Form 2439. Please note that American Capital cannot view and does not track individual shareholders' account information. Therefore, you must consult with your broker and/or tax advisor.*

Updated: November 25, 2008

# Overview

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**A Regulated Investment Company (“RIC”) is Required to Distribute 90% of Its Taxable Income for Any Given Tax Year. However, a RIC May Elect to Retain a Portion or All of Its Long-Term Capital Gains Recognized in the Tax Year. A RIC Which Retains its Long-Term Capital Gains is Then Required to Do the Following:**




- ◆ **Designate the amount of undistributed long-term capital gains by 30 days after the RIC’s tax year end on Form 2438 with the IRS.**
- ◆ **Pay a capital gains tax (35% rate) to the IRS by 30 days after the RIC’s tax year end (with the Form 2438)**
- ◆ **Provide a notice to shareholders (Form 2439) by 60 days after the tax year end with the following information:**
  - ✓ **Shareholders’ allocable portion of long-term capital gains retained by the RIC**
  - ✓ **Shareholders’ allocable portion of the capital gains tax paid by the RIC**
  - ✓ **Shareholders’ allocable portion of the resulting basis adjustment to their stock held**

# Retained Capital Gains

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- ◆ **ACAS Elected to Retain its Long-Term Capital Gains for the Tax Year Ending September 30, 2008**
- ◆ **ACAS Was Required to Pay a Capital Gains Tax of 35% on the Retained Long-Term Capital Gains by 30 Days after the Tax Year End (October 30, 2008)**
- ◆ **ACAS Filed Form 2438 on October 30, 2008 with the IRS, Reporting the Following Retained Long-Term Capital Gains and Corresponding Capital Gains Tax Liability:**
  - ✓ **Total net long-term capital gains of \$155 million**
  - ✓ **Federal capital gains tax of \$54 million**

# Impact to ACAS Shareholders

- ◆ **ACAS Shareholders of Record as of September 30, 2008 Will Receive a 2007 Form 2439. The 2007 Form 2439 Will Be Distributed Via Mail from the American Capital Transfer Agent (ComputerShare) or Individual Brokers by November 29, 2008**
  - ✓ The 2007 date at the top is based upon when the ACAS tax year began (October 1, 2007) per the form instructions
  - ✓ However, the form is to be used for 2008 calendar tax returns
  
- ◆ **The Shareholder Includes Their Portion of the Retained Capital Gains into Their Taxable Income. This Is Considered a Deemed Distribution of the Long-Term Capital Gains to ACAS Shareholders. This Income Is Characterized as Long-Term Capital Gains on the Shareholders' Income Tax Return**  **\$0.747872430 per share**
  
- ◆ **The Shareholder Receives a Credit for the Tax Paid by ACAS. This Can Be Used to Offset Other Income Tax Liabilities on Their Income Tax Return. Any Excess Over Such Liabilities Can Be Refunded to the Shareholder**  **\$0.261755351 per share**
  - ✓ This holds true for shareholders who are tax-exempt, as they are eligible to file a refund claim on Form 990-T
  
- ◆ **The Shareholder Increases Their Basis in ACAS Stock by the After Tax Portion of Net Capital Gain Retained by ACAS**  **\$0.486117080 per share**

# Example: 2007 Form 2439

- ◆ A Shareholder of Record on 9/30/08 Holding 1,000 Shares of ACAS Stock Would Receive the Following Sample 2007 Form 2439 for Submission with their 2008 Taxes:

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		OMB No. 1545-0145  <b>2007</b>  Form <b>2439</b>		<b>Notice to Shareholder of Undistributed Long-Term Capital Gains</b>  For calendar year 2007, or other tax year of the regulated investment company (RIC) or the real estate investment trust (REIT) beginning <u>Oct. 1</u> , 2007, and ending <u>Sept. 30</u> , 20 <u>08</u> .	
Name, address, and ZIP code of RIC or REIT  <b>American Capital, Ltd.</b> <b>Two Bethesda Metro Center, 14th Floor</b> <b>Bethesda, MD 20814</b>		Identification number of RIC or REIT <b>52-1451377</b>		<b>1a</b> Total undistributed long-term capital gains  <div style="text-align: right;"><b>747.87</b></div>	
Shareholder's identifying number <b>123-45-6789</b>		<b>1b</b> Unrecaptured section 1250 gain		<b>Copy B</b>  Attach to the shareholder's income tax return for the tax year that includes the last day of the RIC's or REIT's tax year.	
Shareholder's name, address, and ZIP code  <b>John Doe</b> <b>123 Main Street</b> <b>Bethesda, MD 20814</b>		<b>1c</b> Section 1202 gain	<b>1d</b> Collectibles (28%) gain		
		<b>2</b> Tax paid by the RIC or REIT on the box 1a gains  <div style="text-align: right;"><b>261.18</b></div>			
Form <b>2439</b>		Department of the Treasury - Internal Revenue Service			

- ◆ The Shareholder Would Report Long-Term Capital Gains of \$747.87 (From Form 2439 Box 1a) on Their **2008** Income Tax Return
- ◆ These Amounts Will **NOT** Be Included in the Shareholder's Form 1099-DIV that They Normally Receive for the Dividends Received from ACAS
- ◆ The Amount on the Form 2439 is Additional Taxable Income to the Shareholder Over and Above Such 1099-DIV Dividends



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# Example: 2007 Form 2439

VOID       CORRECTED

Name, address, and ZIP code of RIC or REIT <b>American Capital, Ltd.</b> <b>Two Bethesda Metro Center, 14th Floor</b> <b>Bethesda, MD 20814</b>	OMB No. 1545-0145  <div style="font-size: 2em; font-weight: bold; text-align: center;">2007</div> Form <b>2439</b>	<div style="text-align: center;"> <b>Notice to Shareholder of Undistributed Long-Term Capital Gains</b> </div> For calendar year 2007, or other tax year of the regulated investment company (RIC) or the real estate investment trust (REIT) beginning <u>Oct. 1</u> , 2007, and ending <u>Sept. 30</u> , 20 <u>08</u> .
Identification number of RIC or REIT <b>52-1451377</b>	<b>1a</b> Total undistributed long-term capital gains <span style="float: right;"><b>747.87</b></span>	
Shareholder's identifying number <b>123-45-6789</b>	<b>1b</b> Unrecaptured section 1250 gain	
Shareholder's name, address, and ZIP code  <b>John Doe</b> <b>123 Main Street</b> <b>Bethesda, MD 20814</b>	<b>1c</b> Section 1202 gain	<b>1d</b> Collectibles (28%) gain
	<b>2</b> Tax paid by the RIC or REIT on the box 1a gains <span style="float: right;"><b>261.18</b></span>	

Form **2439**
Department of the Treasury - Internal Revenue Service

- ◆ The Shareholder Would Also Report \$261.18 (From Form 2439 Box 2) as a Credit for Income Tax Paid on Their Federal Income Tax Return
- ◆ The Shareholder Can Offset This Against Their Tax Liability
- ◆ Any Overall Excess Would Be Refunded



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# Example: 2007 Form 2439

VOID     CORRECTED

Name, address, and ZIP code of RIC or REIT <b>American Capital, Ltd.</b> <b>Two Bethesda Metro Center, 14th Floor</b> <b>Bethesda, MD 20814</b>	OMB No. 1545-0145  <div style="font-size: 2em; font-weight: bold; text-align: center;">2007</div> Form <b>2439</b>	<div style="text-align: center;"><b>Notice to Shareholder of Undistributed Long-Term Capital Gains</b></div> For calendar year 2007, or other tax year of the regulated investment company (RIC) or the real estate investment trust (REIT) beginning <u>Oct. 1</u> , 2007, and ending <u>Sept. 30</u> , 20 <u>08</u> .
Identification number of RIC or REIT <b>52-1451377</b>	<b>1a</b> Total undistributed long-term capital gains <span style="float: right;"><b>747.87</b></span>	
Shareholder's identifying number <b>123-45-6789</b>	<b>1b</b> Unrecaptured section 1250 gain	
Shareholder's name, address, and ZIP code  <b>John Doe</b> <b>123 Main Street</b> <b>Bethesda, MD 20814</b>	<b>1c</b> Section 1202 gain	<b>1d</b> Collectibles (28%) gain
	<b>2</b> Tax paid by the RIC or REIT on the box 1a gains <span style="float: right;"><b>261.18</b></span>	

**Copy B**  
 Attach to the shareholder's income tax return for the tax year that includes the last day of the RIC's or REIT's tax year.

Form **2439** Department of the Treasury - Internal Revenue Service

- ◆ **The Net Difference Between the Undistributed Long-Term Capital Gains (Box 1a) and the Tax Paid by ACAS (Box 2) is the Basis Increase in the Shares of Stock at 9/30/2008**
- ◆ **This Increase in Basis Can Be Recognized if Such Shares Are Sold in the Future**



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# Form 2439 Frequently Asked Questions

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1. **Why is the Form 2439 I Just Received for 2007 Rather Than 2008? Do I Need to File an Amendment for My 2007 Taxes?**
  - ✓ The form says 2007 at the top because American Capital's tax year began on October 1, 2007 and ran through September 30, 2008. Shareholders of record on September 30, 2008 will be allocated their share of capital gain and receive a Form 2439. The date at the top is based upon when the tax year began per the form instructions. However, the form is to be used for 2008 taxes.
2. **Why Am I Receiving a Form 2439 and What Does It Mean?**
  - ✓ You are receiving the Form 2439 because American Capital opted to retain its long-term capital gains. Shareholders will receive a tax credit because American Capital paid the tax at the corporate level on these gains in order to retain them. You must include your share of the American Capital's taxable net long-term capital gain on your income tax return and take credit for the tax paid by American Capital on your behalf. You may take credit for the full amount of the federal income tax paid on your behalf and create a balance in your favor to offset other tax liabilities or to entitle you to a refund.
3. **How Does the Form 2439 Impact My Tax Basis in American Capital Stock?**
  - ✓ You should increase the tax basis of your investment in American Capital stock by the difference between your share of the taxable net long-term capital gain and the federal income tax paid on your behalf by American Capital. Please refer to "Important Notice on Form 2439" ([www.ACAS.com/Investor\\_Relations/Dividends/FORM2439](http://www.ACAS.com/Investor_Relations/Dividends/FORM2439)) for per share amounts and further details.
4. **Where Do Long-Term Capital Gains Come from?**
  - ✓ Long-term capital gains are from exits of portfolio companies that American Capital has had as a part of its portfolio for over one year.

# Form 2439 Frequently Asked Questions

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## 5. Is the Form 2439 Separate from the Form 1099? Do I Need Both Forms?

- ✓ Yes, these are two separate forms. Form 2439 relates to long-term capital gains retained by American Capital. Form 1099 relates to dividends and includes the breakdown between qualified and non-qualified dividends.

## 6. If I Hold American Capital in More Than One Account Will I Receive a Form 2439 for Each Account?

- ✓ Yes, you will receive a Form 2439 for each account in which you hold American Capital stock.

## 7. Who Distributes the Form 2439?

- ✓ American Capital provides the information for the Form 2439 to the brokerage houses and our transfer agent, ComputerShare. These entities then prepare the Form 2439 as needed for each American Capital investor, using specific client details such as the number of shares held and timing of investments. *Please note that American Capital cannot view and does not track individual shareholders' account information and therefore does not prepare/mail these forms.*

## 8. When Should I Expect to Receive My Form 2439?

- ✓ American Capital must notify its shareholders of record on Form 2439 within 60 days of its September 30 tax year end. American Capital provides the Form 2439 information to its transfer agent, ComputerShare, on a timely basis so that the forms will be mailed out prior to November 29. After we have provided this information, the brokerage houses set up their own time tables for distribution so the exact date of receipt may vary based on where you hold your shares. Please follow up with your individual broker (and their tax department, if needed) to see when your form was sent. If you are a shareholder of record, contact ComputerShare at 1-800-733-5001.

# Form 2439 Frequently Asked Questions

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9. **What Should I Do if I Did Not receive or Lost My Copy of the Form 2439?**
  - ✓ Please contact your individual broker (or their tax department) to ask to have a copy of your Form 2439 sent to you. If you are a shareholder of record, contact ComputerShare at 1-800-733-5001.
  
10. **How Do Qualified Clients (Those Holding ACAS in IRAs, Retirement Accounts, etc.) Recapture This Gain?**
  - ✓ The investor or trustee should still receive a Form 2439 for shares held in these accounts. There is a method for the Trustee to follow to apply for a refund of taxes withheld related to these accounts. The trustee needs to file a Form 990-T and the investor should also consult their personal tax advisor. You can get the Form 990-T from a tax advisor or online at <http://www.irs.gov/>.
  
11. **Can You Walk Me through the Aggregate Numbers I'm Seeing on My Form and How to Account for the Form 2439 on My Taxes (or Other Specific Questions on Line Items or Number of Shares to Use in Calculations)?**
  - ✓ You will need to speak with your broker and/or tax advisor about your specific account questions. They will have the correct information based on your account details. This guide and the "Important Notice on Form 2439" ([www.ACAS.com/Investor\\_Relations/Dividends/FORM2439](http://www.ACAS.com/Investor_Relations/Dividends/FORM2439)) only includes information on an aggregate basis and does not take into account factors such as the number of shares you own and the period of time you invested. *Please note that American Capital cannot view and does not track individual shareholders' account information. Therefore, you must consult with your broker and/or tax advisor.*
  
12. **Will I Continue to Receive a Form 2439 from American Capital Each Year?**
  - ✓ American Capital will determine whether to retain its long-term capital gains on annual basis. You will receive a Form 2439 each year that American Capital elects to retain long-term capital gains.