

Vanguard's Average Cost Summary for Tax Year 2008

Tax Preparation Assistance



Vanguard[®]

About Vanguard's Average Cost Summary

Vanguard provides an Average Cost Summary for exchanges and redemptions you made during the year. If you elect to use the Average Cost Single Category Method for calculating your gains or losses, you'll need your Average Cost Summary statement and this brochure to complete your income tax return. Specifically, this brochure explains how to complete Schedule D (Capital Gains and Losses) of your IRS Form 1040 to report the realized gains or losses shown on your Average Cost Summary statement.

Information shown on your Average Cost Summary includes holding period (short-term or long-term), date sold, number of shares redeemed, redemption proceeds, average cost basis, total gain or loss, disallowed loss amount, and total gain or allowable loss.

The responsibility for reporting gains or losses on your Vanguard accounts is entirely your own; Vanguard has not reported the information on your Average Cost Summary to the IRS. Note that the average cost method used by Vanguard may not be appropriate for all individuals (see page 3 for details).

Use your Vanguard Average Cost Summary to complete Schedule D



AVERAGE COST SUMMARY

Single Category Method

Sam Shareholder

This summary is not a tax document and information is not reported to the IRS. Vanguard provides cost basis information using the Average Cost Single Category method. You may want to consult a tax advisor to determine if this method is appropriate for you. Once you select the Average Cost Single Category method, you are not permitted to change without IRS approval. See IRS Publication 564, Mutual Fund Distributions, and IRS Publication 550, Investment Income And Expenses, for more information.

Letters shown below correspond to instructions at right.

Holding period	Date sold	Shares redeemed	Redemption proceeds	Average cost basis	Total gain or (loss)	Disallowed Loss amount	Total gain or (allowable loss)
Short-term	03/24	6.000	\$31.62	\$32.70	(\$1.08)	\$1.08	\$0.00
Long-term	03/24	.000	0.00	0.00	0.00	0.00	0.00
Short-term	06/30	23,400.548	\$132,915.11	\$127,524.01	\$5391.10	\$0.00	\$5,391.10
Long-term	06/30	84.217	500.25	459.03	41.22	0.00	41.22
Account Summary							
Short-term	various	23406.548	\$132,946.73	\$127556.71	\$5390.02	\$1.08	\$5391.10
Long-term	various	84.217	500.25	459.03	41.22		

Information in summary above (labeled with letters) is used to fill out corresponding areas on Schedule D (labeled with letters below).

SCHEDULE D (Form 1040) Capital Gains and Losses OMB No. 1545-0074
2008
Attachment Sequence No. 12

Department of the Treasury Internal Revenue Service ▶ Attach to Form 1040 or Form 1040NR. ▶ See Instructions for Schedule D (Form 1040).
▶ Use Schedule D-1 to list additional transactions for lines 1 and 8.

Name(s) shown on return: _____ Your social security number: _____

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

(a) Description of property (Example: 100 XYZ Co.)	(b) Date acquired (mo./day./yr.)	(c) Date sold (mo./day./yr.)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) net (e) from (d)
1 6.00 sh. XYZ Fund AVGB	Various	03/24	31 62	32 70	(1 08)
G Wash Sale					G 1 08
23,400.548 sh. XYZ Fund AVGB	Various	06/30	132,915 11	127,524 01	5,391 10

net short-term capital gain or (loss). Combine lines 1 through 6 in column (f) 7

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

(a) Description of property (Example: 100 XYZ Co.)	(b) Date acquired (mo./day./yr.)	(c) Date sold (mo./day./yr.)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) net (e) from (d)
8 84.217 sh. XYZ Fund AVGB	Various	06/30	500 25	459 03	41 22

The sample statement used in this brochure is for illustration only. The information it contains is not meant to reflect the fund performance, the investments, or the activity in any account.

Use these instructions to complete Schedule D of IRS Form 1040. Enter short-term information in Part I and long-term information in Part II of Schedule D.

A Description of property	Enter the number of shares redeemed (from your Average Cost Summary), followed by the fund name shown above the redemption detail. If you are using an average cost basis, include the letters "AVGB" in this column.
B Date acquired	Enter the date you purchased your shares. If the shares were acquired through multiple purchases, enter the word "various."
C Date sold	Enter the trade date shown on your summary.
D Sale price	Enter the redemption proceeds amount shown on your summary. This should be the same amount reported to you on Form 1099-B, Box 2.
E Cost or other basis	Enter the average cost basis amount shown on your summary.
F Gain or (loss) for the entire year	Enter the gain or loss shown in the column labeled "Total gain or (loss)" on your summary for each sale of shares during the year. If any of your loss was disallowed, see Step G.
G Disallowed loss	Enter the disallowed loss directly below the line on which you reported the loss (in Step F) by indicating "Wash Sale" under "Description of property" and the disallowed loss amount as a positive number in column (f), "Gain or (loss) for the entire year." See pages 6 and 7 for additional information on wash sales.

Frequently Asked Questions

Doesn't the Form 1099-B that I receive in January give me what I need to file my taxes?

Form 1099-B lists only your account redemptions and gross proceeds for each sale. It does not show your cost of acquiring the shares or your capital gains or losses. Nor does it specify whether the transactions were short-term or long-term. Only your Average Cost Summary provides this additional information.

How does Vanguard calculate my gains and losses?

We use the Average Cost Single Category Method to arrive at an average cost for all fund shares held in your account up to (and including) the redemption date. The average cost figure reflects all purchases (including reinvested distributions) and purchase fees *plus* any fee associated with a redemption. In the mutual fund industry, the Average Cost Single Category Method is a commonly used, IRS-approved method for calculating the cost of shares redeemed. However, there are other methods of calculating the cost of shares redeemed that may be more beneficial to you. You may want to consult with a tax professional to determine which method is best for you.

Who is eligible to use the Average Cost Single Category Method?

You may use the Average Cost Single Category Method if:

- You do not hold shares issued in certificate form (i.e., physical shares). If you do, the IRS requires that you use the Specific Identification Method.
- This is the first year you redeemed shares from the fund, and you plan to continue using the Average Cost Single Category Method when reporting gains or losses on shares redeemed from this fund. (Note that the IRS requires you to attach a statement to your tax return if you elect this cost-basis method. You must then obtain IRS approval to change from this method to another method for future reporting.) *If your first redemption from the fund is not a complete liquidation of shares, the Average Cost Single Category Method may not be the most appropriate method for you to use; check with your tax advisor.*
- You have used the Average Cost Single Category Method to report capital gains or losses on previous redemptions from the fund.

Can Vanguard provide cost-basis information using any other IRS-approved methods?

No. We use only the Average Cost Single Category Method. See IRS Publication 564, *Mutual Fund Distributions*, at the IRS website (www.irs.gov) or call the IRS at 800-829-1040 for information about other approved methods, including First-In, First-Out (FIFO); Specific Identification; and Average Cost Double Category.

Will I receive an Average Cost Summary for each of my Vanguard accounts?

Vanguard generally sends an Average Cost Summary for an account that meets all of the following criteria:

- It was established after January 1, 1986.
- It had share redemptions (including check-writing redemptions, investment exchanges, and direct redemptions) during the year.
- It is *not* an IRA or any other tax-deferred retirement account.

You can also access your Average Cost Summary online at www.vanguard.com if you're a registered user, by logging on and selecting **Get my tax forms** from the **Taxes & Income** tab. Or select **View tax forms** under the **Statements** tab.

Which Vanguard accounts are not eligible for an Average Cost Summary?

Vanguard does not provide an Average Cost Summary for:

- Accounts that hold shares in certificate form. (The IRS requires use of the Specific Identification Method if physical shares are held.)
- Vanguard annuities.
- Money market fund accounts.
- Vanguard Windsor™ Fund shares that were acquired in the merger with Gemini Fund in 1986 or with Gemini II in 1997.

Can Vanguard provide my average cost per share before I make a redemption?

Vanguard updates your average cost information every time you buy or sell shares. This means that you can compare your average cost per share with the latest available share price of the fund before you redeem. These values, however, are as of the close of business of the *prior* business day. The gains and losses you must report are based on the share price and the average cost per share as of the *actual* date of the redemption. It is this information that is listed on the Average Cost Summary we mail to you in January.

You can access average cost information (for both realized and unrealized gains and losses) for your eligible Vanguard nonretirement accounts online at www.vanguard.com if you're a registered user. Just log on, and under the **Taxes & Income** tab, select **Cost Basis**.

How is the cost basis handled when I transfer shares between my accounts in the same Vanguard fund?

When you elect to use the Average Cost Single Category method to determine your cost per share for a fund, this method will be used for *all* your accounts in that fund. When you transfer shares between your accounts in the same fund, Vanguard assumes no change in ownership and therefore transfers the cost basis along with the shares from the old account to the new account.

What is a “wash sale”?

Under IRS rules, if you redeem fund shares at a loss within 30 days either before or after buying shares of the same fund, part or all of the loss on the redeemed shares may be disallowed. This is known as a wash sale. Wash sales can occur easily—and for reasons you might not suspect. Suppose, for example, that you redeem 50 shares from your account on August 23 by writing a check. If the price received for the shares is lower than your average cost, you realize a loss. Suppose further that, on August 31, the fund reinvests a dividend distribution into your account, purchasing 5 new shares. Because of this wash sale (even though it was inadvertent), the loss attributable to 5 of the 50 shares sold would be disallowed.

The wash sale rule applies even if a security is sold from a nonretirement account and the same security is purchased in an IRA. The loss from such a sale would be disallowed.

Notes:

If a purchase that occurs in January affects a loss on a redemption that was realized the previous December, Vanguard will send you a revised Average Cost Summary.

Vanguard only tracks wash sales in the same account. You are responsible for tracking wash sales among different accounts.

What happens to amounts disallowed because of wash sales?

The amount disallowed is added back to your total cost and thus is taken into consideration when calculating gains or losses for subsequent redemptions. Vanguard's Average Cost Summary automatically factors in wash sales to calculate the loss you are allowed to claim on your tax return. On your Average Cost Summary, your “Disallowed loss amount” is added to your “Total gain or (loss)” to come up with your “Total gain or (Allowable loss).”

Is a return of capital reflected on my average cost statement?

Yes. Some funds may distribute income that is classified as a return of capital. This type of distribution will reduce your cost basis, and this reduction will be reflected on your average cost statement.

Are there situations that are not taken into consideration on my Average Cost Summary?

Vanguard does not consider the following in our average cost calculation:

- **Short-term capital losses on shares held six months or less in municipal bond funds.** In this case, a portion of the loss may be disallowed. You must reduce the allowable short-term loss shown on your statement by the amount of tax-exempt income you received from these shares.
- **Short-term capital losses on shares held six months or less in an account that earned long-term capital gains distributions.** In this case, any short-term loss you realize from a sale of shares (up to the amount of the capital gains distributions that the shares earned) must be reported as a long-term loss.

You may wish to consult with a tax professional for guidance in dealing with these situations.

For More Information

About taxes and tax cost basis

See IRS Publication 564, *Mutual Fund Distributions*, and IRS Publication 550, *Investment Income and Expenses*. For copies, call the IRS at 800-829-3676 or visit the IRS website at www.irs.gov.

About your Average Cost Summary

Call the toll-free number in the upper right corner of your Average Cost Summary. A Vanguard associate will be happy to answer questions about information provided on your statement.

For additional help, visit the Tax Center at Vanguard.com. The Tax Center is your one-stop source for Vanguard tax-related information, forms, and links to handy calculators such as our Qualified Dividend Income Tax Tool.

www.vanguard.com

To view or to print an extra copy of your Average Cost Summary statement, log on to www.vanguard.com.



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