

Some of the dividends you receive and all net capital gain you recognize may qualify for a tax rate lower than your ordinary marginal rate.

### Qualified Dividends

Qualified dividends received by you may qualify for a 15% tax rate (or 0% if your ordinary tax rate is 15% or less). Qualified dividends are dividends received from domestic corporations and certain foreign corporations but only if the person receiving the dividend has held the shares of the dividend-paying corporation for at least 61 days during the 121-day period that begins 60 days before the paying corporation's ex-dividend date. When a mutual fund receives qualified dividends from its investments and then pays you dividends out of this qualified dividend income, the mutual fund dividends will be qualified dividend income to you if you hold the fund shares for at least 61 days in the 121-day period that begins 60 days before the mutual fund's ex-dividend date.

"Box 1b" of your **Form 1099-DIV** will indicate whether any of the dividends you received from one of our mutual funds may qualify as qualified dividends. But remember, just because your **Form 1099-DIV** states that you received qualified dividends does not automatically mean these dividends will be taxed at a lower rate. You must independently determine whether you meet the minimum holding period with respect to your mutual fund shares.

For purposes of determining your holding period, the concept of ex-dividend date is crucial. The ex-dividend date of a fund is the first date on which a person buying a fund share will not receive any dividends previously declared by the fund. A list of fund ex-dividend dates for each State Farm Mutual Funds® dividend paid with respect to 2008, and the corresponding percentage of each dividend that may qualify as qualified dividend income, is provided below for your reference.

#### 2008 Qualified Dividend Information

<u>State Farm Mutual Fund Trust</u>	<u>Payable Date</u>	<u>Ex-Dividend Date</u>	<u>Qualified Dividend Percentage</u>
State Farm Equity Fund	12/19/2008	12/19/2008	100.00%
State Farm Small/Mid Cap Equity Fund	12/24/2008	12/24/2008	100.00%
State Farm International Equity Fund	12/29/2008	12/29/2008	100.00%
State Farm S&P 500® Index Fund	12/24/2008	12/24/2008	100.00%
State Farm Small Cap Index Fund	12/24/2008	12/24/2008	100.00%
State Farm International Index Fund	12/29/2008	12/29/2008	100.00%
State Farm Equity and Bond Fund	06/30/2008	06/30/2008	32.88%
State Farm Equity and Bond Fund	12/29/2008	12/29/2008	32.88%
State Farm Bond Fund	12/12/2008	12/12/2008	0.00%
State Farm Tax Advantaged Bond Fund	12/12/2008	12/12/2008	0.00%
State Farm Money Market Fund	12/31/2008	12/31/2008	0.00%
State Farm LifePath® Income Fund	03/31/2008	03/31/2008	23.95%
State Farm LifePath® Income Fund	06/30/2008	06/30/2008	23.95%
State Farm LifePath® Income Fund	09/30/2008	09/30/2008	23.95%
State Farm LifePath® Income Fund	12/31/2008	12/31/2008	23.95%
State Farm LifePath 2010® Fund	12/31/2008	12/31/2008	28.84%
State Farm LifePath 2020® Fund	12/31/2008	12/31/2008	58.58%
State Farm LifePath 2030® Fund	12/31/2008	12/31/2008	78.97%
State Farm LifePath 2040® Fund	12/31/2008	12/31/2008	98.33%
State Farm LifePath 2050® Fund	12/31/2008	12/31/2008	100.00%
<b><u>State Farm Associates' Funds Trust</u></b>			
State Farm Growth Fund	06/30/2008	06/30/2008	100.00%
State Farm Growth Fund	12/17/2008	12/17/2008	100.00%
State Farm Balanced Fund	06/30/2008	06/30/2008	45.16%
State Farm Balanced Fund	12/17/2008	12/17/2008	45.16%
State Farm Interim Fund	12/17/2008	12/17/2008	0.00%
State Farm Municipal Bond Fund	12/17/2008	12/17/2008	0.00%

#### Example:

You bought 10,000 shares of ABC Mutual Fund common stock on July 7, 2008. ABC Mutual Fund paid a dividend of 10 cents per share. The ex-dividend date was July 14, 2008. The ABC Mutual Fund advises you that the portion of the dividend eligible to be treated as qualified dividends equals 2 cents per share. Your **Form 1099-DIV** from ABC Mutual Fund shows total ordinary dividends of \$1,000 and qualified dividends (which are included in the ordinary dividends total) of \$200. However, you sold the 10,000 shares on August 1, 2008. You have no qualified dividends from ABC Mutual Fund because you held the ABC Mutual Fund for less than 61 days.

Because a mutual fund dividend can only be a qualified dividend if the mutual fund receives qualified dividends on its own investments, mutual funds that purchase only interest-bearing investments, such as bond funds and money market funds, will pay no qualified dividends.

**Questions about the tax implications of dividend income should be discussed with a qualified tax advisor. Representatives of State Farm VP Management Corp. are not qualified to answer questions regarding how shareowners should treat dividend income.**

## Capital Gains

Long-term capital gains, including capital gain distributions received from a mutual fund, are taxed at lower rates than ordinary income – specifically 15% (or 0% if you are in an ordinary tax rate bracket of 15% or less). "Box 2a" of your **Form 1099-DIV** will tell you whether you have received capital gains distributions.

If you sold or exchanged any mutual fund shares in 2008, you will also receive a **Form 1099-B**, which tells you the date that the shares were sold or exchanged, the number of shares exchanged, and the gross proceeds realized upon the exchange. Any long-term gain on that sale or exchange will be taxed at a rate of 15% (or 0%).

## Foreign Taxes for Shareowners of State Farm International Funds

In 2008, the State Farm International Equity Fund and the State Farm International Index Fund elected to pass through to its shareowners foreign taxes paid by the funds in 2008. As a result, the total taxable income reported to you in "Box 1a" of **Form 1099-DIV** includes not only the distributions paid to you or reinvested in additional fund shares but also the amount of foreign taxes passed through to you. The taxes passed through to you are included in "Box 6" of your **Form 1099-DIV** and can generally be claimed by you on your income tax return as if you had directly paid that amount as tax to a foreign country. This amount can generally be claimed by you as either an itemized deduction or as a foreign tax credit. You may only claim the amount in "Box 6" as a deduction or a credit if you held your shares for at least 16 days during the 31-day period beginning 15 days before the ex-dividend date. For State Farm International Equity Fund, the ex-dividend date was December 29, 2008. For State Farm International Index Fund, the ex-dividend date was December 29, 2008.

### Choice Between Deduction and Credit

If you meet the holding period requirement, you can choose to claim the foreign taxes shown in "Box 6" as either an itemized deduction on "Line 8" of **Schedule A of Form 1040** or as a foreign tax credit. For most taxpayers, it is more advantageous to claim foreign taxes as a credit rather than a deduction because the credit reduces income taxes due on a dollar-for-dollar basis while a deduction only reduces income subject to tax. Moreover, foreign taxes may be claimed as a deduction only if you itemize deductions; you cannot claim a deduction for foreign taxes if you claim the standard deduction. You may claim foreign taxes as a credit, however, whether or not you itemize deductions (you cannot claim foreign taxes paid as both an itemized deduction and a credit). Nonetheless, you may find that claiming the foreign tax amount as a deduction is simpler for you if you are required to file **Form 1116** in order to claim a foreign tax credit.

### Claiming the Foreign Tax Credit

Depending on your circumstances, you may be able to claim the foreign tax credit under the simplified method without filing **Form 1116**. If you qualify for the simplified method, you can claim the foreign tax credit directly on your **Form 1040**. On the "Foreign Tax Credit" line of your income tax return (**Form 1040**, "Line 47"), simply enter the smaller of (a) your total foreign tax paid, or (b) your regular income tax (**Form 1040**, "Line 44"). You may use the simplified method if all of the following apply to you:

- All of your foreign source gross income is considered "passive income" (which includes most dividends and interest). All foreign source income you generate through your investment in State Farm Mutual Funds is passive.
- All foreign source income you earned (from whatever source) and all foreign taxes you paid (or that were passed through to you) on that income were reported to you on a **Form 1099-DIV**, **Form 1099-INT**, or **Schedule K-1**.
- You are not filing Form 4563 (Exclusion of Income for Bona Fide Residents of American Samoa) or excluding from sources within Puerto Rico.
- Your total creditable foreign taxes paid were not more than \$300 (\$600 if married filing a joint return).

If you cannot use the simplified method, you will have to complete **Form 1116** and attach it to your income tax return in order to claim the foreign tax credit. **Form 1116** computes a limitation on the amount of foreign tax credit you can claim based on your total income from foreign sources and your total foreign taxes paid. Follow the instructions for **Form 1116** using the information provided in the [Retail Funds Tables](#) link in the Tax Center on statefarm.com® to complete the form. For more information, please see **IRS Publication 514, Foreign Tax Credit for Individuals**.

**The foregoing information applies to you only if you are a U.S. citizen or resident alien. Corporate shareowners of State Farm Mutual Funds electing to claim the foreign tax credit should file Form 1118 and follow the instructions for that form.**

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**This information should assist an individual who is a citizen or resident of the United States with filing their 2008 federal and state income tax returns, but it is not intended to serve as legal or tax advice. For any specific tax questions, you should contact the Internal Revenue Service (IRS) at 1-800-829-1040, or consult your tax advisor.**

Tax forms will be mailed to shareowners at the end of January 2009. Your individual tax information can be viewed prior to the actual tax form being mailed when you access your account under the Mutual Funds tab on statefarm.com®. Planning ahead is important during tax season. Allocate enough time to provide a cushion for unexpected situations that may arise (e.g., mail delays). It is a good idea to keep all of your year-end records for each year that your account is open. This will allow you to access your information without any delay. To request a duplicate year-end 2008 record or tax form to be mailed to your address of record, please call us at 1-800-447-4930. It will take a minimum of five days to receive your duplicate record.

At State Farm Mutual Funds, representatives in our Securities Response Center are ready to assist you. However, due to the tax season, we anticipate heavy call volumes during the majority of our regular business hours: 8:00 a.m. to 6:00 p.m. CT Monday through Friday. Your call is important to us, and we look forward to providing you with the best service possible.

Securities Response Center: 1-800-447-4930

*Securities through registered representatives of State Farm VP Management Corp., One State Farm Plaza, Bloomington, IL 61710-0001 (1-800-447-4930). Investment return and principal value will fluctuate and your investment, when redeemed, may be worth more or less than its original cost.*

Securities, insurance and annuity products are not FDIC insured, are not guaranteed by State Farm Bank® and are subject to investment risk, including possible loss of principal.

*In order to comply with Treasury Department regulations, we advise you that this document was prepared to promote and support the marketing of State Farm Mutual Funds. It is not intended to constitute tax advice, was not written or intended to be used by any taxpayer for the purpose of avoiding tax penalties that may be imposed on the taxpayer, and cannot be used by any taxpayer for that purpose. Advice regarding the tax treatment of State Farm Mutual Funds should be sought from an independent tax advisor in light of your particular circumstances.*



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