

Box 6 reports Foreign Tax Paid.

Harbor international funds pay taxes to foreign governments. The amounts that could not be reclaimed are included in **Box 6** (as well as in **Box 1a**). In order to claim the Foreign Tax Credit (FTC), you must have held your Harbor Funds shares for at least 16 days including the ex-dividend date of the dividend distribution which was December 16, 2011.

You can report the amount from **Box 6** on Line 47 of Form 1040, if you have met the 16 day holding period, you are not filing form 4563, the total of all your foreign tax was reported on a Form 1099-DIV or Form 1099-INT, and your total of all foreign tax was not more than \$300 (\$600 if you are filing a joint return). In addition, all of your foreign

taxes must be legally owed and not eligible for a refund, paid to countries that are recognized by the United States and which do not support terrorism. You must file Form 1040 to take this deduction or credit.

In order to claim a foreign tax credit, you may be required to complete Form 1116 for individuals or Form 1118 for corporations. Information for completing these forms is available on the Harbor Funds website at www.harborfunds.com/faq-foreign-tax.htm or you can call us at 1-800-422-1050.

Using Form 1099-B

Proceeds From Broker & Barter Exchange Transactions

Capital Gains and Losses

If you sold Harbor Funds shares during 2011, you may receive a Form 1099-B.

Box 1a reports the date of the sale or exchange of shares.

Box 2 reports the gross proceeds you received on the sale (redemption) or exchange of shares.

Box 6 - Noncovered Shares are shares purchased before January 1, 2012 and therefore not subject to mandatory cost basis reporting when redeemed.

During 2011, if you realized capital gains or losses on shares held in a taxable account, the gains or losses must be reported on Schedule D. To complete Schedule D, you must report your gross proceeds, cost basis, holding period for the shares sold, and the gain or loss on the sale.

Average cost basis is an IRS-approved method of calculating the cost of shares sold. Harbor Funds provides an Average Cost Basis Statement to help simplify tax preparation if you qualify for the 'Average Cost Single Category' basis method. This basis method is explained in the Average Cost Basis Statement.

Although we provide this information to help you prepare your income tax return, you are responsible for the accuracy of your cost basis information.

EXAMPLE:

Form 1099-B – PROCEEDS FROM BROKER & BARTER EXCHANGE TRANSACTIONS 2011						
Box 1a	Box 2	Box 4	Box 6	Box 9		
Date of sale or exchange	Gross Proceeds*	Federal income tax withheld	Noncovered security (if checked)	No. of shares exchanged	Share price	Description
Fund Tax ID: 99-9999999 CUSIP no. 123456789						
Fund Name: Harbor XXXX Fund						
01/12/11	\$234.85	\$0.00	<input checked="" type="checkbox"/>	23.485	\$10.00	Shares Redeemed

Beginning in 2012, the cost basis on sales of certain shares purchased after 1/1/2012 will be required to be reported to the IRS on Form 1099-B.

Mutual fund shares that realized net long-term capital gains are taxed at 15% (0% for lower income tax brackets.) Mutual fund shares that realized net short-term capital gains (shares held for one year or less) are taxed at ordinary income rates.

If you have realized a net capital loss (your capital losses exceed your capital gains) from all sources, the amount you can claim is limited to \$3,000, (\$1,500 if you are married filing separately). If more than \$3,000 you may carry the loss forward into future years.

Using Form 1099-R

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

Form 1040

E Report the total distributions you received from your IRAs on Form 1040, line 15a. This amount is located in **Box 1** of your Form 1099-R.

F Report the total taxable amount of distributions you received from your IRAs on Form 1040, line 15b. This amount is located in **Box 2a** of your Form 1099-R.

Form 1040 – Lines 15a and 15b

You should leave line 15a blank and report the total distribution (**Box 1**) on line 15b of Form 1040 unless any of the following conditions apply:

1. If the distribution is a qualified charitable distribution, please refer to the Form 1040 instructions for lines 15a and 15b.
2. If you rolled over part or all of the distribution from one IRA to another IRA of the same type or a SEP or SIMPLE IRA to a traditional IRA, enter your total distribution (**Box 1**) on line 15a and the taxable amount (**Box 2a**) on line 15b of Form 1040.

3. If any of the following circumstances exist, enter the total distribution (**Box 1**) on line 15a and use Form 8606 to compute the amount to enter on line 15b:

- You have received a distribution from an IRA (other than a Roth IRA) and you made nondeductible contributions to any of your traditional or SEP IRAs for 2011 or an earlier year.
- You received a distribution from a Roth IRA (unless distribution code T or Q is shown on Form 1099-R in **Box 7**).
- You converted part or all of a traditional, SEP, or SIMPLE IRA to a Roth IRA during the tax year.
- You had a 2010 or 2011 IRA contribution returned to you, with the related earnings or less any loss by the due date of your tax return for that year.
- You made excess contributions to your IRA for an earlier year and had them returned to you in 2011.
- You recharacterized part or all of a contribution to a Roth IRA as a traditional IRA contribution (or vice versa).

Form 1040 – Line 62

Form 1040

G Report the total federal income tax withheld from your distributions on Form 1040, line 62. This amount is located in **Box 4** of your Form 1099-R.

You should add the amount of federal income tax withheld (**Box 4**) on Form 1099-R to federal income tax withheld amounts you may have from other sources and report the total on line 62 of Form 1040.

Disclaimer: Any tax or legal information provided is a summary of our current understanding and interpretation of the current income tax regulations and is not exhaustive. Investors should consult their tax adviser or legal counsel for advice and information concerning their specific situation. Neither Harbor Funds, nor any of its representatives, may give legal or tax advice.

Form 1099-R EXAMPLE:

PAYER'S name, street address, city, state, and ZIP code
HARBOR XXXX FUND
PO BOX 804660
CHICAGO IL 60680-4108

RECIPIENT'S name and street address (including apt. no.), city, state, ZIP code
SSB&T CUSTODIAN FOR THE IRA OF
JOHN PUBLIC
123 MAGNOLIA DR.
ANYTOWN, USA 12345

Form 1099-R CORRECTED (if checked) CMB No. 1545-0119 2011

A 1a Distribution \$400.00	C 2a Taxable amount \$400.00
2b Taxable amount not determined	Total Distribution
3 Capital Gain (included in box 2a)	D 4 Federal Income Tax Withheld \$40.00
5 Employee contributions/Designated Roth Contributions or insurance premiums	6 Net unrealized appreciation in employer's securities
B 7 Distribution code IRA/SEP/SIMPLE X	8 Other %
9a Your percentage of total distribution	9b Total employee contributions
12 State tax withheld	13 State/Payer's state no.
14 State distribution	15 Local tax withheld
16 Name of locality	17 Local distribution

- A** **Box 1** reports the total amount of distributions from your IRA, including federal tax withheld on your behalf.
- B** **Box 7** identifies the type of distribution received which is explained on the back of the form.
- C** **Box 2a:** Typically, this amount will be the same as reported on **Box 1**. Unless reporting a direct rollover, recharacterization, Roth IRA redemption or removal of an excess contribution.
- D** **Box 4** reports the amount withheld from your redemption. If withholding is reported, copy B of your Form 1099-R must be attached with Form 1040.

Investors should carefully consider the Fund's investment objectives, risks, charges and expenses before investing. To obtain a summary prospectus or prospectus for this and other information about the Fund, visit harborfunds.com or call 800-422-1050. Read it carefully before investing.

Opinions and recommendations in this guide should not be construed as specific tax, legal or investment advice.

Questions? Visit our website at www.harborfunds.com/tax or call us at 1-800-422-1050.



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Additional information available at **www.harborfunds.com/tax**

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