



# 2008 Tax Information Guide



The 2008 tax year has come to an end and we at the American Beacon Funds have prepared this tax information guide in an effort to simplify the often complicated process of filing your tax return. This guide addresses federal and state tax issues specific to your investment in the American Beacon Funds, American Beacon Mileage Funds and American Beacon Select Funds. We provide this information in accordance with the Internal Revenue Code, regardless of the tax status of our shareholder entities. Please note that state and local taxes differ from state to state. For help regarding your personal federal tax filings we recommend you consult a tax advisor or contact the Internal Revenue Service at 1.800.829.1040 or [www.irs.gov](http://www.irs.gov).

## Federal Tax Information

### Foreign Tax Credit

As a shareholder of the International Equity Fund you are entitled to either a foreign tax credit or an itemized deduction on your 2008 federal income tax return for the amount of foreign tax paid by the Fund during the year. The amount of credit or deduction to which you are entitled is reflected in Box 6 of your Form 1099-DIV.

To claim foreign tax paid as an itemized deduction, use Form 1040, Schedule A, Line 8. If your total foreign taxes are not more than \$300 (\$600 if filing a joint return) and you meet all the requirements listed in the Form 1040 instructions, you may be eligible to elect to claim a foreign tax credit on Form 1040, Line 47, without regard to the foreign tax credit limitation and without filing Form 1116. This election is not available to estates and trusts. Please consult your tax advisor for more information on reporting foreign taxes paid on your federal income tax return.

If you have more than \$300 in foreign taxes (\$600 on a joint return) or are otherwise ineligible to take advantage of reporting the foreign tax directly on your Form 1040, you may be required to detail your foreign taxes and income by country. Individual estate and trust shareholders must complete Form 1116 and corporate shareholders must complete Form 1118.

The table to the right provides the information you will need to calculate the foreign tax credit and the appropriate limitations. Multiply the *Foreign Tax Percentage* by the amount shown in Box 6 of Form 1099-DIV to determine the foreign tax paid in each country. Multiply the *Foreign Source Income Percentage* by the amount reported in Box 1a of Form 1099-DIV to determine the amount of foreign source income from each country. Multiply the *Foreign Qualified Dividend Income Percentage* by the amount in Box 1b of Form 1099-DIV to determine the amount of foreign qualified dividend income from each country.

### Dividends Received Deduction

If your corporation invests in the Funds below, you may take advantage of the dividends received deduction for corporations. This federal deduction applies to dividend income paid to the Fund and distributed through ordinary income dividends. Ordinary income dividends include distributions from dividends, interest and short-term capital gains earned by the Fund. Calculate your corporate dividends received deduction by multiplying the "Qualifying %" listed in the table below by the sum of the "Dividend" and "Short-Term Capital Gains" on your annual year-end statement. Multiply that number by 70% to obtain your federal dividends received deduction. If you have any questions about how or if you should report this information, please consult your tax advisor.

Fund	Qualifying %
Balanced	27.57%
Large Cap Value	76.75%
Large Cap Growth	42.76%
Mid-Cap Value	44.20%
Small Cap Value	38.12%
Small Cap Value Opportunity	22.82%
Enhanced Income	2.60%
High Yield Bond	0.03%
S&P 500 Index	94.52%
Small Cap Index	62.27%

Ordinary Income Dividends and Foreign Taxes Paid By Country			
Country	Foreign Source Income Percentage	Foreign Qualified Dividend Income %	Foreign Tax Percentage
Australia	1.32%	1.320%	0.00%
Austria	0.27%	0.270%	0.43%
Belgium	0.36%	0.360%	0.57%
Bermuda	0.41%	0.410%	0.00%
Canada	2.23%	2.229%	3.45%
Finland	2.45%	2.449%	3.87%
France	16.41%	16.406%	25.88%
Germany	8.44%	8.438%	9.82%
Greece	0.50%	0.500%	0.00%
Hong Kong	0.64%	0.640%	0.00%
Ireland	2.35%	2.349%	0.00%
Italy	5.86%	5.859%	9.25%
Japan	6.27%	6.268%	4.62%
South Korea	1.56%	1.560%	2.70%
Mexico	0.12%	0.120%	0.00%
Netherlands	10.08%	10.077%	15.46%
New Zealand	0.20%	0.200%	0.32%
Norway	1.22%	1.220%	1.60%
Portugal	0.78%	0.780%	1.24%
Singapore	2.15%	2.149%	0.00%
Spain	3.82%	3.819%	6.02%
Sweden	2.88%	2.879%	4.55%
Switzerland	6.50%	6.498%	10.22%
United Kingdom	23.16%	23.154%	0.00%
United States	0.02%	0.020%	0.00%
TOTALS:	100.00%	99.974%	100.00%

### Qualified Dividend Distributions

The Jobs and Growth Tax Relief Reconciliation Act of 2003 created a new category of dividends, known as "qualified dividends" that is subject to lower tax rates when paid to an individual investor who meets a holding period requirement. Qualified dividends paid by corporations are taxed at a maximum rate of 15% (5% for shareholders in the 10% and 15% tax brackets). American Beacon Funds that received these corporate dividends in 2008 paid qualified dividends eligible for the new lower rates. Qualified dividends are shown in Box 1b of your Form 1099-DIV. Report this amount on Form 1040, Line 9b. Use Schedule D or the qualified dividends and capital gains tax worksheet to compute your tax. The Funds that paid qualified dividends in 2008 and the qualified dividend percentages are shown below. Please note that if your Fund is not listed below, the percentage is zero.

Fund	Percentage
Balanced	32.43%
Large Cap Value	100.00%
Large Cap Growth	67.01%
Mid-Cap Value	75.92%
Small Cap Value	69.55%
Small Cap Value Opp.	56.46%
International Equity	84.88%
Emerging Markets	100.00%
Enhanced Income	3.28%
S&P 500 Index	100.00%
Int'l Equity Index	100.00%
Small Cap Index	70.97%



## State Tax Information

### U.S. Government Securities Information\*

U.S. Government securities generate income that is fully taxable at the federal income level but may be exempt at the state income tax level. As a result, any distributions you receive from Funds investing in U.S. Government securities are included as taxable income on your Form 1099-DIV. To find out if income distributed by U.S. Government securities in your American Beacon Funds is exempt from state income taxes, first consult your state tax instruction booklet. If this exemption applies in your state, you are ready to use the table below. If these dividends are not taxable in your state, you can use the table to determine how much of your distribution might be exempt from state income tax.

The table lists every American Beacon Fund that distributed income attributable to U.S. Treasury and Agency securities. It also lists the type of security that generated the income. Finally, it lists what percentage of the income distributed by each Fund was attributable to these various types on U.S. Government securities. Please note that if your Fund is not listed below, the percentage is zero.

Simply find the American Beacon Fund in which you are invested and for which you received a Form 1099-DIV and multiply the amount of taxable income in Box 1b of Form 1099-DIV by the appropriate percentage. The resulting number will be the amount of the distribution that may be exempt from income tax in the state where you reside.

Fund	FHLB <sup>1</sup>	FHLMC <sup>2</sup>	FNMA <sup>3</sup>	GNMA <sup>4</sup>	U.S. Treasury <sup>5</sup>	Repurchase Agreements <sup>6</sup>	Other	Total
Balanced	0.8%	0.0%	8.9%	0.9%	5.7%	0.0%	83.7%	100.0%
Large Cap Value	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%	99.7%	100.0%
Large Cap Growth	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%	99.6%	100.0%
Mid-Cap Value	0.0%	0.0%	0.0%	0.0%	0.5%	0.0%	99.5%	100.0%
Small Cap Value	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%	99.7%	100.0%
Emerging Markets	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%	99.7%	100.0%
S&P 500 Index	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	99.9%	100.0%
Enhanced Income	2.0%	12.1%	14.7%	3.6%	10.1%	0.0%	57.5%	100.0%
Intermediate Bond	1.9%	16.7%	20.1%	1.2%	14.7%	0.0%	45.4%	100.0%
Short-Term Bond	0.0%	2.4%	0.8%	1.6%	36.6%	0.0%	58.6%	100.0%
Treasury Inflation Protected Securities	0.0%	0.0%	0.0%	0.0%	99.6%	0.0%	0.4%	100.0%
Money Market	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	99.7%	100.0%
U.S. Government Money Market	20.0%	9.0%	4.3%	0.0%	0.0%	29.4%	37.3%	100.0%

The table above is a summary of the sources of income from which dividends paid by certain American Beacon funds during 2008 were derived. Depending upon the tax laws of your state, you may find this summary helpful in preparing your state and local tax returns.

\*This information applies to all share classes in a fund.

<sup>1</sup>Federal Home Loan Bank, <sup>2</sup>Federal Home Loan Mortgage Corporation, <sup>3</sup>Federal National Mortgage Association, <sup>4</sup>Government National Mortgage Association, <sup>5</sup>U.S. Treasury Securities include bills, notes and bonds, <sup>6</sup>Repurchase agreements collateralized by U.S. Government Obligations.

The American Beacon Funds, American Beacon Mileage Funds and American Beacon Select Funds are offered by prospectus only. This report is prepared for shareholders and may be distributed to others only if preceded or accompanied by a current prospectus.