

Delaware Investments Year-End 2004 Tax Guide

Delaware Investments offers this guide to help simplify your tax preparation and to help you better understand your year-end tax reports. Your tax liability for the mutual funds that you owned in 2004 is derived primarily from income and capital gains distributions made by the funds, as well as personal gains or losses resulting from the sale or exchange of funds.

This Guide Includes Information About:

- [Forms You May Receive](#)
- [Determining Cost Basis](#)
- [Funds That Derived Income from U.S. Government Obligations](#)
- [Capital Gains Tax Rates and How to Complete Schedule D](#)
- [Roth IRA Conversions and Recharacterizations](#)
- [Important State Tax Information for National Tax-Free Fund Shareholders](#)
- [Investing Your Tax Refund](#)

Forms You May Receive

Form 1099-DIV

Reporting Mutual Fund Distributions

Form 1099-DIV reports important information regarding distributions of \$10 or more paid to you by your Delaware Investments funds. This includes any dividend income and/or short- and long-term capital gains paid on your non-retirement accounts during the year (see page 3 for an explanation of the capital gains tax rules). Whether you received your distributions in cash or reinvested them in additional shares, they are taxable in the year of distribution. Distributions from a mutual fund are eligible for a lower capital gains rate of 15%, but only to the extent that the fund derives its income from dividends from corporate payers. If a fund derives 95% or more of its income from dividends, all of its distributions will qualify. Money market and bond fund distributions will generally not qualify.

Form 1099-B

Reporting Proceeds From Sales and Exchanges

If you sold or exchanged shares of Delaware Investments mutual funds (non-retirement accounts) in 2004, Form 1099-B reports proceeds from that sale or exchange. For tax purposes, the IRS considers an exchange of shares to be a taxable sale (redemption) of those shares. Capital gains or losses incurred from the sale or exchange of mutual fund shares must be reported to the IRS. To determine whether or not you have a capital gain or loss on shares you exchanged or sold you must calculate your cost basis. More information on calculating cost basis is provided on page 2 of this guide.

Form 1099-Q

Reporting Qualified Tuition Program (section 529) or Coverdell ESA (section 530) Distributions

Form 1099-Q reports distributions from qualified education programs under sections 529 and 530. Generally, amounts distributed are included in income unless they are used to pay for qualified education expenses, transferred between trustees, or rolled over to another qualified education program within 60 days. Please consult with your tax advisor for assistance in reporting these items on your tax return.

Do You Have Questions?



Delaware Investments Shareholder Service Representatives are available to answer your questions at 800 523-1918 Monday through Friday, 8:00 a.m. to 7:00 p.m., Eastern Time.

This tax guide is provided for Delaware Investments shareholders and their financial advisors. The information in this guide is not intended to be legal or tax advice and Delaware Investments will not be held liable if such a course is taken. You should consult your tax advisor for specific questions related to your tax preparation.

Retirement Plan Tax Forms

IRS Forms 1099-R and 8606

Reporting Retirement Plan Distributions

IRS Form 1099-R reports distributions from retirement and profit sharing plans, pensions, annuities, individual retirement accounts (IRAs), Roth IRAs, and insurance contracts. If you received distributions from any of these investments in 2004, an IRS Form 1099-R will be mailed to you in late January. In some cases, distributions from these plans are taxed as ordinary income.

If you converted a traditional IRA into a Roth IRA in 2004, the amount you converted is taxable income and will be reported on your IRS Form 1099-R. IRS Form 8606 should be used to report taxable income and other information related to Roth IRA conversions and recharacterizations. Please consult your tax advisor for assistance in completing IRS Form 8606.

IRS Form 5498 and Form 5498-ESA

Reporting Retirement Plan Contributions

IRS Form 5498 is mailed to IRA participants who made a contribution or a rollover contribution to their account during 2004. Participants who contributed to Coverdell Education Savings Accounts (formerly Education IRAs) in 2004 will now receive a new form in January, IRS Form 5498-ESA. Participants who contributed to all other types of IRA plans will receive their IRS Form 5498 forms in May.

IRS Form 5498 reports the total value of your IRA accounts at Delaware Investments as of December 31, 2004. It also details any contributions, (but not asset transfers) made between January 1, 2005 and April 15, 2005, but designated for the 2004 tax year. IRS Form 5498 and IRS Form 5498-ESA should be reviewed for accuracy and retained for your records. Federal law requires Delaware Investments to provide IRS Form 5498 and IRS Form 5498-ESA to the IRS.

Please see the Roth IRA Conversions and Recharacterizations section on page 4 of this guide for additional information.

Determining Cost Basis on Redeemed or Exchanged Shares

To determine whether you have a capital gain or loss on shares you sold or exchanged, you must establish your cost basis. Cost basis is the price you paid for your shares including any sales charges. Your cost basis may not be the same for all shares since the price may have varied if you made purchases at different times. Shares you acquired through reinvested dividends or capital gains are also considered separate purchases and should be included in your calculations.

The difference between your cost basis and the amount you received when you sold or redeemed your shares represents your gain or loss.

The Average Cost Method

To help simplify your calculations, we have provided cost basis information on your Form 1099-B if you sold or exchanged shares in 2004 from a taxable account opened in 1993 or later (see the Average Cost Basis column to the right of box 5 on Form 1099-B). To arrive at one cost figure, we averaged the cost of your shares. This is known as the Average Cost Method – one of four methods allowed by the IRS for determining the cost basis of mutual fund shares.

Though this is the method used by Delaware Investments to prepare your cost basis, you should consult your tax advisor to determine whether the Average Cost Method is the most

suitable for you. The IRS does not require you to use the calculations we have provided, and we will not be providing the cost basis information to the IRS.

If you or your tax advisor are using a method other than the Average Cost Method, your year-end account statement, sent to you in early January, provides much of the information needed to calculate cost basis, including:

- The number of shares you purchased in 2004;
- The price you paid per share on the date of purchase; and
- When and for how much you sold and/or exchanged shares in 2004.

If you purchased fund shares before 2004, statements from previous years can be used to obtain purchase prices. If you did not save your old statements, our Shareholder Service Representatives are available to assist you by calling **800 523-1918** Monday through Friday, 8:00 a.m. to 7:00 p.m. Eastern Time.

For information on how to report mutual fund distributions on your federal income tax return, please read the reverse side of your Form 1099-DIV. If you have specific questions about IRS regulations or need additional assistance in completing your tax return, you should consult your tax advisor or the IRS.

Distributions and Asset Information for Funds That Derived Income from U.S. Government Obligations in 2004

In most states, income from U.S. Treasury securities and other U.S. obligations is exempt from state income taxes. Here is a list of funds that derived income from U.S. Treasury securities and other U.S. obligations. To determine if this income is exempt in the state where you reside, please consult your tax advisor.

Fund Name	% of Ordinary Dividends from U.S. Government Obligations
Delaware American Government Bond Fund	32.51%
Delaware Balanced Fund	5.27%
Delaware Corporate Bond Fund	1.97%
Delaware Diversified Income Fund	4.43%
Delaware Extended Duration Bond Fund	2.64%
Delaware Inflation Protected Bond Fund	97.48%
Delaware Limited-Term Government Fund	19.16%
Delaware Optimum Fixed Income Fund	11.45%
Delaware S&P 500 Index Fund	0.24%
Delaware Strategic Income Fund	0.85%

Capital Gains Tax Rates and How to Complete Schedule D

Capital gains from the sale of securities within a mutual fund portfolio are passed on to shareholders in the form of capital gains distributions. These distributions are taxed differently depending on the length of time an individual security is held before a fund sells it. Any gain derived from the sale of a security held for 12 months or less is considered to be a “short-term” capital gain, and is taxed as ordinary income. Short-term capital gains are combined with any dividend income you may have earned and reported as “Ordinary Dividends” on Form 1099-DIV.

For federal income tax purposes, if a security is held longer than 12 months before it is sold, the capital gain is considered to be “long-term”.*

Investors whose only capital gains for 2004 are capital gain distributions from a mutual fund, generally will not have to file Schedule D with their 2004 IRS Form 1040. Please consult your tax advisor or refer to the IRS Form 1040 instructions to see if you need to complete Schedule D. Below is an outline of the capital gains tax categories and instructions on how to use the information reported on your Form 1099-DIV.

Capital Gains Tax Category	Where Reported on Form 1099-DIV	Where to Report on IRS Form(s)
Short-Term Gains. Individual securities held for fewer than 12 months. Taxed as ordinary income.	Box 1a Ordinary dividends.	“Ordinary dividends” line on IRS Form 1040 or 1040A. Also on Schedule B (IRS Form 1040) or Schedule 1 (IRS Form 1040A) as appropriate.
	Box 1b Qualified Dividends**	“Qualified dividends” line on IRS Form 1040 or 1040A.
Long-Term Gains. Individual securities held for more than 12 months.*	Box 2a Total capital gain distributions.	If you are required to complete Schedule D, report the entire amount in Part II, line 13, column F (IRS Form 1040).

Long-term gains on collectibles, some types of restricted stock and certain other assets are subject to the lesser of your income tax bracket or 28%.

**On May 28, 2003, President Bush signed into law the Jobs and Growth tax relief Reconciliation Act of 2003. This Act changed the long-term capital gains tax rate from 20 to 15 percent for assets held for more than one year. The 10 percent capital gains rate for lower-income taxpayers decreased to 5 percent. These new rates are effective for sales and exchanges (and payments received) on or after May 6, 2003 and through December 31, 2007 (with the 15 percent rate continuing unchanged in 2008 as well).*

***This is the portion of the amount in box 1a that may be eligible for the new 15% or 5% capital gains rates. See the Form 1040 / 1040A instructions for how to determine this amount.*

Roth IRA Conversions and Recharacterizations

The “Restructuring and Reform Act of 1998” clarified some of the rules governing Roth IRAs. One of the provisions of this legislation allows investors to “undo” a Roth IRA and transfer their money back to a traditional IRA account, provided they do so before the April 15 tax due date. This process, known as a “recharacterization” can help investors who:

- Converted a traditional IRA to a Roth IRA and did not know about or unexpectedly exceeded the \$100,000 adjusted gross income limit;
- Made a regular contribution to a Roth IRA and exceeded the adjusted gross income limit;
- Are married but after making Roth conversion, subsequently decided to file separately; and
- Determined that the conversion did not benefit them.

An IRA owner who converts an amount from a traditional IRA to a Roth IRA and then transfers that amount back to the traditional IRA may not reconvert that amount to another Roth IRA until either the next tax year or if later, 30 days from the last conversion.

Please note that Form 1099-R combines the total amount of all IRA distributions in 2004, including each Roth IRA conversion and any recharacterizations. In order to prepare your taxes you will need to know what portion of that combined total represented each transaction. For a more detailed summary of your IRA account activity, please refer to your 2004 year-end account statement. If you need a copy of your 2004 year-end statement, please call our Shareholder Service Representatives at 800 523-1918 during regular business hours (8:00 a.m. to 7:00 p.m., Eastern Time).

Instructions for Investing Your Tax Refund

Expecting a tax refund this year?

You may automatically invest your refund in your Delaware Investments account. Line 72a on the 2004 IRS Form 1040 allows you to have your refund sent directly to a bank or mutual fund account. Direct investment of tax refunds offers tax filers a fast method of payment and eliminates the possibility of lost or stolen checks. If you would like to deposit your refund into your Delaware Investments account, fill in the following information on your tax form:

- Step 1** Complete Line 72a of IRS Form 1040:
Line 72b: 031201467
Line 72c: Checking
Line 72d: 2100010331117
- Step 2** Mail your completed IRS Form 1040 to the IRS as you normally would.
- Step 3** Fill out and return Delaware Investments Tax Refund Direct Transfer (TRDT) form (on the reverse side of this page).

Your investment must meet the \$100 minimum subsequent investment requirement. If you would like to use your tax refund to open a new account, your refund amount must meet the established minimum initial investment amount, as outlined in the prospectus (generally \$1,000). Please read the prospectus carefully before you invest or send money. If you are opening a new account, your Tax Refund Direct Transfer (TRDT) form must be accompanied by a New Account Registration form or an Individual Retirement Account Application, available from Delaware Investments or your financial advisor.

A TRDT form is provided on the reverse side of this page. We ask that you complete all sections of this form and return it to Delaware Investments. Once we receive your electronic deposit from the IRS, we will send you an account statement confirming the amount and the date we received your refund.

We're here to help you. If you need additional information or have any questions, please call us at 800 523-1918.

Refund	71	If line 70 is more than line 62, subtract line 62 from line 70. This is the amount you overpaid
Direct deposit? See page 54 and fill in 72b, 72c, and 72d.	72a	Amount of line 71 you want refunded to you ▶
	▶ b	Routing number <input type="text" value="031201467"/> ▶ c Type: <input checked="" type="checkbox"/> Checking <input type="checkbox"/> Savings
	▶ d	Account number <input type="text" value="2100010331117"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
	73	Amount of line 71 you want applied to your 2005 estimated tax ▶ 73 <input type="text"/>

Tax Refund Direct Transfer Form For Direct Deposit of Federal Tax Refund into your Delaware Investments Account

Please complete the information below if you wish to automatically invest your 2004 federal tax refund in your Delaware Investments account. You should have already completed Line 72a of IRS Form 1040 with the routing and account numbers provided by Delaware Investments (see instructions on reverse side). Please return this Tax Refund Direct Transfer form to Delaware Investments, 2005 Market Street, Philadelphia, PA 19103-3682, Attention: Special Services. When your refund is received, an account statement will be sent to you confirming the date and amount of the IRS payment.

I. Name(s) on the Tax Refund

Name

Name

Address

Street Address

City

____ - _____
State Zip

Phone Number

____ - ____ - ____
Area Code

Social Security Number of Taxpayer

____ - ____ - ____

II. Delaware Investments Account to Receive Transfer

Account Number

Fund Name

Check here if you are establishing a new account and have enclosed a separate New Account Registration form.

Name(s) and Address on Fund Registration if Different from Tax Return

Name

Name

Street Address

City

____ - _____
State Zip

III. Amount of Expected Refund

\$ _____

IV. Date Tax Return was Filed

Please note: Direct investments into existing accounts must meet the subsequent investment amount requirements stated in the Fund's current prospectus (generally \$100).

New accounts: This form must be accompanied by a separate New Account Registration form and your refund amount must meet the minimum initial investment amount of the selected designated fund (generally \$1,000). You can obtain a New Account Registration form by calling our Shareholder Service Center at 800 523-1918, from your financial advisor, or online by visiting our Web site at www.delawareinvestments.com. Please read the prospectus carefully before you invest or send money.

Retirement accounts: Investments directed to an Individual Retirement Account (IRA), including Roth IRAs and Coverdell Education Savings Accounts (formerly Education IRAs), will be classified as year 2005 contributions and are subject to federal limitations (\$3,000 per individual or per Social Security Number). For new IRAs, this form must be accompanied by a separate IRA application. To establish a new IRA with your tax refund, the refund amount must be at least \$250. Delaware Investments cannot accept tax refund money for retirement accounts other than IRAs. You can obtain an IRA application by calling our Shareholder Service Center at 800 523-1918 or by visiting our Web site mentioned above.

For joint tax filers: We agree that the refund from our joint tax return listed in section I is to be invested into the Delaware Investments account referenced in section II above.

Signature

Signature

Attention National Tax-Free Fund Shareholders: A Portion of Your Dividend May Be Exempt from State Taxes

For the calendar year 2004, all income dividends received from investments in all classes of Delaware Investments national tax-free funds were exempt from federal income tax. Dividends that are exempt from federal income tax may or may not be exempt under the laws of a particular state or local taxing authority. Generally, however, income from bonds issued by municipalities in a particular state is not taxable in that state. We recommend that you consult your tax advisor regarding laws in your state. Listed here, on a state-by-state basis, is the percentage of interest income earned on municipal obligations during the 2004 calendar year. The percentages are the same for all share classes of each fund.

A portion of the income paid to shareholders in Delaware Investments national tax-free funds is subject to the federal Alternative Minimum Tax (AMT) that applies to some investors. Your tax advisor can provide more information on the AMT and determine whether this tax applies to you. You'll find the percentage of income subject to the AMT for our national tax-free funds in the chart below.



If you have questions or need additional information, please contact your tax advisor or Delaware Investments at 800 523-1918.

Percentage of Interest Income Subject to AMT

Delaware Tax-Free USA Fund	18.28%
Delaware Tax-Free USA Intermediate Fund	12.62%
Delaware Tax-Free Insured Fund	12.36%
Delaware Tax-Free Pennsylvania	14.86%

Percentage of Interest Income Earned

States/ U.S. Territories	Tax-Free USA Fund	Tax-Free USA Intermediate Fund	Tax-Free Money Fund	Tax-Free Pennsylvania Fund	Tax-Free Insured Fund
ALASKA	—	—	—	—	—
ALABAMA	0.71%	1.61%	—	—	—
ARKANSAS	0.03%	—	—	—	—
ARIZONA	—	5.18%	4.66%	—	—
CALIFORNIA	6.28%	3.27%	—	—	3.77%
COLORADO	0.22%	0.61%	4.86%	—	0.71%
CONNECTICUT	—	0.98%	—	—	—
DIST OF COLUM	0.53%	1.12%	—	—	1.49%
DELAWARE	—	0.13%	—	—	—
FLORIDA	1.85%	1.67%	2.22%	—	2.39%
GEORGIA	1.77%	2.55%	2.08%	—	0.86%
HAWAII	—	—	3.73%	—	—
IDAHO	0.19%	0.52%	0.66%	—	—
ILLINOIS	1.59%	2.56%	4.38%	—	18.50%
INDIANA	3.44%	1.15%	1.39%	—	2.02%
IOWA	0.13%	—	0.73%	—	—
KANSAS	0.11%	—	—	—	—
KENTUCKY	2.53%	—	—	—	—
LOUISIANA	8.24%	4.81%	—	—	0.91%
MASSACHUSETTS	0.57%	1.17%	1.24%	—	3.29%
MARYLAND	0.59%	0.67%	3.63%	—	—
MAINE	—	—	—	—	—
MICHIGAN	6.72%	4.59%	1.52%	—	4.35%
MINNESOTA	1.75%	1.65%	1.48%	—	0.40%
MISSISSIPPI	1.78%	—	0.65%	—	—
MISSOURI	0.87%	1.63%	4.54%	—	0.94%
MONTANA	—	1.17%	—	—	—
NEBRASKA	—	0.74%	—	—	—
NEW HAMPSHIRE	0.63%	1.27%	—	—	—
NEW JERSEY	4.74%	2.95%	1.22%	—	9.83%
NEW MEXICO	0.92%	—	—	—	1.64%
NEVADA	2.41%	—	—	—	—
NEW YORK	12.21%	8.23%	0.57%	—	3.46%
NORTH CAROLINA	0.26%	0.52%	2.87%	—	0.43%
NORTH DAKOTA	1.42%	0.57%	0.64%	—	—
OHIO	4.06%	10.97%	4.27%	—	7.54%
OKLAHOMA	4.81%	1.16%	—	—	—
OREGON	0.63%	3.61%	—	—	—
PENNSYLVANIA	3.00%	10.24%	32.30%	96.67%	4.17%
PUERTO RICO	9.94%	5.15%	4.29%	3.33%	8.94%
RHODE ISLAND	—	—	1.72%	—	—
SOUTH CAROLINA	1.26%	3.85%	0.19%	—	1.93%
SOUTH DAKOTA	—	—	—	—	—
TENNESSEE	—	1.08%	5.52%	—	1.80%
TEXAS	3.40%	4.68%	0.18%	—	8.33%
UTAH	0.03%	—	—	—	—
VIRGINIA	3.72%	7.70%	—	—	4.14%
VERMONT	0.20%	—	3.68%	—	—
WASHINGTON	1.22%	—	0.70%	—	2.17%
WEST VIRGINIA	0.69%	—	—	—	5.66%
WISCONSIN	2.76%	0.24%	4.08%	—	0.33%
WYOMING	1.13%	—	—	—	—
GUAM	—	—	—	—	—
VIRGIN ISLANDS	0.66%	—	—	—	—

If you need duplicate copies of IRS Form 1099-DIV, you can request them by calling Delaphone, our 24-hour automated telephone account information system, at: **800 362-FUND (3863)**. The tax information provided in this guide is also available on our Web site at: www.delawareinvestments.com.



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