

# Tax Information for Calendar Year 2011

(January 24, 2012)

## For Shareholders of The Commerce Funds

### U.S. INCOME TAX INFORMATION:

Please be advised that a percentage of the income distributions paid by **The Kansas Tax-Free Intermediate Bond Fund**, **The Missouri Tax-Free Intermediate Bond Fund** and **The National Tax-Free Intermediate Bond Fund** during calendar year 2011 were exempt-interest dividends and, as such, are not subject to U.S. federal income tax. The remainder of the income distributions paid by these Funds should be considered ordinary taxable dividends for U.S. federal income tax purposes. The amount of exempt-interest and ordinary income dividends paid by the Funds, reflected as a percentage of income distributions paid, is presented in Table 1.

Table 1

THE COMMERCE FUNDS	EXEMPT-INTEREST DIVIDENDS	ORDINARY TAXABLE DIVIDENDS
The Kansas Tax-Free Intermediate Bond Fund	99.96%	0.04%
The Missouri Tax-Free Intermediate Bond Fund	99.91%	0.09%
The National Tax-Free Intermediate Bond Fund	99.81%	0.19%

Shareholders who are subject to the Alternative Minimum Tax ("AMT") should be aware that in some instances tax-exempt interest is considered a tax preference item for purposes of the AMT calculation. This tax preference item would include a fund's investment in certain tax-exempt municipal obligations which are considered to be private activity bonds. The last line of Table 3, on the next page, notes the percentage, if any, of the exempt-interest dividends paid by **The Kansas Tax-Free Intermediate Bond Fund**, **The Missouri Tax-Free Intermediate Bond Fund** and **The National Tax-Free Intermediate Bond Fund** that are a tax preference item for purposes of the AMT calculation.

In addition to income distributions, some of The Commerce Funds distributed a short-term and/or long-term capital gain dividend on December 5, 2011 to its shareholders of record as of December 1, 2011. Short-term capital gain dividends are treated as ordinary taxable income for federal income tax purposes. Long-term capital gain dividends are also taxable

Table 2

THE COMMERCE FUNDS	QUALIFIED DIVIDEND INCOME (1)	PER SHARE		DIVIDENDS RECEIVED DEDUCTION
		ST CAP GAIN DIVIDEND	LT CAP GAIN DIVIDEND (2)	
The Growth Fund	100.00%	—	—	100.00%
The MidCap Growth Fund	N/A	—	\$1.8929	N/A
The Value Fund	100.00%	—	—	100.00%
The Bond Fund	0.00%	—	—	0.00%
The Short-Term Government Fund	0.00%	—	—	0.00%
The Kansas Tax-Free Intermediate Bond Fund	0.00%	—	\$0.0417	0.00%
The Missouri Tax-Free Intermediate Bond Fund	0.00%	—	\$0.0810	0.00%
The National Tax-Free Intermediate Bond Fund	0.00%	\$0.0069	\$0.0947	0.00%

(1) Qualified dividend income is taxed at a maximum rate of 15% if the shares are held for at least 61 days during the 121-day period beginning 61 days before the ex-date.

(2) Long-term capital gains are taxed at a maximum rate of 15%.

and should be treated as long-term capital gain for federal income tax purposes, regardless of how long the fund shares have been held. For individual, estate, and trust shareholders, income distributions attributable to qualified dividends earned by the Funds are also taxed at the long-term capital gain rate. The first column of Table 2 shows the percent of ordinary dividends paid by The Commerce Funds during calendar year 2011 that are qualified dividends. The next two columns show, on a per share basis, each Fund's short-term capital gain and long-term capital gain dividends paid during the calendar year.

For corporate shareholders, the last column of Table 2 reflects the percent of the ordinary dividends paid by The Commerce Funds during the year which qualify for the 70% corporate dividends received deduction.

### STATE AND LOCAL TAX INFORMATION:

Many states permit shareholders to exclude from their state taxable income the percentage of their mutual fund dividends derived from obligations issued by their state of residence or its municipalities. Table 3, on the next page, is provided to assist those shareholders of **The Kansas Tax-Free Intermediate Bond Fund**, **The Missouri Tax-Free Intermediate Bond Fund** and **The National Tax-Free Intermediate Bond Fund** who can benefit from this exclusion. This table reflects the source of the exempt-interest dividends paid by the Funds during 2011.

Many states also permit shareholders to exclude from their state taxable income the percentage of their mutual funds dividends derived from federal obligations. Table 4, on the next page, provides the percentage of ordinary dividends derived from federal obligations held by each of the Funds during calendar year 2011 to assist those shareholders who can benefit from such an exclusion. Please note that shareholders who are residents of California, Connecticut, or New York are not entitled to the pass-through of interest derived from federal obligations held in these Funds for state income tax purposes.

# Tax Information for Calendar Year 2011 *continued* (January 24, 2012)

## For Shareholders of The Commerce Funds

Table 3

	KANSAS TAX-FREE %	MISSOURI TAX-FREE %	NATIONAL TAX-FREE %
Alabama	0.00%	0.00%	0.56%
Alaska	0.00%	0.00%	0.60%
Arizona	0.58%	2.85%	9.42%
Arkansas	0.00%	0.00%	0.36%
California	2.00%	1.52%	5.25%
Colorado	0.00%	0.25%	1.81%
Connecticut	0.00%	0.00%	0.00%
Delaware	0.00%	0.00%	0.00%
District of Columbia	0.00%	0.00%	0.65%
Florida	4.91%	0.65%	8.66%
Georgia	0.00%	0.21%	0.35%
Hawaii	0.00%	0.00%	0.00%
Idaho	0.00%	0.41%	0.00%
Illinois	1.25%	2.01%	14.60%
Indiana	4.84%	2.14%	5.77%
Iowa	0.43%	0.67%	0.06%
Kansas	70.76%	0.00%	0.14%
Kentucky	0.16%	0.23%	2.07%
Louisiana	2.92%	4.19%	5.48%
Maine	0.00%	0.00%	0.19%
Maryland	0.00%	0.00%	0.00%
Massachusetts	0.65%	0.00%	4.53%
Michigan	0.00%	0.45%	4.19%
Minnesota	0.00%	0.00%	0.98%
Mississippi	0.00%	0.00%	0.00%
Missouri	0.00%	79.01%	0.72%
Montana	0.00%	0.00%	0.22%
Nebraska	0.00%	0.00%	1.30%
Nevada	0.00%	1.22%	0.68%
New Hampshire	0.00%	0.00%	0.77%
New Jersey	0.00%	0.00%	1.90%
New Mexico	0.00%	0.00%	0.13%
New York	0.00%	0.00%	0.24%
North Carolina	0.00%	0.00%	0.00%
North Dakota	0.00%	0.00%	0.79%
Ohio	1.66%	0.00%	1.67%
Oklahoma	0.00%	0.00%	3.01%
Oregon	0.00%	0.10%	0.35%
Pennsylvania	0.80%	0.89%	4.41%
Puerto Rico	7.38%	1.33%	0.01%
Rhode Island	0.00%	0.00%	1.51%
South Carolina	0.62%	0.44%	3.58%
South Dakota	0.00%	0.00%	0.04%
Tennessee	0.00%	0.00%	0.12%
Texas	0.00%	0.24%	4.07%
Utah	0.00%	0.00%	0.96%
Vermont	0.00%	0.00%	0.84%
Virginia	0.00%	0.00%	0.50%
Washington	1.04%	1.19%	3.79%
West Virginia	0.00%	0.00%	0.67%
Wisconsin	0.00%	0.00%	1.48%
Wyoming	0.00%	0.00%	0.57%
<b>TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
<b>AMT Percentage</b>	<b>1.12%</b>	<b>0.93%</b>	<b>2.86%</b>

Table 4

THE COMMERCE FUNDS	FEDERAL OBLIGATIONS PERCENTAGE
The Growth Fund	0.00%
The MidCap Growth Fund	0.00%
The Value Fund	0.00%
The Bond Fund	6.33%
The Short-Term Government Fund	29.93%
The Kansas Tax-Free Intermediate Bond Fund	0.00%
The Missouri Tax-Free Intermediate Bond Fund	0.00%
The National Tax-Free Intermediate Bond Fund	0.00%

### MINNESOTA STATE TAX INFORMATION:

Shareholders of **The National Tax-Free Intermediate Bond Fund** who are residents of the State of Minnesota will be required to add back the entire amount of their exempt-interest dividend to federal taxable income in order to compute Minnesota taxable income. The exempt-interest dividend, although not subject to U.S. federal income tax, is subject to Minnesota state income tax.

**A current Commerce Funds prospectus or additional information regarding The Commerce Funds may be obtained by calling 1-800-995-6365, visiting our website at [www.commercefunds.com](http://www.commercefunds.com), or by writing to The Commerce Funds, P.O. Box 219525, Kansas City, MO 64121-9525. Please consider a Fund's objectives, risks, and charges and expenses, and read the prospectus carefully before investing. The prospectus contains this and other information about the Fund.**

**Please be advised that the federal, state and local tax laws applicable to investments in the Funds are complex. In addition, state and local tax laws differ substantially from state-to-state. Therefore, it is strongly recommended that shareholders consult their tax advisers concerning the application of all such laws to their 2011 dividend distributions.**

**The tax information above is provided as general information. More tax information is available in the prospectus and statement of additional information for the funds.**

**IRS Circular 230 disclosure: The Commerce Funds and Goldman Sachs do not provide legal, tax or accounting advice. Any statement contained in this communication concerning U.S. tax matters is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties imposed on the relevant taxpayer. Shareholders should obtain their own independent tax advice based on their particular circumstances.**

<b>NOT FDIC-INSURED</b>	<b>May Lose Value</b>	<b>No Bank Guarantee</b>
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