



March 2011

Dear Cypress Equipment Fund VII, LLC Member:

We are pleased to present your 2010 Federal Form 1065, Schedule K-1, California Form 568, Schedule K-1, and Wisconsin Form 3, Schedule 3K-1 tax information to assist in the preparation of your tax returns. Included on the Schedule K-1 is a reconciliation of member's capital. Each member's capital account is adjusted by taking into consideration that member's contributions, distributions, allocation of profits and losses and syndication expenses. This reconciliation is based on actual transactions through 12/31/10 in accordance with Federal tax law and generally accepted accounting principles. **Remember – the Schedule K-1 is not a statement of value, and the capital account balance does not represent the market value of your investment – the Schedule K-1 is strictly a document you may be able to use to prepare your tax return.**

If your investment in the Fund is held in an IRA or other qualified plan, the only portion of these instructions that may apply for Federal and California purposes is addressed in the Federal Box 20 instructions below.

Please check that the Custodian and/or other information indicated in the "Partner's name, address and ZIP code" and "Partner's identifying number" sections are correct, and contact us by phone (toll-free – 866.866.9330) or e-mail (investorservices@cypressleasing.com) if any corrections or changes need to be made. If you have re-registered (transferred) your investment during the tax year, you will be sent Schedule K-1s for each form of registration. **Because tax laws are quite complex, we are not qualified to answer any questions regarding tax preparation, and suggest you contact your tax advisor.**

In addition to the basic tax forms, you may need, among others, *Federal Form 4952, Form 6251, Form 8582, Form 990-T, Schedule B, California Form 109, Form 540 or 540NR, Schedule CA(540) or CA(540NR), Schedule P(540) or P(540NR), FTB 3526, FTB 3801, FTB 3802, Wisconsin Form INPR, and Wisconsin Form MT* to complete your tax returns. These forms are generally available at post offices and libraries. You may also be able to access Federal forms online at www.irs.gov, California forms at www.ftb.ca.gov, and Wisconsin forms at www.dor.state.wi.us.

FEDERAL INSTRUCTIONS

Box 3 Report on Schedule E, line 28, column (g) after completing Form 8582 (Passive Activity Loss Limitations) and follow the instructions for the form.

Box 5 Report on Form 1040, line 8a.

Box 13, Code H Report on Form 4952, line 1.

Box 17, Code A Report on Form 6251, line 18 (post-1986 depreciation). Amount on Schedule K-1 is the difference between regular tax depreciation and allowable AMT depreciation. The results from the Form 8582 may affect the amount of the adjustment reported on this form.

Box 19, Code A This figure represents the dollar amount of cash distributions paid during the year to this account. This figure is for informational purposes only and this line is not reported on your tax return.

Box 20 Other Information – Please also refer to the enclosed “2010 Supplemental Information” page for additional details.

Code A Report on Form 4952, line 4a.

Code V Supplemental Information is provided for tax-exempt entities, including IRAs. Tax-exempt entities and IRAs – report Unrelated Business Taxable Income from operations, located on the “2010 Supplemental Information” page under Box 20 Code V, on Federal Form 990-T and attachment. This information should also be utilized in completing California Form 109.

Item L Income Reconciliation. This information, located on the “2010 Supplemental Information” page, reconciles the various items of income and loss reported on the Form K-1 with the current year increase (decrease) listed in the partner’s capital account analysis reported in Box L on the Form K-1. This reconciliation is for informational purposes only and these lines are not reported on your current year tax return.

CALIFORNIA INSTRUCTIONS

California taxes its residents on their entire income, regardless of its source. The tax on a non-resident is computed by (1) computing the tax on the taxpayer’s entire taxable income as though the taxpayer was a California resident, and then, (2) multiplying that amount by the ratio of California adjusted gross income to total adjusted gross income from all sources. Therefore, it is likely that you may be required to file a California return even if you are not a resident of California. Please consult your tax advisor.

Line 3 Report this on the applicable line of Form FTB 3801 (Passive Activity Loss Limitations) or Form FTB 3802 (Corporate Passive Activity Loss and Credit Limitations). The Form 3801 will indicate the amount to include on Schedule CA, line 17. Follow the instructions for the applicable forms.

Line 5 Report this amount on line 8 of Schedule CA(540) or CA(540NR). Follow the instructions for the applicable forms.

Line 13b Report on Form 3526, line 1.

Line 17a Report on Schedule P(540) or P(540NR), line 8 (post-1986 depreciation). The results from the Form 3801 or Form 3802 may affect the amount of the adjustment reported on this form.

Line 18c Non-deductible Expenses. Represents non-deductible expenses that reduce your tax basis in the Fund.

Line 19a This figure represents the dollar amount of cash distributions paid during the year to this account. This figure is for informational purposes only and this line is not reported on your tax return.

Line 20a Report this on FTB Form 3526, line 4a.

Line 20c Other Information. – Please refer to the enclosed “2010 Supplemental Information” page for additional details.

Column (b) is Supplemental Information for tax-exempt entities, including IRAs. See instructions and amounts for Federal Schedule K-1 (Form 1065) Box 20 Code V and amounts on the “2010 Supplemental Information” page under Box 20 Code V.

Column (d) is the Proportionate Interest of Aggregate Gross Receipts. This information is provided to help you determine if you are a “qualified taxpayer” for purposes of the California AMT and is located on the “2010 Supplemental Information” page under “California Other Information”. See also Schedules P(540) or (540NR).

WISCONSIN INSTRUCTIONS

Wisconsin taxes its non-residents on their Wisconsin source income. The tax on a non-resident is computed by (1) computing the Wisconsin income tax based upon your Federal adjusted gross income, and then, (2) multiplying that tax amount by the ratio of Wisconsin adjusted gross income over Federal adjusted gross income. Please consult your tax advisor with regard to your Wisconsin non-resident filing requirements. The following instructions are for Wisconsin non-residents.

Line 3(e) Represents your allocable share of Wisconsin source other rental income (loss). Report the amount on Form 1NPR, line 11, column (b) and follow the form's instructions.

Line 15(zz)(e) Represents Wisconsin income tax withheld on your behalf. Report the amount on Form 1NPR, line 68. Please note this line may be blank if your allocable share of Wisconsin income did not meet minimum withholding requirements. ***Attach a copy of your Wisconsin Form 3, Schedule 3K-1 to your Wisconsin non-resident income tax return to claim a credit for the tax reflected on this line.***

Line 17(1)(e) Represents your allocable share of Wisconsin alternative minimum tax adjustment items. Enter the difference between line 17(b) and line 17(e) on Schedule MT, line 8 and follow the form's instructions.

Line 22(e) Represents your allocable share of Wisconsin gross income for purposes of determining whether you must file a Wisconsin individual income tax return.

Part IV – Partner's Share of Apportionment Sales Factor - This section only applies to partners that are partnerships, C corporations or S corporations. These entities should include their share of the reported sales in their apportionment factors.

TAX PREPARATION

If you are preparing your tax return yourself using any of the popular computer software tax programs and there are line items on your Schedule K-1 that are not addressed by the software, please consult with the software manufacturer. We are not qualified to answer any questions regarding tax preparation in general or tax software in particular.

Because tax laws are quite complex, we suggest you consult with your tax advisor for an overall assessment of the tax implications of your investment in the Fund.

Sincerely,
Kenneth W. Park
Chief Financial Officer