



2023 Annual Conference Consolidated 1099

1

Objectives



- At the end of this course, you will be able to:
 - Describe different types of income from stocks
 - Correctly report different types of distributions
 - Determine how to report payments in lieu
 - Identify different types of bonds
 - Recognize reporting responsibilities for bonds not purchased at par
 - Determine how to correctly identify nontaxable mutual fund interest
 - Explain the taxation of original issue discount bonds and Treasury obligations

2

2

Form 1099 Composite



| Table of Contents | Page | Table of Contents | Page |
|--|------|--|------|
| FORM 1099 COMPOSITE | | Unit Investment Trusts | .44 |
| Form 1099-DIV | .3 | Widely Held Mortgage Trusts | .44 |
| Form 1099-INT | .5 | Non-Mortgage Widely Held Fixed Investment Trusts | .44 |
| Form 1099-MISC | .7 | Section 1231 Gain | .45 |
| Form 1099-OID | .9 | Addition to Basis | .45 |
| Form 1099-B | .12 | Reduction to Basis | .45 |
| Options Subject to Section 1256 Reporting | .20 | Tax-Exempt Interest Investment Expense | .45 |
| Notes for Your Form 1099-B | .22 | Non-Deductible Generic Expense | .45 |
| YEAR-END SUMMARY | | Deductible Generic Expense | .46 |
| Interest & Dividends | .23 | Investment Interest Expense | .46 |
| Detail Information of Dividends and Distributions | .23 | Gross Proceeds Investment Expense | .46 |
| Detail Information of Interest Income | .27 | Severance Tax | .46 |
| Accrued Interest Paid on Purchases | .30 | Administrative Expense | .46 |
| Realized Gain or (Loss) | .31 | WHFIT Miscellaneous Income | .47 |
| Short-Term Realized Gain or (Loss) | .31 | Pay Shortfall | .47 |
| Long-Term Realized Gain or (Loss) | .34 | Amortization and Accretion for Fixed Income | .48 |
| Realized Gain or (Loss) Summary | .37 | Notes for Your Amortization and Accretion Section | .49 |
| Notes for Your Realized Gain or (Loss) | .38 | Supplemental Information | .50 |
| Options Activity | .39 | Detail of Miscellaneous Information | .50 |
| Assigned Options | .39 | Partnership Distributions | .51 |
| Exercised Options | .40 | Dividends Paid on Short Sales | .51 |
| Open Long Options at Year-End | .41 | Municipal Bond Original Issue Discount | .51 |
| Open Short Options at Year-End | .42 | Negative Original Issue Discount | .51 |
| Summary of Fees & Expenses | .43 | Interest Paid Not Reported as Income | .52 |
| Fees | .43 | Contract Fees | .52 |
| Margin Interest | .43 | Option Premiums | .52 |
| UIT (Unit Investment Trust) Organizational Expense | .43 | Foreign Tax Paid and Income Summary | .52 |
| ADR (American Depository Receipt) Fees | .43 | Cost Basis Disclosure | .53 |
| Widely Held Fixed Investment Trusts (WHFIT) Reporting | .44 | Terms and Conditions | .55 |

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3

Stocks & Mutual Funds



4

4

Income from Stocks and Mutual Funds



- Holding stocks in an investment portfolio will typically result in two types of income
 - Dividends (many different varieties)
 - Capital gain/loss from sale
- Mutual funds may produce capital gains without sale of the shares
 - A mutual fund is a company that pools money from many investors and invests those funds in securities such as stocks, bonds and short-term debt.
 - The combined holdings of the mutual fund are known as its *portfolio*.
 - Investors buy shares in mutual funds, with each share being that investor's part ownership in the fund and subsequent right to the income it generates.

5

5

Holding Period



- The holding period begins the date after the trade date
- Trade date is the date the taxpayer entered into the transaction
 - Might be the day he told his broker to buy XYZ stock
 - But maybe a day or two later, depending on the day/time of the phone call
 - Confirmation statement will give the trade date
- Settlement date is the date that the shares and the money actually change hands
- The **trade date** is the important date, not the settlement date!

6

6

Holding Period



- If the stock is sold **no sooner** than one year after the holding period starts, then the gain or loss is treated as long-term.
- If the stock is sold **sooner** than one year after the holding period starts, then the gain or loss is treated as short-term.
- Taxpayer's trade date is January 1st, 2022. If he sells it on or before January 1st, 2023, it's a short-term sale because his holding period began on January 2nd.
- If he sells it on or after January 2nd, 2023, then it's a long-term sale.
- One day can make a lot of difference in Tax World.

7

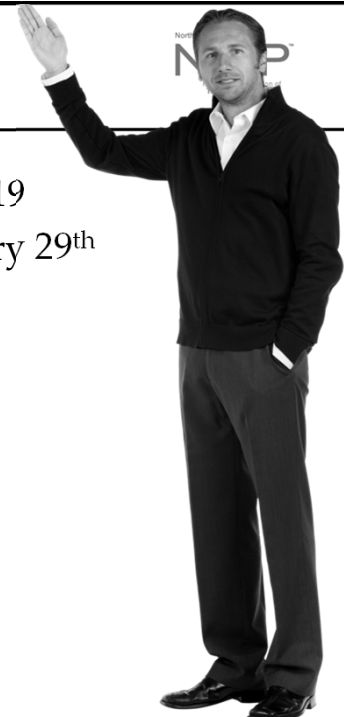
7

Holding Period



- Fred's trade date for purchase was February 28th 2019
- 2020 was a leap year! Fred sold his stock on February 29th

Long-term or short-term?



8

“Covered” vs “Non-Covered”



- Some tax lots are “covered” meaning their acquisition dates and basis are reported to the IRS upon sale
- Others are “non-covered”
- Concept of covered was introduced by the *National Securities Market Improvement Act of 1996*
- For “covered” shares, the broker is required to report cost basis and acquisition date to both the taxpayer and the IRS
- For “non-covered” shares, the broker is reported to report only to the taxpayer

9

9

Sales of Mutual Funds



- Taxpayers may use average basis of shares in a mutual fund, rather than separate basis of different tax lots, when determining gain or loss upon sale.
- This is because mutual funds are purchased in dollar amounts, not numbers of shares.
 - Taxpayer says, “I bought 50 shares of Tesla.”
 - Taxpayer says, “I put \$10,000 in a mutual fund.”
- Nonetheless, anytime money is taken out of the mutual fund, it’s a sale.
- This can be a surprise to a client who thinks of his mutual fund as a sort of bank account.

10

10

Mutual Fund “Loads”



- **Load funds** are mutual funds that charge a sales fee or commission.
 - These sales fees or commissions reduce the amount of money the taxpayer can invest
- **No-load funds** usually do not charge any sales fee or commission.
- **Back-end funds** charge fees when selling mutual fund shares, and it is expressed as a percentage of the value of the fund's shares. A back-end load can be a flat fee or gradually decrease over time.
- Loads increase basis!

11

11

Mutual Fund “Exchanges”




- A mutual fund exchange occurs when a taxpayer sells mutual fund assets to purchase mutual fund assets in the same mutual fund family.
- A mutual fund cross family trade occurs when you sell mutual fund assets in one mutual fund family to purchase mutual fund assets in a different mutual fund family.
- While the mutual fund folks may call this an “exchange,” this so-called exchange is treated as a sale of the mutual fund!

12

12


Form 1099-B



13

13

The IRS' 1099-B Form



| | | | | |
|---|------------------------------------|---|--|--|
| <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED | | Applicable checkbox on Form 9949 2022 Form 1099-B | OMB No. 1545-0715 2022 Form 1099-B | Proceeds From Broker and Barter Exchange Transactions |
| PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. | | 1a Description of property (Example: 100 sh. XYZ Co.) | | Copy 1 For State Tax Department |
| PAYER'S TIN | | 1b Date acquired | 1c Date sold or disposed | |
| RECIPIENT'S TIN | | 1d Proceeds \$ | 1e Cost or other basis \$ | |
| RECIPIENT'S name | | 1f Accrued market discount \$ | 1g Wash sale loss disallowed \$ | |
| Street address (including apt. no.) | | 2 Short-term gain or loss <input type="checkbox"/> Long-term gain or loss <input type="checkbox"/> Ordinary <input type="checkbox"/> | 3 If checked, proceeds from: Collectibles <input type="checkbox"/> QOF <input type="checkbox"/> | |
| City or town, state or province, country, and ZIP or foreign postal code | | 4 Federal income tax withheld \$ | 5 If checked, noncovered security <input type="checkbox"/> | |
| Account number (see instructions) | | 6 Reported to IRS: Gross proceeds <input type="checkbox"/> Net proceeds <input type="checkbox"/> | 7 If checked, loss is not allowed based on amount in 1d <input type="checkbox"/> | |
| CUSIP number | | 8 Profit or (loss) realized in 2022 on closed contracts \$ | 9 Unrealized profit or (loss) on open contracts – 12/31/2021 \$ | |
| FATCA filing requirement <input type="checkbox"/> | | 10 Unrealized profit or (loss) on open contracts – 12/31/2022 \$ | 11 Aggregate profit or (loss) on contracts \$ | |
| 14 State name | 15 State identification no. | 16 State tax withheld \$ | 12 If checked, basis reported to IRS <input type="checkbox"/> | |
| | | 13 Bartering \$ | | |

Form 1099-B www.irs.gov/Form1099B Department of the Treasury - Internal Revenue Service

14

14

The Broker's 1099-B Form



Recipient's Name and Address
 DANA JONES
 JOHN JONES
 C/O SAMPLE GLOBAL ENTERPRISE
 3RD FLOOR, SUITE 1800
 1234 MAIN STREET
 ANYTOWN, US 12345
 Taxpayer ID Number: ***-**-0000 Account Number: 1111-9999

Payer's Name and Address
 CHARLES SCHWAB & CO., INC.
 211 MAIN STREET
 SAN FRANCISCO, CA 94105
 Telephone Number: (800) 435-4000
 Federal ID Number: 94-1737782

Date Prepared: January 11, 2022

Proceeds From Broker Transactions—2021 **Form 1099-B**
 Department of the Treasury—Internal Revenue Service Copy B for Recipient (OMB No. 1545-0715)

SHORT-TERM TRANSACTIONS FOR WHICH BASIS IS REPORTED TO THE IRS—Report on Form 8949, Part I, with Box A checked.

| 1a—Description of property (Example—100sh, XYZ Co.) | 1b—Date acquired | 1c—Date sold or disposed | 1d—Proceeds | 6—Reported to IRS: Gross proceeds (except where indicated) | 1e—Cost or other basis | 1f—Accrued Market Discount | 1g—Wash Sale Loss Disallowed | Realized Gain or (Loss) | 4—Federal income tax withheld |
|--|------------------|--------------------------|--------------------|--|------------------------|----------------------------|------------------------------|-------------------------|-------------------------------|
| 5 CALL SAMPLE CORPORATION XXYY 03/21/2021 20.00 C | SC 01/15/21 | 02/11/21 | \$ 602.75 | \$ 602.75 | \$ 525.00 | | | \$ 77.75 | \$ 0.00 |
| 10 CALL SAMPLE CORPORATION XXYY 03/21/2021 20.00C | X 01/15/21 | 03/21/21 | \$ 0.00 | \$ 0.00 | \$ 1,050.00 | | | \$ (1,050.00) | \$ 0.00 |
| Security Subtotal | | | \$ 602.75 | \$ 602.75 | \$ 1,575.00 | | | \$ (972.75) | \$ 0.00 |
| 10,000 PRETEND CORPORATE BOND **DUE 04/15/24** 54321XXXX | S 01/09/21 | 10/13/21 | \$ 9,750.00 | \$ 9,750.00 | \$ 9,550.00 | | \$ 200.00 | \$ 0.00 | \$ 0.00 |
| Security Subtotal | | | \$ 9,750.00 | \$ 9,750.00 | \$ 9,550.00 | | \$ 200.00 | \$ 0.00 | \$ 0.00 |

15

15

Reporting on Form 8949



8949 Sales and Other Dispositions of Capital Assets **Form 8949**
 Department of the Treasury Internal Revenue Service
 Attach to Form 1040, 1040-S, or 1040-ES.
 Use with your Schedule D to file your transactions for lines 1b, 1c, 1d, 1e, 1f, and 1g.

SCHEDULE D Capital Gains and Losses
 Department of the Treasury Internal Revenue Service
 Attach to Form 1040, 1040-S, or 1040-ES.
 Use with your Schedule D to file your transactions for lines 1b, 1c, 1d, 1e, 1f, and 1g.

Part I Long-Term Transactions Involving Capital Assets You Held More Than 1 Year or Less
 Note: Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1.
 Note: You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the basis directly on Schedule D, line 8b. You aren't required to report these transactions on Form 8949 (see instructions).
 You must check Box A, B, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.
 A Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
 B Long-term transactions reported on Form(s) 1099-B showing basis wasn't reported to the IRS
 F Long-term transactions not reported to you on Form 1099-B

Part II Long-Term Transactions Involving Capital Assets You Held More Than 1 Year or Less
 Note: Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1.
 Note: You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the basis directly on Schedule D, line 8b. You aren't required to report these transactions on Form 8949 (see instructions).
 You must check Box A, B, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.
 A Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
 B Long-term transactions reported on Form(s) 1099-B showing basis wasn't reported to the IRS
 F Long-term transactions not reported to you on Form 1099-B

16

16

Transactions with No Basis Info



- Our first instinct is to call the client and ask for basis BUT first see if it's worth the hassle!!
- Tax might be zero or just a few dollars

LONG-TERM TRANSACTIONS FOR WHICH BASIS IS MISSING AND NOT REPORTED TO THE IRS—Report on Form 8949, Part II, with **Box E** checked.

| 1a—Description of property (Example—100sh. XYZ Co.) CUSIP Number/Symbol | 1b—Date acquired 1c—Date sold or disposed | 1d—Proceeds 6—Reported to IRS: Gross proceeds (except where indicated) | 1e—Cost or other basis | 1f—Accrued Market Discount 1g—Wash Sale Loss Disallowed | Realized Gain or (Loss) | 4—Federal income tax withheld |
|---|--|---|------------------------|--|-------------------------|-------------------------------|
| 1,000 SAMPLE REMIC 31392XXXX | R 10/12/15 01/18/21 | \$ 1,000.00 | Missing | -- | -- \$ | 0.00 |
| Security Subtotal | | \$ 1,000.00 | -- | -- | -- \$ | 0.00 |
| -- SAMPLE UNIT INVESTMT TRUST 45808XXXX | P -- 10/25/21 | \$ 171.18 | Not Provided | -- | -- \$ | 0.00 |
| Security Subtotal | | \$ 171.18 | -- | -- | -- \$ | 0.00 |
| Total Long-Term (Cost basis is missing and not reported to the IRS) | | \$ 1,171.18 | -- | -- | -- | |

17

17

FAQ!

- **Do I Have to Report Every Sale??**
- **YES!!! Unless you meet an exception!**
- There are exceptions to the rule that you must report each of your transactions on a separate row of Part I or II.
- Any taxpayer who qualifies can use Exception 1 or Exception 2 – *Form 8949 Instructions*



18

18

Please Tell Me I'm an Exception



- **Exception 1. Form 8949 isn't required for certain transactions.** You may be able to aggregate those transactions and report them directly on either line 1a (for short-term transactions) or line 8a (for long-term transactions) of Schedule D. This option applies only to transactions (other than sales of collectibles) for which:
 - You received a Form 1099-B (or substitute statement) that shows basis was reported to the IRS and doesn't show any adjustments in box 1f or 1g;
 - The Ordinary box in box 2 isn't checked;
 - You don't need to make any adjustments to the basis or type of gain (or loss) reported on Form 1099-B (or substitute statement), or to your gain (or loss); and
 - You aren't electing to defer income due to an investment in a QOF and aren't terminating deferral from an investment in a QOF. – *Form 8949 Instructions*

19

19

Translation?



- If there are multiple transactions reported in a category such as short-term or long-term COVERED, and there are no adjustments required, it is not necessary to report the detail of each transaction.
- Just report the total for the category directly on Schedule D.
- It is NOT necessary to use adjustment Code M or send a copy of the brokerage statement or other documentation to the IRS as this information has already been submitted by the brokerage firm.

20

20

Schedule D Lines 1a & 8a



- Use Lines 1a and 8a if:
 - Form 1099B shows basis reported to IRS
 - No adjustments needed
 - No QOF issues
- No Form 8949 required
- No statement required
- No attached pdf required
- No Form 8453 required

SCHEDULE D (Form 1040) Capital Gains and Losses

OMB No. 1545-0074

2022

Department of the Treasury Internal Revenue Service

Go to www.irs.gov/ScheduleD for instructions and the latest information. Use Form 8949 to list your transactions for lines 1a, 2, 3, 8a, 9, and 10.

Attachment Sequence No. 12

Your social security number

Did you dispose of any investments in a qualified opportunity fund during the tax year? Yes No
If "Yes," attach Form 8949 and see its instructions for additional requirements for reporting your gain or loss.

Part I Short-Term Capital Gains and Losses—Generally Assets Held One Year or Less (see instructions)

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.

| | 1a Proceeds (sales price) | 1b Cost (or other basis) | 1c Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g) | 1d Gain or (loss) Subtract column (b) and column (c) from column (a) and combine the result with column (g) |
|---|---------------------------------|--------------------------------|--|---|
| 1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b | | | | |
| 1b Totals for all transactions reported on Form(s) 8949 with Box A checked | | | | |
| 2 Totals for all transactions reported on Form(s) 8949 with Box B checked | | | | |
| 3 Totals for all transactions reported on Form(s) 8949 with Box C checked | | | | |
| 4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 | | | | 4 |
| 5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 | | | | 5 |
| 6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your Capital Loss Carryover Worksheet in the instructions | | | | 6 |
| 7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column (d). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back. | | | | 7 |

Part II Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year (see instructions)

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.

| | 8a Proceeds (sales price) | 8b Cost (or other basis) | 8c Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g) | 8d Gain or (loss) Subtract column (b) and column (c) from column (a) and combine the result with column (g) |
|--|---------------------------------|--------------------------------|---|---|
| 8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b | | | | |
| 8b Totals for all transactions reported on Form(s) 8949 with Box D checked | | | | |
| 9 Totals for all transactions reported on Form(s) 8949 with Box E checked | | | | |
| 10 Totals for all transactions reported on Form(s) 8949 with Box F checked | | | | |
| 11 Gain from Form 4797, Part I, long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824 | | | | 11 |
| 12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1 | | | | 12 |
| 13 Capital gain distributions. See the instructions | | | | 13 |
| 14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions | | | | 14 |
| 15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (d). Then, go to Part III on the back. | | | | 15 |

For Paperwork Reduction Act Notice, see your tax return instructions. Cat No. 11338H Schedule D (Form 1040) 2022

21

I Hope There's Another Exception



- **Exception 2.** Instead of reporting each of your transactions on a separate row of Part I or II, you can report them on an attached statement containing all the same information as Parts I and II and in a similar format [that is, description of property, dates of acquisition and disposition, proceeds, basis, adjustment and code(s), and gain (or loss)].
- Use as many attached statements as you need. Enter the combined totals from all your attached statements on Parts I and II with the appropriate box checked – *Form 8949 Instructions*

22

22

I Hope There's Another Exception



- **Exception 2. (cont.)** For example, report on Part I with Box B checked all short-term gains and losses from transactions your broker reported to you on a statement showing basis wasn't reported to the IRS. Enter the name of the broker followed by the words "see attached statement" in Column (a). Leave Columns (b) and (c) blank. Enter "M" in Column (f). If other codes also apply, enter all of them in Column (f). Enter the totals that apply in Columns (d), (e), (g), and (h). If you have statements from more than one broker, report the totals from each broker on a separate row. – *Form 8949 Instructions*

You must check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)

(B) Short-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS

(C) Short-term transactions not reported to you on Form 1099-B

| 1 | (a) Description of property (Example: 100 sh. XYZ Co.) | (b) Date acquired (Mo., day, yr.) | (c) Date sold or disposed of (Mo., day, yr.) | (d) Proceeds (sales price) (see instructions) | (e) Cost or other basis (See the Note below and see Column (e) in the separate instructions.) | (f) Code(s) from instructions | (g) Adjustment, if any, to gain or loss if you enter an amount in column (g), enter a code in column (f). See the separate instructions. | (h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g). |
|---|--|---|---|--|---|-------------------------------------|--|---|
| | SCHWAB SEE ATTACHED STATEMENT | | | \$55,000 | \$30,000 | M | | \$25,000 |

23

23

Reporting Detail to IRS



- Covered transactions don't require extra detail to be mailed in
- Non-covered transactions need extra detail
 - For paper returns, attach the summary sheets
 - For e-filed returns, either fill out Form 8949 for every transaction OR upload summary (pdf) with return OR mail Form 8453 with summary statements within three days of e-filing

24

24

Form 8453



- In case you've never used one...
- Form 8949, Sales and Other Dispositions of Capital Assets (or a statement with the same information), if you elect not to report your transactions electronically on Form 8949

Form 8949, Sales and Other Dispositions of Capital Assets (or a statement with the same information), if you elect not to report your transactions electronically on Form 8949

25

Direct Reporting?



SHORT-TERM TRANSACTIONS FOR WHICH BASIS IS AVAILABLE BUT NOT REPORTED TO THE IRS—Report on Form 8949, Part I, with Box B checked.

| 1a—Description of property (Example—100Sh, XYZ Co.) CUSIP Number/Symbol | 1b—Date acquired | 1c—Date sold or disposed | 1d—Proceeds 6—Reported to IRS: Gross proceeds (except where indicated) | 1e—Cost or other basis | 1f—Accrued Market Discount 1g—Wash Sale Loss Disallowed | Realized Gain or (Loss) | 4—Federal income tax withheld |
|---|------------------|--------------------------|---|------------------------|--|-------------------------|-------------------------------|
| 10,000 SAMPLE CORP BOND **DUE 04/15/25** 04939XXX | R 04/10/21 | 06/15/21 | \$ 9,800.00 | \$ 9,730.65 | | \$ 69.35 | \$ 0.00 |
| Security Subtotal | | | \$ 9,800.00 | \$ 9,730.65 | | \$ 69.35 | \$ 0.00 |
| 50 SAMPLE LTD PARTNERSHIP 28370XXX/XXX | S 04/27/21 | 09/08/21 | \$ 1,828.85 | \$ 1,854.98 | | \$ (26.13) | \$ 512.08 |
| Security Subtotal | | | \$ 1,828.85 | \$ 1,854.98 | | \$ (26.13) | \$ 512.08 |
| Total Short-Term (Cost basis is available but not reported to the IRS) | | | \$ 11,628.85 | \$ 11,585.63 | | \$ 43.22 | \$ 512.08 |

Can I report these transactions directly on Schedule D?

26

26

Direct Reporting?



LONG-TERM TRANSACTIONS FOR WHICH BASIS IS REPORTED TO THE IRS—Report on Form 8949, Part II, with **Box D** checked.

| 1a—Description of property (Example—100sh. XYZ Co.) CUSIP Number/Symbol | 1b—Date acquired | 1c—Date sold or disposed | 1d—Proceeds 6—Reported to IRS: Gross proceeds (except where indicated) | 1e—Cost or other basis | 1f—Accrued Market Discount 1g—Wash Sale Loss Disallowed | Realized Gain or (Loss) | 4—Federal income tax withheld |
|---|---------------------|--------------------------------|--|---------------------------|--|----------------------------|----------------------------------|
| 0.50 EXAMPLE COMMON STOCK 17296XXX/ABC | C | 04/07/20 05/10/21 | \$ 22.03 | \$ 19.16 | -- \$ | 2.87 \$ | 0.00 |
| 7 X (Please note that you cannot claim a loss based on the amount in box 1d.) | | | | | | | |
| Security Subtotal | | | \$ 22.03 | \$ 19.16 | -- \$ | 2.87 \$ | 0.00 |
| 1.000 QUALIFIED OPPORTUNITY FUND 8888XXXX | \$ | 02/12/20 07/11/21 | \$ 2,000.00 | \$ 2,000.00 | -- \$ | 0.00 \$ | 0.00 |
| 3—If checked, proceeds from: QOF <input checked="" type="checkbox"/> | | | | | | | |
| Security Subtotal | | | \$ 2,000.00 | \$ 2,000.00 | -- \$ | 0.00 \$ | 0.00 |
| 1.000 SAMPLE CORP BOND **CALLED** 03759XXXX | \$ | 01/21/20 02/08/21 | \$ 1,183.69 | \$ 1,326.07 | -- \$ | (1.75) \$ | 0.00 |
| Security Subtotal | | | \$ 1,183.69 | \$ 1,326.07 | -- \$ | (1.75) \$ | 0.00 |
| | | | | \$ 142.38 | | | |

Can I report these transactions directly on Schedule D?

Direct Reporting?



SHORT-TERM TRANSACTIONS FOR WHICH BASIS IS REPORTED TO THE IRS—Report on Form 8949, Part I, with **Box A** checked.

| 1a—Description of property (Example—100sh. XYZ Co.) CUSIP Number/Symbol | 1b—Date acquired | 1c—Date sold or disposed | 1d—Proceeds 6—Reported to IRS: Gross proceeds (except where indicated) | 1e—Cost or other basis | 1f—Accrued Market Discount 1g—Wash Sale Loss Disallowed | Realized Gain or (Loss) | 4—Federal income tax withheld |
|---|---------------------|--------------------------------|--|---------------------------|--|----------------------------|----------------------------------|
| 5 CALL SAMPLE CORPORATION XXYY 03/21/2021 20.00 C | SC | 01/15/21 02/11/21 | \$ 602.75 | \$ 525.00 | -- \$ | 77.75 \$ | 0.00 |
| 10 CALL SAMPLE CORPORATION XXYY 03/21/2021 20.00 C | X | 01/15/21 03/21/21 | \$ 0.00 | \$ 1,050.00 | -- \$ | (1,050.00) \$ | 0.00 |
| Security Subtotal | | | \$ 602.75 | \$ 1,575.00 | -- \$ | (972.75) \$ | 0.00 |
| 10,000 PRETEND CORPORATE BOND **DUE 04/15/24** 54321XXXX | \$ | 01/09/21 10/13/21 | \$ 9,750.00 | \$ 9,550.00 | 200.00 \$ | 0.00 \$ | 0.00 |
| Security Subtotal | | | \$ 9,750.00 | \$ 9,550.00 | 200.00 \$ | 0.00 \$ | 0.00 |

Can I report these transactions directly on Schedule D?

QUIZ



- True or false?
 - a. Every single transaction must be reported separately on Form 8949, no exceptions.
 - b. Use Form 8453 for paper-filed returns.
 - c. John bought a stock on January 1st and sold it the following January 1st. This is a short-term transaction.
 - d. Stock sales reported as "a" or "d" by the broker with no adjustments and no QOF may be entered directly onto Schedule D.

29

29

Adjustments



30

30

Schedule D Adjustments



- You may need to complete Columns (f) and (g) on Form 8949 under certain circumstances.

Adjustment, if any, to gain or loss.
If you enter an amount in column (g), enter a code in column (f).
See the separate instructions.

| (f) Code(s) from instructions | (g) Amount of adjustment |
|----------------------------------|-----------------------------|
| | |

Form 8949 Sales and Other Dispositions of Capital Assets
OMB No. 1545-0074
2022
Attachment Sequence No. 12A

Department of the Treasury Internal Revenue Service
File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.
Social security number or taxpayer identification number

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statements from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part I Short-Term. Transactions involving capital assets you held 1 year or less are generally short-term (see instructions). For long-term transactions, see page 2.

Note: You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
 (B) Short-term transactions reported on Form(s) 1099-B showing basis wasn't reported to the IRS
 (C) Short-term transactions not reported to you on Form 1099-B

| 1 | (A) Description of property (Example: 100 sh. XYZ Co.) | (B) Date acquired (Mo., day, yr.) | (C) Date sold or disposed of (Mo., day, yr.) | (D) Proceeds (Sales price) (Mo., day, yr.) (See instructions.) | (E) Cost or other basis (See the Note here and see Column (A) in the separate instructions.) | (F) Adjustment, if any, to gain or loss (You enter an amount in column (G) with a code in column (F). See the separate instructions.) | (G) Code(s) from instructions | (H) Amount of adjustment | (I) Gain or (loss) Subtract column (E) from column (D) and combine the result with column (F) and column (H). |
|---|--|---|--|--|--|--|----------------------------------|-----------------------------|---|
| | | | | | | | | | |

31

Adjustments for 1099-B



- B = Basis shown on 1099 is incorrect
- M = Multiple transactions entered on a single row
- N = Nominee
- W = Nondeductible wash sale loss



32

Code B = Basis Adjustment

- From Form 8949 instructions:
- If you received a Form 1099-B (or substitute statement) and the basis shown in box 1e is incorrect...
 - If this transaction is reported on a Part I with box B checked at the top or if this transaction is reported on a Part II with box E checked at the top, enter the correct basis in column (e), and enter -0- in column (g).
 - If this transaction is reported on a Part I with box A checked at the top or if this transaction is reported on a Part II with box D checked at the top, enter the basis shown on Form 1099-B (or substitute statement) in column (e), even though that basis is incorrect. Correct the error by entering an adjustment in column (g).

33

33

Code B = Basis Adjustment

- From Form 8949 instructions:
- You sold stock for \$1,000. You had owned the stock for 3 months. Your correct basis for the stock is \$100, but you receive a Form 1099-B that shows your basis is \$900 and shows your broker reported that basis to the IRS.
- So your true gain is \$900, but the broker is showing gain of \$100.

34

34

Code B = Basis Adjustment



Worksheet for Basis Adjustments in Column (g)

If the basis shown on Form 1099-B (or substitute statement) isn't correct, do the following.

- If the basis wasn't reported to the IRS, enter the correct basis in column (e) and enter -0- in column (g) (unless you must make an adjustment for some other reason). You don't need to complete this worksheet.
- If the basis was reported to the IRS, enter the reported basis shown on Form 1099-B (or substitute statement) in column (e) and use this worksheet to figure the adjustment to include in column (g).

| | |
|---|-----------------|
| 1. Enter the cost or other basis shown on Form 1099-B (or substitute statement) | 1. <u>\$900</u> |
| 2. Enter the correct cost or other basis | 2. <u>\$100</u> |
| 3. If line 1 is larger than line 2, leave this line blank and go to line 4. If line 2 is larger than line 1, subtract line 1 from line 2. Enter the result here and in column (g) as a negative number (in parentheses) | 3. _____ |
| 4. If line 1 is larger than line 2, subtract line 2 from line 1. Enter the result here and in column (g) as a positive number | 4. <u>\$800</u> |

35

Code B = Basis Adjustment



Form 8949 Sales and Other Dispositions of Capital Assets

OMB No. 1545-0074
2022
Attachment Sequence No. 12A

Go to www.irs.gov/Form8949 for instructions and the latest information.
File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

Name(s) shown on return _____ Social security number or taxpayer identification number _____

Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part I Short-Term. Transactions involving capital assets you held 1 year or less are generally short-term (see instructions). For long-term transactions, see page 2.

Note: You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box A, B, or C below. Check only one box. If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(A) Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)

(B) Short-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS

(C) Short-term transactions not reported to you on Form 1099-B

| 1 | (a) Description of property (Example: 100 sh. XYZ Co.) | (b) Date acquired (Mo., day, yr.) | (c) Date sold or disposed of (Mo., day, yr.) | (d) Proceeds (sales price) (see instructions) | (e) Cost or other basis (See the Note below and see Column (g) in the separate instructions.) | (f) Code(s) from instructions | (g) Amount of adjustment | (h) Gain or (loss) (Subtract column (e) from column (d) and combine the result with column (g).) |
|---|--|---|---|--|--|-------------------------------------|--------------------------------|---|
| | | | | \$1,000 | \$900 | B | | \$900 |
| | | | | | | | | |
| | | | | | | | | |

36

36

Code N = Nominee Adjustment

- From Form 8949 instructions:
- If you received a Form 1099-B (or substitute statement) as a nominee for the actual owner of the property...
 - Report the transaction on Form 8949 as you would if you were the actual owner, but also enter any resulting gain as a negative adjustment (in parentheses) in column (g) or any resulting loss as a positive adjustment in column (g). As a result of this adjustment, the amount in column (h) should be zero.
 - Note: not always a zero result, sometimes your client is a partial owner.
- Typical scenarios include receiving forms showing transactions on an account owned jointly with a sibling, parent, ex-spouse, etc.
- Whose ever SSN is on the 1099 should report the income and then nominee all or part of it to the other owner.

37

37

Code W = Wash Sales

- Definition: sale of a security at a loss, followed by repurchase of same or substantially same security within 30 days before or after that sale
- Disallowed loss is added to the basis of newly purchased shares
- Holding period transfers as well
- (Obviously the idea is to discourage investors from harvesting losses for tax purposes and then repurchasing)

38

38

Wash Sale Reporting



- 1099-B will show the wash sale loss transaction and report an adjustment called Wash Sale Loss Disallowed!

LONG-TERM TRANSACTIONS FOR WHICH BASIS IS REPORTED TO THE IRS—Report on Form 8949, Part II, with **Box D** checked.

| 1a—Description of property (Example—100sh. XYZ Co.) CUSIP Number/Symbol | 1b—Date acquired | 1c—Date sold or disposed | 1d—Proceeds 6—Reported to IRS: Gross proceeds (except where indicated) | 1e—Cost or other basis | 1f—Accrued Market Discount | | Realized Gain or (Loss) | 4—Federal income tax withheld |
|---|---------------------|--------------------------------|--|---------------------------|---------------------------------|-------|----------------------------|----------------------------------|
| | | | | | 1g—Wash Sale Loss Disallowed | | | |
| 0.50 EXAMPLE COMMON STOCK 17296XXX/ABC | C | 04/07/20 05/10/21 | \$ 22.03 | \$ 19.16 | -- | \$ -- | 2.87 | \$ 0.00 |
| 7 X (Please note that you cannot claim a loss based on the amount in box 1d.) | | | | | | | | |
| Security Subtotal | | | \$ 22.03 | \$ 19.16 | -- | \$ -- | 2.87 | \$ 0.00 |
| 1,000 QUALIFIED OPPORTUNITY FUND 88888XXXX | S | 02/12/20 07/11/21 | \$ 2,000.00 | \$ 2,000.00 | -- | \$ -- | 0.00 | \$ 0.00 |
| 3—If checked, proceeds from: QOF <input checked="" type="checkbox"/> | | | | | | | | |
| Security Subtotal | | | \$ 2,000.00 | \$ 2,000.00 | -- | \$ -- | 0.00 | \$ 0.00 |
| 1,000 SAMPLE CORP BOND **CALLED** 03759XXXX | S | 01/21/20 02/08/21 | \$ 1,183.69 | \$ 1,326.07 | -- | \$ -- | (1.75) | \$ 0.00 |
| Security Subtotal | | | \$ 1,183.69 | \$ 1,326.07 | -- | \$ -- | (1.75) | \$ 0.00 |
| | | | | \$ | 142.38 | | | |
| | | | | \$ | 142.38 | | | |

39

Maybe a Wash Sale?

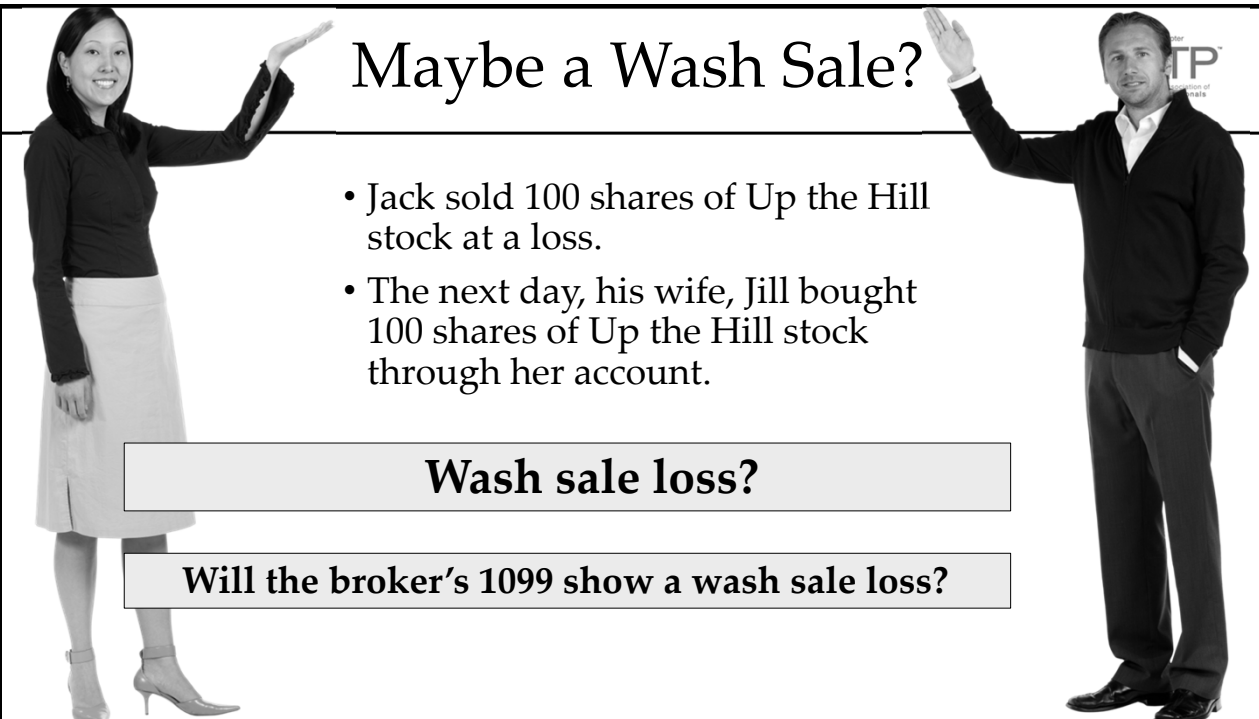
- Jack sold 100 shares of Up the Hill stock at a loss.
- The next day, he bought 100 shares of Up the Hill stock through a different account.

Wash sale loss?

Will the broker's 1099 show a wash sale loss?



40



Maybe a Wash Sale?


- Jack sold 100 shares of Up the Hill stock at a loss.
- The next day, his wife, Jill bought 100 shares of Up the Hill stock through her account.

Wash sale loss?

Will the broker's 1099 show a wash sale loss?

41

Really? The Spouse?




- “If you sell stock and your spouse or a corporation you control buys substantially identical stock, you also have a wash sale.” *Pub 550, Investment Income and Expenses.*
- “The wash-sale rule applies across all your accounts, including those outside Schwab, as well as transactions in your IRA — and it the rule extends even to your spouse's accounts. Furthermore, it's up to you keep track of what's happening across your various accounts. IRS regulations require only that Schwab track and report wash sales on the same CUSIP number within the same account.”
<https://www.schwab.com/learn/story/primer-on-wash-sales>

Are any of us tracking this??

42

42


Dividends



43

43

The IRS' 1099-DIV

North Carolina Chapter


VOID CORRECTED

OMB No. 1545-0110
Form 1099-DIV
(Rev. January 2022)

Dividends and Distributions

| | | | |
|---|--|--|--|
| PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. | | 1a Total ordinary dividends \$ | 2b Unrecap. Sec. 1250 gain \$ |
| PAYER'S TIN | | 1b Qualified dividends \$ | 2c Section 1202 gain \$ |
| RECIPIENT'S TIN | | 2e Section 897 ordinary dividends \$ | 2f Section 897 capital gain \$ |
| RECIPIENT'S name | | 3 Nondividend distributions \$ | 4 Federal income tax withheld \$ |
| Street address (including apt. no.) | | 5 Section 199A dividends \$ | 6 Investment expenses \$ |
| City or town, state or province, country, and ZIP or foreign postal code | | 7 Foreign tax paid \$ | 8 Foreign country or U.S. possession |
| Account number (see instructions) | | 9 Cash liquidation distributions \$ | 10 Noncash liquidation distributions \$ |
| 11 FATCA filing requirement <input type="checkbox"/> | | 12 Exempt-interest dividends \$ | 13 Specified private activity bond interest dividends \$ |
| 14 State | | 15 State identification no. | 16 State tax withheld \$ |

Form **1099-DIV** (Rev. 1-2022)
www.irs.gov/Form1099DIV
Department of the Treasury - Internal Revenue Service

**Copy 1
For State Tax
Department**

44

44

The Broker's 1099-DIV



| Dividends and Distributions—2021 | | Form 1099-DIV | |
|---|--|--|------------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0110) | |
| Box | Description | Amount | Total |
| 1a | Total Ordinary Dividends (Includes amounts shown in boxes 1b, 2e, and 5) | | \$ 5,805.00 |
| 1b | Qualified Dividends | \$ 2,380.00 | |
| 2a | Total Capital Gains Distributions (Includes amounts shown in boxes 2b, 2c, 2d, and 2f) | | \$ 1,575.00 |
| 2b | Unrecap. Sec. 1250 Gain | \$ 400.00 | |
| 2c | Section 1202 Gain | \$ 325.00 | |
| 2d | Collectibles (28%) Gain | \$ 400.00 | |
| 2e | Section 897 Ordinary Dividends | \$ 100.00 | |
| 2f | Section 897 Capital Gains | \$ 100.00 | |
| 3 | Nondividend Distributions | | \$ 933.00 |
| 4 | Federal Income Tax Withheld | | \$ 450.00 |
| 5 | Section 199A Dividends | | \$ 100.00 |
| 6 | Investment Expenses | | \$ 240.00 |
| 7 | Foreign Tax Paid | | \$ 300.00 |
| 8 | Foreign Country or U.S. Possession | CANADA | |
| 9 | Cash Liquidation Distributions | | \$ 950.00 |
| 10 | Noncash Liquidation Distributions | | \$ 2,700.00 |
| 11 | Exempt-Interest Dividends (Includes amount shown in box 12) | | \$ 2,700.00 |
| 12 | Specified Private Activity Bond Interest Dividends | \$ 2,700.00 | |
| 13 | State | VARIOUS | |
| 14 | State Identification No. | VARIOUS | |
| 15 | State Tax Withheld | | \$ 2,700.00 |
| FATCA Filing Requirement <input type="checkbox"/> | | | |

45

45

1099-DIV Boxes 1a & 1B



- Box 1a: Ordinary dividends
- Box 1b: Qualified dividends taxed at capital gains rates
 - Qualified dividends are generally dividends from shares in domestic corporations and certain qualified foreign corporations which you have held for at least a specified minimum period of time, known as a holding period. The holding period is 61 days for common shares, 91 days for preferred shares.
 - The shares must be unhedged; that is, there were no puts, calls, or short sales associated with the shares during the holding period.
- The amount in Box 1b is INCLUDED in the amount in Box 1a!

| Box | Description | Amount | Total |
|-----|--|-------------|-------------|
| 1a | Total Ordinary Dividends (Includes amounts shown in boxes 1b, 2e, and 5) | | \$ 5,805.00 |
| 1b | Qualified Dividends | \$ 2,380.00 | |

46

46

1099-DIV Boxes 2a – 2f



- Boxes 2a-f report capital gain distributions of various flavors!

| | | | | |
|-----------|--|----|--------|----------|
| 2a | Total Capital Gains Distributions (Includes amounts shown in boxes 2b, 2c, 2d, and 2f) | | \$ | 1,575.00 |
| 2b | Unrecap. Sec. 1250 Gain | \$ | 400.00 | |
| 2c | Section 1202 Gain | \$ | 325.00 | |
| 2d | Collectibles (28%) Gain | \$ | 400.00 | |
| 2e | Section 897 Ordinary Dividends | \$ | 100.00 | |
| 2f | Section 897 Capital Gains | \$ | 100.00 | |

47

47

Box 2b §1250 Gain - REITs



- Typically shows up as part of dividends from REITs or a mutual fund that holds one or more REITs.
- A real estate investment trust ("REIT") is a company that owns, operates or finances income-producing real estate.
- §1250 income as part of a dividend represents past depreciation deductions that are being taxed at 1250 rates.
 - (Maximum tax rate of 25%)

48

48

Box 2c: §1202 Qualified Small Business Stock



- Your client's broker isn't going to sell him qualified small business stock.
- It'll be purchased directly from the company, generally by a founder, venture capital provider, employee who exercised an option.
- Or it may be obtained indirectly via a partnership, REIT or mutual fund that acquired small business stock.
- Many requirements exist having to do with the type of entity, type of business, and value of assets.

49

49

Box 2d: Collectibles



- There are funds that invest in precious metals, example: SPDR Gold Trust.
- "...gains recognized by an individual upon the sale of GLD shares held for more than one year, or attributable to the Trust's sale of any gold bullion which the Shareholder is treated (through its ownership of shares) as having held for more than one year generally will be taxed at a maximum U.S. federal income tax rate of 28%." - <https://www.spdrgoldshares.com/media/GLD/file/SPDR-Gold-Trust-Tax-Information-2020.pdf>

50

50

Box 3 Nondividend Distributions



- Box 3: Nondividend distributions = nontaxable return of capital (unless return has now exceeded basis, in which case it's taxed as a capital gain)

| Box | Description | Amount | Total |
|-----|--|-------------|-------------|
| 1a | Total Ordinary Dividends (Includes amounts shown in boxes 1b, 2e, and 5) | | \$ 5,805.00 |
| 1b | Qualified Dividends | \$ 2,380.00 | |
| 2a | Total Capital Gains Distributions (Includes amounts shown in boxes 2b, 2c, 2d, and 2f) | | \$ 1,575.00 |
| 2b | Unrecap. Sec. 1250 Gain | \$ 400.00 | |
| 2c | Section 1202 Gain | \$ 325.00 | |
| 2d | Collectibles (28%) Gain | \$ 400.00 | |
| 2e | Section 897 Ordinary Dividends | \$ 100.00 | |
| 2f | Section 897 Capital Gains | \$ 100.00 | |
| 3 | Nondividend Distributions | | \$ 933.00 |

Are any of us tracking this?

51

51

Boxes 4, 13, 14, 15 Tax Withholding



- Watch for tax withholding!

| Box | Description | Amount | Total |
|-----|--|-------------|-------------|
| 1a | Total Ordinary Dividends (Includes amounts shown in boxes 1b, 2e, and 5) | | \$ 5,805.00 |
| 1b | Qualified Dividends | \$ 2,380.00 | |
| 2a | Total Capital Gains Distributions (Includes amounts shown in boxes 2b, 2c, 2d, and 2f) | | \$ 1,575.00 |
| 2b | Unrecap. Sec. 1250 Gain | \$ 400.00 | |
| 2c | Section 1202 Gain | \$ 325.00 | |
| 2d | Collectibles (28%) Gain | \$ 400.00 | |
| 2e | Section 897 Ordinary Dividends | \$ 100.00 | |
| 2f | Section 897 Capital Gains | \$ 100.00 | |
| 3 | Nondividend Distributions | | \$ 933.00 |
| 4 | Federal Income Tax Withheld | | \$ 450.00 |

| | | | |
|----|--------------------------|---------|-------------|
| 13 | State | VARIOUS | VARIOUS |
| 14 | State Identification No. | VARIOUS | |
| 15 | State Tax Withheld | | \$ 2,700.00 |

52

52

Box 5 Section 199A Dividends



- Box 5: Section 199A dividends, eligible for QBID
 - Typically, these are paid from REITs (Real Estate Investment Trusts), which may be owned individually or via mutual funds with REIT stock
 - They are taxed as ordinary (not qualified) dividends BUT are eligible for the 199A deduction

| Box | Description | Amount | Total |
|-----|--|-------------|------------------|
| 1a | Total Ordinary Dividends (Includes amounts shown in boxes 1b, 2e, and 5) | | \$ 5,805.00 |
| 1b | Qualified Dividends | \$ 2,380.00 | |
| 2a | Total Capital Gains Distributions (Includes amounts shown in boxes 2b, 2c, 2d, and 2f) | | \$ 1,575.00 |
| 2b | Unrecap. Sec. 1250 Gain | \$ 400.00 | |
| 2c | Section 1202 Gain | \$ 325.00 | |
| 2d | Collectibles (28%) Gain | \$ 400.00 | |
| 2e | Section 897 Ordinary Dividends | \$ 100.00 | |
| 2f | Section 897 Capital Gains | \$ 100.00 | |
| 3 | Nondividend Distributions | | \$ 933.00 |
| 4 | Federal Income Tax Withheld | | \$ 450.00 |
| 5 | Section 199A Dividends | \$ 100.00 | |

53

53

Box 5 Section 199A Dividends



- Reported on Form 8995-A, *Qualified Business Income Deduction*

| Part IV Determine Your Qualified Business Income Deduction | | |
|--|---|--------|
| 27 | Total qualified business income component from all qualified trades, businesses, or aggregations. Enter the amount from line 16 | 27 |
| 28 | Qualified REIT dividends and publicly traded partnership (PTP) income or (loss). See instructions | 28 |
| 29 | Qualified REIT dividends and PTP (loss) carryforward from prior years | 29 () |
| 30 | Total qualified REIT dividends and PTP income. Combine lines 28 and 29. If less than zero, enter -0- | 30 |

54

54

Boxes 7 & 8 Foreign Tax



- Boxes 7 and 8: Foreign tax paid and country it was paid to

| Box | Description | Amount | Total |
|-----------|--|-------------|------------------|
| 1a | Total Ordinary Dividends (Includes amounts shown in boxes 1b, 2e, and 5) | | \$ 5,805.00 |
| 1b | Qualified Dividends | \$ 2,380.00 | |
| 2a | Total Capital Gains Distributions (Includes amounts shown in boxes 2b, 2c, 2d, and 2f) | | \$ 1,575.00 |
| 2b | Unrecap. Sec. 1250 Gain | \$ 400.00 | |
| 2c | Section 1202 Gain | \$ 325.00 | |
| 2d | Collectibles (28%) Gain | \$ 400.00 | |
| 2e | Section 897 Ordinary Dividends | \$ 100.00 | |
| 2f | Section 897 Capital Gains | \$ 100.00 | |
| 3 | Nondividend Distributions | | \$ 933.00 |
| 4 | Federal Income Tax Withheld | | \$ 450.00 |
| 5 | Section 199A Dividends | | \$ 100.00 |
| 6 | Investment Expenses | | \$ 240.00 |
| 7 | Foreign Tax Paid | | \$ 300.00 |
| 8 | Foreign Country or U.S. Possession | CANADA | |

55

55

Boxes 9 & 10 Partnership Interests



- Boxes 9 and 10 typically refer to partnership interests. Liquidating distributions (both cash or noncash) are a form of a return of capital. Any liquidating distribution you receive is not taxable until stock basis is recovered, after which the distributions are reported as capital gain.

| | | | |
|-----------|------------------------------------|--------|------------------|
| 4 | Federal Income Tax Withheld | | \$ 450.00 |
| 5 | Section 199A Dividends | | \$ 100.00 |
| 6 | Investment Expenses | | \$ 240.00 |
| 7 | Foreign Tax Paid | | \$ 300.00 |
| 8 | Foreign Country or U.S. Possession | CANADA | |
| 9 | Cash Liquidation Distributions | | \$ 950.00 |
| 10 | Noncash Liquidation Distributions | | \$ 2,700.00 |

56

56

Boxes 11 & 12 Exempt-Interest Dividends



- Box 11: Exempt-interest dividends, typically from a mutual fund
- Box 12: Specified private activity bond interest dividends, subject to AMT

| | | | |
|-----------|---|--------|--------------------|
| 4 | Federal Income Tax Withheld | | \$ 450.00 |
| 5 | Section 199A Dividends | | \$ 100.00 |
| 6 | Investment Expenses | | \$ 240.00 |
| 7 | Foreign Tax Paid | | \$ 300.00 |
| 8 | Foreign Country or U.S. Possession | CANADA | |
| 9 | Cash Liquidation Distributions | | \$ 950.00 |
| 10 | Noncash Liquidation Distributions | | \$ 2,700.00 |
| 11 | Exempt-interest Dividends (Includes amount shown in box 12) | | \$ 2,700.00 |
| 12 | Specified Private Activity Bond Interest Dividends | | \$ 2,700.00 |

57

57

DRIP is...?



- **D**ividend **R**e**I**nvestment **P**lan means that cash dividends are being reinvested to purchase more shares of stock.
- Tax law treats these dividends as having been received in cash and subsequently reinvested.
- The concept behind this is “dollar cost averaging,” meaning that some months you’ll buy when the price is high and some months you’ll pay when the price is low, but over all it “evens out.”
- Typically, no brokerage fees, so there is a cost savings there.
- “Painless” way to buy more shares.



Taxable income?

58

58

QUIZ



- True or false?
 - a. The amount the broker reports as qualified dividends (Box 1b) are included in the ordinary dividends box (Box 1a).
 - b. Both qualified and ordinary dividends are taxed at the same rates.
 - c. Nondividend distributions are always nontaxable.
 - d. Dividends that are reinvested are not taxed until those new shares are sold.

59

59

1099-MISC



60

60

Form 1099-MISC Box 2



| Miscellaneous Information—2021 | | Form 1099-MISC | |
|---|--|--|--------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0115) | |
| Box | Description | | Total |
| 2 | Royalties | \$ | 1,155.00 |
| 4 | Federal Income Tax Withheld | \$ | 15.00 |
| 8 | Substitute Payments in Lieu of Dividends or Interest | \$ | 810.00 |
| 15 | State Tax Withheld | \$ | 1,300.00 |
| 16 | State/Payer's State No. | VARIOUS | |
| 17 | State Income | \$ | 3,244.00 |
| FATCA Filing Requirement <input type="checkbox"/> | | | |

- Box 2 reports royalties from oil, gas, or mineral properties; copyrights; and patents. These will go on Schedule E.

63

63

Form 1099-MISC Box 4



| Miscellaneous Information—2021 | | Form 1099-MISC | |
|---|--|--|--------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0115) | |
| Box | Description | | Total |
| 2 | Royalties | \$ | 1,155.00 |
| 4 | Federal Income Tax Withheld | \$ | 15.00 |
| 8 | Substitute Payments in Lieu of Dividends or Interest | \$ | 810.00 |
| 15 | State Tax Withheld | \$ | 1,300.00 |
| 16 | State/Payer's State No. | VARIOUS | |
| 17 | State Income | \$ | 3,244.00 |
| FATCA Filing Requirement <input type="checkbox"/> | | | |

- Box 4 (**bolded**) shows federal tax withheld.

64

64

1099-MISC Box 8



- Box 8 of the 1099-MISC shows substitute payments in lieu of dividends or tax-exempt interest received by your broker on your behalf as a result of a loan of your securities
- Report on Schedule 1, Line 8z.

| Miscellaneous Information—2021 | | Form 1099-MISC | |
|---|---|--|----------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0115) | |
| Box | Description | | Total |
| 2 | Royalties | \$ | 1,155.00 |
| 4 | Federal Income Tax Withheld | \$ | 15.00 |
| 8 | Substitute Payments in Lieu of Dividends or Interest | \$ | 810.00 |
| 15 | State Tax Withheld | \$ | 1,300.00 |
| 16 | State/Payer's State No. | VARIOUS | |
| 17 | State Income | \$ | 3,244.00 |
| FATCA Filing Requirement <input type="checkbox"/> | | | |

65

65

Substitute Payments in Lieu



- Substitute payments in lieu of dividends result from a broker or mutual fund manager lending out a taxpayer's stock to short-sellers.
- If the stock pays a dividend during the period that they've borrowed shares, then the short-sellers have to reimburse the stockholder for the lost dividend income.
- This reimbursement is the substitute payment made in lieu of the dividends the taxpayer would otherwise have received directly from the company issuing the stock.

| Substitute Payments in Lieu of Dividends or Interest | | | | | | |
|--|-----------|-----------|---------------|-----------|-------------|------------------|
| 123 LOW PRICED STOCK | 19829XXXX | \$ | 540.00 | \$ | 0.00 | \$ 540.00 |
| MADE UP REAL ESTATE | 78090XXXX | \$ | 270.00 | \$ | 0.00 | \$ 270.00 |
| Total Substitute Payment in Lieu of Dividends or Interest (Box 8) | | \$ | 810.00 | \$ | 0.00 | \$ 810.00 |

66

66

Substitute Payments in Lieu



- The point of payments in lieu of dividends is to make the shareholder whole.
- But the downside to payments in lieu is that they don't qualify for favorable qualified dividend tax rates!
- Payments are taxed at ordinary income rates, reported on Schedule 1.

| Part I Additional Income | | |
|--------------------------|---|----|
| 1 | Taxable refunds, credits, or offsets of state and local income taxes | 1 |
| 2a | Alimony received | 2a |
| b | Date of original divorce or separation agreement (see instructions) | |
| 3 | Business income or (loss). Attach Schedule C | 3 |
| 4 | Other gains or (losses). Attach Form 4797 | 4 |
| 5 | Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E | 5 |
| 6 | Farm income or (loss). Attach Schedule F | 6 |
| 7 | Unemployment compensation | 7 |
| 8 | Other income: | |
| a | Net operating loss | 8a |
| b | Gambling | 8b |
| c | Cancellation of debt | 8c |
| d | Foreign earned income exclusion from Form 2555 | 8d |
| e | Income from Form 8853 | 8e |
| f | Income from Form 8889 | 8f |
| g | Alaska Permanent Fund dividends | 8g |
| h | Jury duty pay | 8h |
| i | Prizes and awards | 8i |
| j | Activity not engaged in for profit income | 8j |
| k | Stock options | 8k |
| l | Income from the rental of personal property if you engaged in the rental for profit but were not in the business of renting such property | 8l |
| m | Olympic and Paralympic medals and USOC prize money (see instructions) | 8m |
| n | Section 951(a) inclusion (see instructions) | 8n |
| o | Section 951A(a) inclusion (see instructions) | 8o |
| p | Section 461(i) excess business loss adjustment | 8p |
| q | Taxable distributions from an ABLÉ account (see instructions) | 8q |
| r | Scholarship and fellowship grants not reported on Form W-2 | 8r |
| s | Nontaxable amount of Medicaid waiver payments included on Form 1040, line 1a or 1d | 8s |
| t | Pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457 plan | 8t |
| u | Wages earned while incarcerated | 8u |
| z | Other income. List type and amount: | 8z |



67

Form 1099-MISC Boxes 15, 16, 17



- Lines 15, 16 and 17 are all state information...\$1300 of state tax withheld, but to what state???

| Miscellaneous Information—2021 | | Form 1099-MISC | |
|---|--|--|----------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0115) | |
| Box | Description | | Total |
| 2 | Royalties | \$ | 1,155.00 |
| 4 | Federal Income Tax Withheld | \$ | 15.00 |
| 8 | Substitute Payments in Lieu of Dividends or Interest | \$ | 810.00 |
| 15 | State Tax Withheld | \$ | 1,300.00 |
| 16 | State/Payer's State No. | VARIOUS | |
| 17 | State Income | \$ | 3,244.00 |
| FATCA Filing Requirement <input type="checkbox"/> | | | |



68

68

1099-MISC Detail Info



- You might have to search further into the 1099 to find details on this state stuff.

| SUPPLEMENTAL INFORMATION | | | | |
|--|--------------|--------------------|--------------------------------|--------------------|
| Detail of Miscellaneous Information | | | | |
| Description | CUSIP Number | Paid in 2021 | Paid/Adjusted in 2022 for 2021 | Amount |
| Royalties | | | | |
| FAKE ROYALTY TRUST | 22757XXXX | \$ 555.00 | \$ 0.00 | \$ 555.00 |
| SAMPLE ENERGY DEP UTS | 80201XXXX | \$ 600.00 | \$ 0.00 | \$ 600.00 |
| Total Royalties (Box 2) | | \$ 1,155.00 | \$ 0.00 | \$ 1,155.00 |
| Federal Income Tax Withheld | | | | |
| SAMPLE ENERGY DEP UTS | 80201XXXX | \$ (15.00) | \$ 0.00 | \$ (15.00) |
| Total Federal Income Tax Withheld (Box 4) | | \$ (15.00) | \$ 0.00 | \$ (15.00) |
| Substitute Payments in Lieu of Dividends or Interest | | | | |
| 123 LOW PRICED STOCK | 19829XXXX | \$ 540.00 | \$ 0.00 | \$ 540.00 |
| MADE UP REAL ESTATE | 78090XXXX | \$ 270.00 | \$ 0.00 | \$ 270.00 |
| Total Substitute Payment in Lieu of Dividends or Interest (Box 8) | | \$ 810.00 | \$ 0.00 | \$ 810.00 |
| State Tax Withheld | | | | |
| FAKE EQUITY CO | 00000000 | CA | 22545XXXX | \$ 1,244.00 |
| SAMPLE EQUITY CO | 00000000 | VT | 98456XXXX | \$ 800.00 |
| Total State Tax Withheld (Box 15-17) | | | | \$ 3,244.00 |

69

69

Bond Basics



70

70

Bond Basics



- A bond is a loan of money from bond purchaser to bond issuer
- Par value = face value
 - Determines maturity value
 - Determines coupon payments
- Bond holders
 - Report interest on Schedule B
 - Report gross proceeds on Schedule D at maturity or upon sale

71

71

Not Always Purchased at Par!!



- Two different markets
 - Primary market = bonds are purchased when issued
 - Secondary market = bonds are purchased from other bond holders
 - Purchasers in both markets may pay par, or less than par, or more than par
 - More? Purchased at a **premium**
 - Less? Purchased at a **discount**
- But when the bond matures, proceeds are always par value!

72

72

Purchased at Par

- Bob purchased 10 x \$1,000 ABC corporate bonds at par, total \$10,000
- Coupon rate is 4%
- Bob will report \$400 of taxable interest each year
- At maturity, the 1099-B looks like this:
 - Long-term, covered transaction

| Desc | Acquired | Sold | Proceeds | Basis | Adj Code | Adj Amount | Gain/loss |
|----------|----------|-----------|----------|--------|----------|------------|-----------|
| ABC Bond | 7/1/2015 | 6/30/2019 | 10,000 | 10,000 | | | 0 |



73

73

Purchased at a Discount

- Bond has a par value of \$1,000
 - Alice buys it for \$980 = she bought it at a *discount*. This occurs when the interest rate of the bond is LOWER than current market
- When it matures, Alice receives the full \$1,000, which is what the broker will report
- But she bought it for \$980, so what do we do with that missing \$20?

| Desc | Acquired | Sold | Proceeds | Basis | Adj code | Adj amount | Gain/loss |
|------------|----------|-----------|----------|---------|----------|------------|-----------|
| Alice Bond | 3/1/2019 | 2/28/2020 | \$1,000 | \$1,000 | | | \$0 |



74

Purchased at a Discount



- We have the option to equalize the discount over time by adding a bit of interest to the tax return each year over the life of the bond; this process is called accretion. Bond market discount must be reported as **ordinary interest**; it cannot be treated as capital gain.
- If it's a five-year bond, the accretion is \$4 per year if calculated straight line.
- If that option isn't selected, then the full discount amount is added to the tax return as **ordinary interest** at the time of maturity.
- This is in addition to any interest Alice receives from the bond itself.

75

75

Purchased at a Premium



- Market interest rate has changed since original issue!
- Bond has a face value of \$1,000 when sold on secondary market
- But Doug buys it for \$1020 = he bought it at a *premium*
- When it matures, Doug gets \$1,000 and that's what'll show up on his 1099-B
- What do we do about that \$20 difference?

| Desc | Acquired | Sold | Proceeds | Basis | Adj code | Adj amount | Gain/loss |
|-----------|----------|-----------|----------|---------|----------|------------|-----------|
| Doug Bond | 3/1/2019 | 2/28/2020 | \$1,000 | \$1,000 | | | \$0 |

76

76

Purchased at a Premium



- We have the *option* of taking a capital loss in the amount of \$20 when it matures OR we can decrease the basis of the bond to \$1,000 by amortizing that \$20 ratably over the bond life
- This occurs by reporting NEGATIVE interest
 - Usually advantageous because tax on interest is higher than capital gain rates, so negative interest is good
 - Choice to amortize is binding on all future years

77

77

Amortization Review



- Taking the difference between face value and the premium price over time is called *amortization*.
 - It *reduces* current interest income and *reduces* basis in the bond.
 - Advantageous – reducing interest is better than reducing capital gains.
 - This treatment is **optional** for a taxable bond and **mandatory** for a tax-exempt bond.
 - If not elected, then the tax treatment of the premium at maturity is a **capital loss**.

78

78

Accretion Review



- Taking the difference between the face value and the discount over time is called *accretion*
 - It increases current interest income and bond basis.
 - Advantageous because spreading interest out over time is usually better than taking it all at once upon maturity.
 - Accretion is **optional** for both taxable and tax-exempt bonds.
 - If not elected, then the tax treatment of the discount at maturity is reported as ordinary income, not capital gain.

79

79

Be Aware!



- Most brokers assume you are accounting for accretion/accrual and report bond maturity. That's their default position.


| Acquired/Opened | | Sold/Closed | | Holding Period | |
|--------------------------------------|--------------------|----------------|------------|--|--|
| 08/24/2012 | | 02/15/2021 | | Long Term | |
| Quantity Sold | Proceeds per Share | Cost per Share | Cost Basis | Realized Gain/(Loss) | |
| 15,000.00000 | \$100.0000 | | 18,367.05 | (\$3,367.05)/(18.33%) | |
| Bond Amortization/Accretion ⓘ | | | | | |
| Adjusted Cost per Share ⓘ | | | | Adjusted Realized Gain/(Loss) ⓘ | |
| \$100.0000 | | | | \$0.00/0.00% | |

Cost Basis for fixed income securities is now adjusted to reflect amortized/accreted values. Click the acquired/opened date to view original cost in the Details page. Note: Some securities, including variable rate/term instruments and mortgage backed securities, may only reflect original cost even when the amortization/accretion preference is on.

80

80

1099-INT



81

81

The IRS' 1099-INT

North Carolina Chapter
NATP
 National Association of
 Tax Professionals

| | | | | | |
|---|-----------------|--|------------------------|--|--|
| <input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED | | | Payer's RTN (optional) | OMB No. 1545-0112 Form 1099-INT (Rev. January 2022) | Interest Income |
| PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. | | | | For calendar year 20__ | |
| | | | | 1 Interest income | Copy 1 For State Tax Department |
| | | | | \$ | |
| | | | | 2 Early withdrawal penalty | |
| | | | | \$ | |
| | | | | 3 Interest on U.S. Savings Bonds and Treasury obligations | |
| | | | | \$ | |
| PAYER'S TIN | RECIPIENT'S TIN | | | 4 Federal income tax withheld | |
| RECIPIENT'S name | | | | \$ | |
| Street address (including apt. no.) | | | | 5 Investment expenses | |
| City or town, state or province, country, and ZIP or foreign postal code | | | | \$ | |
| | | | | 6 Foreign tax paid | |
| | | | | \$ | |
| | | | | 7 Foreign country or U.S. possession | |
| | | | | 8 Tax-exempt interest | |
| | | | | \$ | |
| | | | | 9 Specified private activity bond interest | |
| | | | | \$ | |
| | | | | 10 Market discount | |
| | | | | \$ | |
| | | | | 11 Bond premium | |
| | | | | \$ | |
| | | | | 12 Bond premium on Treasury obligations | |
| | | | | \$ | |
| | | | | 13 Bond premium on tax-exempt bond | |
| | | | | \$ | |
| Account number (see instructions) | | | | 14 Tax-exempt and tax credit bond CUSIP no. | |
| | | | | \$ | |
| | | | | 15 State | |
| | | | | 16 State identification no. | |
| | | | | \$ | |
| | | | | 17 State tax withheld | |
| | | | | \$ | |
| | | | | \$ | |

Form **1099-INT** (Rev. 1-2022) www.irs.gov/Form1099INT Department of the Treasury - Internal Revenue Service

82

82

The Broker's 1099-INT



| Interest Income—2021 | | Form 1099-INT | |
|---|---|--|--------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0112) | |
| Box | Description | | Total |
| 1 | Interest Income | \$ | 2,060.00 |
| 3 | Interest on U.S. Savings Bonds and Treasury Obligations | \$ | 700.00 |
| 4 | Federal Income Tax Withheld | \$ | 65.00 |
| 5 | Investment Expenses | \$ | 85.00 |
| 6 | Foreign Tax Paid | \$ | 100.00 |
| 7 | Foreign Country or U.S. Possession | Canada | |
| 8 | Tax-Exempt Interest | \$ | 425.00 |
| 9 | Specified Private Activity Bond Interest | \$ | 225.00 |
| 10 | Market Discount | \$ | 888.00 |
| 11 | Bond Premium | \$ | 555.00 |
| 12 | Bond Premium on Treasury Obligations | \$ | 100.00 |
| 13 | Bond Premium on Tax-Exempt Bond | \$ | 333.00 |
| 14 | Tax-Exempt and Tax Credit Bond CUSIP No. | VARIOUS | |
| 15 | State | VARIOUS | |
| 16 | State Identification No. | VARIOUS | |
| 17 | State Tax Withheld | \$ | 2,700.00 |

83

83

Box 1: Taxable Interest



- Box 1 shows taxable interest for the year which may or may not have actually been received by the taxpayer.
- Could be interest from CDs, money market accounts, commercial paper, many different possibilities.
- Ordinary income, Schedule B!

| Box | Description | Total |
|-----|-----------------|-------------|
| 1 | Interest Income | \$ 2,060.00 |

84

84

Box 2: Early Withdrawal Penalty North Carolina Chapter **NATP** National Association of Tax Professionals

- Bank CDs cannot be accessed without penalty before the end of the term.
- Early withdrawal penalties are deducted on Schedule 1, Part II, Line 18
 - No income limits, not an itemized deduction
- If the client has not paid any early withdrawal penalty, you won't see anything on the broker's 1099; it'll go from Box 1 directly to Box 3

Schedule 1 (Form 1040) 2022 Page 2

| Part II Adjustments to Income | | | |
|-------------------------------|---|----|--|
| 11 | Educator expenses | 11 | |
| 12 | Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 | 12 | |
| 13 | Health savings account deduction. Attach Form 8889 | 13 | |
| 14 | Moving expenses for members of the Armed Forces. Attach Form 3903 | 14 | |
| 15 | Deductible part of self-employment tax. Attach Schedule SE | 15 | |
| 16 | Self-employed SEP, SIMPLE, and qualified plans | 16 | |
| 17 | Self-employed health insurance deduction | 17 | |
| 18 | Penalty on early withdrawal of savings | 18 | |

85

85

Box 3: T-Obligation Interest North Carolina Chapter **NATP** National Association of Tax Professionals

- Box 3 shows interest on U.S. Savings Bonds, Treasury bills, Treasury bonds and Treasury notes, etc.
- This interest is exempt from state and local income taxes.
 - This interest is **not included** in Box 1

Interest Income—2021 Form 1099-INT

Department of the Treasury—Internal Revenue Service Copy B for Recipient (OMB No. 1545-0112)

| Box | Description | Total |
|-----|---|-------------|
| 1 | Interest Income | \$ 2,060.00 |
| 3 | Interest on U.S. Savings Bonds and Treasury Obligations | \$ 700.00 |

86

86

Box 4: Federal Withholding



- Notice that if there's federal withholding reported in Box 4, it'll be **bolded** to help you not miss it.

| Interest Income—2021 | | Form 1099-INT | |
|---|---|--|--------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0112) | |
| Box | Description | | Total |
| 1 | Interest Income | \$ | 2,060.00 |
| 3 | Interest on U.S. Savings Bonds and Treasury Obligations | \$ | 700.00 |
| 4 | Federal Income Tax Withheld | \$ | 65.00 |

87

87

Box 5: Investment Fees



Do I care about investment fees?

| Interest Income—2021 | | Form 1099-INT | |
|---|---|--|--------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0112) | |
| Box | Description | | Total |
| 1 | Interest Income | \$ | 2,060.00 |
| 3 | Interest on U.S. Savings Bonds and Treasury Obligations | \$ | 700.00 |
| 4 | Federal Income Tax Withheld | \$ | 65.00 |
| 5 | Investment Expenses | \$ | 85.00 |

88

88

Boxes 6 & 7: Foreign Tax Credit



- Boxes 6 & 7 are reported on Form 1116, *Foreign Tax Credit*

| Interest Income—2021 | | Form 1099-INT | |
|---|---|--|--------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0112) | |
| Box | Description | | Total |
| 1 | Interest Income | \$ | 2,060.00 |
| 3 | Interest on U.S. Savings Bonds and Treasury Obligations | \$ | 700.00 |
| 4 | Federal Income Tax Withheld | \$ | 65.00 |
| 5 | Investment Expenses | \$ | 85.00 |
| 6 | Foreign Tax Paid | \$ | 100.00 |
| 7 | Foreign Country or U.S. Possession | Canada | |

89

89

Boxes 8 & 9: Tax Exempt



- Box 8 shows tax-exempt interest paid during the year
- Box 9 shows tax-exempt interest subject to the alternative minimum tax
 - This amount is **included** in Box 8

| Interest Income—2021 | | Form 1099-INT | |
|---|---|--|--------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0112) | |
| Box | Description | | Total |
| 1 | Interest Income | \$ | 2,060.00 |
| 3 | Interest on U.S. Savings Bonds and Treasury Obligations | \$ | 700.00 |
| 4 | Federal Income Tax Withheld | \$ | 65.00 |
| 5 | Investment Expenses | \$ | 85.00 |
| 6 | Foreign Tax Paid | \$ | 100.00 |
| 7 | Foreign Country or U.S. Possession | Canada | |
| 8 | Tax-Exempt Interest | \$ | 425.00 |
| 9 | Specified Private Activity Bond Interest | \$ | 225.00 |

90

90

Box 10: Market Discount

- Market discount, as we discussed earlier.

| Interest Income—2021 | | Form 1099-INT | |
|---|---|--|--------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0112) | |
| Box | Description | | Total |
| 1 | Interest Income | \$ | 2,060.00 |
| 3 | Interest on U.S. Savings Bonds and Treasury Obligations | \$ | 700.00 |
| 4 | Federal Income Tax Withheld | \$ | 65.00 |
| 5 | Investment Expenses | \$ | 85.00 |
| 6 | Foreign Tax Paid | \$ | 100.00 |
| 7 | Foreign Country or U.S. Possession | Canada | |
| 8 | Tax-Exempt Interest | \$ | 425.00 |
| 9 | Specified Private Activity Bond Interest | \$ | 225.00 |
| 10 | Market Discount | \$ | 888.00 |

91

91

Box 11: Bond Premium

- This taxpayer has bond premium of \$555, which will be subtracted from interest, **even though it shows up as a positive number!**
- If the taxpayer notified the broker that they were not going to amortize bond premiums, this would be zero.

| Interest Income—2021 | | Form 1099-INT | |
|---|---|--|--------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0112) | |
| Box | Description | | Total |
| 1 | Interest Income | \$ | 2,060.00 |
| 3 | Interest on U.S. Savings Bonds and Treasury Obligations | \$ | 700.00 |
| 4 | Federal Income Tax Withheld | \$ | 65.00 |
| 5 | Investment Expenses | \$ | 85.00 |
| 6 | Foreign Tax Paid | \$ | 100.00 |
| 7 | Foreign Country or U.S. Possession | Canada | |
| 8 | Tax-Exempt Interest | \$ | 425.00 |
| 9 | Specified Private Activity Bond Interest | \$ | 225.00 |
| 10 | Market Discount | \$ | 888.00 |
| 11 | Bond Premium | \$ | 555.00 |

92

92

Box 13: Bond Premium for Tax-Exempt



- This is basically the same as Box 11, but for tax-exempt obligations, which may have been purchased at a premium. For tax-exempt bonds, amortization is **REQUIRED!** Accretion is **OPTIONAL!**

| Interest Income—2021 | | Form 1099-INT |
|---|---|--|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0112) |
| Box | Description | Total |
| 1 | Interest Income | \$ 2,060.00 |
| 3 | Interest on U.S. Savings Bonds and Treasury Obligations | \$ 700.00 |
| 4 | Federal Income Tax Withheld | \$ 65.00 |
| 5 | Investment Expenses | \$ 85.00 |
| 6 | Foreign Tax Paid | \$ 100.00 |
| 7 | Foreign Country or U.S. Possession | Canada |
| 8 | Tax-Exempt Interest | \$ 425.00 |
| 9 | Specified Private Activity Bond Interest | \$ 225.00 |
| 10 | Market Discount | \$ 888.00 |
| 11 | Bond Premium | \$ 555.00 |
| 12 | Bond Premium on Treasury Obligations | \$ 100.00 |
| 13 | Bond Premium on Tax-Exempt Bond | \$ 333.00 |



95

95

Box 14: CUSIP #s for Tax-Exempts



- Box 14. Shows CUSIP number(s) for tax-exempt bond(s) on which tax-exempt interest was paid, or tax credit bond(s) on which taxable interest was paid or tax credit was allowed, during the calendar year. If blank, no CUSIP number was issued for the bond(s).

| Interest Income—2021 | | Form 1099-INT |
|---|---|--|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0112) |
| Box | Description | Total |
| 1 | Interest Income | \$ 2,060.00 |
| 3 | Interest on U.S. Savings Bonds and Treasury Obligations | \$ 700.00 |
| 4 | Federal Income Tax Withheld | \$ 65.00 |
| 5 | Investment Expenses | \$ 85.00 |
| 6 | Foreign Tax Paid | \$ 100.00 |
| 7 | Foreign Country or U.S. Possession | Canada |
| 8 | Tax-Exempt Interest | \$ 425.00 |
| 9 | Specified Private Activity Bond Interest | \$ 225.00 |
| 10 | Market Discount | \$ 888.00 |
| 11 | Bond Premium | \$ 555.00 |
| 12 | Bond Premium on Treasury Obligations | \$ 100.00 |
| 13 | Bond Premium on Tax-Exempt Bond | \$ 333.00 |
| 14 | Tax-Exempt and Tax Credit Bond CUSIP No. | VARIOUS |
| 15 | State | VARIOUS |
| 16 | State Identification No. | VARIOUS |
| 17 | State Tax Withheld | \$ 2,700.00 |



96

96

Boxes 15, 16, & 17: State Stuff



- Watch for withholding!

| Interest Income—2021 | | Form 1099-INT | |
|---|---|--|--------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0112) | |
| Box | Description | | Total |
| 1 | Interest Income | \$ | 2,060.00 |
| 3 | Interest on U.S. Savings Bonds and Treasury Obligations | \$ | 700.00 |
| 4 | Federal Income Tax Withheld | \$ | 65.00 |
| 5 | Investment Expenses | \$ | 85.00 |
| 6 | Foreign Tax Paid | \$ | 100.00 |
| 7 | Foreign Country or U.S. Possession | Canada | |
| 8 | Tax-Exempt Interest | \$ | 425.00 |
| 9 | Specified Private Activity Bond Interest | \$ | 225.00 |
| 10 | Market Discount | \$ | 888.00 |
| 11 | Bond Premium | \$ | 555.00 |
| 12 | Bond Premium on Treasury Obligations | \$ | 100.00 |
| 13 | Bond Premium on Tax-Exempt Bond | \$ | 333.00 |
| 14 | Tax-Exempt and Tax Credit Bond CUSIP No. | VARIOUS | |
| 15 | State | VARIOUS | |
| 16 | State Identification No. | VARIOUS | |
| 17 | State Tax Withheld | | \$ 2,700.00 |



97

Look for the Details



- Further down in the 1099 is where you might find the details you need on state withholding
- Here it is for the \$2,700 we saw on the last slide
- (The 1099-INT was on Page 5 and the detail was on Page 30)

| Detail Information of Interest Income (continued) | | | | | | |
|---|---------------|-------|--------------|----------------------|--------------------------------|----------------------|
| Description | State ID. No. | State | CUSIP Number | Paid in 2021 | Paid/Adjusted in 2022 for 2021 | Amount |
| State Tax Withheld | | | | | | |
| FAKE EQUITY CO | 00-0000000 | CA | 22545XXXX | \$ (1,200.00) | \$ 0.00 | \$ (1,200.00) |
| SAMPLE EQUITY CO | 00-0000000 | VT | 98456XXXX | \$ (1,500.00) | \$ 0.00 | \$ (1,500.00) |
| Total State Tax Withheld (Box 15-17) | | | | \$ (2,700.00) | \$ 0.00 | \$ (2,700.00) |

98

98

Market Discounts for T-Obligations?



- You may have noticed that there's a box for bond premiums on T-obligations but not a box for bond discounts for T-obligations. There's also not a box for discounts on tax-exempt bonds.
- **This is because market discount is subject to ordinary income tax rates even for a tax-exempt bond and T-obligations, so it's all included in Box 10, *Market Discount*.**
- Market discount is never tax-exempt because it does not represent an interest expense of the issuer!

99

99

Tax Exempt Bonds



100

100

About Tax-Exempt Bonds



- A tax-exempt security is an investment in which the income produced is free from federal, state and/or local taxes.
- Most tax-exempt securities come in the form of municipal bonds, which represent obligations of a state, territory or municipality.
- Tax-exempt securities are more valuable to taxpayers in the higher tax brackets.

101

101

Municipal Bonds



- Municipal bonds are bonds issued by state and local governments and certain governmental authorities.
- Municipal bonds are federally tax-exempt, and bonds issued by your state of residence, or a locality or agency within the state, are **usually** state tax-exempt.
- But if you hold bonds from “out of state” then interest paid on those bonds is **usually** subject to state tax in your state of residency.

102

102

Be Aware of State Issues!



- These states tax in-state bonds in most instances as well as out-of-state bonds:
 - Oklahoma
 - Iowa
 - Wisconsin
 - Illinois
- For most other states, the basic rule is that only interest from bonds issued within the state is exempt from that state's income taxes.

103

103

Be Aware of State Issues!



- Utah does not tax its own bonds, but also does not tax bonds issued in states that do not tax Utah bonds. If a state does not collect taxes on Utah's bonds, Utah does not collect interest on that state's bonds. Residents of Utah can buy bonds from states with no income taxes such as Texas and Washington and avoid paying Utah state income taxes on the interest.
- Washington D.C. residents can buy bonds from anywhere and not pay state or district income taxes on the interest.

104

104

Tax-Exempt Accretion



- Tax-exempt bonds with market discount are subject to the same rules as taxable discount bonds. The investor has the **option** to accrete the market discount into income each year or recognize it all in the year the bond is disposed of.
- The accreted discount is treated as **ordinary interest income** and is subject to federal income tax despite the fact that the bond itself is considered a tax-exempt bond.

105

105

Tax-Exempt Amortization



- Investors are **required** to amortize the premium for tax-exempt bonds.
- Because the interest from the bond is tax-exempt, the amortized premium does not create a current-year tax benefit for the investor (unlike with premium on a taxable bond).
- Despite no tax benefit, the investor must still reduce their cost basis in the bond for the amortized amount.
- Thus, if the tax-exempt bond is held to maturity, there is no deductible capital loss.
- While there is no federal tax benefit to amortizing the premium on these bonds, there could be state tax implications.

106

106

Gain on Sale Also Tax-Exempt, Right?

- Martha is a resident of California.
- She invests in California municipal bonds and doesn't pay Federal or state tax on the interest from those bonds.
- She needs some cash and would like to sell the bonds prior to maturity.
- She believes any gain she receives is also tax exempt.

Your thoughts?



107

Treasury Obligations



108

108

Selling the National Debt



- The U.S. government funds operations by selling treasury bonds, bills and notes and a variety of other products.
- The practice dates back to the Revolutionary War.
- Treasury bills hit the market in 1929, U.S. savings bonds appeared in 1935, treasury notes in 1977.



This \$65 continental note was issued Jan. 14, 1779. The Revolutionary money was printed in various denominations and signed by hand.
<https://home.treasury.gov/about/history/history-overview/history-of-the-treasury>

109

109

Selling the National Debt



- Savings Bonds, Treasury Bonds, Bills and Notes are all investment products sold by the US government.
 - Differences between them involve the interest paid and the length of time they are held
- The taxpayer is essentially loaning money to the federal government in return for interest.
- The US Government has never defaulted on any of its obligations, so this is considered a conservative aka safe investment.
- Interest income not taxable to the state.

110

110

Treasury Bonds Sold Directly



- Savings bonds that are purchased on the TreasuryDirect.gov website are registered to a single owner.
- They can be inherited but not sold on a secondary market.
- Can be cashed in prior to maturity but will incur an early withdrawal penalty.
- Most common are Series EE and Series I
 - Series EE are guaranteed to at least double in value in 20 years and can continue to pay interest for up to 30 years post-issuance.
 - Series I bonds are issued with a fixed rate of return plus a variable inflation rate, and can also continue to pay interest for up to 30 years post-issuance.

111

111

Excludable Interest from Series EE and I



- The taxpayer can exclude interest income from Series EE and Series I US Savings bonds if all of the following are true:
 - The bonds were issued after 1989;
 - The person in whose name the bonds were issued was age 24 or older before they were issued;
 - The bonds were cashed in during the during tax year;
 - **The taxpayer paid qualified higher education expenses;**
 - The filing status on the return is not MFS;
- The exclusion phases out with higher income levels
- Calculated on Form 8815

112

112

Interest Reporting from TreasuryDirect.gov



- “You’ll receive your 1099 forms differently, depending on which system you have invested through.
- If you invest in TreasuryDirect, your 1099 will be available electronically and you can print the form from your account. 1099 forms are available by January 31 of each tax year.
- If you invest in Legacy Treasury Direct, each year you’ll receive a 1099 during January (1042-S during March if you’re a foreign investor) showing the interest you’ve earned.”

TreasuryDirect®

113

113

So... Not On the Broker’s Consolidated 1099?



- You got it.
- Taxpayer who bought the investment through a broker will have the interest reported on the 1099B.
- Taxpayer who bought the investment directly from TreasuryDirect.gov needs to go into his TreasuryDirect.gov account (which is no mean feat) and look up the tax forms.

TreasuryDirect®

114

114

1099-OID



115

115

Original Issue Discount Bonds



- If a bond is **issued** at a price that is less than its stated maturity value, the bond is said to have Original Issue Discount, or OID.
- The amount of OID is the difference between what the investor paid for the bond and its maturity value.
- § 1272(a) of the tax code requires that the Original Issue Discount be included in the lender's taxable income at the end of each tax year.
- For a regular bond purchased at a discount, adding in that interest every year is **optional**.
- For OID bonds, it's **required** and is reported as ordinary interest.

116

116

The IRS' 1099-OID



VOID CORRECTED

| | | | | | |
|---|--|--|--|------------------------------------|--|
| PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no. | | 1 Original issue discount for the year | | OMB No. 1545-0117 | |
| | | \$ | | Form 1099-OID | |
| PAYER'S TIN | | 2 Other periodic interest | | (Rev. October 2019) | |
| | | \$ | | For calendar year 20__ | |
| RECIPIENT'S TIN | | 3 Early withdrawal penalty | | 4 Federal income tax withheld | |
| \$ | | \$ | | \$ | |
| RECIPIENT'S name | | 5 Market discount | | 6 Acquisition premium | |
| \$ | | \$ | | \$ | |
| Street address (including apt. no.) | | 7 Description | | Copy 1 For State Tax Department | |
| City or town, state or province, country, and ZIP or foreign postal code | | 8 Original issue discount on U.S. Treasury obligations | | | |
| Account number (see instructions) | | 9 Investment expenses | | 10 Bond premium | |
| | | \$ | | \$ | |
| FATCA filing requirement <input type="checkbox"/> | | 11 Tax-exempt OID | | 12 State | |
| \$ | | \$ | | 13 State identification no. | |
| 14 State tax withheld | | \$ | | \$ | |

Form **1099-OID** (Rev. 10-2019) www.irs.gov/Form1099OID Department of the Treasury - Internal Revenue Service

117

117

The Broker's 1099-OID



| Original Issue Discount—2021 | | | Form 1099-OID | | | | |
|---|--------------|------------------------------------|--|-------------------|-----------------------|--|-------------------|
| Department of the Treasury—Internal Revenue Service | | | Copy B for Recipient (OMB No. 1545-0117) | | | | |
| 7—Description | CUSIP Number | 1—Original Issue Discount for 2021 | 4—Federal Income Tax Withheld | 5—Market Discount | 6—Acquisition Premium | 8—Original Issue Discount on U.S. Treasury Obligations | 11—Tax-Exempt OID |
| 123 ENERGY CAP 11.8% | 69331XXXX | \$ 1,333.33 | \$ 100.00 | \$ 111.11 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| A FAKE CAP 11.6% PXXX | 86794XXXX | \$ 499.00 | \$ 0.00 | \$ 0.00 | \$ 222.22 | \$ 0.00 | \$ 0.00 |
| ANY STATE BOND DUE 12/28 | 02508XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| SAMPLE CORPORATE 10.375%24 | 12345XXXX | \$ 15.35 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| STRIP 0%20 | 91283XXXX | \$ 0.00 | \$ 100.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 8,888.00 |
| STRIP 0%24 | 91283XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 3,232.62 |
| FATCA Filing Requirement <input type="checkbox"/> | | | | \$ 0.00 | \$ 0.00 | \$ 0.00 | |
| Total Original Issue Discount (Box 1) | | \$ 1,847.68 | | | | | |
| Total Federal Income Tax Withheld (Box 4) | | \$ 200.00 | | | | | |
| Total Market Discount (Box 5) | | \$ 111.11 | | | | | |
| Total Acquisition Premium (Box 6) | | \$ 222.22 | | | | | |
| Total Original Issue Discount on U.S. Treasury Obligations (Box 8) | | \$ 12,120.62 | | | | | |
| Total Bond Premium (Box 10) | | \$ 333.33 | | | | | |
| Total Tax-Exempt OID (Box 11) | | \$ 444.44 | | | | | |

118

118

Box 1: Original Issue Discount



| Original Issue Discount—2021 | | Form 1099-OID | | | | | | |
|---|--------------|--|-------------------------------|-------------------|-----------------------|--|-----------------|-------------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0117) | | | | | | |
| 7-Description | CUSIP Number | 1-Original Issue Discount for 2021 | 4-Federal Income Tax Withheld | 5-Market Discount | 6-Acquisition Premium | 8-Original Issue Discount on U.S. Treasury Obligations | 10-Bond Premium | 11-Tax-Exempt OID |
| 123 ENERGY CAP 11.8% | 69331XXXX | \$ 1,333.33 | \$ 100.00 | \$ 111.11 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| A FAKE CAP 11.6% PXXX | 86794XXXX | \$ 499.00 | \$ 0.00 | \$ 0.00 | \$ 222.22 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| ANY STATE BOND DUE 12/28 | 02508XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 444.44 | \$ 0.00 |
| SAMPLE CORPORATE 10.375%24 | 12345XXXX | \$ 15.35 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 333.33 | \$ 0.00 |
| STRIP 0%20 | 91283XXXX | \$ 0.00 | \$ 100.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 8,888.00 |
| STRIP 0%24 | 91283XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 3,232.62 |
| FATCA Filing Requirement <input type="checkbox"/> | | | | | | | | |
| Total Original Issue Discount (Box 1) | | \$ 1,847.68 | \$ 200.00 | \$ 111.11 | \$ 222.22 | \$ 12,120.62 | \$ 333.33 | \$ 444.44 |
| Total Federal Income Tax Withheld (Box 4) | | | | | | | | |
| Total Market Discount (Box 5) | | | | | | | | |
| Total Acquisition Premium (Box 6) | | | | | | | | |
| Total Original Issue Discount on U.S. Treasury Obligations (Box 8) | | | | | | | | |
| Total Bond Premium (Box 10) | | | | | | | | |
| Total Tax-Exempt OID (Box 11) | | | | | | | | |



Box 4: Federal Withholding



| Original Issue Discount—2021 | | Form 1099-OID | | | | | | |
|---|--------------|--|-------------------------------|-------------------|-----------------------|--|-----------------|-------------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0117) | | | | | | |
| 7-Description | CUSIP Number | 1-Original Issue Discount for 2021 | 4-Federal Income Tax Withheld | 5-Market Discount | 6-Acquisition Premium | 8-Original Issue Discount on U.S. Treasury Obligations | 10-Bond Premium | 11-Tax-Exempt OID |
| 123 ENERGY CAP 11.8% | 69331XXXX | \$ 1,333.33 | \$ 100.00 | \$ 111.11 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| A FAKE CAP 11.6% PXXX | 86794XXXX | \$ 499.00 | \$ 0.00 | \$ 0.00 | \$ 222.22 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| ANY STATE BOND DUE 12/28 | 02508XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 444.44 | \$ 0.00 |
| SAMPLE CORPORATE 10.375%24 | 12345XXXX | \$ 15.35 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 333.33 | \$ 0.00 |
| STRIP 0%20 | 91283XXXX | \$ 0.00 | \$ 100.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 8,888.00 |
| STRIP 0%24 | 91283XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 3,232.62 |
| FATCA Filing Requirement <input type="checkbox"/> | | | | | | | | |
| Total Original Issue Discount (Box 1) | | \$ 1,847.68 | \$ 200.00 | \$ 111.11 | \$ 222.22 | \$ 12,120.62 | \$ 333.33 | \$ 444.44 |
| Total Federal Income Tax Withheld (Box 4) | | | | | | | | |
| Total Market Discount (Box 5) | | | | | | | | |
| Total Acquisition Premium (Box 6) | | | | | | | | |
| Total Original Issue Discount on U.S. Treasury Obligations (Box 8) | | | | | | | | |
| Total Bond Premium (Box 10) | | | | | | | | |
| Total Tax-Exempt OID (Box 11) | | | | | | | | |



Box 5: Market Discount



| Original Issue Discount—2021 | | | Form 1099-OID | | | | |
|---|--------------|------------------------------------|--|-------------------|-----------------|-------------------|--|
| Department of the Treasury—Internal Revenue Service | | | Copy B for Recipient (OMB No. 1545-0117) | | | | |
| 7-Description | CUSIP Number | 1-Original Issue Discount for 2021 | 4-Federal Income Tax Withheld | 5-Market Discount | 10-Bond Premium | 11-Tax-Exempt OID | 8-Original Issue Discount on U.S. Treasury Obligations |
| 123 ENERGY CAP 11.8% | 69331XXXX | \$ 1,333.33 | \$ 100.00 | \$ 111.11 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| A FAKE CAP 11.6% PXXX | 86794XXXX | \$ 499.00 | \$ 0.00 | \$ 0.00 | \$ 222.22 | \$ 0.00 | \$ 0.00 |
| ANY STATE BOND DUE 12/28 | 02508XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| SAMPLE CORPORATE 10.375%24 | 12345XXXX | \$ 15.35 | \$ 0.00 | \$ 0.00 | \$ 444.44 | \$ 0.00 | \$ 0.00 |
| STRIP 0%20 | 91283XXXX | \$ 0.00 | \$ 100.00 | \$ 0.00 | \$ 333.33 | \$ 0.00 | \$ 8,888.00 |
| STRIP 0%24 | 91283XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 3,232.62 |
| FATCA Filing Requirement <input type="checkbox"/> | | | | | | | |
| Total Original Issue Discount (Box 1) | | \$ 1,847.68 | | | | | |
| Total Federal Income Tax Withheld (Box 4) | | \$ 200.00 | | | | | |
| Total Market Discount (Box 5) | | \$ 111.11 | | | | | |
| Total Acquisition Premium (Box 6) | | \$ 222.22 | | | | | |
| Total Original Issue Discount on U.S. Treasury Obligations (Box 8) | | \$ 12,120.62 | | | | | |
| Total Bond Premium (Box 10) | | \$ 333.33 | | | | | |
| Total Tax-Exempt OID (Box 11) | | \$ 444.44 | | | | | |

- Market discount on an original issue discount bond.

121

121

Box 6: Acquisition Premium



| Original Issue Discount—2021 | | | Form 1099-OID | | | | |
|---|--------------|------------------------------------|--|-------------------|-----------------|-------------------|--|
| Department of the Treasury—Internal Revenue Service | | | Copy B for Recipient (OMB No. 1545-0117) | | | | |
| 7-Description | CUSIP Number | 1-Original Issue Discount for 2021 | 4-Federal Income Tax Withheld | 5-Market Discount | 10-Bond Premium | 11-Tax-Exempt OID | 8-Original Issue Discount on U.S. Treasury Obligations |
| 123 ENERGY CAP 11.8% | 69331XXXX | \$ 1,333.33 | \$ 100.00 | \$ 111.11 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| A FAKE CAP 11.6% PXXX | 86794XXXX | \$ 499.00 | \$ 0.00 | \$ 0.00 | \$ 222.22 | \$ 0.00 | \$ 0.00 |
| ANY STATE BOND DUE 12/28 | 02508XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| SAMPLE CORPORATE 10.375%24 | 12345XXXX | \$ 15.35 | \$ 0.00 | \$ 0.00 | \$ 444.44 | \$ 0.00 | \$ 0.00 |
| STRIP 0%20 | 91283XXXX | \$ 0.00 | \$ 100.00 | \$ 0.00 | \$ 333.33 | \$ 0.00 | \$ 8,888.00 |
| STRIP 0%24 | 91283XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 3,232.62 |
| FATCA Filing Requirement <input type="checkbox"/> | | | | | | | |
| Total Original Issue Discount (Box 1) | | \$ 1,847.68 | | | | | |
| Total Federal Income Tax Withheld (Box 4) | | \$ 200.00 | | | | | |
| Total Market Discount (Box 5) | | \$ 111.11 | | | | | |
| Total Acquisition Premium (Box 6) | | \$ 222.22 | | | | | |
| Total Original Issue Discount on U.S. Treasury Obligations (Box 8) | | \$ 12,120.62 | | | | | |
| Total Bond Premium (Box 10) | | \$ 333.33 | | | | | |
| Total Tax-Exempt OID (Box 11) | | \$ 444.44 | | | | | |

- Acquisition premium on an original issue discount bond.

122

122

Box 7: Description



| Original Issue Discount—2021 | | | | Form 1099-OID | | | |
|---|--------------|------------------------------------|-------------------------------|--|-----------------------|--|-------------------|
| Department of the Treasury—Internal Revenue Service | | | | Copy B for Recipient (OMB No. 1545-0117) | | | |
| 7-Description | CUSIP Number | 1-Original Issue Discount for 2021 | 4-Federal Income Tax Withheld | 5-Market Discount | 6-Acquisition Premium | 8-Original Issue Discount on U.S. Treasury Obligations | 11-Tax-Exempt OID |
| 123 ENERGY CAP 11.8% | 69331XXXX | \$ 1,333.33 | \$ 100.00 | \$ 111.11 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| A FAKE CAP 11.6% PXXX | 86794XXXX | \$ 499.00 | \$ 0.00 | \$ 0.00 | \$ 222.22 | \$ 0.00 | \$ 0.00 |
| ANY STATE BOND DUE 12/28 | 02508XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| SAMPLE CORPORATE 10.375%24 | 12345XXXX | \$ 15.35 | \$ 0.00 | \$ 0.00 | \$ 444.44 | \$ 0.00 | \$ 0.00 |
| STRIP 0%20 | 91283XXXX | \$ 0.00 | \$ 100.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 8,888.00 |
| STRIP 0%24 | 91283XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 3,232.62 |
| FATCA Filing Requirement <input type="checkbox"/> | | | | | | | |
| Total Original Issue Discount (Box 1) | | \$ 1,847.68 | | | | | |
| Total Federal Income Tax Withheld (Box 4) | | \$ 200.00 | | | | | |
| Total Market Discount (Box 5) | | \$ 111.11 | | | | | |
| Total Acquisition Premium (Box 6) | | \$ 222.22 | | | | | |
| Total Original Issue Discount on U.S. Treasury Obligations (Box 8) | | \$ 12,120.62 | | | | | |
| Total Bond Premium (Box 10) | | \$ 333.33 | | | | | |
| Total Tax-Exempt OID (Box 11) | | \$ 444.44 | | | | | |

- Description of the original issue discount bond.

123

123

Box 8: OID on T-Obligations



| Original Issue Discount—2021 | | | | Form 1099-OID | | | |
|---|--------------|------------------------------------|-------------------------------|--|-----------------------|--|-------------------|
| Department of the Treasury—Internal Revenue Service | | | | Copy B for Recipient (OMB No. 1545-0117) | | | |
| 7-Description | CUSIP Number | 1-Original Issue Discount for 2021 | 4-Federal Income Tax Withheld | 5-Market Discount | 6-Acquisition Premium | 8-Original Issue Discount on U.S. Treasury Obligations | 11-Tax-Exempt OID |
| 123 ENERGY CAP 11.8% | 69331XXXX | \$ 1,333.33 | \$ 100.00 | \$ 111.11 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| A FAKE CAP 11.6% PXXX | 86794XXXX | \$ 499.00 | \$ 0.00 | \$ 0.00 | \$ 222.22 | \$ 0.00 | \$ 0.00 |
| ANY STATE BOND DUE 12/28 | 02508XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| SAMPLE CORPORATE 10.375%24 | 12345XXXX | \$ 15.35 | \$ 0.00 | \$ 0.00 | \$ 444.44 | \$ 0.00 | \$ 0.00 |
| STRIP 0%24 | 91283XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 3,232.62 |
| FATCA Filing Requirement <input type="checkbox"/> | | | | | | | |
| Total Original Issue Discount (Box 1) | | \$ 1,847.68 | | | | | |
| Total Federal Income Tax Withheld (Box 4) | | \$ 200.00 | | | | | |
| Total Market Discount (Box 5) | | \$ 111.11 | | | | | |
| Total Acquisition Premium (Box 6) | | \$ 222.22 | | | | | |
| Total Original Issue Discount on U.S. Treasury Obligations (Box 8) | | \$ 12,120.62 | | | | | |
| Total Bond Premium (Box 10) | | \$ 333.33 | | | | | |
| Total Tax-Exempt OID (Box 11) | | \$ 444.44 | | | | | |

- Original issue discount received on a T-obligation is reported as interest on Schedule B, but is exempt from state and local tax and is not included in the Box 1 amount.

124

124

Box 9: Investment Expense



| Original Issue Discount—2021 | | | Form 1099-OID | | | | | |
|--|--------------|------------------------------------|--|-------------------|-----------------------|--|-----------------|-------------------|
| Department of the Treasury—Internal Revenue Service | | | Copy B for Recipient (OMB No. 1545-0117) | | | | | |
| 7-Description | CUSIP Number | 1-Original Issue Discount for 2021 | 4-Federal Income Tax Withheld | 5-Market Discount | 6-Acquisition Premium | 8-Original Issue Discount on U.S. Treasury Obligations | 10-Bond Premium | 11-Tax-Exempt OID |
| 123 ENERGY CAP 11.8% | 69331XXXX | \$ 1,333.33 | \$ 100.00 | \$ 111.11 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| A FAKE CAP 11.6% PXXX | 86794XXXX | \$ 499.00 | \$ 0.00 | \$ 0.00 | \$ 222.22 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| ANY STATE BOND DUE 12/28 | 02508XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 444.44 | \$ 0.00 | \$ 0.00 |
| SAMPLE CORPORATE 10.375%24 | 12345XXXX | \$ 15.35 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 333.33 | \$ 0.00 |
| STRIP 0%24 | 91283XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 3,232.62 |
| FATCA Filing Requirement <input type="checkbox"/> | | | | | | | | |
| Total Original Issue Discount (Box 1) | | \$ 1,847.68 | | | | | | |
| Total Federal Income Tax Withheld (Box 4) | | \$ 200.00 | | | | | | |
| Total Market Discount (Box 5) | | \$ 111.11 | | | | | | |
| Total Acquisition Premium (Box 6) | | \$ 222.22 | | | | | | |
| Total Original Issue Discount on U.S. Treasury Obligations (Box 8) | | \$ 12,120.62 | | | | | | |
| Total Bond Premium (Box 10) | | \$ 333.33 | | | | | | |
| Total Tax-Exempt OID (Box 11) | | \$ 444.44 | | | | | | |

- Not shown on this Schwab example.

125

125

Box 10: Adjustment for Bond Premium



| Original Issue Discount—2021 | | | Form 1099-OID | | | | | |
|--|--------------|------------------------------------|--|-------------------|-----------------------|--|-----------------|-------------------|
| Department of the Treasury—Internal Revenue Service | | | Copy B for Recipient (OMB No. 1545-0117) | | | | | |
| 7-Description | CUSIP Number | 1-Original Issue Discount for 2021 | 4-Federal Income Tax Withheld | 5-Market Discount | 6-Acquisition Premium | 8-Original Issue Discount on U.S. Treasury Obligations | 10-Bond Premium | 11-Tax-Exempt OID |
| 123 ENERGY CAP 11.8% | 69331XXXX | \$ 1,333.33 | \$ 100.00 | \$ 111.11 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| A FAKE CAP 11.6% PXXX | 86794XXXX | \$ 499.00 | \$ 0.00 | \$ 0.00 | \$ 222.22 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| ANY STATE BOND DUE 12/28 | 02508XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 444.44 | \$ 0.00 | \$ 0.00 |
| SAMPLE CORPORATE 10.375%24 | 12345XXXX | \$ 15.35 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 333.33 | \$ 0.00 |
| STRIP 0%24 | 91283XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 3,232.62 |
| FATCA Filing Requirement <input type="checkbox"/> | | | | | | | | |
| Total Original Issue Discount (Box 1) | | \$ 1,847.68 | | | | | | |
| Total Federal Income Tax Withheld (Box 4) | | \$ 200.00 | | | | | | |
| Total Market Discount (Box 5) | | \$ 111.11 | | | | | | |
| Total Acquisition Premium (Box 6) | | \$ 222.22 | | | | | | |
| Total Original Issue Discount on U.S. Treasury Obligations (Box 8) | | \$ 12,120.62 | | | | | | |
| Total Bond Premium (Box 10) | | \$ 333.33 | | | | | | |
| Total Tax-Exempt OID (Box 11) | | \$ 444.44 | | | | | | |

- Box 10 is the adjustment for the bond premium for OID bonds. Reported as negative interest on Schedule B.

126

126

Box 11: OID on a Tax-Exempt



| Original Issue Discount—2021 | | Form 1099-OID | | | | | |
|--|--------------|--|-------------------------------|-------------------|-----------------------|--|-------------------|
| Department of the Treasury—Internal Revenue Service | | Copy B for Recipient (OMB No. 1545-0117) | | | | | |
| 7—Description | CUSIP Number | 1—Original Issue Discount for 2021 | 4—Federal Income Tax Withheld | 5—Market Discount | 6—Acquisition Premium | 8—Original Issue Discount on U.S. Treasury Obligations | 11—Tax-Exempt OID |
| 123 ENERGY CAP 11.8% | 69331XXXX | \$ 1,333.33 | \$ 100.00 | \$ 111.11 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| A FAKE CAP 11.6% PXXX | 86794XXXX | \$ 499.00 | \$ 0.00 | \$ 0.00 | \$ 222.22 | \$ 0.00 | \$ 0.00 |
| ANY STATE BOND DUE 12/28 | 02508XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 444.44 | \$ 0.00 |
| SAMPLE CORPORATE 10.375%24 | 12345XXXX | \$ 15.35 | \$ 0.00 | \$ 333.33 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| STRIP 0%24 | 91283XXXX | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 3,232.62 |
| FATCA Filing Requirement <input type="checkbox"/> | | | | | | | |
| Total Original Issue Discount (Box 1) | | \$ 1,847.68 | | | | | |
| Total Federal Income Tax Withheld (Box 4) | | \$ 200.00 | | | | | |
| Total Market Discount (Box 5) | | \$ 111.11 | | | | | |
| Total Acquisition Premium (Box 6) | | \$ 222.22 | | | | | |
| Total Original Issue Discount on U.S. Treasury Obligations (Box 8) | | \$ 12,120.62 | | | | | |
| Total Bond Premium (Box 10) | | \$ 333.33 | | | | | |
| Total Tax-Exempt OID (Box 11) | | \$ 444.44 | | | | | |

Box 11 reports the amount of OID on a tax-exempt obligation; not subject to federal and possibly state tax.

Questions?

