

## Apex Clearing 2014 Tax Reporting FAQ

Apex Clearing Corporation (“Apex”) is pleased to provide the following frequently asked questions (FAQ) regarding the upcoming 2014 tax reporting season.

### 1. What tax forms does Apex generate and when will they be delivered?

- Based on the existence of reportable activity Apex will create the following tax forms for any customer account held on our books and records.
- Absent an extension, Apex expects to deliver these forms by the dates listed below:

Form	Used to Report	Original Run Mail Date
1099-R / 1099-Q	Distributions from qualified retirement plans and educational savings accounts	February 2, 2015
Combined 1099	A consolidated tax document containing forms 1099-B, 1099-DIV, 1099-INT and 1099-MISC	February 17, 2015
1042-S	Foreign Person’s U.S. Source Income Subject to Withholding	March 16, 2015
5498-ESA	Contributions to qualified educational savings accounts	April 30, 2015
5498	Contributions to qualified retirement plans	June 1, 2015

- The dates for correction runs will be set after the original run has been processed. Typically, this timing is driven by the nature and volume of corrections.
- All tax forms will be loaded to Post Edge and made available to the customer via mail or e-delivery.

### 2. Who receives a Combined 1099?

- All individuals receive a Combined 1099 if they are United States citizens or legal residents and had reportable tax activity. In some cases, exempt recipients will receive a Combined 1099 due to being charged backup withholding that must be reported to the customer and the IRS.
- Brokers are not required to file, but may file forms 1099-B, 1099-DIV, 1099-INT and 1099-OID for:
  - Corporations
  - Charitable organizations
  - IRA’s
  - The United States
  - States or political subdivisions

### 3. What is reported on the different forms?

- **1099-B**

- i. Sales or redemptions of securities, futures transactions, commodities, options and barter exchange transactions.
- ii. All sales of full shares regardless of amount will be reported on a Form 1099-B. Fractional shares may be subject to a de minimis reporting if under \$20.00.
- iii. File Form 1099-B for any person for whom you withheld any federal income tax under the backup withholding rules regardless of the amount.
- iv. For details regarding changes in cost basis reporting for 2014, please see question number 11 in this document.

- **1099-DIV**

- i. Distributions, such as dividends, capital gain distributions, or nontaxable distributions, that were paid on stock and liquidation distributions.
- ii. Only amounts of \$10.00 or more for distributions paid on stock, or \$600 or more for liquidations are required to be reported on the forms
- iii. File Form 1099-DIV for any person for whom you withheld and paid any foreign tax or from whom you withheld (and did not refund) any federal income tax under the backup withholding rules regardless of the amount.

- **1099-INT**

- i. All interest income that is not already reported on other forms will be reported here.
- ii. Amounts \$10.00 or more are reported.
- iii. File Form 1099-INT for any person for whom you withheld and paid any foreign tax or from whom you withheld (and did not refund) any federal income tax under the backup withholding rules regardless of the amount.
- iv. For 2014, there are new reporting requirements for covered debt securities and that are acquired by a taxpayer with a market discount, bond premium or acquisition premium. To find additional information, you can review the 1099-INT instructions for boxes 10 and 11 and the 1099-OID instructions for boxes 5 and 6.

- **1099-OID**

- i. OID is the excess of an obligation's stated redemption price at maturity over its issue price (acquisition price for a stripped bond or coupon).
- ii. File Form 1099-OID if the original issue discount (OID) includable in gross income is at least \$10.00 and you are any of the following:
  - An issuer with any bond outstanding or other evidence of indebtedness in registered or bearer form issued with OID;
  - An issuer of a certificate of deposit (CD) made, purchased, or renewed after 1970 if the CD has OID and a term of more than 1 year;
  - A financial institution having other deposit arrangements, such as time deposits or bonus-savings plans, if the arrangements have OID and a term of more than 1 year;
  - A broker or other middleman holding an OID obligation, including CDs, as nominee for the actual owner;
  - A trustee or middleman of a widely held fixed investment trust (WHFIT) or widely held mortgage trust (WHMT); or

- A real estate mortgage investment conduit (REMIC), a holder of an ownership interest in a financial asset securitization investment trust (FASIT), or an issuer of a collateralized debt obligation (CDO).
- iii. File Form 1099-OID for any person for whom you withheld and paid any foreign tax on OID or from whom you withheld (and did not refund) any federal income tax under the backup withholding rules even if the amount of the OID is less than \$10.00.
- **1099-MISC**
  - i. At least \$10.00 in royalty payments or broker payments in lieu of dividends.
  - ii. File Form 1099-MISC for any person for whom you withheld and paid any foreign tax or from whom you withheld (and did not refund) any federal income tax under the backup withholding rules regardless of the amount.
  - iii. There were some minor changes to Form 1099-MISC for 2014. Boxes 11, Foreign tax paid, and 12, Foreign country or U.S. possession, pertaining to FATCA were deleted. This information is reported on Form 8966.

#### **4. What is Form 8966?**

- Form 8966 is used to report Chapter 4 income and withholding information related to U.S. account holders of NFFE's and FFI's, Non-Financial Foreign Entities and Foreign Financial Institutions respectively.
- Please note, FATCA withholding will not begin for existing accounts until the earlier of (1) Apex receiving an updated W8 confirming the account's status or (2) January 1, 2015. This requirement exists due to the IRS issuing a special rule for account holders in model 1 IGA countries or countries that have an "Agreement in Substance".
- For additional information about FATCA, please see our Operations Notice 14-04-01 and Operations Notice 14-06-06.

#### **5. Where can you find additional information?**

- All the information provided is from the IRS website, [www.irs.gov](http://www.irs.gov). Several helpful instructions and publications are:
  - i. 2014 General Instructions
  - ii. 2014 Instructions for Form 1099-B
  - iii. 2014 Instructions for Form 1099-DIV
  - iv. 2014 Instructions for Form 1099-INT and 1099-OID
  - v. 2014 Instructions for Form 1099-MISC
  - vi. Instructions for Forms 1099-R and 5498
  - vii. Pub 550 Investment Income and Expenses
  - viii. Pub 575 Pension and Annuity Income

#### **6. How does a corporation report earnings when no 1099s are received?**

- C-Corporations are generally responsible for reporting any earnings that they receive based on financial statements that the company reports. S-Corporations, if declared, will receive a 1099 for their covered trading activity from Apex.

#### **7. What is backup withholdings?**

- Backup withholding requirements are governed by the IRS and are required to be enforced by all withholding agents on all non-exempt individuals and entities.
- The current backup withholding rate is 28%.

- Backup withholding is required to be reported on the appropriate Form 1099 regardless of the amount withheld. The \$10.00 de minimis rule does not apply when backup withholding has occurred.
- Additional information can be found at, <http://www.irs.gov/pub/irs-pdf/p1335.pdf>. Please note that this pamphlet indicates that the withholding rate is 31%. It is in fact currently 28%. Please see topic 307 on the IRS website for confirmation, <http://www.irs.gov/taxtopics/tc307.html>.

#### **8. What happens when a client has the wrong TIN reported on the 1099?**

- Please have the broker contact Apex Clearing's Tax department so it can be corrected and a new form can be generated with the correct TIN.
- In order to help alleviate these types of issues, you may wish to review and validate your account setups.

#### **9. How can I correct my cost basis that is reported on my 1099?**

- If the cost basis information that is reported on your Form 1099-B is incorrect, you can report a correction to the IRS using Form 8949.
- Instructions for completing this form can be found on the IRS website at <http://www.irs.gov/instructions/index.html>.

#### **10. How do I make a Mark to Market election?**

- In order to elect Mark to Market reporting, the customer will need to provide a notice that they have made a valid and timely mark to market election under section 475. They must specifically identify the account from which the securities were sold as containing only securities subject to this election. If the customer's election was made by filing a statement with their return, if possible, we would like a copy of that statement along with the signed, written notice. Please keep in mind that this election cannot be retroactively applied. It is effective from the point in time that it is received and acknowledged for by Apex going forward.

#### **11. Are there any changes to cost basis reporting for 2014?**

- As you may already know, the IRS mandated basis reporting starting in 2011 for covered securities that would be rolled out over a number of years. Starting in 2014, the following security types are now considered covered securities and will be reported to the IRS; non-complex debt instruments, equity options, Section 1256 options, rights and warrants.
- If you would like additional details regarding new rules for 2014, please reference Operations Notice 13-12-20 titled "Cost Basis Rules Effective 01/01/14".
- For your convenience an excerpt from the 2014 Form 1099-B instructions have been provided below. You can view the entire document by following this link, <http://www.irs.gov/pub/irs-pdf/i1099b.pdf>.
  - New reporting requirements:** Brokers are required to report the adjusted basis of certain debt instruments upon a sale of the debt instrument. In addition, brokers are required to report the adjusted basis of certain securities futures contracts and options upon a sale or closing transaction as well as the gross proceeds from the sale or closing transaction. Brokers also must report whether any gain or loss from these transactions is short-term, long-term, or ordinary. Furthermore, there are reporting requirements for a transfer of a debt instrument, an option, or a securities futures contract to another broker and for an organizational action that affects the

basis of a debt instrument, an option, or a securities futures contract. See TD 9616 for details. [http://www.irs.gov/irb/2013-20\\_IRB/ar07.html](http://www.irs.gov/irb/2013-20_IRB/ar07.html).

- Regarding basis reporting for debt instruments, it is important to note that the coverage of complex debt is scheduled to start in 2016. A majority of the non-complex debt instruments that are reportable in 2014 will utilize a constant yield amortization method; however, some instruments require a ratable amortization. This determination is made at the security level by the cost basis system. As a final note, some debt instruments are excluded from basis reporting. Below are examples of each group
  - i. Non-complex debt securities: Treasury bonds, Treasury notes, fixed rate corporate bonds, fixed rate municipal bonds
  - ii. Complex debt securities: Convertible bonds, variable rate bonds, stripped bonds.
  - iii. Excluded debt securities: short term securities (maturities less than one year), Treasury bills, REMIC securities
- Regarding option reporting, if option contracts are exercised or assigned Apex will adjust the cost basis of the underlying position. The process of tracking cost basis for options has been in place since 2011, but this will be the first year that options are reported on a Form 1099-B. Additionally, TARP regulations require options to be marked to market at year end. This applies to all open option positions and will show as a reportable transaction on Form 1099-B.
- Due to these changes, Apex updated the cost basis UI last year to include additional fields and indicators. If you would like additional details on these updates, please see Operations Notice 13-12-27 titled "Introducing Updates to Cost Basis Inquiry Screen".

#### **12. Are there any updates for Turbo Tax?**

- All customers with reportable information will be able to import their Consolidated 1099 information directly into Turbo Tax. In order to download this information, your customers will need to follow Intuit's on screen instructions. For your convenience, a brief outline has been provided via Operations Notice 14-01-29 titled "You Can Now Import Consolidated 1099s Directly Into TurboTax". Please reference that document for additional details.
- For your customers that utilize Turbo Tax, please note that the application does have data import limitations. If there are more than 500 1099-B transactions per return, then the customer will need to utilize the desktop software version which can accommodate up to 2,200 1099-B transactions per return. If the customer has a total number of transactions in excess of these limits, they will not be able to use Turbo Tax's import function and may have to utilize other means to file their return.

#### **13. What is a wash sale?**

- The IRS does not allow you to deduct losses from sales or trades of stock or securities in a wash sale unless the loss was incurred in the ordinary course of your business as a dealer in stock or securities.
- A wash sale occurs when you sell or trade stock or securities at a loss and within 30 days before or after the sale you:
  - i. Buy substantially identical stock or securities,
  - ii. Acquire substantially identical stock or securities in a fully taxable trade,
  - iii. Acquire a contract or option to buy substantially identical stock or securities, or
  - iv. Acquire substantially identical stock for your individual retirement account (IRA) or Roth IRA.

#### **14. How are wash sales reported on my 1099?**

- There are three generally accepted ways to track and account for wash sales
  - i. Method A adjusts the replacement buy's holding period date back to that of the original buy.
  - ii. Method B adjusts the replacement buy's date backwards by the amount of days in the holding period.
  - iii. Method C adjusts the new lot's open date to the latter date based on the results of Methods A and B.
- In order to create a uniform reporting environment, Apex has elected to use Method A. This is the same methodology utilized by Broadridge's TLE system; the current cost basis provider.

**15. Are there any other changes for 2015 that I should be aware of?**

- Beginning January 1, 2015, you can make only one rollover from an IRA to another (or the same) IRA in any 12-month period (rolling, not calendar), regardless of the number of IRAs you own ([Announcement 2014-15](#) and [Announcement 2014-32](#)). The limit will apply by aggregating all of an individual's IRAs, including SEP and SIMPLE IRAs as well as traditional (including Rollover IRAs) and Roth IRAs, effectively treating them as one IRA for purposes of the limit. For additional information about this change, please see Operations Notice 14-12-07 titled "Retirement Account Contribution & Report Process – Changes to the One-Rollover-Rule for 2015".
- Transfer reporting of non-complex debt instruments and equity options is required effective January 1, 2015. Complex debt and options related to fixed income are reportable in 2016 and transfer statements will be required the following year, 2017.

While Apex makes every effort to ensure that the information being reported is accurate, please note that this is not intended to be tax advice, and the taxpayer is ultimately responsible for the accuracy and completeness of the tax returns that are filed on their behalf. If you have any questions, please feel free to reach out to your Relationship Manager or the Tax Reporting Department at [tax@apexclearing.com](mailto:tax@apexclearing.com) or (214)765-1590.

Thank you,  
Apex Clearing Corporation