Frequently Asked Tax Questions for the 2013 Tax Reporting Season

Now that the tax season is upon us, we wanted to provide you with answers to frequently asked tax questions to help you navigate the 2013 tax reporting season and make more informed decisions about your reporting. SogoTrade does not provide any tax advice. The information contained herein is for Information Purposes Only and SogoTrade is not responsible for any errors or omissions. Please contact your licensed Tax or Legal Professional for issues regarding taxation.

1. When will we receive 1099 tax forms for the 2013 tax year?

- Unless there is an extension, the withholding agent is required to mail forms 1099-B, 1099-DIV, 1099-INT and 1099-MISC by **February 18, 2014**.
- The dates for correction runs will be set after the original run has been mailed. Typically this timing is driven by the nature and volume of the corrections.
- Tax forms will be made available to the customer via mail or e-delivery.

2. Who receives a 1099?

- All individuals receive a 1099 if they are United States citizens, or legal resident, and had reportable tax activity. In some cases exempt recipients will receive a 1099 as a result of being charged backup withholding, which 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:

  i. Corporations

  ii. Charitable organizations

  iii. IRA's

  iv. The United States

  v. States or political subdivisions

3. What information is reported on the different 1099 tax forms?

- **1099-B**

  i. Sales or redemptions of securities, futures transactions, commodities, 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. Apex is required to file a Form 1099-B for any person for whom Apex withheld and paid any foreign tax or from whom Apex withheld (and did not refund) any federal income tax under the backup withholding rules regardless of the amount.

- **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. Apex is required to file a Form 1099-DIV for any person for whom Apex withheld and paid any foreign tax or from whom Apex withheld (and did not refund) any federal income tax under the backup withholding rules regardless of the amount.

- **1099-MISC**

  i. At least $10.00 in royalty payments or broker payments in lieu of dividends.

  ii. Apex is required to file a Form 1099-MISC for any person for whom Apex withheld and paid any foreign tax or from whom Apex 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. Apex is required to file a Form 1099-INT for any person for whom Apex withheld and paid any foreign tax or from whom Apex withheld (and did not refund) any federal income tax under the backup withholding rules regardless of the amount.

- **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. A Form 1099-OID is filed if the original issue discount (OID) includible in gross income is at least $10.00 and the taxpayer is 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. Apex is required to file a Form 1099-OID for any person for whom Apex withheld and paid any foreign tax on OID or from whom Apex 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.

4. Where can I find additional information?

- All the information provided below is available on the IRS website, www.irs.gov. Several helpful instructions and publications are:

  i. 2013 General Instructions

  ii. 2013 Instructions for Form 1099-B

  iii. 2013 Instructions for Form 1099-DIV

  iv. 2013 Instructions for Form 1099-INT and 1099-OID

  v. 2013 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
ix. Cost Basis Reporting Overview and FAQs

5. 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 Clearing Corporation.

6. What is backup withholdings?

- Backup withholding requirements are governed by the IRS and are required to be enforced by all withholding agents on all nonexempt 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.

7. Are options reported on the 1099?

- Although options transactions are **not required** to be reported on Form 1099-B, the client is still responsible for reporting any capital gain(s) earned from options transactions.
- Please note that equity option and Section 1256 options are due to begin reporting for the 2014 tax year.

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. Are there any changes to cost basis reporting for 2013?

- As you know, the IRS mandated basis reporting starting in 2011 for covered securities on Form 1099-B. **Originally, 2013 was slated to be the year that debt securities, options and other financial instruments were to be reported; however, due to approved extensions there are no new changes to cost basis reporting for the 2013 tax year.**
- For 2014, there are a few new reporting requirements that are outlined on the 2014 Instructions for Form 1099-B. An excerpt is provided below for your convenience. You can view the entire document by following this linkhttp://www.irs.gov/pub/irs-pdf/i1099b.pdf.
  i. 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 security 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.

10. 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.

11. 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.

12. 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 Clearing has elected to use Method A. This is the same methodology utilized by Broadridge's TLE system; the current cost basis provider.

13. 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 Clearing going forward.

14. Are there any updates for TurboTax?

- Effective for the 2013 tax season all customers with reportable information will be able to import their Consolidated 1099 information directly into Turbo Tax. In order to download this information, you will need to follow Intuit's on screen instructions. For your convenience a brief outline has been provided via notice titled "You Can Now Import Consolidated 1099s Directly Into TurboTax". Please reference that document for additional details.

15. Reminder, Withholding Rate for Publicly Traded Partnerships.

- As a reminder the withholding tax rate for effectively connected income allocable to non-corporate foreign partners is 39.6%, but remains at 35% for corporate foreign partners, for tax years beginning after December 3, 2012.

Tax Strategies

The tax strategy used to determine your gains or losses on an individual transaction can impact the taxes you are responsible for paying. For example, short-term gains are taxed at a higher rate than long-term gains, and capital losses can offset capital gains for tax purposes. It is in your best interests to understand the tax implications of your decision at the time of a transaction.

FIFO (First In, First Out)

The shares you acquire first are the shares that are sold first. Think of this like the milk aisle at a large grocery store - the shelf is loaded back-to-front from the refrigerated room in back, so the first gallon of milk that the grocer slides into the shelf is the first one a customer sees. The first gallon of milk put in is the first gallon of milk that is taken out.

FIFO is SogoTrade's default tax strategy.

Terms you may want to be familiar with

Cost Basis…The original value of an asset for tax purposes (usually the purchase price), adjusted for stock splits, dividends and return of capital distributions. This value is used to determine the capital gain, which is equal to the difference between the asset's cost basis and the current market value. This is also known as "tax basis".

Wash Sale…A wash sale is a sale of a security (i.e. stocks, bonds, options) at a loss and repurchase of the same or substantially identical security shortly before or after. The regulations around wash sales are to protect against an investor who holds an unrealized loss and wishes to make it claimable as a tax deduction within the current tax year. The security is then repurchased in the hope that it will recover its previous value, which would only become taxable in some future tax year. A wash sale can take place at any time during the year.

In some tax codes, such as the USA and the UK, tax rules have been introduced to disallow the practice, e.g., if the stock is repurchased within 30 days of its sale. The disallowed loss is added to the basis of the newly acquired security.

Wash Sale Example (hypothetical)…

After a sale is identified as a wash sale and if the replacement stock is bought within 30 days **before** or **after** the sale then the wash sale loss is added to the basis of the replacement stock. The basis adjustment is important as it preserves the benefit of the disallowed loss. You'll receive that benefit on a future sale of the replacement stock. *Remember, this is a 61 day period in all. 30 days before the trade date, the trade date itself, and 30 days after the trade date.*

Note: The identification of a wash sale and adjusting the basis of the replacement stock is an iterative process. Thus, the sale of the replacement stock (after its basis is adjusted) can also be identified as a wash sale if it meets the above defined criteria.

Example: Some time ago you bought 80 shares of XYZ at $50. The stock has declined to $30, and you sell it to take the loss deduction. But then you see some good news on XYZ and buy it back for $32, less than 31 days after the sale. You can't deduct your loss of $20 per share. But you add $20 per share to the basis of your replacement shares. Those shares have a basis of $52 per share: the $32 you paid, plus the $20 wash sale adjustment. In other words, you're treated as if you bought the shares for $52. If you end up selling them for $55, you'll only report $3 per share of gain. And if you sell them for $32 (the same price you paid to buy them), you'll report a loss of $20 per share.

Because of this basis adjustment, the wash sale rule usually does not have a significant impact. In most cases, it simply means you'll get the same tax benefit at a later time. If you receive the benefit later in the same year, the wash sale may have no effect at all on your taxes.

There are times, though, when the wash sale rule can have undesirable consequences.

- If you don't sell the replacement stock in the same year, your basis adjustment benefits will be postponed, possibly to a year when the deduction is of far less value.
- If you die before selling the replacement stock, neither you nor your heirs will benefit from the basis adjustment.
- You can also lose the benefit of the deduction permanently if you sell stock and arrange to have a related person — or your IRA — buy replacement stock.

Holding Period	When a wash sale occurs, the holding period for the replacement stock includes the period you held the stock you sold.

Example: You've held shares of XYZ for 10 years. You sell it at a loss but then buy it back within the wash sale period. When you sell the replacement stock, your gain or loss will be long-term — no matter how soon you sell it.

Covered/Non-Covered Securities

The cost basis reporting requirements to the IRS apply only to the disposition of covered securities that occur on or after their effective date. A covered security is the type of security purchased or acquired on or after its effective date as determined by Congress and the IRS. The legislation is rolling it out in three phases, which started in 2011. The effective dates of covered securities are:

- Equity securities acquired on or after January 1, 2011
- Mutual fund and dividend reinvestment plan (DRIP) shares acquired on or after January 1, 2012
- Debt securities, options, and all other financial instruments acquired on or after January 1, 2014 (The IRS has extended this date from the previously announced date of January 1, 2013.)

"Non-covered" securities are any securities purchased or acquired before the above effective dates. Transactions involving assets purchased and held prior to these effective dates will continue to be reported as they have been in the past, meaning there will be no detailed cost basis reporting to the IRS on the sales of "non-covered" securities - only gross proceeds. It will still be the clients' responsibility to report the transactions on their tax returns along with the proper cost basis on non-covered securities to the IRS.

Capital Gains…When you sell an asset at a higher price than you paid for it, the difference is your capital gain. For example, if you buy 100 shares of stock for $20 a share and sell them for $30 a share, you realize a capital gain of $10 a share, or $1,000 in total. If you own the stock for more than a year before selling it, you have a long-term capital gain. If you hold the stock for less than a year, you have a short-term capital gain.

Capital Loss…When you sell an asset for less than you paid for it, the difference between the two prices is your capital loss. For example, if you buy 100 shares of stock at $30 a share and sell when the price has dropped to $20 a share, you will realize a capital loss of $10 a share, or $1,000.

Thank you,

SogoTrade