

Frequently Asked Tax Questions for the 2016 Tax Reporting Season

Apex Clearing Corporation ("Apex") is pleased to provide the following frequently asked questions (FAQ) regarding the upcoming 2016 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 is required 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 | January 31, 2017 |
| Combined 1099 | A consolidated tax document containing forms 1099-B, 1099-DIV, 1099-INT and 1099-MISC | February 15, 2017 |
| 1042-S | Foreign Person's U.S. Source Income Subject to Withholding | March 15, 2017 |
| 5498-ESA | Contributions to qualified educational savings accounts | May 1, 2017 |
| 5498 | Contributions to qualified retirement plans | May 31, 2017 |

- Correction run dates are set after the original run has been processed. The timing of a correction run is driven by the nature and volume of the adjustments being processed. Correction runs are tentatively scheduled in two week increments after the original run and are based on need.

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:
 - i. Corporations
 - ii. Charitable organizations
 - iii. IRA's
 - iv. The United States
 - v. States or political subdivisions

2. What is reported on the different forms?

- **1099-B**
 - Sales or redemptions of securities, futures transactions, commodities, options and barter exchange transactions.
 - 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.
 - File Form 1099-B for any person for whom you withheld any federal income tax under the backup withholding rules regardless of the amount.
 - What's new for 2016: Accrued market discount is reported in box 1f, if any and wash sale loss disallowed is reported in box 1g, if any.
- **1099-DIV**
 - Distributions, such as dividends, capital gain distributions, or nontaxable distributions, that were paid on stock and liquidation distributions.
 - 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.
 - 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**
 - All interest income that is not already reported on other forms will be reported here.
 - Amounts \$10.00 or more are reported.
 - 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.
 - What's new for 2016: Bond premium on Treasury obligations added to Form 1099-INT.
- **1099-OID**
 - 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).
 - File Form 1099-OID if the original issue discount is includible in gross income is at least \$10.00 and you are any of the following:
 - i. An issuer with any bond outstanding or other evidence of indebtedness in registered or bearer form issued with OID;
 - ii. 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;
 - iii. 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;
 - iv. A broker or other middleman holding an OID obligation, including CDs, as nominee for the actual owner;
 - v. A trustee or middleman of a widely held fixed investment trust (WHFIT) or widely held mortgage trust (WHMT); or

- vi. 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).
- 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.
- What's new for 2016: Box 10 was added to Form 1099-OID to report bond premium.
- **1099-MISC**
 - At least \$10.00 in royalty payments or broker payments in lieu of dividends.
 - 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.
- **1099-R**
 - Used to report distributions from retirement or profit-sharing plans, any IRA, insurance contracts, and IRA recharacterizations (including payments reported pursuant to an election described in Regulations section 1.1471-4(d)(5)(i)(B) or reported as described in Regulations section 1.1471-4(d)(2)(iii)(A)).
 - What's new for 2016: A new check box was added to Form 1099-R to identify an FFI or a U.S. payer filing this form to satisfy its Chapter 4 requirement.
- **1099-Q**

Used to report distributions from qualified education programs (Under Sections 529 and 530).
- **5498**
 - Used to report retirement plan contributions, including any catch-up contributions. For information about IRAs, see Pubs. 590-A, 590-B, and 560.
- **5498-ESA**
 - Used to report contributions made to Coverdell education savings account (ESA). For more information about Coverdell ESAs, see Pub. 970.
- **1042-S**
 - Used to report a foreign person's U.S. source income subject to withholding.
 - Amounts subject to reporting are amounts from sources within the United States that constitute fixed annual or periodical income (including dividends).

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. 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 under topic 307 at <http://www.irs.gov/taxtopics/tc307.html>.

7. 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.

8. 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>.

9. 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.

10. 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 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.

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.
- 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 cost basis provider that will be utilized for the 2016 tax reporting season. In 2017, Apex will be moving to a new cost basis provider.

13. Does Apex charge for the mailing of tax forms?

- Yes, Apex charges a \$5.00 fee for any mail delivery of a tax form that can be provided to the customer via e-delivery. Currently this charge applies to the 1099 form series and the 5498 form series. E-delivery is an alternative option to avoid this mail delivery fee. E-delivery allows your customers to have faster access to their tax forms and avoids the mailing fee altogether.
- The option of e-delivery of 5498's is new for the 2015 tax year. Please know that if your customer has already requested e-delivery of their tax forms they will not be required to make a second election for the 5498 form series. If your customer has not elected e-delivery of their tax forms and they receive a physical 5498 then the charge would apply.

14. Are there any changes for 2016 tax reporting that you should be aware of?

- Complex debt instruments acquired after January 1, 2016 are now covered securities and will be reported on a 1099-B. In addition, some debt instruments are excluded from cost basis reporting. Below are examples of each group:
 - Non-complex: Treasury bonds, notes, fixed rate corporate bonds and fixed rate municipal bonds.
 - Complex: Convertible bonds, variable rate bonds, foreign debt
 - Excluded debt securities: short term securities (mature in less than 1 year), Treasury bills, mortgage debt (FNMA & GNMA), REMIC securities.
- Regarding Form 1042-S, new regulations in 2015 mandated income codes for the 1042-S to be reported separately. The result of this rule change prohibits the reporting of income codes on a single, consolidated 1042-S. This will result in your foreign customers receiving forms that have an increased page count over prior years, in some cases two to three times as many pages.

15. Are there any changes for 2017 that you should be aware of?

- In order to provide more flexible cost basis reporting options, Apex transitioned to a new cost basis service. **Maxit** will offer a number of benefits for your customers. Brief outline:
 - Maxit provides more Lot Relief Methods (LRMs) and the ability to apply defaults at a more granular level. Additional LRMs reduce the need for Versus Purchase elections, streamlining the trading process for Apex clients. Available LRMs:
 - FIFO, First In – First Out (default)
 - Average Cost
 - LIFO, Last In – First Out
 - HIFO, High cost – First Out
 - MINTAX, minimize tax
 - MAXGAIN, maximize gain

Note: Lot relief methods can be applied at the Account, Security (equities, mutual funds, average cost eligible securities) and Transaction levels.

16. Where can you find additional information?

- All the information provided below is from the IRS website, www.irs.gov. Several helpful instructions and publications are:
 - i. 2016 General Instructions
 - ii. 2016 Instructions for Form 1099-B
 - iii. 2016 Instructions for Form 1099-DIV
 - iv. 2016 Instructions for Form 1099-INT and 1099-OID
 - v. 2016 Instructions for Form 1099-MISC
 - vi. Instructions for Forms 1099-R and 5498
 - vii. Pub 550 Investment Income
 - viii. Pub 575 Pension and Annuity Income
 - ix. Pub 590-A, Contributions to Individual Retirement Accounts
 - x. Pub 590-B, Distributions from Individual Retirement Accounts

While Apex Clearing makes every effort to ensure that the information being reported is accurate, please note that the taxpayer is ultimately responsible for the accuracy and completeness of the tax returns that are filed on their behalf.

Thank you,
Apex Clearing Corporation