



Tax FAQs, Tax Year 2023

Apex Clearing Corporation* (Apex) is pleased to provide the following Frequently Asked Questions (FAQ) regarding the upcoming 2023 tax reporting season.

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

Based on the presence of reportable activity, Apex will create the following tax forms for any customer account held on our books and set-up for reporting. Absent an extension, Apex is required to deliver these forms to the account holder according to the schedule table by form, below.

All tax forms will be made available to the customer via physical mail or an email notice will be sent instructing the customer to retrieve a copy online.

Correction runs are tentatively scheduled in two-week intervals and are based on need. If customers own Mutual Funds, Real Estate Trusts (REITs), REMIC securities or certain fixed investment trusts (WHFITs), issuers of these securities may publish income reclassification instructions after the original 1099 has been delivered. In the event that you held these securities or other securities subject to a reclassification event, you may receive a corrected Form 1099 which could impact your tax return and filing date.



Please note, Apex may place a hold on issuing amended tax forms in order to consolidate anticipated corrections and lessen the number of amended forms provided to customers.

The following table provides the statutory due dates for the corresponding tax forms.

Form	Used to Report	Scheduled Delivery Date
1099-R / 1099-Q	Distributions from IRAs, qualified retirement plans and educational savings accounts	January 31, 2024
Consolidated 1099 (Wave 1)	A consolidated tax document containing forms 1099-B, 1099-DIV, 1099-INT and 1099-MISC	January 31, 2024
Consolidated 1099 (Wave 2)	A consolidated tax document containing forms 1099-B, 1099-DIV, 1099-INT and 1099-MISC	February 15, 2024
PR 480.6 Series	Informative Return – Income Subject (Not Subject) to Withholding	February 28, 2024
1042-S	Foreign Person's U.S. Source Income Subject to Withholding	March 15, 2024



1099-REMIC, NMWHFIT	Income from Real Estate Mortgage Investment Conduits Non- Mortgage Widely Held Fixed Income Trusts Notice to Shareholder of Undistributed Long-Term	March 15, 2024
2439	Capital Gains	March 30, 2024
Corrections Run	2 week intervals after original form delivery	April 15, 2024
5498-ESA	Contributions to qualified educational savings accounts	April 30, 2024
5498	Contributions to qualified retirement plans	May 31, 2024

What are the IRA contribution limits and deadlines for 2023?

Beginning in 2023, the IRS contribution limit increased to \$6,500 (\$7,500 for individuals age 50 or older) from \$6,000 (\$7,000 for individuals age 50 or older).

The deadline to make a 2023 IRA contribution is normally by your filing due date excluding any extensions. For most that deadline is April 15, 2024.

Who receives a Consolidated 1099?

A consolidated 1099 is a grouping together into one statement of all the 1099 tax information for your account provided by Apex to be used in preparation of your annual tax return.

All individuals receive a Consolidated 1099 if they are United States citizens or legal residents and have had reportable tax activity. In some cases, exempt recipients will receive a Consolidated 1099 if charged backup withholding on activities during the year. These amounts must be reported to the customer and the IRS.



Why wasn't a 1099 generated for activity in a particular account?

If the activity in your customers' accounts did not meet certain reporting thresholds set by the IRS, a tax form will not be issued. De minimis values differ by form and income type. For dividends and interest, de minimis is \$10.00; for Cash In Lieu \$20.00 and for miscellaneous income \$600.00.

Additional details regarding de minimis values have been provided with the forms identified in the next section of this FAQ.

What is reported on the different forms?

1099-B

A 1099-B reports all sales or redemptions of securities, futures transactions, commodities, options and barter exchange transactions. Cash in Lieu may be subject to a de minimis reporting if under \$20.00.

As a reminder, closing transactions for identical securities and for orders with the same disposition dates will be combined into fewer transactions. This change simplifies the presentation of the information being reported on Form 1099-B.

A Form 1099-B will be filed for any person for whom Apex withheld any federal tax under the backup withholding rules regardless of the amount.

Note: For non-covered securities, the cost basis information provided on the 1099-B is for informational purposes only and is not reported to the IRS. Your customers will be responsible for providing this information when they file their returns.

1099-DIV

A 1099-DIV reports 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 form.

Dividend payments received on securities loaned out are reported as **substitute payments in lieu of dividends** on Form 1099-MISC.

Form 1099-DIV will be issued for any person for any amounts withheld and paid any foreign tax or any amount withheld (and did not refund) any federal income tax under the backup withholding rules regardless of the amount.

1099-OID

The 1099-OID reports the amortization of bond interest on discounted bonds annually. Original Issue Discount (OID) is the difference between an obligation's stated redemption price at maturity and the issue price of the debt instrument.

Interest on bonds sold at a discount at the time that a bond or other debt instrument is issued and accreted annually is called Original Issue Discount or OID. Interest income is recognized and the cost basis of the bond is increased.

Form 1099-OID will be issued if the OID for a holder is greater than \$10.00 or for any person that had withholding or paid any foreign tax on OID even if the amount of the OID is less than \$10.00.

1099-INT

Form 1099 INT reports interest income including taxable and tax-exempt interest dividends from mutual funds paid during the year.

Threshold amount is \$10.00 or more and are reported in boxes 1, 3 and 8.

Tax-exempt interest is generally not subject to federal taxation. If you own municipal bonds, then interest on bonds from your home state is generally not subject to state tax. However, municipal interest from other states is taxed in your home state.

Interest payments received on interest producing securities loaned out are reported as substitute payments in lieu of interest on Form 1099-MISC.



Form 1099-INT will be issued 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.

Please note: If you have a margin account you may have **margin interest expenses** paid from your account. Margin interest is included as **an informational item** in your Consolidated 1099 in the supplemental section. **Please consult your tax advisor for the proper treatment and reporting of margin interest paid on your tax return.**

1099-MISC

1099 Misc reports substitute payments in lieu of dividends or tax exempt interest received in your account, stock or cash rewards, stock loan fees received and royalty payments. Payments of royalties are generally from investments in natural resource companies.

Threshold amounts are amounts greater than \$10.00 in royalty payments, rewards, in lieu of dividends or tax-exempt interest and \$600.00 or more of miscellaneous income.

1099-R

Form 1099-R reports distributions from Traditional, Roth, SEP, SIMPLE and Rollover IRAs as well as Qualified Retirement Plans (401k, 403B, Money Purchase Plan, or Profit Sharing Plan).

Threshold amounts apply for distributions to be reported amounts need to be greater than \$10.00.

Direct rollovers from an employer- sponsored retirement plan (401-k, 403-B, 457-B or annuity) to a Traditional IRA or Rollover account are reported as distributions, the offsetting side for these distributions are the rollover amounts reported on Form 5498 for the IRA account in receipt of the distribution.

Transfer of funds in your IRA from one trustee/custodian directly to another IRA is not considered a rollover. There is no distribution and the transfer is tax free. Trustee to trustee transfers are not required to be reported on Form 1099-R

The most common distribution reason codes:



Code Box 7	Distribution Type
1	Early distribution, no known exception. Under age 59 1/2
2	Early distribution, exception applies. Under age 59 1/2
4	Death
7	Normal Distribution. Over age 59 1/2

5498

Form 5498 reports retirement plan contributions (including rollover contributions) to any individual retirement arrangement, including a SEP, SIMPLE, and Roth IRA; Roth conversions; IRA recharacterizations; and the fair market value of the account as of December 31.

5498's are not required to be filed with a customer's personal tax return. These forms are issued no later than May 31 each calendar year. The timing of this form is a result of contributions for the prior year may be made up to the filing date of customers' income tax return, generally April 15.

1099-Q

1099-Q is used to report distributions from a Coverdell Education Savings account (ESA) or a 529 Plan.

5498-ESA

5498-ESA is used to report contributions or rollovers made to Coverdell education savings accounts (ESA).

2439

Form 2439 is used to report undistributed long-term capital gains to shareholders of regulated investment company (RIC) or real estate investment trusts (REIT) undistributed capital gains allocable to them. A separate form 2439 will be issued for each investment.



The Undistributed capital gains reported on Form 2439 should be reported in addition to any capital gains reported on Form 1099-DIV. Please see details in IRS publication 550.

1042-S

Form 1042-S is used to report US source income earned by non-US persons subject to US withholding tax, including interest, dividends and substitute payments on your account for the year. You may receive multiple 1042-S forms reporting different types of income.

The most common income codes:

Income Codes - Box 1	Income Type
01	Interest paid by US obligors including the US Treasury
06	Dividends paid by US Corporations
29	Deposit Interest
30	Original Issue Discount (OID)
34	Substitute payments - Dividends
35	Substitute payment - Other
51	Other Income

If income is exempt from withholding tax a code indicating this appears in Box 6. Most common exemption codes are:

Exemption codes - Box 6	Exemption Type
01	Income effectively connected with a US trade or business
02	Exempt under an Internal Revenue Code section (income other than portfolio interest)
03	Income is not from US Sources
04	Exempt under tax treaty



05	Portfolio interest exempt under an Internal Revenue Code Section
06	Qualified intermediary that assumes primary withholding responsibility
07	Withholding foreign partnership or withholding foreign trust

Puerto Rico 480 Series

The 480 Series forms are only issued to Puerto Rico residents who earned reportable income and/or had income subject to Puerto Rico tax withholding.

Apex issues three separate Series 480 forms for clients who reside in Puerto Rico: Series 480.6A, 480.6B and 480.6D.

Form 480.6A reports any taxable dividends and/or gross proceeds from realized capital gains or losses in a customer's taxable investment account. This form will also report any interest paid out in a cash account.

Form 480.6B is intended for information reporting on income not subject to withholding.

Form 480.6D reports any tax exempt dividends that were distributed in a customer's taxable investment account.

What's new for 2023:

1042-S update:

- A new Income Code 57 was added for use by brokers that are required to report or withhold on the transfer of interests in publicly traded partnerships (PTPs), including distributions made by PTPs. Specifically, new income code 57 was added to report sales of PTP interest and PTP distributions if an amount in excess of cumulative net income (ENCI) is identified on a qualified notice. payment of an amount realized subject to section 1446(f). Section 1446(f) generally requires that if any portion of again on any disposition of an interest in a partnership would be treated under section 864(c)(8) as effectively connected gain, the transferee purchasing an interest in such a partnership from a non-U.S. transferor must withhold a tax equal to 10% of the amount realized on the disposition unless an exception to withholding applies.



- New Income Code 58 was also added for publicly trade partnership distributions - undetermined. This code is to be used when there is a missing or invalid PTP qualified notice.
- Box 16 (payer) is required to be populated for PTP distributions, which includes income codes 27, 58, and 57 (if ECNI). Required information, name of PTP and new chapter 3 status code 38 (Publicly Trade Partnership). In addition to PTPs TIN, GIIN and CH4 status code (if its in the books and records, and or referenced on a qualified notice).
- Chapter 3 status code 39 (Disclosing QI) was added starting for 2023 reporting.
- Forms 1099 and 1042-S should be issued for US persons subject to Section 1446 withholding. The amount of withholding should be reported on the 1042-S, not on Form 1099.

W9 update:

Draft Form W 9 (rev. October 2023) added new line 3b (regarding foreign partners, owners or beneficiaries) Apex can still accept the prior version of Form W 9 (eg. 2018 revision) and substitute versions without line 3B, until further guidance is issued by the IRS.

Common Questions Answered:

What is backup withholding?

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.

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.

As a reminder, the current backup withholding rate is 24%.

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.



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** when filing your income tax return.

How do I make a Mark to Market election?

If a customer is eligible for trader status they have the option to make a timely election for the Section 475 accounting method on securities and/or commodities. Section 475 is mark-to market (MTM) accounting with ordinary gain or loss treatment. Without it, securities traders use the cash method with capital gains and loss treatment, including wash sale loss adjustments and the annual \$3,000 capital loss limitation.

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 by Apex Clearing going forward.

The following is the criteria we require to process MTM requests: written notice that you have made a valid and timely mark to market election under section 475; identify the specific account containing only securities subject to this election; confirm that the account will only hold securities subject to this election; a copy of the supporting documentation, if possible, of how you made that election; Applies to the current tax year.

Are there any updates for TurboTax?

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.

Please note that the Turbo Tax application has 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 that **exceeds these limits**, they will **not be able to use the TurboTax import function** and may have to utilize other means to file their return.

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:

- Buy substantially identical stock or securities;
- Acquire substantially identical stock or securities in a fully taxable trade;
- Acquire a contract or option to buy substantially identical stock or securities; or
- Acquire substantially identical stock for your individual retirement account (IRA) or Roth IRA.

Additional information about wash sales: [IRS publication 550](#).

Does Apex charge for the mailing of tax forms?

Yes, Apex charges a \$10.00 fee for the mail delivery of a tax form.

E-delivery is an alternative option to avoid this mail delivery fee. E-delivery simply informs customers a new tax document is available and to log in and retrieve it from the SogoTrade website, thus avoiding the mailing fee altogether.

A \$50 fee applies if a customer elects to receive an email notice of the availability of the tax document and after paper copies have already been mailed out to those who elected to receive a physical copy, then the customer requests a paper copy to be printed and mailed.



What cost basis lot relief methods does Apex offer?

FIFO: First In First Out (Default)

Tax lots with the oldest purchase date will be sold first. This method ensures that if there are any shares eligible for long-term capital gains treatment, they will be sold first. Non-covered unallocated lots (lots without cost) will be sold before non-covered allocated lots (lots with cost).

LIFO: Last In First Out

Tax lots with the most recent purchase date will be sold first.

Versus Purchase (VSP) Specific Lot Identification

Specific lot identification can be made by including details about the tax lot in the trade trailer.

HIFO: Highest In First Out

Tax lots with the highest cost basis are sold first, regardless of when they were purchased. Because the highest cost basis shares are sold first, this method will harvest tax lots with losses first and then gains. It does not consider LT/ST, so if there is a tie between lots, FIFO is used.

MinTax: Minimum Tax

Apex will determine the best lot to sell to minimize tax impact and lower tax burden. The lots are selected in the following order:

- Short-term capital loss, from the biggest loss to the smallest
- Long-term capital loss, from the biggest loss to the smallest
- Short-term zero gain/loss
- Long-term zero gain/loss
- Long-term capital gains, from the smallest gain to the biggest
- Short-term capital gains, from the smallest gain to the biggest

Special Note: Regarding MINTAX there are two options:

1. MINTAX all securities
2. MINTAX all securities except Mutual Funds. Average cost for Mutual Funds



Are there any other changes that I should be aware of?

As a reminder, IRS Notice 2017-09 establishes a de minimis Safe Harbor of \$100.00 for information returns corrections. In effect, this change will reduce the number of corrected tax forms that your customers could potentially receive.

Effective January 1, 2023, the 1446(f) regulations will levy an additional withholding tax of 10% on US MLP and PTP interests held by non-US clients.

Need additional information?

All tax documents are available on the IRS website, www.irs.gov and include instructions or updates. While Apex 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 Fintech Solutions

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