



FAQ 1099 Questions

1. Who receives a 1099?

- All individuals receive a 1099 if they are United States citizens or legal residents and had any reportable tax activity for the year.
- 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 (i.e. D.C.)

2. How does a corporation report earnings when no 1099s are received?

- Corporations are generally responsible for reporting any earnings that they receive based on monthly financial statements that the company reports.
- They can also trace their entire cash and trade history for the year on the Penson Intranet Site under "Account Information"

3. When do you receive a 1099?

- The withholding agent is required to mail forms 1099-B, 1099-DIV, 1099-INT, 1099-OID and 1099-MISC by January 31, 2005
- If the regular due date falls on a Saturday, Sunday, or legal holiday, the withholding agent can mail the forms by the next business day (Monday-Friday but not on a legal holiday)

4. What is reported on the different forms?

- **1099B**
 - i. New for 2004: Any broker that holds stock for a client in a corporation that the broker knows or has reason to know had an acquisition of control or a substantial change in capital structure must file form 1099-B
 - ii. Sales or redemptions of securities, futures transactions, commodities, and barter exchanges.
 1. Short sales are also included regardless of whether the trades have been closed out.
 2. Principal Paydowns on bonds will appear as sales on the 1099-B form. This is not a change in procedure, and this is the way that they have always been reported.
 - iii. All sales, no matter the amount, need to be reported on a 1099-B
- **1099-DIV**
 - i. New for 2004: line items for "Post-May 5 capital gain distr." and "Qualified 5-year gain" has been removed from the 2004 forms based on section 301 of the Jobs and Growth Tax Relief and Reconciliation Act of 2003.



- iii. Type “C” results when the IRS notifies the withholding agent that the client has underreported on their tax return. The withholding only occurs on interest (including OID) and dividend payments.
- iv. Type “D” results when the client has not properly mentioned that he/she is subject to Type “C” withholding on the new account documentation. The withholding only occurs on interest (including OID) and dividend payments.
- If any type of backup withholding occurs in the account, it is required to be reported on the appropriate form 1099 regardless of the amount withheld. The \$10 de minimus rule does not apply when backup withholding has been done on an account.

6. What about options?

- The IRS does not currently require options to be reported on form 1099-B. However due to many clients investing in options, Penson will provide this information in a year end tax statement so clients can more easily complete their tax return.
- Although option transactions are not required to be reported on a form 1099-B, the client is still responsible for reporting any capital gain earned from option transactions on their tax return.

7. What happens when a client has the wrong TIN reported on the 1099?

- Please have the broker contact Penson’s tax department so it can be corrected and a new form can be generated with the correct 1099. Because there will be no cash effect from the change, Penson will just issue a corrected 1099 form, and not the year end statement.

8. Where can I find additional information?

- All the information provided above is from the IRS website, www.irs.gov. Any additional detail can be found on their website. Several helpful instructions and publications are:
 - i. 2004 General Instructions for Forms 1099, 1098, 5498, and W-2G
 - ii. 2004 Instructions for Form 1099-B
 - iii. 2004 Instructions for Form 1099-DIV
 - iv. 2004 Instructions for Form 1099-INT and 1099-OID
 - v. 2004 Instructions for Form 1099-MISC
 - vi. 2004 Instructions for Form 1099-R and 5498
 - vii. Pub 550 Investment Income and Expenses
 - viii. Pub 575 Pension and Annuity Income
- Specific instructions for reporting the income are listed on the “2004 Tax Information Guide” included as a statement insert with the 1099 and Year End Tax Statements for tax year 2004.