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IRS Form 1099 Reporting: Forms 1099-B, 1099-DIV, 1099-INT and 1099-OID, 1099-S and 1099-R

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EDUCATION SERVICES

I. Form 1099-B

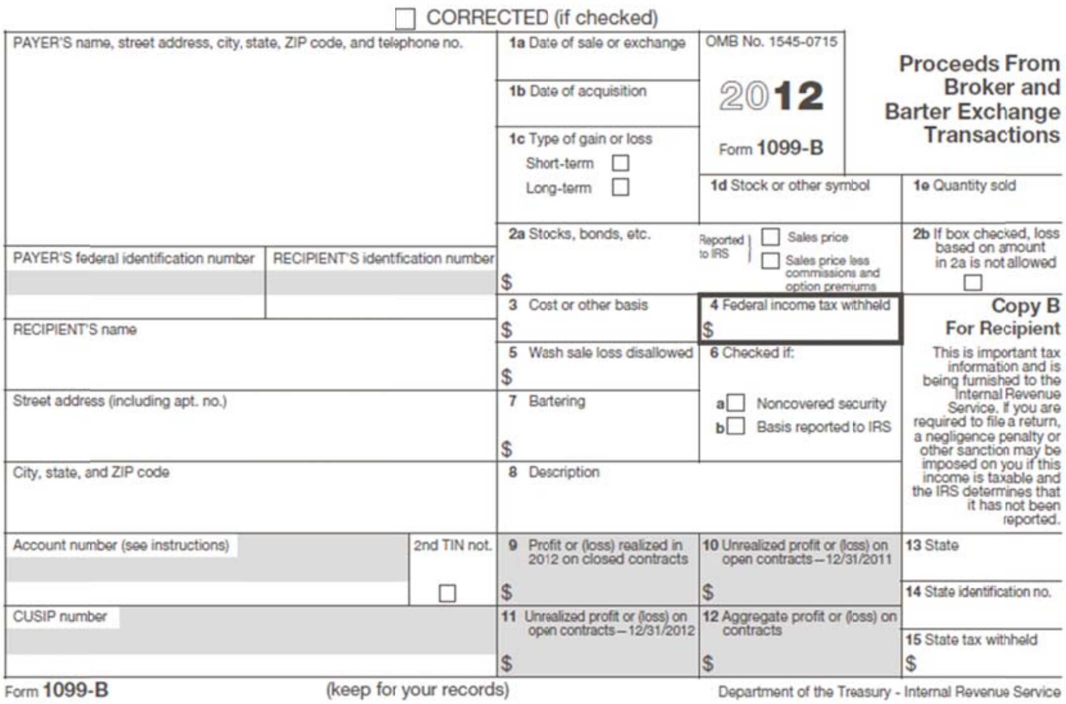
Form 1099-B is used to report sales of stocks, bonds, commodities, mutual fund transactions, etc. Form 1099-B may also be issued to people involved in bartering through a barter exchange. A 1099-B is not issued on private bartering, such as an accountant bartering with a painter in exchange for services (but a 1099-MISC may need to be issued!).

The rules regarding Form 1099-B and stock transactions changed in 2011. Brokerages are now required to track a stockholder's basis. This sounds like a great convenience. Sometimes the stock has been held for decades and the stock has spun-off several times, and the taxpayer doesn't have any of those old records.

The problem is, the basis reporting requirements only apply to stock purchased in 2011 or later. Taxpayers will still be responsible for determining basis in their old stocks.

Example: Joe bought shares of stock in Company X in 2010. He bought more shares of stock in Company X in March 2011. He sells all of the Company X stock in August 2012. The broker has two options for reporting the sale: report the sale of the 2010 stock on one 1099-B and the 2011 stock on a second 1099-B, or report on one 1099-B. If the broker sends separate forms, then the form reporting the sale of the 2011 stock will need to show basis. If reported on one form, the broker will only need to report the basis of the 2011 stock. Either way, Joe will still need to have a record of his basis in the 2010 stock so he can properly report the transaction on his tax return.

Note that many brokerages *do* track a taxpayer's basis in stock purchased before 2011, and will provide that information to the taxpayer. But the brokerage is not required to report that basis to the IRS on the 1099-B when the stock is sold.



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no.

1a Date of sale or exchange

1b Date of acquisition

1c Type of gain or loss
Short-term ☐
Long-term ☐

OMB No. 1545-0715

2012

Form 1099-B

Proceeds From Broker and Barter Exchange Transactions

1d Stock or other symbol

1e Quantity sold

PAYER'S federal identification number

RECIPIENT'S identification number

2a Stocks, bonds, etc.
$

Reported to IRS ☐ Sales price ☐ Sales price less commissions and option premiums

2b If box checked, loss based on amount in 2a is not allowed ☐

RECIPIENT'S name

3 Cost or other basis
$

4 Federal income tax withheld
$

Copy B For Recipient

5 Wash sale loss disallowed
$

6 Checked if:
a ☐ Noncovered security
b ☐ Basis reported to IRS

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Street address (including apt. no.)

7 Bartering
$

City, state, and ZIP code

8 Description

Account number (see instructions)

2nd TIN not. ☐

9 Profit or (loss) realized in 2012 on closed contracts
$

10 Unrealized profit or (loss) on open contracts—12/31/2011
$

13 State

14 State identification no.

CUSIP number

11 Unrealized profit or (loss) on open contracts—12/31/2012
$

12 Aggregate profit or (loss) on contracts
$

15 State tax withheld
$

Form 1099-B (keep for your records) Department of the Treasury - Internal Revenue Service

In practice, Form 1099-B is rarely as clean as shown above. Brokerages will typically issue a substitute form that will be a jumble of rows and columns showing information relating to the stock sales.

<u>Form 8949</u>

Before 2011, stock sales and other asset sales were reported directly on Schedule D. But in 2011, along with Form 1099-B, the IRS unveiled a new tax form that goes along with the 1099-B and is used in conjunction with Schedule D.

The new form is called Form 8949. Form 8949 is used to itemize asset sales. The end numbers on Form 8949 then flow through to Schedule D.

Form 8949 is divided into two sections (short-term and long-term) with three reporting options for each section. The reporting options are:

- Sale reported on Form 1099-B and basis reported to IRS
- Sale reported on 1099-B but basis not reported on the form
- Sale not reported on a 1099-B

When reporting asset sales on Form 8949, taxpayers must look at the 1099-B to see: 1) if the gain or loss from the sale is short-term or long-term, and 2) if the basis was reported to the IRS on the form.

Short-term sales are reported on page 1 of Form 8949; long-term sales are reported on page 2. From there, taxpayers must check the appropriate box on the page, showing whether or not the basis was reported to the IRS.

> *Example: Joe receives a 1099-B for stock transactions that took place in 2012. Some of the short-term transactions had the basis reported to the IRS, and some did not. Same goes for the long-term transactions. Joe also sold a piece of real estate that was a long-term asset and was not reported on a 1099-B. Joe will need to file FIVE separate Forms 8949:*
>
> - *Page 1 of Form 8949 for the short-term sales with basis reported on 1099-B,*
> - *Page 1 of Form 8949 for the short-term sales with basis not reported on 1099-B,*

- *Page 2 of Form 8949 for the long-term sales with basis reported on 1099-B,*
- *Page 2 of Form 8949 for the long-term sales with basis not reported on 1099-B, and*
- *Page 2 of Form 8949 for the long-term sale that was not reported at all on a 1099-B.*

Some taxpayers have dozens – or even hundreds or thousands – of stock transactions. Previously, the instructions to Form 8949 stated that each of these transactions needed to be itemized. An option existed (and still exists) for taxpayers (or their tax preparers) who didn't wish to key in each transaction, to summarize the totals from the 1099-B and then mail the IRS the detail to the IRS.

New for 2013 tax returns, taxpayers could avoid filing a Form 8949 and instead just report totals on Schedule D if all of the stock transactions were transactions where basis was reported to the IRS and there were no adjustments to make to the information on Form 1099-B.

Many brokerage firms can provide a file that can be imported into many types of tax software that will automatically populate the details from Form 1099-B and saving keystrokes when preparing the tax return.

There are more than a dozen codes that can be entered on Form 8949 as adjustments if the detail provided on the Form 1099-B is incorrect. Examples include "Code W" for non-deductible losses due to the "wash sale" rules, and "Code B" for adjustments being made because the information on Form 1099-B was incorrect.

One important note: even if the Form 1099-B contains an error in sale price, it is important to report the sale price exactly as shown on the 1099-B so that you avoid matching issues with the IRS computers. Report the sale as shown on the 1099-B and then enter adjustments in the "adjustment" column.

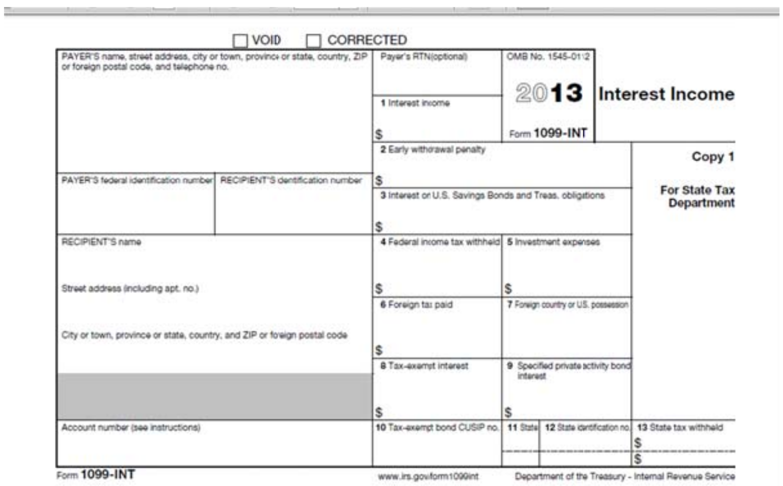
Complete list of Form 8949 codes and their meaning:

- Code B: used when the basis shown on Form 1099-B is wrong. The 1099-B basis should be reported in the basis box, and then adjustments to basis are made in the adjustment column using Code B.
- Code C: used when the taxpayer disposes of collectibles.
- Code E: used when selling expenses or option premiums that were not reported on Form 1099-B but that need accounted for.
- Code H: used when a taxpayer needs to report the sale of their home on their tax return (such as if they receive a 1099-S) but the sale is not taxable due to the capital gain exclusion rules.
- Code L: used when a loss on Form 1099-B is non-deductible for some reason other than under the "wash sale" rules (see Code W).
- Code M: used when reporting multiple sales on one line. Use of this code requires details to be sent to the IRS separately.
- Code N: used when the taxpayer is a nominee. In other words, the taxpayer is the middleman for a transaction that actually belongs to someone else.
- Code O: used when the taxpayer has an adjustment that is not covered by any of the other codes in this list.
- Code Q: used when the taxpayer sells stock that is "qualified small business stock" and some or all of the gain from the sale is not taxable.
- Code R: used when a taxpayer is postponing gain relating to certain types of stock.
- Code S: used when the taxpayer is claiming a loss on the sale of qualified small business stock and the loss is more than can be deducted as an ordinary loss.
- Code T: used when the 1099-B is incorrect as to whether the sale is short-term or long-term.
- Code W: used when a loss on Form 1099-B is not deductible due to "wash sale" rules.

- Code X: used when a taxpayer sells property that qualifies for exclusion from income under special rules for certain “community assets.” See the instructions to Schedule D for more information.

II. Form 1099-INT

Form 1099-INT is issued to a taxpayer who receives $10 or more in interest income from a bank during the year.


VOID CORRECTED

PAYER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone no.

Payer's RTN(optional)

1 Interest income $

OMB No. 1545-0112

2013

Form 1099-INT

Interest Income

2 Early withdrawal penalty $

Copy 1

For State Tax Department

PAYER'S federal identification number

RECIPIENT'S identification number

3 Interest on U.S. Savings Bonds and Treas. obligations $

RECIPIENT'S name

4 Federal income tax withheld $

5 Investment expenses $

Street address (including apt. no.)

6 Foreign tax paid $

7 Foreign country or U.S. possession

City or town, province or state, country, and ZIP or foreign postal code

8 Tax-exempt interest $

9 Specified private activity bond interest $

Account number (see instructions)

10 Tax-exempt bond CUSIP no.

11 State

12 State identification no.

13 State tax withheld $ $

Form 1099-INT www.irs.gov/form1099int Department of the Treasury - Internal Revenue Service

Box 1 reports basic interest income and should be reported on Line 8 of the taxpayer’s Form 1040. If the total amount of interest and dividends received during the year is more than $1,500, the amount from Box 1 will also need shown on Schedule B.

Box 2 reports early withdrawal penalties. This will usually be applicable on early withdrawals from a CD. The penalty is deductible on Line 30 of Form 1040.

Box 3 reports interest from U.S. Savings Bonds and Treasury obligations. Interest from these sources is generally taxable as interest income on the federal tax return, but is usually not taxable on the state tax return.

Box 4 reports any federal income taxes that were withheld on the interest payment.

Box 5 reports investment expenses related to the interest income. These expenses may or may not be deductible on the taxpayer's tax return.

Boxes 6 and 7 relate to foreign taxes paid, and the country the taxes were paid to. Taxpayers may qualify for a credit on their tax return for the foreign taxes paid.

Box 8 reports tax-exempt interest. This interest usually relates to municipal bonds issued by states or cities and is not taxable on the federal return. This interest may or may not be taxable on the state return.

Box 9 reports interest from "private activity bonds." This interest is not taxable for "regular" federal income tax purposes, but <u>is</u> included as taxable income for purposes of the alternative minimum tax.

This is all fairly straightforward, but lenders should be aware of the rule relating to prizes given to people who open accounts. For example, giving a gift bag to someone who opens a new savings account.

These gifts may be considered interest income and would need to be reported along with the taxpayer's other interest income on Form 1099-INT.

Whether or not a gift needs reported on Form 1099-INT depends on the value of the gift in relation to the initial deposit amount of the account:

- For deposits of less than $5,000, a gift of $10 or more would need reported on Form 1099-INT.

- For deposits of more than $5,000, a gift of $20 or more would need reported on Form 1099-INT.

For purposes of determining the value of the gift, the IRS says to use the cost to the bank. For example, if the bank gives away a toaster, and the toaster cost the bank $25, the reportable value of the gift would be $25.

<u>Form 1099-DIV</u>

Form 1099-DIV reports dividends a taxpayer receives during the year. It is issued when the dividends received total $10 or more.

Boxes 1a and 1b report total dividends received (Box 1a) and qualified dividends received (Box 1b). Qualified dividends are dividends that qualify for preferential tax rate treatment (taxed at 0% for taxpayers in the 10% and 15% tax brackets; taxed at 15% for taxpayers in higher tax brackets).

Box 2a reports capital gain distributions. These distributions are taxable as capital gains on the Form 1040 and are treated as long-term capital gains. Boxes 2b, c and d refer to different types of capital gains, if the gain needs to be treated as something other than a typical long-term capital gain.

Box 3 reports non-dividend distributions. These distributions are typically not taxable but instead reduce the taxpayer's basis in their stock.

Boxes 4, 5 and 6 refer to federal income tax withheld, investment expense, and foreign taxes paid, respectively.

As with tax-exempt interest, taxpayers may have investments in municipal holdings that produce dividends that are completely tax-exempt (Box 10) or dividends that are tax-exempt for regular tax purposes but not for the alternative minimum tax (Box 11).

Form 1099-OID

Form 1099-OID reports "original issue discount." OID is defined as the difference between the stated value of an investment at maturity over its value when it is issued. OID is usually treated as interest income in the year received.

Form 1099-S

Form 1099-S is issued for the sale of real estate. A few exceptions exist:

1. The sale of a taxpayer's principal residence when the taxpayer qualifies to exclude the capital gain. The sale price must be less than $250,000 for a single person or $500,000 for a married couple. The person responsible for closing the sale must obtain a statement from the seller(s) stating that the taxpayer(s) qualify for the exclusion.
2. The seller is a corporation.
3. The transaction is a gift or bequest rather than a true sale.
4. A repossession as part of a foreclosure.
5. The transaction is for less than $600.

In the author's experience, a Form 1099-S is sometimes issued on a home sale even when the taxpayer qualifies for the capital gain exclusion referenced in exception 1 above.

In this case, the taxpayer would need to report the transaction on Form 8949, and use Code H to show that the sale is not taxable.

Form 1099-R

Form 1099-R reports distributions from retirement accounts such as 401(k) plans or IRAs. For businesses with a retirement plan, the third-party administrator will typically handle the issuance of the 1099-R. It’s important for businesses to remember, though, that the business is ultimately responsible for getting the form issued.