

# 2011 Tax Guide

## Important Year-end Tax Information

This 2011 year-end tax guide is a reference tool designed to assist you or your tax advisor with the preparation of your federal and state income tax returns.

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This guide is intended to be used as a reference only; it is not a complete source of general tax information. Please also refer to the 2011 tax reporting documents that are enclosed. You should consult your tax advisor regarding your specific tax return requirements.

## What's New for 2011 Tax Reporting?

Effective January 1, 2011, the Emergency Stabilization Act of 2008 amended the Internal Revenue Code to mandate that all brokers, banks, transfer agents, and other financial intermediaries begin providing taxpayers and the IRS with accurate gain and loss information when securities are sold. The adjusted cost basis and whether any resulting gains or losses were long-term or short-term is reportable on Form 1099-B for any covered security.

Types of securities covered by the legislation include stock in a corporation, notes, bonds, and any other financial instrument for which the IRS determines reporting adjusted basis is appropriate. For 2011, covered securities under the new legislation include only

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### Dividends & Distributions (1099-DIV)

Form 1099-DIV reports all ordinary dividend income (qualified and non-qualified), return-of-capital distributions, capital gain distributions, partial liquidations and short-term capital gain distributions. Dividends paid on money market and bond funds are non-qualified dividends.

You should reduce your cost (or other basis) by the amount of any return of capital distribution for the purposes of calculating the gain or loss when the security is sold. Once you have received an amount equal to your cost (or other basis) for the security, further distributions are taxable as capital gain.

### Interest Income (1099-INT)

Form 1099-INT includes interest paid from corporate bonds, federal agency bonds, credit balances, commercial paper, tax-exempt dividends, taxable and tax-exempt municipal bonds. The rebate fee earned on short security positions in your account will be included. Municipal bond interest is generally not taxable if it relates to a debt obligation issued by the state or locality. However, some municipal bond interest may be taxable for federal tax purposes.

Interest earned on discounted short-term obligations sold prior to maturity, including U.S. Treasury bills, are included in gross proceeds on Form 1099-B and supporting tax reporting documents. Such interest is not reported on Form 1099-INT. Accrued interest earned on the sale of bonds is reported as interest income on the settlement date. Accrued interest paid by you on bond purchases is included on the detailed income statement as "short accrued interest" and is not deducted from the total interest reported.

equities acquired on or after January 1, 2011. Effective January 1, 2012, regulated investment companies and equities acquired in connection with a dividend reinvestment plan purchased in 2012 will be covered. Effective January 1, 2013, fixed income and option products purchased in 2013 will be covered.

Under the new cost basis reporting law, a short sale opened during 2011 or later will be reported when a security is delivered to close the short sale. The adjusted basis of the acquired security and whether the gain or loss is long-term or short-term will be reported on Form 1099-B on the close of the short sale. Short sales opened before 2011 are not subject to reporting on the close.

### Gross Proceeds (1099-B)

Form 1099-B reports both gross proceeds and changes in corporate control and capital structure, net of commissions, on a trade or effective date basis. Any sale with a 2011 trade date settling in January 2012 will be recorded on the 2011 Form 1099-B. If federal income tax (TEFRA) was withheld, it is deducted on settlement date and will not be reported until 2012. Proceeds from Treasury bills sold before redemption are reportable on Form 1099-B. Accrued interest earned as part of the gross proceeds on a bond sale is reported separately on Form 1099-INT based on settlement date. Principal payment for mortgage and asset backed securities is reported on Form 1099-B based on effective date.

### Original Issue Discount (1099-OID)

Form 1099-OID reports OID interest based on the assumption that the debt instrument was bought on the date it was originally offered to the public at the initial offering price. OID represents the difference between the stated redemption price at maturity and the original issue price of the bond, debenture, note or other debt instrument. OID is reported as it accrues, whether or not any payments are received prior to maturity. OID is taxable over the life of the obligation and is calculated based upon the number of days during the year that you actually held the security.

If the debt instrument was not bought at original issue price, an adjustment to the amount reported on Form 1099-OID may be necessary when preparing your tax return. However, the amount reported on Form 1099-OID should be included on Schedule B of your federal income tax return and adjusted based on your cost. We recommend that you obtain a copy of IRS Publication 1212 and/or consult with your tax advisor.

**Reminder: Please review all information on your 1099 forms and detailed income statement. While we verify the information reported, reclassification of income by an issuer such as a mutual fund may necessitate a corrected Consolidated Form 1099. If you hold mutual funds, REIT securities and/or widely held fixed investment trust, you may wish to consider this before filing your return. If you have any questions relating to the information reported or believe there is an error, immediately contact your Account Executive (AE). In addition, we suggest that you discuss your tax reporting questions with a qualified tax advisor.**

## Miscellaneous Income (1099-MISC)

Form 1099-MISC reports information on rent, royalty income (K-1 was not issued), non-employee compensation, substitute payments, attorney fees and other income.

## Collateralized Obligations and Widely

## Held Fixed Investment Trusts

## (REMIC/CMO/UIT/WHFIT Information)

WHFITs are fixed investment trusts where at least one interest in the trust is held by a middleman on behalf of the owner of the trust. There are two unique subcategories: Widely Held Mortgage Trusts (WHMTs) and Non-Mortgage Widely Held Fixed Investment Trusts (NMWHFITs). WHMTs are mortgage-backed security (MBS) pools issued by agencies such as Fannie Mae, Ginnie Mae and Freddie Mac. NMWHFITs are unit investment trusts (UITs), royalty trusts,

commodity trusts or HOLDRS trusts. WHFIT reporting is based on when the income was received by the trust entity, rather than when it was paid out to the interest holder. Any WHFIT that returns part of your investment as principal payment will be reported on Form 1099-B. Since income from WHFITs is reported on an accrual (not cash) basis, the taxable income might be different than the cash you received during the year.

The WHFIT information will be included in Forms 1099, where applicable and/or in supplemental information schedules. Related information may include items of income, expense and credit; non-pro-rata principal payments; detail of asset sales and dispositions; redemptions and sales of WHFIT interests; information regarding bond premium and market discount; and other information necessary for a trust interest holder to report.

**REMIC/CDO/CMO/WHFIT/UIT statements will be mailed by March 15, 2012, because of the time it takes issuers to calculate the required tax reporting information. If you hold these securities in your account, you may expect to receive an updated tax package after the initial mailing.**

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## Frequently Asked Questions

### What do I do if the 2<sup>nd</sup> TIN Notice box is checked?

A notice received from the Internal Revenue Service twice within three years states that the combination of your name and taxpayer identification number (TIN) is incorrect and third party verification is required. If you have a social security number (SSN), contact the Social Security Administration (SSA) office and request a printout verifying your name and SSN.

If you have an employee identification number (EIN), request for Letter 147C from the IRS. Please forward the documentation to your Account Executive (AE) via mail or email for processing. In accordance with IRS regulations, failure to correct an SSN or EIN will result in government-required backup withholding tax on all reportable transactions.

### What are ADR fees?

A fee deducted on dividend payments from foreign securities held by a U.S. depository bank and traded on U.S. stock markets.

### Why do the December monthly statement and Form 1099-DIV totals differ?

Dividends from certain mutual funds and REITs are considered taxable income when declared, but not reflected on the monthly statement until the dividend is paid. This may present a timing issue. For example, if a dividend is declared in December but is not paid until January, the dividend may be reportable on your 2011 Form 1099-DIV, but it will appear on your January 2012 monthly statement.

### Why did I have federal income tax withheld?

Federal income tax was withheld either as an IRS mandate or you did not provide certification of your TIN.

### What are short charges?

If a borrowed stock pays a dividend, the short seller is responsible for paying a distribution to the person or firm making the loan.

### Why didn't I receive a Form 1099-DIV/INT when I know I received dividend payments throughout the year?

Your account may be deemed exempt from Form 1099 reporting, or if the amount of dividends/interest received for the year was less than \$10, we do not generate a Form 1099.

### How are capital gains distributions reported?

Capital gains distributions are reported separately on Form 1099-DIV. The detailed income statement that is enclosed with your 2011 Consolidated Form 1099 categorizes the type of income received for each security distribution.

### What is the difference between covered and noncovered on my Form 1099-B?

Covered means that the security is an equity that was purchased in 2011, and the basis is reportable on Form 1099-B. Noncovered securities are non-equities, equity securities that are regulated investment companies or acquired in connection with a dividend reinvestment plan, and equity securities purchased prior to 2011. The basis in noncovered securities is not reportable on Form 1099-B.

**What are other types of reportable information?**

If you received a Consolidated Form 1099 with an account number beginning in 158 or 159 and AE number of "IMY," you are a beneficial owner in a non-qualified intermediary/non-withholding foreign partnership account held at J.P. Morgan Clearing Corp. The name, address and account number of the non-qualified intermediary/non-withholding foreign partnership account will appear at the end of the detailed income statement.

If your primary address is in the state of California, Connecticut, Minnesota or New York, J.P. Morgan Clearing Corp. is required to file a report of municipal bond interest statement. Residents of Puerto Rico will receive a Form 480.6A and 480.6B by February 29, 2012.

If you had transactions in foreign currency (e.g., yen or euros), your gross proceeds, dividends and interest will be converted to U.S. dollars on the trade or effective date.

Futures are reported on a separate 1099 Form.

**Why do the December statement and 1099-INT totals differ?**

Interest related to Real Estate Mortgage Investment Conduit (REMICs), Financial Asset Securitization Investment Trust (FASITs) and Collateralized Mortgage Obligation (CMOs) is not included on the original Form 1099; instead it will be recalculated on an accrual basis and reported on a corrected Form 1099-INT no later than March 15, 2012.

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**Contact Information**

**Tax Reporting Hotline**

*General inquiries, withholding tax (TEFRA, NRA), Form 1099, Form 1042S*

**(Please refer to the contact number on the first page of your tax form.)**

**Retirement Services**

*General inquiries, Form 1099-R, IRA Distributions*

(347) 643 - 9603

**Internal Revenue Service (IRS)**

(800) 829 - 1040

[www.irs.gov](http://www.irs.gov)

**Social Security Administration (SSA)**

(800) 772 - 1213

[www.ssa.gov](http://www.ssa.gov)

**What is not reported on this 1099?**

Master limited partnership (MLP) and limited liability company (LLC) distributions will be reported by the MLP/LLC on schedule K-1, which will be mailed directly to you when it becomes available.

Margin interest paid by you, short accrued interest, short debit fees, purchases and principal accretions (increase in your holding of a REMIC or CMO with a Z tranche), are listed under the applicable category of the detailed income statement.

**Why would I receive an amended Consolidated Form 1099?**

A newly signed W-9 Form, changing SSN or EIN reflected on the original 2011 Consolidated Form 1099, was received.

You owned REMICs, CMOs, WHFITs, or UITs.

Your mutual funds and/or REITs you own declared a dividend in the last quarter of 2011 that was not payable until January 2012.

You owned stock in a corporation that had a change in control or a substantial change in capital structure and the corporation has reasonably determined that you may be required to report a gain from the exchange. In accordance with IRS regulations, J.P. Morgan Clearing Corp. must forward to you this information on Form 1099-B. J.P. Morgan discovered a reporting error that made it necessary to issue a revised Consolidated Form 1099.

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