

2001



Department of the Treasury
Internal Revenue Service

Instructions for Form 1099-DIV

Section references are to the Internal Revenue Code.

What's New for 2001?

For tax years beginning after 2000, section 1(h)(2) reduces the 10% capital gains rate to 8% for qualified 5-year gain. Box 2c, **Qualified 5-year gain**, was added to Form 1099-DIV to report qualified 5-year gain that is included as a capital gain distribution in box 2a. In addition, boxes 2c and 2d were renumbered 2d and 2e. See **Qualified 5-year gain** below.

An Item To Note

In addition to these specific instructions, you should also use the **2001 General Instructions for Forms 1099, 1098, 5498, and W-2G**. Those general instructions include information about:

- Backup withholding
- Magnetic media and electronic reporting requirements
- Penalties
- When and where to file
- Taxpayer identification numbers
- Statements to recipients
- Corrected and void returns
- Other general topics

You can get the general instructions from the IRS Web Site at www.irs.gov or by calling 1-800-TAX-FORM (1-800-829-3676).

Specific Instructions for Form 1099-DIV

File **Form 1099-DIV**, Dividends and Distributions, for each person:

- To whom you have paid dividends (including capital gains dividends) and other distributions on stock of \$10 or more,
- For whom you have withheld and paid any foreign tax on dividends and other distributions on stock,
- For whom you have withheld any Federal income tax under the backup withholding rules, or
- To whom you paid \$600 or more as part of a liquidation.

Dividends

If you make a payment that may be a dividend but you are unable to determine whether any part of the payment is a dividend by the time you must file Form 1099-DIV, the entire payment must be reported as a dividend. See regulations under section 6042 for a definition of dividends.

Taxable dividend distributions from life insurance contracts are reported on **Form 1099-R**, Distributions From Pension, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., not on Form 1099-DIV.

An exempt-interest dividend from a regulated investment company retains its tax-exempt status and is not reported on Form 1099-DIV or **1099-INT**, Interest Income.

TIP *Certain distributions commonly referred to as "dividends" are actually interest and are to be reported on Form 1099-INT. These include so-called "dividends" on deposit or on share accounts in cooperative banks, credit unions, domestic building and loan associations, domestic and Federal savings and loan associations, and mutual savings banks.*

Section 404(k) Dividend

Report on Form 1099-DIV dividends distributed under section 404(k) on stock held by an employee stock ownership plan (ESOP) or a tax credit ESOP. If a section 404(k) distribution is made in the same year as a total distribution from the ESOP, you may report the entire amount on Form 1099-R or you may report the dividends on Form 1099-DIV and the remaining amount on Form 1099-R.

TIP *Section 404(k) dividends are not subject to backup withholding.*

Exceptions

You are **not** required to file Form 1099-DIV for payments made to certain payees including a corporation, tax-exempt organization, any IRA, U.S. agency, state, the District of Columbia, U.S. possession, or registered securities or commodities dealer.

Substitute Payments in Lieu of Dividends

For payments received by a broker on behalf of a customer in lieu of dividends as a result of the transfer of a customer's securities for use in a short sale, see **Box 8** in the **2001 Instructions for Form 1099-MISC**.

RICs and REITs

Dividend payment delayed until January. If a regulated investment company (RIC) or a real estate investment trust (REIT) declares a dividend in October, November, or December payable to shareholders of record on a specified date in such a month, the dividends are treated as paid by the RIC or REIT and received by the shareholders on December 31 of such year as long as the dividends are actually paid by the RIC or REIT during January of the following year. Report such dividends on Form 1099-DIV for the year preceding the January they are actually paid. See sections 852(b)(7) and 857(b)(8).

If such a dividend paid in January is subject to backup withholding, withhold when the dividend is actually paid. Therefore, backup withhold in January, deposit the withholding when appropriate, and reflect it on **Form 945**, Annual Return of Withheld Federal Income Tax, for the year withheld. However, since the dividend is reportable on Form 1099-DIV in the prior year, the related backup withholding is also reportable on the prior year Form 1099-DIV.

Qualified 5-year gain. If any part of the capital gain distribution reported in box 2a is qualified 5-year gain, report the gain in new box 2c, **Qualified 5-year gain**. Qualified 5-year gain is the aggregate long-term capital gain taken into account by the RIC or REIT in a tax year beginning after December 31, 2000, from property held for more than 5 years without regard to collectibles gain, unrecaptured section 1250 gain (described in section 1(h)(7)(A)(i)) from certain depreciable real property, and gain on qualified small business stock (see below).

Qualified small business stock—RICs. Under section 1202, a 50% exclusion may be allowed on the gain from the sale or exchange of qualified small business stock (QSBS) issued after August 10, 1993, and held for more than 5 years. If any part of the capital gain distribution reported in box 2a may qualify for this exclusion (taking into consideration the shareholder's holding

period), report the gain in box 2e, and furnish the recipient a statement that reports separately for each designated section 1202 gain the:

- Name of the corporation that issued the stock that was sold,
- Date(s) on which the RIC acquired the stock,
- Date sold,
- Shareholder's part of the sales price,
- Shareholder's part of the RIC's basis in the stock, and
- Amount of the shareholder's section 1202 gain.

Restricted Stock

For information about reporting dividends on restricted stock, see Rev. Procs. 80-11, 1980-1 C.B. 616, and 83-38, 1983-1 C.B. 773, and Rev. Rul. 83-22, 1983-1 C.B. 17.

Statements to Recipients

If you are required to file Form 1099-DIV, you must provide a statement to the recipient. For information about the requirement to furnish an official or acceptable substitute Form 1099-DIV to recipients in person or by statement mailing, see part H in the **2001 General Instructions for Forms 1099, 1098, 5498, and W-2G**.

2nd TIN Not.

You may enter an "X" in this box if you were notified by the IRS twice within 3 calendar years that the payee provided an incorrect taxpayer identification number (TIN). If you mark this box, the IRS will not send you any further notices about this account.

Box 1. Ordinary Dividends

Enter ordinary dividends, including dividends from money market funds, net short-term capital gains from mutual funds, and other distributions on stock. Include reinvested dividends and section 404(k) dividends. Include the recipient's share of investment expenses that you report in box 5. An S corporation reports as dividends on Form 1099-DIV **only** distributions made during 2001 out of accumulated earnings and profits. See section 1368 for more information.

Box 2a. Total Capital Gain Distr.

Enter total capital gain distributions (long-term). Include all amounts shown in boxes 2b, 2c, 2d, and 2e.



For more information about reporting amounts in boxes 2a through 2e, see Notice 97-64, 1997-2 C.B. 323, and section 1(h).

Box 2b. 28% Rate Gain

Enter any amount included in box 2a that is a 28% rate gain from sales or exchanges of collectibles.

Box 2c. Qualified 5-Year Gain

Enter any amount included in box 2a that is a qualified 5-year gain. See **Qualified 5-year gain** on page DIV-1.

Box 2d. Unrecap. Sec. 1250 Gain

Enter any amount included in box 2a that is an unrecaptured section 1250 gain from certain depreciable real property.

Box 2e. Section 1202 Gain

Enter any amount included in box 2a that is a section 1202 gain from certain qualified small business stock. See **Qualified small business stock—RICs** on page DIV-1.

Box 3. Nontaxable Distributions

Enter nontaxable distributions, if determinable.



File Form 5452, Corporate Report of Nondividend Distributions, if you pay nontaxable distributions to shareholders.

Box 4. Federal Income Tax Withheld

Enter backup withholding. For example, if a recipient does not furnish its TIN to you in the manner required, you must backup withhold at a 31% rate on certain dividend payments reported on this form.

Box 5. Investment Expenses

Enter the stockholder's pro rata share of certain amounts deductible by a nonpublicly offered RIC in computing its taxable income. This amount is includible in the stockholder's gross income under section 67(c) and must also be included in box 1.

Box 6. Foreign Tax Paid

Enter any foreign tax withheld and paid on dividends and other distributions on stock. A RIC must report only the amount it elects to pass through to the shareholder. Report this amount in U.S. dollars.

Box 7. Foreign Country or U.S. Possession

Enter the name of the foreign country or U.S. possession to which the withheld tax applies.



Boxes 8 and 9 apply only to corporations in partial or complete liquidation.

Box 8. Cash Liquidation Distr.

Enter cash distributed as part of a liquidation. Do not include this amount in box 1.

Box 9. Noncash Liquidation Distr.

Enter noncash distributions made as part of a liquidation. Show the fair market value as of the date of distribution. Do not include this amount in box 1.