

## Guide for Consolidated Form 1099

We have prepared this guide to help you understand your 2011 Consolidated Form 1099. It explains the information that Penson Financial Services Inc. ("Penson") will report on your Consolidated Form 1099 to the Internal Revenue Service as well as your 2011 investment activity with your broker.

Penson Financial Services Inc. does not provide tax advice. Questions concerning how this Consolidated Form 1099 affects the preparation of your tax return should be referred to your accountant, a qualified tax advisor, or the Internal Revenue Service. If you have questions regarding the information reported on your Consolidated Form 1099, please call your representative or the number on your Consolidated Form 1099.

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### IRS Consolidated Form 1099

Your IRS Consolidated Form 1099 reflects all the information that will be reported to the IRS for your account, including any tax withheld. The dividend and interest figures may not be identical to the summary shown on your December monthly statement for a variety of reasons which will be discussed later in this brochure.

**It is important that you check the name and taxpayer identification number to ensure that they are accurate.** If the name or the taxpayer identification number is incorrect, please provide us with a new IRS Form W-9, Request for Taxpayer Identification Number and Certification, which can be obtained from your broker or on the IRS Web site at [www.irs.gov](http://www.irs.gov) by March 15. These steps will help avoid backup withholding that is required when information is incorrect or does not match the record of the IRS or Social Security Administration.

### Mailing Deadline for 1099 Forms

A portion of the Emergency Economic Stabilization Act of 2008 extended the deadline for the mailing of original 1099 tax information statements from January 31 to February 15. This will allow for some accounts to be mailed their 1099 at January month end, while allowing accounts with income subject to reclassification to receive the most updated information on their original 1099.

### Income Reclassification

Although we provide our most current information on your Consolidated Form 1099, an issuer may reclassify income distributions at any time after the form has been mailed to you or after forms have been filed with the IRS and with your state. For example, income reported as a dividend may be reclassified by an issuer as a capital gain, or a dividend may be reclassified as one that qualifies for a reduced tax rate. If there is a reclassification or change, Penson will send you a corrected Form 1099 after we receive the new information from the company. Companies may make the final tax status of their payments at any point, even after forms have been produced or filed. Mutual Funds, Real Estate Investment Trusts (REITs), and utilities are among the issuers that will often change the classification of their distributions. Although these are the most likely security types, any security may reclassify its income. If you own any of the securities mentioned, it may be practical to file your return on or after April 1, 2012. We are not responsible for expenses you may incur due to the reclassification of income by the issuer or its paying agent. Also, please note that aggregate income amounts less than \$10.00, which are considered de minimis, will not be reported on Form 1099-INT, Form 1099-DIV, or Form 1099-OID.

### Qualified Dividends and Capital Gains

Under the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003, the long-term capital gains tax rate for individuals has been reduced for the net capital gains on or after May 6, 2003. The tax rate on many dividends paid to individuals has also been reduced, effective January 1, 2003. Some dividends will not qualify for the reduced tax rate. It is up to the investor and his/her tax advisor to determine which dividends qualify for the new reduced rate. For further explanation, please refer to the Form 1099-DIV section on page 4.

### Backup Withholding

We are required by the IRS to withhold federal income tax, known as backup withholding, from tax reportable income of investors who either failed to provide a taxpayer identification number or a valid certification (IRS Form W-9) of that number. Effective April 1, 2007, tax-exempt interest dividends from a mutual fund or other regulated investment company was also subject to backup withholding. If we reported backup withholding on your Consolidated Form 1099, you may include that amount on your tax return as credit towards your tax liability on line 61 of your Form 1040.

## Reporting of Exempt Income

Under the Tax Increase Prevention and Reconciliation Act of 2005, we are required to report tax-exempt interest. Exempt interest dividends from a mutual fund or other regulated investment company on your IRS Consolidated Form 1099-DIV in box 10. This does not change the tax exemption status of these securities.

## State and Local Tax Reporting

In addition to reporting to the IRS, we are required to provide transaction information to a number of state and local jurisdictions. We are also required to provide year-end account information in certain states. If you reside in one of these states, you may be required to file an intangible tax return or report on income from municipal bonds issued outside your state of residence. Please consult your tax advisor for the reporting requirements in your area.

## Limited Partnership Distributions

Information on your limited partnership distributions come to you directly from the general partner and do not appear on your Consolidated Form 1099. You should receive a Schedule K-1 directly from the partnership sometime in March.

## Exempt Accounts

Corporations and certain other accounts are exempt from tax reporting.

*This is a sample for informational purposes only.*

### 2011 CONSOLIDATED FORM 1099

Account No: 1 123-45678 COURTESY OF 9  
Account Name: John Doe  
Taxpayer ID Number 2 XXX-XX-####

Broker's Name

Account Executive No: 3 ZZZ  
CORRECTED: 4 02/24/12

RECIPIENT'S Name, Street Address, City, State,  
and Zip Code:

Payer's Federal ID Number: 56-1673990 5  
Payer's Name, Street, City, State, and Zip Code:  
**Penson Financial Services Inc.** 6  
1700 Pacific Avenue  
Dallas, TX 75201  
Telephone Number: (123) 456-7890 7

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2<sup>nd</sup> TIN NOTICE 8

## Widely Held Fixed Investment Trusts (WHFITs).

WHFITs include products commonly known as GNMA, FNMA, and Freddie Mac; they also include Unit Investment Trusts (UITs), some Funds (ETFs). Trustees and middlemen of WHFITs are required to report all items of gross income and proceeds on the appropriate Consolidated Form 1099. A tax information statement that includes the information provided to the IRS on Consolidated Forms 1099, and additional information identified in Regulations Section 1.671-5(e) must be furnished to trust interest holders (TIHs). Although an investor may not have received a specific type of income, the investor is still taxed on his or her prorated share. This includes dividends, interest, OID, sales, and expenses. Consolidated Forms 1099 will **never** match the original cash payments received. The Consolidated Form 1099 statement will be based on income received by the trust, not the investor. Safe harbor rules for determining the amount of an item to be reported on a Consolidated Form 1099 and a tax information statement with respect to a TIH in a non-mortgage WHFIT (NMWHFIT) and a widely held mortgage trust (WHMT) can be found in IRS Regulations sections 1.671-5(f) and (g). WHFIT holders may receive a separate WHFIT statement in March.

## UIT Income

If you own a Unit Investment Trust (UIT) that is organized as a Taxable Grantor Trust, the IRS requires that your allocable share of all income and expenses received by the Trust during the year be reported to you. The amount reported on your Forms 1099-INT or Form 1099-DIV (depending on whether the Trust generates interest or dividend income) may be greater or less than the amount actually distributed to you during the year. Due to both the allocation of investment expense/organizational expense and year end income adjustments made by the Trust, actual cash distributed will vary from reported tax income. Income is reportable in the year it is received by the Trust, not in the year it is distributed to unit holders. This may also be referred to as unallocated income. Penson must also include as part of taxable income your allocable share of the amount used to pay trust expenses; expenses of the Trust are deducted from the overall Trust income prior to the distribution of income to the unit holders. In order to report taxable income correctly, your reported income will be increased by an amount representing your share of Trust expenses. Information on how to report investment expenses can be found in IRS Publication 550.

### Consolidated Form 1099

- 1 Your assigned account number with Penson Financial Services, Inc.
- 2 Your Taxpayer Identification Number.
- 3 Your Registered Representative's Identification Number.
- 4 The date the Form 1099 was printed.
- 5 Penson Financial Services, Inc. Taxpayer Identification Number.
- 6 Name and address of payer.
- 7 Customer Service phone number for inquiries.
- 8 If box checked, Penson Financial Services, Inc. has received notice from the IRS twice within three years stating that the name/TIN combination on your account with us is incorrect.
- 9 This area will show your Broker's logo/name.

# Form 1099-INT

## What's New for 2011

Exempt-interest dividends from a mutual fund or other regulated investment company (RIC) are no longer on the 1099-INT. Exempt-interest dividends will now appear on the 1099-DIV in Box 10.

The amounts indicated on the Form 1099-INT section of your Consolidated Form 1099 reflect the taxable interest reportable for tax year 2011. We address specific types of interest income activity below. Aggregate income amounts less than \$10.00 are considered de minimis and are not reported.

### Short -Term Debt Issues

We report on Form 1099-INT the Original Issue Discount (OID) on short-term debt issues with a maturity date of less than one year from the issue date. U.S. Treasury Bills and Discount Commercial Paper are typical examples of short-term OID instruments. The OID is calculated by taking the difference between your purchase price and redemption price. If your purchase price was not available, we used the original issue price for the calculation. You may adjust the interest on Schedule B (Form 1040) if the amount reported is different from your records. Please consult Publication 1212 or your tax advisor for further details.

*This is a sample for informational purposes only.*

### Accrued Interest

If you sold a taxable bond between the interest payment dates, you received accrued interest as part of the sales proceeds. Accrued interest on sale transactions is reported on Form 1099-INT. Accrued interest that you paid in a purchase transaction, however, is not deducted from the total interest reported. You may account for accrued interest paid by completing Schedule B (Form 1040).

### Tax-Exempt Municipal Bond Interest

Tax-exempt municipal bond interest is reported on Form 1099-INT boxes 8 and 9. Some individuals may be subject to Alternative Minimum Tax (AMT). The AMT calculation consists of a flat tax levied on a taxpayer's adjusted gross income, plus tax preference items, minus certain itemized deductions and exemptions. Please consult your tax advisor to determine if you are subject to AMT or visit [www.irs.gov](http://www.irs.gov). See IRS Publication 525, Taxable and Nontaxable Income, for more information.

#### 2011 FORM 1099-INT: INTEREST INCOME (Box)

1	Interest Income not included in box 3	\$ 16,279.53
2	Early withdrawal penalty	-
3	Interest on U.S. Savings Bonds and Treasury obligations	-
4	<b>Federal income tax withheld</b>	-
5	Investment Expenses	-
6	Foreign tax paid	\$ 88.09
8	Tax-Exempt Interest	-
9	Specified private activity bond interest	-
10	Tax-exempt bond CUSIP no.	Various

#### Form 1099-INT (Box Description)

- 1 Taxable interest income, which does not include interest shown in Box 3.
- 2 Forfeited interest income because of early withdrawal of a time deposit.
- 3 Interest income received from U.S. Savings Bonds, Treasury Bills, Treasury Notes and Treasury Bonds. This interest is not included in Box 1.
- 4 Backup withholding from taxable interest paid to the Internal Revenue Service as a tax payment.
- 5 Amount shown is your share of investment expenses of a single-class REMIC. This amount is included in Box 1.
- 6 Foreign taxes withheld by the foreign payer to U.S. citizens on interest income received from foreign corporations.
- 8 Tax-exempt interest of \$10 or more.
- 9 Tax-exempt interest subject to the alternative minimum tax. This amount is included in Box 8.
- 10 CUSIP number for each tax-exempt bond for which interest was reported in box 8. If the tax-exempt interest is reported in the aggregate for multiple bonds "various" will appear.

## Form 1099-DIV

The amounts indicated on the Form 1099-DIV section of your Consolidated Form 1099 reflect ordinary dividends for U.S. and foreign corporations, and mutual funds. Other mutual fund distributions, such as capital gains, and liquidating payments credited to your account are also included. The amounts reported may not constitute total dividend income for the period. For example, if you had shares registered in your name and received a dividend payment directly from the paying agent; you would receive a separate Form 1099-DIV from them. In addition, dividends that were paid directly to you and were later claimed by us are not deducted from the amount reported. Also, aggregate income amounts less than \$10.00 are considered de minimis and are not reported.

### Qualified Dividends

Dividends from most U.S. corporations and foreign corporations (if their stock trades in the U.S.) qualify for the reduced tax rate for individuals. However, there is a holding period requirement that you must meet to qualify for the reduced rate. The stock must have been held for more than 60 days out of the 121-day period beginning 61 days before the stock's ex-dividend date. In addition, the reduced dividend rate applies only to substitute or "in lieu" dividend payments typically paid to shareholders by brokers under margin or securities lending arrangements which permit brokers to borrow shares from investors. The reduced rates do not usually apply to dividends received from money market funds, bond mutual funds, and Real Estate Investment Trusts. Your Form 1099-DIV will indicate which dividends may qualify for the reduced rate, but it is up to the investor to determine which dividends actually qualify for the reduced rate based on your individual tax situation. Dividends on shares that are subject to equity derivative transactions often are not eligible for the reduced rate. Consult with your tax advisor.

*This is a sample for informational purposes only.*

#### 2011 FORM 1099-DIV: DIVIDENDS AND DISTRIBUTIONS (Box)

1a	Total Ordinary Dividends	\$ 6,585.98
1b	Qualified Dividends	\$ 5,412.00
2a	Total Capital Gains Distribution	\$ 1,008.80
2b	Unrecap Sec. 1250 gain	-
2c	Section 1202 gain	-
2d	Collectibles (28%) gain	-
3	Non dividend distributions	-
4	<b>Federal income tax withheld</b>	-
5	Investment Expenses	-
6	Foreign tax paid	\$204.00
8	Cash Liquidation Distributions	-
9	Non Cash Liquidation Distributions	-
10	Exempt-Interest Dividends	-

### Mutual Fund Dividends

Mutual Fund dividends (including money fund dividends) that are paid in 2012 to shareholders of record in the last quarter of 2011 are reportable as income in 2011. Accordingly, we have included these dividends in the figures reported on your Form 1099-DIV, although the dividends were not credited to your account until 2012. For example, mutual fund dividends declared as payable to shareholders of record in December 2011, and paid in January 2012, are taxable as 2011 distributions and reported on your 2011 Form 1099-DIV. Mutual Fund dividends are only eligible for the reduced tax rate if the fund has received qualified dividend income, which can then be passed on to the investor. Most mutual funds do not have this information until after the end of the year when they are determining the rest of their income allocation, which may cause reclassification of your mutual fund dividends. If this occurs, we will send you a corrected Consolidated Form 1099. Exempt interest payments from a mutual fund or RICs are reported on Form 1099-DIV.

Long-term capital gains for mutual funds are reported on Line 2a through Line 2d of the Form 1099-DIV. Short-term capital gains are reported on Line 1a of the Form 1099-DIV, included with the ordinary dividends. Mutual fund owners who have held the security for less than a year may still receive long term capital gains as the long term capital gain distinction comes from the length of time the asset is part of the mutual fund portfolio not the length of time actually held by the investor.

### Foreign Tax

We have included on your Form 1099-DIV the amount of foreign taxes that were withheld from your dividends. Dividend payments to U.S. citizens from foreign corporations are reported to the IRS in the gross amount before reduction of foreign taxes. You are required to report the gross amount on Schedule B (Form 1040) even though you received only the net amount. You may elect, however, to treat the amount of foreign tax paid as a credit on your return or as an itemized deduction. Consult IRS Publication 514 or Form 1116 for its application.

#### Form 1099-DIV (Box Description)

- 1a Total ordinary, taxable dividends (including short-term capital gains). Includes amount in Box 5. Money Market Fund Dividends are reported in this box.
- 1b Portion of the amount in Box 1a that may be eligible for the 15% or 0% tax rate. See Form 1040/1040A instructions.
- 2a Total capital gain distributions received (long-term) from a regulated investment company or real estate investment trust.
- 2b Shows the portion of the amount in Box 2a that is unrecaptured section 1250 gain from certain depreciable real property.
- 2c Portion of the amount in Box 2a that is section 1202 gain from certain small business stock that may be subject to 50% exclusion. See Form 1040 (Schedule D) instructions.
- 2d Shows 28% rate gain from sales or exchanges of collectibles.
- 3 This portion of the distribution is a return of your cost and is usually considered a nontaxable return of capital instead of a taxable dividend. You must reduce your cost by this amount for figuring gain or loss when you sell your stock. See Pub.550, Investment Income and Expenses.
- 4 Backup withholding from taxable income paid to the IRS as a tax payment. Include this amount on your income tax return as tax withheld.
- 5 Shows your share of expenses of a nonpublicly offered regulated investment company. This amount is included in Box 1a.
- 6 Foreign tax withheld by the foreign payer to U.S. citizens on the dividend of a foreign corporation. You may be able to claim it as a deduction or as a credit on Form 1040 Schedule B or Form 1116. Consult Publication 514.
- 8 Cash distribution from the corporation in connection with a partial or complete liquidation.
- 9 Assets received (noncash) from the corporation in connection with a partial or complete liquidation.
- 10 Exempt-interest dividends from a mutual fund or other regulated investment company (RIC).

# Form 1099-B

## What's New for 2011

In 2011, there are new rules regarding basis reporting, short sales of securities, foreign currency and transfer statements. New boxes have been added to Form 1099-B for the date of acquisition of a security (box 1b), cost or other basis (box 3), amount of loss disallowed due to a wash sale (box 5), whether the property sold is a covered or noncovered security (box 6), amount of gain or loss (box 7), and whether the gain or loss is short-term or long-term (box 8).

For 2011, cost or other basis on covered securities is to be reported in box 3. A covered security is a security acquired for cash after 2010, except for stock in which the average basis method is available. A security is also covered if it transferred to an account and the broker or custodian received a transfer statement showing it as covered. A security acquired due to a corporate action is considered covered if the basis of the acquired security is determined from the basis of a covered security.

Up to three 1099-B forms may be received for the same sale depending on the acquisition of the shares sold. One form will display sales or portion of sales that were acquired prior to 2011 for equities (non-covered). One form will display sales that were acquired in 2011 for equities (covered) that have a short-term gain/loss. The third form would be the same as two except for long-term gain or losses.

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Brokers and barter exchanges must report proceeds from transactions to the IRS. Amounts indicated on the Form 1099-B section of your Consolidated Form 1099 reflect proceeds from securities transactions, such as sales, redemptions, tender offers, maturities, mutual fund exchanges, called bonds, return of principal, cash in lieu payments (under \$20 not reported), and similar transactions. Also reported are final principal distributions from matured bonds. Per regulations, all transactions are reported separately. Sales are reported on a trade date basis, although your monthly statements show transactions on a settlement date basis. Below, we address specific reporting situations pertaining to possible activity.

### Short Sales

A short sale entered into after 2010 should only be reported in the year a customer delivers a security to satisfy the short sale obligation. If there was a short sale in your account at the end of 2010 and covered in 2011 it is reported in 2011. If there is a short sale open at the end of 2011, it will be reported in the year when it is covered.

### Foreign Currency

For purchase amounts or sales proceeds in foreign currency, the customer must report the amount of foreign currency in U.S. dollars.

### Transfer Statements

After 2010, (after 2011 for RICs) a security transferred to another broker or custodian must be accompanied by a transfer statement within 15 days after the date has settled. Penalty relief was granted for 2011 for broker/dealers and not all transfers may have received cost basis.

### Wash Sales

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 or acquire substantially identical stock or securities. The amount of the disallowed loss is then added to the shares acquired. Wash sales are only tracked within the same CUSIP. Please consult your tax advisor for any additional wash sale reporting obligations.

### Accrued Interest

Accrued interest you have received from the sale of bonds is not reported as part of gross proceeds. Taxable accrued interest is reported on Form 1099-INT as part of your interest income.

### Municipal Bonds

We are required to report the gross proceeds of sales and redemptions of municipal issues to the IRS, since capital gains on these transactions are taxable.

### Options, Rights, and Warrants

Sales of rights, options, and warrants are not required to be reported on Form 1099-B. Capital gains and losses on these items are required to be reported; this can be reconciled on Schedule D of your Form 1040.

This is a sample for informational purposes only.

**2011 FORM 1099-B: PROCEEDS FROM, BROKER AND BARTER EXCHANGE TRANSACTIONS**

**Box 6: Noncovered**

**Box 8: Type of Gain or Loss:**

(Box 1a)	(Box 1b)	(Box 9)	(Box 2)	Box 3	Box 5	Box 4	Box 15	
Date of Sale or Exch	Date of Acquisition	Description	CUSIP	Stocks, Bonds, etc. Gross proceeds less commission & option premium	Cost or Other Basis	Wash Sale Loss Disallowed	Federal Income Tax Withheld	Loss Not Allowed
02/12/11	05/04/07	COVENTRY CORP QUANTITY: 2,138	222853101	\$ 19,159.88			-	
10/24/11	06/07/09	SUBMICRON SYSTEMS CORP QUANTITY: 125,000	864313AC3	\$ 91,983.30			-	
02/08/11	01/05/08	MORGAN STANLEY QUANTITY: 250	617446448	\$35,189.65			-	
<b>3 ITEMS – Total</b>				<b>\$ 133,800.18</b>			-	

**2011 FORM 1099-B: PROCEEDS FROM, BROKER AND BARTER EXCHANGE TRANSACTIONS**

**Box 6: Covered Securities**

**Box 8: Type of Gain or Loss: Short Term**

(Box 1a)	(Box 1b)	(Box 9)	(Box 2)	Box 3	Box 5	Box 4	Box 15	
Date of Sale or Exch	Date of Acquisition	Description	CUSIP	Stocks, Bonds, etc. Gross proceeds less commission & option premium	Cost or Other Basis	Wash Sale Loss Disallowed	Federal Income Tax Withheld	Loss Not Allowed
01/11/11	01/11/11	***DRYSHIPS INC QUANTITY: 50,000.0000	Y2109Q101	\$268,939.50	\$269,055.95	\$0.00	-	
02/01/11	01/15/11	WEIKANG BIO-TECHNOLOGY GROUP QUANTITY: 2570	948644109	\$2,355.10	\$2,318.14	\$0.00	-	
02/08/11	01/18/11	MORGAN STANLEY QUANTITY: 250	617446448	\$15,179.70	\$14,280.00	\$0.00	-	
<b>3 ITEMS – Total</b>				<b>\$ 28,6474.30</b>			-	

**Form 1099-B (Box Description)**

- 1a Trade date of transaction.
- 1b Date of Acquisition
- 2 Proceeds reported, less commissions and option premiums, from the security transaction. Use Schedule D (Form 1040), Capital Gains and Losses to report your transaction proceeds.
- 3 Cost or Other Basis
- 4 Backup withholding from proceeds paid to the Internal Revenue Service as a tax payment.
- 5 Wash sale loss disallowed
- 6 Check if a Noncovered or Covered Security
- 7 Reported Gain or Loss
- 8 Type of Gain or Loss
- 9 Description of the security for which the transaction was made.
- 15 Check if loss is not allowed based on amount in Box 2.

# 1099-OID

The amounts indicated on the Form 1099-OID section of your Consolidated Form 1099 represent Original Issue Discount (OID). The annual OID accrual results from your ownership of an obligation that was originally issued at a discount from the amount payable at maturity. OID refers to the difference between the bond's original issue price and its stated redemption price at maturity. Calculating reportable income on OID investments can be complicated. For guidance in computing the proper amount of OID to include on your tax return, we suggest that you or your tax advisor consult IRS Publication 1212. When examining your Form 1099-OID, please keep the following in mind:

The OID on short-term securities (e.g. securities with a maturity date less than one year from their original date of issue) is included in the interest income reported on Form 1099-INT.

Aggregate income amounts less than \$10.00 are considered de minimis and are not reported.

If the securities are taxable and have maturity dates of one year or more from their original issue, each year's accrual of earning is taxable and must be reported as interest income on your return, even though the interest was not credited to your account. Generally, these amounts are included with other interest you received on IRS Schedule B (Form 1040).

The amounts reported are calculated using specific data as provided by the IRS or by the issuer. The IRS requires that we calculate the OID starting from the date the security was purchased or received into your account through the end of the holding period of that security, or to the date the security was sold or delivered out of your account.

If you hold collateralized debt obligations (CDO), which include real estate mortgage investment conduits (REMIC), and collateralized mortgage obligations (CMO), you may receive a separate 1099-OID in March to report this OID and other information. If you are an investor of a Widely Held Fixed Investment Trust (WHFIT), you may receive a WHFIT statement in March but reclassifications to that information may cause you to receive a corrected statement after filing date.

*This is a sample for informational purposes only.*

(Box 5)	(Box 1)	(Box 6)
Security Description	Original Issue Discount for 2011	Original Issue Discount on US Treasury Obligations*
FEDERAL HOME LOAN MTG CORP DUE 07/15/2035 AT 4.517%	\$ 221.31	-
US TREASURY DUE 08/25/2011 AT 5.006%	-	\$ 1,217.08
<b>Total Original Issue Discount Activity</b>		
1 ITEM - Other than U.S. Treasury obligations	\$ 221.31	-
1 ITEM - U.S. Treasury obligations		\$ 1,217.08

- Form 1099-OID (Box Description)**
- 1 Original Issue Discount for tax year 2011.
  - 5 Description of the instrument for which the OID was calculated.
  - 6 OID on a U.S. Treasury obligation for the part of the year you owned it. This OID is exempt from state and local income taxes and is not included in Box 1.

\* This may not be the correct figure to report on your income tax return. See instructions for Form 1099-OID.

## Form 1099-Miscellaneous

The amounts indicated on the Form 1099-MISC section of your Consolidated Form 1099 reflect income from royalty trusts, certain consent payments or substitute payments in lieu of dividends that are reportable for tax year 2011. Certain consent payments may be treated as either ordinary income reportable on Form 1040 Schedule B or capital gains reportable on Form 1040 Schedule D. Substitute payments in lieu of dividends may result from securities held in a margin account which can be borrowed by your broker. These substitute payments are not subject to the new, reduced dividend tax rates.

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2011 FORM 1099-MISC: MISCELLANEOUS INCOME						
(Box 1)	(Box 2)	(Box 3)	(Box 4)	(Box 7)	(Box 8)	(Box 14)
Rents	Royalties	Other Income	Federal Income Tax Withheld	Non-Employee Compensation	Substitute Payments in lieu of Dividends or Interest	Gross Proceeds Paid to an Attorney
-	-	-	-	-	\$ 117.00	-

### Form 1099-MISC (Box Description)

- 1 Rent from real estate.
- 2 Royalties on timber, coal, and iron ore.
- 3 Payments received as beneficiary of deceased employee, prizes, awards, taxable damages, Indian gaming profits or other taxable income.
- 4 Backup withholding from taxable income paid to the Internal Revenue Service as a tax payment.
- 7 Non-employee Compensation.
- 8 Total substitute payments received by broker and paid to customer in lieu of dividend or tax-exempt interest on their borrowed securities.
- 14 Gross proceeds paid to an attorney in connection with legal services.

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## Frequently Asked Questions

### Why does the 1099 sometimes not match the December statement?

The December statement sometimes may not agree with the 1099 because of reclassification of income on some dividends reported. Constructive Receipts, (meaning dividends received from a regulated investment company, RIC, or a real estate investment trust, REIT, that have a record date of October, November or December and are received in January of the next year), will appear on your 1099, but not on your December statement. Unit Investment Trusts that have the income reallocated to its underlying components will differ from the statement. Interest earned on Real Estate mortgage Investment Conduits (REMICs) is shown on your December statement but is not reported by the issuer until March either as interest or OID. As a result, REMIC holders will receive a corrected 1099. Sales with a trade date in December and settlement date in January do not appear on the monthly statement but get reported on a 1099. Fractional gross proceeds sales of stock (Cash in Lieu) below \$20.00 and income amounts less than \$10.00 are considered de minimis and not reported on the 1099 but are listed on the statement.

### What is a WHFIT?

Widely Held Fixed Investment Trusts are investment trusts in which investors are owners of a pro-rata portion of all the assets held within the trust. The 1099 statement will be based on income received by the trust not the investor. 1099s will never match the original payments received. Holders may receive a separate WHFIT statement in March.

### Why aren't Master Limited Partnership (MLP) distributions reported on Form 1099?

The MLP will send you a separate K-1 form. Most MLPs mail these by late March or early April. If you do not receive your K-1 form, you should contact the partnership directly.

### Is my "margin interest paid" reported on my Form 1099?

No, it is not a reportable item on your Form 1099. You will find the year-to-date margin interest figure on your December account statement. Margin interest is deductible on Schedule A up to the amount of net investment income. Utilize Form 4952 to compute the investment interest and attach it to Schedule A. Consult Publication 550, Investment Income and Expenses.

### Are sales of securities reported on a trade-date or a settlement date basis?

Sales are reported by trade date under the 1099-B section of your Form 1099.

### What are the holding period requirements for dividend to be qualified?

For individuals to determine if the eligible dividend qualifies them for a tax break, the stock must have been held for more than 60 days out of the 121-day period beginning 61 days before the stock's ex-dividend date. Consult IRS Publication 550.

### What are Substitute Payments (Payments in Lieu)?

Securities firms and mutual funds may temporarily lend to other investors shares that you bought and hold in "street name." This lending agreement is based on the authorization by you when the account is established. For those stocks that are lent by your firm, the dividends paid on those shares actually go to the person or institution that borrowed the stock. This money received (the so-called "payment in lieu of dividends") is equal to the dividend payout. This payment is not considered a qualified dividend and will be reported on Line 8 on the 1099 MISC form.

### Are dividends reported by record date or on the day cash is received?

Most dividends payments are reported by the date received. Some mutual funds will make their payments in January 2012, based on record dates in 2011 and are therefore included in your 1099 statement for 2011. If you received such dividends, they will be displayed on your January monthly account statement and your December monthly statement will not coincide with your 1099 statement.

### Where is the state allocations information for funds found?

This information can normally be retrieved through the individual fund's website. Please see a tax advisor for its application.

### What is a wash sale?

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 or acquire substantially identical stock or securities. The amount of the disallowed loss is then added to the shares acquired. Wash sales are only tracked within the same CUSIP.

### Are short sales reported on Form 1099-B?

A short sale entered into after 2010 should only be reported in the year a customer delivers a security to satisfy the short sale obligation.

### Why do some lines on the 1099-B have cost while others don't?

Proceeds from covered securities are required to report cost. Stocks and Exchange Traded Funds acquired in 2011 are considered covered. Mutual funds and Dividend Reinvestment Plan (DRIP) Shares acquired in 2012 will be considered covered while options and bonds acquired in 2013 will be considered covered.

### Mailing Dates to Remember

**January 31, 2012** - 1099-R will be mailed by this date.

**February 15, 2012** - Original 1099 Consolidated Forms will be mailed by this date.

**March 15, 2012**- REMIC statements will be mailed by this date.

**March 15, 2012**- WHFIT statements are required to be mailed by this date.

**March 15, 2012**- 2439 Forms will be mailed by this date.

**May 31, 2012**- 5498 and 5498 ESA contribution and fair market value data will be mailed by this date.