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State Tax Reporting, Dividends, Wash Sale, Widely Held Fixed Trusts (WHFIT), Cost Basis, Coronavirus (Covid)- Related Distribution (CRD)

Scarlet Oak Financial Services can't give tax advice and will always recommend that you speak with your accountant, CPA or tax advisor for specific questions concerning your tax situation. These are frequently asked questions about State Tax Reporting, Dividends, Wash Sale, Widely Held Fixed Trusts (WHFIT), Cost Basis, Coronavirus (Covid)- Related Distribution (CRD) and how TD Ameritrade handles your investment accounts held under their custodianship. These are subject to change without notice.

If you need assistance finding tax help, we have a referral list of trusted tax professionals that our clients and we have worked with through the years. Please reach out to Faye at fsykes@scarletoakfs.com; she will be happy to send you a list of contacts.

State Tax Reporting

How can I determine what portion of my money market dividend is exempt from state taxes?

Shareholders of tax exempt or government money markets will receive an "Important State Tax Information" brochure in February 2023. Please note: the TD Asset Management USA Funds, Inc. (TDAM) Municipal Portfolio is federally tax-exempt, and will not be included on your 1099.

TD Ameritrade and TD Asset Management, Inc. are affiliated through their parent companies.

Is any of the information on my Consolidated 1099 reported to any state?

Yes. TD Ameritrade participates in the Combined Federal State Program with the IRS. The IRS shares the 1099 information with participating states. However, some states require us to provide additional information such as tax exempt interest, which is not reported on the Consolidated 1099. For more specific information regarding state taxes and specific tax reporting requirements, contact your state's tax authority.

Dividends

How will I know which of my dividends are subject to the lower capital gains rates?

Dividends subject to the capital gains rates, known as "Qualified Dividends," will be reported separately on Form 1099-DIV, Box 1b. However, although the dividend paid was classified as "Qualified," you must determine if the dividend qualifies for the lower capital gains tax rate based on the time period which you held the security.

In general, for common stock, you must have held the stock for a period greater than 60 days during a 121-day period beginning 60 days before the ex-dividend date. For more information regarding your holding period, please consult with your tax advisor.*

*Scarlet Oak Financial Services does not provide tax advice. It is suggested that you seek the advice of a tax planning professional concerning your personal circumstances.

Are my money market dividends included in my gross dividends?

Generally, yes. However, if you received income from a TD Bank USA, N.A. MMDA cash vehicle, and/or TD Bank USA FDIC Insured Deposit Account, it will be reported on Form 1099-INT rather than form 1099-DIV.

TD Ameritrade and TD Bank USA, N.A. are affiliated through their parent companies.

Are dividends reported by record date or payable date?

Most dividends are reported by payable date. However, the IRS allows certain securities such as mutual funds and Real Estate Investment Trusts (REITs) to declare a dividend in October, November, or December with a payable date in January of the following year, these are called Spillover Dividends and are reportable in the tax year the dividend was declared.

However, if you received a dividend from a mutual fund or REIT in January with a declaration date in October, November, or December of the previous year, that amount will appear on your 1099-DIV form for the previous year, not the current year.

How do I handle dividend charges in my TD Ameritrade account?

There are various scenarios for which you may have received a dividend charge to your account. For example, if you maintained a short position in your account and the company issued a dividend, this would result in a dividend charge.

Your monthly statement may be used as proof that a dividend charge has occurred. You may be able to offset your dividend charges with dividend payments received on your tax return. Dividend charges are listed in the Supplemental Summary of your Consolidated Forms 1099 for your convenience. Please consult with your tax advisor regarding your specific situation.

I received information from a mutual fund company indicating that some of the income I received in 2022 was Return of Capital (ROC) and/or Capital Gains. My 1099 shows all 2022 income as ordinary dividends. What should I do?

Dividend payments paid by corporations, mutual funds, and Real Estate Investment Trusts (REITs) made to you during the 2022 calendar year may be reclassified. Some or all of your dividend distributions may have been reclassified as ROC or Capital Gains by the respective corporations or mutual fund company.

If you suspect that some of your dividends qualify as ROC or Capital Gains and your 1099 is incorrect, please contact our administrative team; Melinda can be reached at [800.871.1219](tel:800.871.1219) or melinda@scarletoakfs.com to determine whether a Corrected 1099 should be mailed to you.

I own shares of a foreign company that paid dividends but withheld taxes from payment to U.S. investors. How is this reported on my Consolidated Form 1099?

We have reported the gross dividend and separately listed the foreign tax withheld. The gross amount (the net amount plus the tax withheld at source) is reported in Box 1a of the 1099-DIV form ("Total Ordinary Dividends"), and the foreign tax withheld is reported in Box 6 ("Foreign Tax Paid"). The amount in Box 6 may be eligible for a tax credit or an itemized deduction.

My monthly statement shows a transaction with the description "Substitute Payment-Gross Up." What does this description represent and where is it reported on my Consolidated Form 1099?

As a result of the Jobs and Growth Tax Relief Reconciliation Act of 2003, the IRS code prohibits the paying of dividends on loaned shares, but instead permits substitute payments of cash for dividends. These payments will appear on Form 1099-MISC, Box 8, of your Consolidated Form 1099 instead of your 1099-DIV form, and are fully taxable at your ordinary income rate.

Because you received a substitute payment in lieu of a dividend—rather than a qualified dividend that may have certain tax benefits—TD Ameritrade provided a refund accommodation, which is reflected as a "Substitute Payment-Gross Up" on your monthly brokerage account statement. The refund accommodation is intended to compensate those clients who were disadvantaged because they did not receive a qualified dividend eligible for the lower tax rate.

Note: The refund accommodation will appear in Box 3 ("Other Income") of Form 1099-MISC, and is fully taxable at your ordinary income rate. For a more detailed explanation of payments in lieu of dividends and refund accommodations, please contact your tax advisor.

Wash Sale

What is a wash sale?

A wash sale occurs when a security is sold at a loss and, within a period of 30 days before or 30 days after the sale, the identical or "substantially identical" security is reestablished.

Under such circumstances, that loss will be "disallowed" and may not be considered in calculating a taxpayer's losses for income tax purposes.

How will wash sales be reported on my Consolidated 1099? Will it be sufficient for my tax preparation?

The cost basis regulations require that TD Ameritrade only report wash sales to the IRS on "covered" securities, and then only if both the purchase and sale of those securities occur within the same account with identical securities (same CUSIP number). This means that if you have more than one account and/or purchases substantially similar securities, the information we are reporting to the IRS will not be sufficient for preparation of your taxes.

TD Ameritrade will be reporting to the IRS the amount of disallowed loss on the 1099-B issued for that sale. In addition, we must take into account the previous amount of disallowed loss in determining the adjusted basis of the replacement securities when reporting the eventual sale of the security. All of your trades remain subject to the wash sale rules, regardless of the accounts in which the transactions were performed.

This requirement applies to managed accounts, self-directed accounts and even IRAs. Therefore, it is important to note that wash sale information on the 1099-B reported by TD Ameritrade may not match your final Schedule D forms when dealing with multiple accounts. In this case, you will need to track

your wash sales and recalculate the 1099-B information you are provided from TD Ameritrade (or from another custodian) to arrive at the proper filing information for Schedule D purposes.

You should also be aware that the new 1099-B will include cost basis information in the aggregate, if more than one tax lot was used in a transaction. The supplemental statement we will be furnishing you contains annual activity that will include detailed lot information for every trade. Gain and loss information will also be displayed within the 1099-B section of the Consolidated Form 1099 for information purposes only. Gain and loss information is not furnished to the IRS.

Widely Held Fixed Trusts (WHFIT)

There are IRS regulations covering Widely Held Fixed Investment Trusts (WHFIT). How does that affect me since I held those investments in 2022?

The regulations do not alter the income and expense impact for you as the underlying taxpayer. However, they do require TD Ameritrade to report information supplied by the issuer for inclusion on your Consolidated 1099 Statements. This information is with respect to gross income and expenses and other data necessary to compute adjustments to income.

Tax packets are available to holders of non-mortgage-backed WHFIT securities once this information has been provided to TD Ameritrade by the issuer(s). Information pertaining to where a tax booklet can be retrieved and printed online is displayed for those holders in the 2022 End Notes Section of the Consolidated 1099.

When will TD Ameritrade report information related to WHFIT distributions?

The information source that supplies this data to TD Ameritrade is not required to furnish it until March 15, 2022. Due to the timing involved, you may receive a corrected Consolidated 1099 Statement.

Cost Basis

Will Cost Basis Information be reported to the IRS and/or displayed on my 2022 Consolidated Forms 1099?

Possibly, it depends if the investment is a "covered security." The Emergency Economic Stabilization Act of 2008 includes new cost basis reporting requirements for brokerage firms, expanding the current reporting on IRS Form 1099-B.

As of January 1, 2011, TD Ameritrade was required to report an investor's adjusted cost basis, gross proceeds and the holding period when certain covered securities are sold. Phase I (tax year 2011) applied to equities—except for those equities acquired through a Dividend Reinvestment Program—acquired on or after January 1, 2011, excluding those acquired via a dividend reinvestment program (DRIP) and regulated investment companies (RIC stocks). Phase II applied to Mutual Funds and Dividend Reinvestment Program (DRiP) enrolled equities acquired on or after January 1, 2012.

TD Ameritrade will report cost basis information to the IRS for covered transactions only. Cost basis reporting is required for options, stock rights and warrants, and less complex debt instruments acquired on or after January 1, 2014 and is reported on the 2016 1099-B.

The 2014 regulations apply to basic debt instruments, such as municipal and corporate bonds, that meet the following criteria:

- Instruments for which there is a single fixed payment schedule and for which a yield to maturity can be determined under IRS Regulation 1.1272-1(b)
- Instruments for which there is an alternate payment schedule and for which a yield to maturity can be determined under IRS Regulation 1.1272-1(c)
- Debt for which yield can be determined under IRS Regulation 1.1272-1(d)

Exclusions - Non-covered securities

The new laws will not apply to all securities. Notable exceptions include:

- Compensatory options
- Broad-based index options that are treated like regulated futures contracts
- Short-term debt (securities issued with a term of one year or less)
- Debt subject to accelerated repayment of principal. This exclusion includes real estate mortgage investment conduit securities (REMICs)

*It should be noted that it is still the taxpayer's obligation to report the cost basis for any security bought and sold on their tax return.

Why is my cost basis zero for my written options?

The new IRS reporting rules require brokers to report zero basis for written options. Reported proceeds are the proceeds received at the time the contract was written minus the cost to close. This value can be negative.

Coronavirus (COVID)- Related Distribution (CRD)

Why does a coronavirus (COVID)-related distribution or an RMD that was repaid later show on my 1099-R?

If you took a distribution from your IRA in 2022 for coronavirus-related reasons, it appears on your 1099-R as a premature distribution or as a normal distribution depending on your age. Similarly, if you took a required minimum distribution and then returned it into your IRA, it appears on your 1099-R as a normal distribution.

If the coronavirus-related distribution was repaid or if the distribution was returned into your IRA, that repayment will be reported on your 2021 Form 5498. IRA owners can make contributions for 2022 through the tax deadline of April 15, 2023. Therefore, the 5498 forms are sent to you and the IRS in May.

The IRS requires we report the distribution and the repayment. Please note, you may be entitled to a special tax treatment of COVID-related distributions using IRS Form 8915-E. Consult your licensed tax advisor for more information.

Learn More:

[FAQs on the 2020 & 2021 RMDs and the 2020 CRD](#)

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Do you have more questions?

[**Check out Scarlet Oak's Tax Center.**](#)

When was the last time you had a review?

*A review will allow us to discuss any changes in your financial situation, review your investments and retirement plan, and answer any of your financial questions. If you would like to schedule a review at this time, please find a time that works best for you: [**Click Here to Schedule with Faye.**](#)*

Contact Us

Scarlet Oak Financial Services

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