

## Frequently Asked Questions (FAQ) Regarding the Upcoming 2020 Tax Reporting Season.

- **What tax forms does Apex generate and when will they be delivered?**
  - Based on the presence of reportable activity, Apex will create the following tax forms for any customer account held on our books and setup for reporting. Absent an extension, Apex is required to deliver these forms by the dates listed below.
  - All tax forms, with the following exceptions, will be loaded to Post Edge and made available to the customer via mail or e-delivery. Form 2439 and PR480 series are not hosted on Post Edge.
  - Correction runs are tentatively scheduled in two week intervals and are based on need.

Form	Used to Report	Scheduled Delivery Date
1099-R / 1099-Q	Distributions from qualified retirement plans and educational savings accounts	February 1, 2021
Consolidated 1099 1 <sup>st</sup> Run <sup>N</sup>	A consolidated tax document containing forms 1099-B, 1099-DIV, 1099-INT and 1099-MISC	February 4, 2021
Consolidated 1099 2 <sup>nd</sup> Run <sup>N</sup>	A consolidated tax document containing forms 1099-B, 1099-DIV, 1099-INT and 1099-MISC	February 16, 2021
PR 480.6A/B	Informative Return – Income Subject (Not Subject) to Withholding	March 1, 2021
1042-S	Foreign Person’s U.S. Source Income Subject to Withholding	March 15, 2021
1099-REMIC, NMWHFIT	Income from Real Estate Mortgage Investment Conduits, Non- Mortgage Widely Held Fixed Income Trusts	March 15, 2021
2439	Notice to Shareholder of Undistributed Long-Term Capital Gains	March 31, 2021
5498-ESA	Contributions to qualified educational savings accounts	April 30, 2021
5498	Contributions to qualified retirement plans	June 1, 2021

<sup>N</sup> In order to streamline processing and reduce the number of corrected tax forms for your customers, Apex will distribute our Consolidated 1099’s across two production runs.

- The first production run is scheduled to start on Thursday, February 4, 2021.
- The second production run is scheduled to start on Thursday, February 11, 2021.
- The regulatory delivery date is February 16, 2021.

- **Note:** The delivery process may be initiated earlier than indicated to account for production needs and volumes.
- **Who receives a Consolidated 1099?**
  - All individuals receive a Consolidated 1099 if they are United States citizens or legal residents and have had reportable tax activity. In some cases, exempt recipients will receive a Consolidated 1099 due to being charged backup withholding that must be reported to the customer and the IRS.
  - Brokers are not required to file, but may file forms 1099-B, 1099-DIV, 1099-INT and 1099-OID for:
    - IRA's
    - Corporations
    - The United States
    - Charitable organizations
    - States or political subdivisions
    - Archer MSA's and health savings accounts, HSA's
  - If your customers own mutual funds, Real Estate Investment Trusts (REIT's), Real Estate Mortgage Investment Conduits (REMIC's) or Widely Held Fixed Income Trusts (WHFIT's), they may receive more than one Form 1099 due to income reclassification which could affect their tax return filing dates.
  - Additional information about these forms and related topics can be found on the IRS website under [General Instructions for Information Returns](#).
- **What is reported on the different forms?**

### **1099-B**

- Sales or redemptions of securities, futures transactions, commodities, options and barter exchange transactions.
- All sales of full shares regardless of amount will be reported on a Form 1099-B. Fractional shares may be subject to a de minimis reporting if under \$20.00.
- A Form 1099-B will be filed for any person for whom Apex withheld any federal tax for under the backup withholding rules regardless of the amount.
- **Note:** For non-covered securities, the cost basis information provided on your customers' 1099-B is for informational purposes only and is not reported to the IRS. Your customers will be responsible for providing this information when they file their returns.

- As a reminder, closing transactions for identical securities and for orders with the same disposition dates will be combined into fewer transactions. This change simplifies the presentation of the information being reported on Form 1099-B to your customers. Please see [AIM 19-12-08](#) for additional details. Form 1099-B Important Update | Transaction Consolidation
- Instructions: <https://www.irs.gov/pub/irs-prior/i1099b--2020.pdf>

### **1099-DIV**

- Distributions such as dividends, capital gain distributions, or nontaxable distributions, that were paid on stock and liquidation distributions.
- Only amounts of \$10.00 or more for distributions paid on stock, or \$600 or more for liquidations are required to be reported on the form.
- File Form 1099-DIV for any person for whom you withheld and paid any foreign tax or from whom you withheld (and did not refund) any federal income tax under the backup withholding rules regardless of the amount.
- Instructions: <https://www.irs.gov/pub/irs-prior/i1099div--2020.pdf>

### **1099-OID (REMIC)**

- Original Issue Discount (OID) is the excess of an obligation's stated redemption price at maturity over its issue price (acquisition price for a stripped bond or coupon).
- File Form 1099-OID if the total daily portions of OID for a holder is at least \$10.00 and you are any of the following:
  - An issuer with any bond outstanding or other evidence of indebtedness in registered or bearer form issued with OID;
  - An issuer of a certificate of deposit (CD) made, purchased, or renewed after 1970 if the CD has OID and a term of more than 1 year (see Caution, later).
  - A financial institution having other deposit arrangements, such as time deposits or bonus-savings plans, if the arrangements have OID and a term of more than 1 year.
  - A broker or other middleman holding an OID obligation, including CDs, as nominee for the actual owner.
  - A trustee or middleman of a Widely Held Fixed Investment Trust (WHFIT) or widely held mortgage trust (WHMT).
  - A Real Estate Mortgage Investment Conduit (REMIC), a holder of an ownership interest in a financial asset securitization investment trust (FASIT), or an issuer of a collateralized debt obligation (CDO).
- File Form 1099-OID for any person for whom you withheld and paid any foreign tax on OID or

from whom you withheld (and did not refund) any federal income tax under the backup withholding rules even if the amount of the OID is less than \$10.00.

- What's new for 2020:
  - Form 1099-OID and its instructions have been converted from an annual revision to continuous use. Both the form and instructions will be updated by the IRS as needed.
- Instructions: <https://www.irs.gov/pub/irs-prior/i1099int--2020.pdf>

### **1099-INT**

- All interest income that is not already reported on other forms will be reported here.
- Amounts \$10.00 or more are reported.
- File Form 1099-INT for any person for whom you withheld and paid any foreign tax or from whom you withheld (and did not refund) any federal income tax under the backup withholding rules regardless of the amount.
- Instructions: <https://www.irs.gov/pub/irs-prior/i1099int--2020.pdf>

### **1099-MISC**

- At least \$10.00 in royalty payments, broker payments, in lieu of dividends or tax-exempt interest.
- At least \$600.00 in miscellaneous income.
- What's new for 2020:
  - Due to the creation of Form 1099-NEC the IRS has revised Form 1099-MISC. Updates to this form can be found on the IRS website. Additional details can be found on the official instructions. Link below.
- Instructions: <https://www.irs.gov/pub/irs-prior/i1099misc--2020.pdf>

### **1099-R**

- Used to report distributions from retirement or profit-sharing plans, any IRA, insurance contracts, and IRA re-characterizations (including payments reported pursuant to an election described in Regulations section 1.1471-4(d)(5)(i)(B) or reported as described in Regulations section 1.1471-4(d)(2)(iii)(A)).
- What's new for 2020:
  - Distributions for qualified birth and adoption. Section 113 of the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act), which is Division O of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94), added section 72(t)(2)(H). This new section provides for a distribution of up to \$5,000 for a

qualified birth or adoption that is exempt from the 10% early distribution tax and that can be repaid.

- Instructions: <https://www.irs.gov/pub/irs-prior/i1099r--2020.pdf>

### **5498**

- Used to report retirement plan contributions (including rollover contributions) to any individual retirement arrangement, including a SEP, SIMPLE, and Roth IRA; Roth conversions; IRA re-characterizations; and the fair market value of the account.
- For information about IRAs, see IRS Publications, [590-A\\*](#), [590-B\\*](#), and [560\\*](#).
- What's new for 2020:
  - A new payment code has been added, "BA" for reporting a repayment of a qualified birth or adoption distribution. Additional details can be found on the official instructions. Link below.
- Instructions: <https://www.irs.gov/pub/irs-prior/i1099r--2020.pdf>

### **1099-Q**

- Used to report distributions from qualified education programs (Under Sections 529 and 530).
- Instructions: <https://www.irs.gov/pub/irs-prior/i1099q--2020.pdf>\*

### **5498-ESA**

- Used to report contributions made to Coverdell education savings account (ESA). For more information about Coverdell ESAs, see [IRS Publication 970\\*](#).
- Instructions: [https://www.irs.gov/pub/irs-pdf/i5498e\\_20.pdf](https://www.irs.gov/pub/irs-pdf/i5498e_20.pdf)

### **1042-S**

- Used to report income and withholding from U.S. sources paid to foreign persons (including persons presumed to be foreign) or included in a U.S. payee pool that are reportable under chapters 3 and 4.
- Amounts subject to reporting are amounts from sources within the United States that constitute (a) fixed or determinable annual or periodical (FDAP) income (including deposit interest); (b) certain gains from the disposal of timber, coal, or domestic iron ore with a retained economic interest; and (c) gains relating to contingent payments received from the sale or exchange of patents, copyrights, and similar intangible property.
- What's new for 2020:

- Withholding and reporting in a subsequent year. A partnership or trust that is permitted to withhold in a subsequent year with respect to a foreign partner's or beneficiary's share of income for the prior year may designate the deposit of the withholding as attributable to the preceding year and in some cases a partnership is provided an extended due date for filing and furnishing Form 1042-S. See the instructions for Box 7c.
  - Boxes 3b and 4b (tax rates). The revised backup withholding rate under section 3406 (24%) has been added to the Valid Tax Rate Table.
  - Boxes 12b, 12c, 13f, 13g, 15b, 15c, 16d, and 16e (Chapter 3 Status Code). Chapter 3 Status Codes 01 (U.S. Withholding Agent - FI), 02 (U.S. Withholding Agent - Other), and 34 (U.S. Withholding Agent - Foreign branch of FI) have been deleted, and Chapter 3 Status Codes 36 (Foreign Government - Integral Part) and 37 (Foreign Government - Controlled Entity) have been added. Chapter 3 Status Code 19 has been updated from "Government or International Organization" to "International Organization."
  - Box 12f (country code). If the withholding agent is a U.S. person or a foreign branch of a U.S. person, filers are now permitted to enter "US" in box 12f (even though "US" is not a code on the list at <https://www.irs.gov/e-file-providers/foreign-country-code-listing-for-modernized-e-file>)
  - Instructions: <https://www.irs.gov/pub/irs-pdf/i1042s.pdf>
- **What is Form 8966?**
    - Form 8966 is used to report information with respect to certain U.S. accounts, substantial U.S. owners of passive NFFEs, specified U.S. persons that own certain debt or equity interests in ODFFIs, and certain other accounts as applicable based on the filer's chapter 4 status. Unless otherwise indicated, Reporting Model 2 FFIs should submit Form 8966 to report on its accounts consistent with instructions for PFFIs.
    - Who must file:
      - PFFI. A PFFI must file Form 8966 to report information with respect to U.S. accounts, accounts held by ODFFIs, and accounts held by recalcitrant account holders (based on the pools described in Part V).
      - U.S. branch of an FFI not treated as a U.S. person. A U.S. branch of an FFI that is not treated as a U.S. person is subject to the same Form 8966 reporting requirements as a PFFI. See Regulations section 1.1471-4(d)(2)(iii)(C).
      - RDCFFI. An RDCFFI must file Form 8966 to report a U.S. account for which it has reporting obligations as a condition of its applicable RDCFFI status. See Regulations section 1.1471-5(f)(1)(i) or an applicable Model 2 IGA.

- Related entity or branch described in an applicable Model 2 IGA. A related entity or branch described in an applicable Model 2 IGA must file Form 8966 to report a U.S account to the extent permitted under the relevant laws pertaining to the branch or FFI.
- Reporting Model 2 FFI. A Reporting Model 2 FFI must file Form 8966 to report information with respect to U.S. accounts, accounts held by ODFFIs, and non-consenting U.S. accounts (based on the pools described in the instructions for Reporting Model 2 FFIs in Part V).
- Qualified Intermediary (QI), Withholding Foreign Partnership (WP), or Withholding Foreign Trust (WT). A QI, WP, or WT must file Form 8966 to report on its accounts, partners, beneficiaries, or owners, as applicable and as provided in its QI, WP, or WT agreement.
- Direct Reporting NFFE. A Direct Reporting NFFE must file Form 8966 to report its substantial U.S. owners or report that it has none. See Regulations section 1.1472-1(c)(3).
- Instructions: <https://www.irs.gov/pub/irs-pdf/i8966.pdf> \*
  - For the latest information about developments related to Form 8966 or its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8966](https://www.irs.gov/Form8966).
- **What is backup withholding?**
  - Backup withholding requirements are governed by the IRS and are required to be enforced by all withholding agents on all nonexempt individuals and entities.
  - Backup withholding is required to be reported on the appropriate Form 1099 regardless of the amount withheld. The \$10.00 de minimis rule does not apply when backup withholding has occurred.
  - As a reminder, the current backup withholding rate is 24%. Additional information can be found at on the IRS website under topic 307, <http://www.irs.gov/taxtopics/tc307.html>.
- **How does a corporation report earnings when no 1099s are received?**
  - C-Corporations are generally responsible for reporting any earnings that they receive based on financial statements that the company reports. S-Corporations, if declared, will receive a 1099 for their covered trading activity from Apex Clearing Corporation.
- **What happens when a client has the wrong TIN reported on the 1099?**
  - Please have the broker contact Apex Clearing's Tax department so it can be corrected and a new form can be generated with the correct TIN.



- In order to help alleviate these types of issues, you may wish to review and validate your account setups.
- **How can I correct my cost basis that is reported on my 1099?**
  - If the cost basis information that is reported on your Form 1099-B is incorrect, you can report a correction to the IRS using Form 8949.
  - Instructions: <https://www.irs.gov/forms-pubs/about-form-8949>
- **How do I make a Mark to Market election?**
  - In order to elect Mark to Market reporting, the customer will need to provide a notice that they have made a valid and timely mark to market election under section 475. They must specifically identify the account from which the securities were sold as containing only securities subject to this election. If the customer's election was made by filing a statement with their return, if possible, we would like a copy of that statement along with the signed, written notice. Please keep in mind that this election cannot be retroactively applied. It is effective from the point in time that it is received and acknowledged for by Apex Clearing going forward.
- **Are there any updates for Turbo Tax?**
  - All customers with reportable information will be able to import their Consolidated 1099 information directly into Turbo Tax. In order to download this information, your customers will need to follow Intuit's on screen instructions.
  - For your customers that utilize Turbo Tax, please note that the application contains data import limitations.
    - If there are more than 500 1099-B transactions per return, then the customer will need to utilize the desktop software version which can accommodate up to 2,200 1099-B transactions per return.
    - If the customer has a total number of transactions that exceeds these limits, they will not be able to use Turbo Tax's import function and may have to utilize other means to file their return.
- **What is a wash sale?**
  - The IRS does not allow you to deduct losses from sales or trades of stock or securities in a wash sale unless the loss was incurred in the ordinary course of your business as a dealer in stock or securities.
  - 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 substantially identical stock or securities,
  - Acquire substantially identical stock or securities in a fully taxable trade,
  - Acquire a contract or option to buy substantially identical stock or securities, or
  - Acquire substantially identical stock for your individual retirement account (IRA) or Roth IRA.
- If you would like additional information about wash sales please see [IRS publication 550](#).

• **Does Apex charge for the mailing of tax forms?**

- Yes, Apex charges a \$5.00 fee for the mail delivery of a tax form that can be provided to the customer via e-delivery. This fee is assessed and charged to the correspondent for any account that requires a mailed tax form.
- E-delivery is an alternative option to avoid this mail delivery fee. E-delivery allows your customers to have faster access to their tax forms and avoids the mailing fee altogether. Contact your customer service representative to learn more about E-delivery.

• **What cost basis lot relief methods does Apex offer?**

**FIFO: First In First Out**

- Tax lot with the oldest purchase date will be sold first. This method ensures that if there are any shares eligible for long-term capital gains treatment, they will be sold first. Non-covered unallocated lots will be sold before non-covered allocated lots.

**LIFO: Last In First Out**

- Tax lot with the most recent purchase date will be sold first.

**Versus Purchase (VSP) Specific Lot Identification**

- Specific lot identification can be made by including details about the tax lot in the trade trailer. For additional on this lot relief method please contact Apex's Tax Department

**HIFO: Highest In First Out**

- Tax lots with the highest cost basis are sold first, regardless of when they were purchased. Because the highest cost basis shares are sold first, this method will harvest tax lots with losses first and then gains. It does not consider LT/ST, so if there is a tie between lots, FIFO is used.

**MaxGain: Maximum Gain**

- The MaxGain setting will first sell lots that would realize the largest taxable gain. This strategy should be used with care since its ultimate effect is to increase tax burden. The lots are selected in the following order:
  - Short-term capital gains, from biggest gain to the smallest gain
  - Long-term capital gains, from the biggest gain to the smallest gain
  - Long-term zero gain/loss
  - Short-term zero gain/loss
  - Long-term capital loss, from the smallest loss to the biggest loss
  - Short-term capital loss, from the smallest loss to the biggest loss

**MinTax: Minimum Tax**

- Opposite of MaxGain. Maxit will determine the best lot to sell to minimize tax impact and lower tax burden. The lots are selected in the following order:
  - Short-term capital loss, from the biggest loss to the smallest
  - Long-term capital loss, from the biggest loss to the smallest
  - Short-term zero gain/loss
  - Long-term zero gain/loss
  - Long-term capital gains, from the smallest gain to the biggest
  - Short-term capital gains, from the smallest gain to the biggest

\*Special Note: Regarding MINTAX there are two options

- 1. MINTAX all securities
- 2. MINTAX all securities except Mutual Funds. Average cost for Mutual Funds

• **Are there any other changes that I should be aware of?**

- As a reminder, [IRS Notice 2017-09](#) establishes a de minimis Safe Harbor of \$100.00 for information returns corrections. In effect, this change will reduce the number of corrected tax forms that your customers could potentially receive. In previous tax years, Apex applied a \$10.00 threshold for corrections and this change will increase that threshold to \$100.00. For example, if your customer receives a \$50.00 dividend distribution from a mutual fund that is later reclassified as interest income, in previous tax years this would be reclassified to interest income; however, with the implementation of this guideline this distribution will remain dividend income.
- The Internal Revenue Service increased 401(k) contribution limits for the 2021 tax year. Details can be found [here](#).

- IRA contribution limits remain the same. Details can be found [here](#).
  - Taxpayers who received an [Economic Impact Payment](#), should keep [Notice 1444, Your Economic Impact Payment](#), with their 2020 tax records. They may be eligible to claim the [Recovery Rebate Credit](#) on their tax year 2020 federal income tax return if:
    - they didn't receive an Economic Impact Payment, or
    - their Economic Impact Payment was less than \$1,200 (\$2,400 if married filing jointly for 2019 or 2018), plus \$500 for each qualifying child they had in 2020.
  - If a taxpayer did not receive the full amount of the Economic Impact Payment for which they were eligible, they may be able to claim the [Recovery Rebate Credit](#) when they file in 2021. Individuals do not need to complete information about the Recovery Rebate Credit on tax year 2020 Form 1040 or 1040-SR when filing in 2021, unless eligible to claim an additional credit amount.
  - New this year, taxpayers who do not itemize deductions may take a [charitable deduction](#) of up to \$300 for cash contributions made in 2020 to [qualifying organizations](#). For more information, read [Publication 526, Charitable Contributions](#).
- **Where can you find additional information?**
- The following documents are available on the IRS website, [www.irs.gov](http://www.irs.gov). Several helpful instructions and publications are:
    - [2020 General Instructions](#)
    - [2020 Instructions for Form 1099-B](#)
    - [2020 Instructions for Form 1099-DIV](#)
    - [2020 Instructions for Form 1099-INT and 1099-OID](#)
    - [2020 Instructions for Form 1099-MISC](#)
    - [2020 Instructions for Forms 1099-R and 5498](#)
    - [FATCA FAQ's - General - IRS Website](#)
    - [Publication 509, Tax Calendars](#)
    - [Publication 550, Investment Income and Expenses\\*](#)
    - [Publication 551, Basis of Assets](#)
    - [Publication 575 Pension and Annuity Income\\*](#)
    - [Publication 590-A, Contributions to Individual Retirement Accounts\\*](#)
    - [Publication 590-B, Distributions from Individual Retirement Accounts\\*](#)

Please note at the time of hosting this notice, some of the documents referenced above were still pending updates. In those instances, those items have been marked with an asterisk (\*) and the hyperlink provided will



direct you to the main page of those documents where you can see the most up to date version.

While Apex makes every effort to ensure that the information being reported is accurate, please note that the taxpayer is ultimately responsible for the accuracy and completeness of the tax returns that are filed on their behalf.

If you have any questions please contact the Tax Reporting Department by email at [tax@apexclearing.com](mailto:tax@apexclearing.com).

Thank you,  
Apex Clearing Corporation