

Chapter 1: Information Reporting

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Corrections were made to this material through January of 2012. No subsequent modifications were made.

All practitioners must deal with Forms 1099, whether in reporting income reflected on a Form 1099 or in actually preparing Forms 1099 for clients who are required to file them. Some of the most common Forms 1099 are covered in this chapter. However, there are several other information returns under the Form 1099 umbrella, including some most practitioners will likely never prepare. Practitioners need to recognize these in order to comply with the reporting requirements. At the end of this chapter is the IRS guide to information returns, which lists all forms in the 1099 series.

The IRS imposes penalties for failure to file correct Forms 1099 on a timely basis. These penalties are assessed on a per-document basis; thus, the total penalty assessment can be quite large. Detailed information on information return penalties is provided later in this chapter.

Note. Payments made by credit card are not required to be reported on Forms 1099.

REPORTING PERIODS

Forms 1099 are used to report amounts paid, credited, donated, transferred, or canceled during the calendar year.¹ Recipients using the cash method of accounting, though, are obligated to include items in income for the taxable year in which they **receive** the income.² For payments mailed late in the calendar year, these differences sometimes create a disparity in the reporting periods of the payer and the payee.

The IRS currently matches all Form 1099 submissions with tax returns, whether filed on paper or electronically. It is extremely important that taxpayers accurately report all income disclosed on a Form 1099. Those neglecting to do this will likely receive a CP 2000 notice from the IRS, which shows proposed changes to the taxpayer's income tax return. The proposal is based on a comparison of the income, payments, credits, and deductions reported on the tax return with information reported to the IRS by employers, banks, businesses, and other payers.

Taxpayers who receive CP 2000 notices have an opportunity to provide an explanation for any differences. Discrepancies that are attributable to conflicting reporting periods of the payer and payee can usually be easily resolved if adequate records are maintained throughout the year.

¹ General Instructions for Certain Information Returns.

² IRC §451(a).

FORM 1099-MISC

Form 1099-MISC, *Miscellaneous Income*, covers a wide range of income, including rents, royalties, nonemployee compensation, and prizes and awards. Income from Form 1099-MISC can be subject to self-employment tax and is required to be reported on Schedule C, *Profit or Loss From Business*, or Schedule F, *Profit or Loss From Farming*. Other income from Form 1099-MISC is reported on Form 1040, line 21 (other income), and is not considered self-employment income. Rent and royalty income from Form 1099-MISC is reported on a taxpayer's Schedule E, *Supplemental Income and Loss*.

A **trade or business taxpayer** is required to file Form 1099-MISC for each person to whom the following types of payments were made during the year.

- At least \$10 in royalties (report in box 2)
- At least \$10 in broker payments in lieu of dividends or tax-exempt interest (report in box 8)
- Payments of \$600 or more for rents (report in box 1)
- Payments of \$600 or more for fees, commissions, services (including incidental items), and other forms of compensation to persons not treated as employees (report in box 7)
- Prizes or awards of \$600 or more that were not for services rendered (report in box 3)
- Payments of \$600 or more for medical and healthcare payments (report in box 6)
- Payments of \$600 or more for crop insurance proceeds (report in box 10)
- Payments for any fishing boat proceeds, or any payments of \$600 or more for the purchase of fish from anyone in the trade or business of catching fish (report in box 5)
- Gross proceeds paid to an attorney (report in box 14)
- At least \$5,000 in direct sales of consumer products to a buyer for resale anywhere other than a permanent retail establishment (report in box 9)

A form must also be filed for any person from whom federal income tax was withheld under the backup withholding rules (report in box 4).

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Example 1. Zippy Builders, a construction contractor, subcontracts electrical work to Al Current, a sole proprietor who does business as Al's Electric. During 2011, Zippy Builders pays Al a total of \$6,100. Zippy sends the following Form 1099-MISC to him.

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Zippy Builders 815 Zippy Lane Anytown, IL 60000 815-555-2222		1 Rents \$ 2 Royalties \$ 3 Other income \$	OMB No. 1545-0115 <div style="font-size: 2em; font-weight: bold; text-align: center;">2011</div> Form 1099-MISC	Miscellaneous Income
PAYER'S federal identification number 36-1111111	RECIPIENT'S identification number 123-45-6789	5 Fishing boat proceeds \$	4 Federal income tax withheld \$	Copy B For Recipient
RECIPIENT'S name Al Current dba/ Al's Electric Street address (including apt. no.) 456 Magpie Rd City, state, and ZIP code Anytown, IL 60000		7 Nonemployee compensation \$ 6100.00	8 Substitute payments in lieu of dividends or interest \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Account number (see instructions)		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/> 11	10 Crop insurance proceeds \$	
13 Excess golden parachute payments \$		14 Gross proceeds paid to an attorney \$	12	
15a Section 409A deferrals \$	15b Section 409A income \$	16 State tax withheld \$	17 State/Payer's state no. \$	18 State income \$

Form **1099-MISC** (keep for your records) Department of the Treasury - Internal Revenue Service

Following is a description of the more commonly used boxes on Form 1099-MISC.

Box 1. Amounts of \$600 or more for **all** types of rents, such as real estate rentals paid for office space (unless paid to a real estate agent), machine rentals, and pasture rentals are reported here. Box 1 is also used by public housing agencies to report rental assistance payments made to owners of housing projects.

Box 2. Gross royalty payments of \$10 or more before reduction for severance and other taxes that may have been withheld and paid are reported here. Box 2 is also used to report gross royalties paid by a publisher directly to an author or literary agent, unless the agent is a corporation. A literary agent who receives the royalty payment on behalf of the author must report the gross amount of royalty payments to the author on Form 1099-MISC.

Box 3. Other income of \$600 or more required to be reported on Form 1099-MISC that is not reportable in one of the other boxes on the form is listed here.

Amounts required to be reported in box 3 include the following:

- Prizes and awards that are not for services performed
- Punitive damages, damages for nonphysical injuries or sickness, and other taxable damages
- A deceased employee's wages paid after the date of death
- Indian gaming profits
- Termination payments to former self-employed insurance salespeople
- Payments made to individuals for participating in a medical research study

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Box 4. This box is used to report backup withholding. Persons who have not furnished their taxpayer identification numbers (TIN) are subject to withholding at a 28% rate on certain payments required to be reported on Form 1099-MISC.

Box 6. Payments of \$600 or more to a physician or other supplier or provider of medical or healthcare services are reported here.

Box 7. This box is used to report nonemployee compensation. A payment must be reported as nonemployee compensation if **all** of the following four conditions are met.

1. The payment is made to someone other than an employee.
2. The payment is for services in the course of a trade or business (including government agencies and nonprofit organizations).
3. The payment is made to an individual, partnership, estate, or, in some cases, a corporation.
4. Payments to the payee total at least \$600 during the year.

Amounts reported in box 7 are generally subject to self-employment tax rules.

Box 10. This box is used to report crop insurance proceeds of \$600 or more paid to farmers by insurance companies unless the farmer has informed the insurance company that expenses have been capitalized under IRC §§278, 263A, or 447.

Box 14. Gross proceeds paid to an attorney for legal services in the course of a trade or business are reported here, unless the attorney's fees are reportable in box 7. The taxpayer is generally not required to report the claimant's attorney's fees.

Example 2. City Companies Insurance pays a claimant's attorney \$50,000 to settle a claim and reports the payment in box 14 of Form 1099-MISC. City Companies does not have to issue a Form 1099 for the claimant's attorney's fees subsequently paid from these funds.

The 1099 reporting rules do not apply to wages paid to attorneys that are reportable on Form W-2 or profits distributed by a partnership to its partners that are reported on Schedule K-1.³

PAYMENTS EXEMPT FROM FORM 1099-MISC REPORTING

Some payments are taxable to the recipient but are not required to be reported on Form 1099-MISC. These payments include any of the following:

- Generally, payments to a corporation (but see following section);
- Payments for merchandise, telegrams, telephone, freight, storage, and similar items;
- Payments of rent to real estate agents (but see Treas. Reg. §1.6041-1(e)(5), Example 5);
- Wages paid to employees (report on Form W-2, *Wage and Tax Statement*);
- Military differential wage payments made to employees while they are on active duty in the Armed Forces or other uniformed services (report on Form W-2);
- Business travel allowances paid to employees (may be reportable on Form W-2);
- Cost of current life insurance protection (report on Form W-2 or Form 1099-R);
- Payments to a tax-exempt organization including tax-exempt trusts (IRAs, HSAs, Archer MSAs, and Coverdell ESAs), the United States, a state, the District of Columbia, a U.S. possession, or a foreign government; and
- Certain payment card transactions if a payment card organization has assigned a merchant/payee a merchant category code (MCC) indicating that reporting is not required.⁴

³ For more examples and exceptions relating to payments to attorneys, see Treas. Reg. §1.6045-5.

⁴ For more information and a list of merchant types with corresponding MCCs, see Rev. Proc. 2004-43, available at [www.irs.gov/irb/2004-31_IRB/ar17.html].

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PAYMENTS TO CORPORATIONS

Currently, most payments to corporations are not required to be reported on Form 1099-MISC. However, the following payments made to corporations generally must be reported on Form 1099-MISC.

- Medical and healthcare payments reported in box 6
- Fish purchases for cash reported in box 7
- Attorneys' fees reported in box 7
- Gross proceeds paid to an attorney reported in box 14
- Substitute payments in lieu of dividends or tax-exempt interest reported in box 8
- Payments by a federal executive agency for services (vendors) reported in box 7

FORM 1099-R

Form 1099-R, *Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, is an information reporting form. The following payments are reported on Form 1099-R.

- Pensions
- Annuities
- IRA distributions
- Roth IRA distributions
- SIMPLE IRA distributions
- Life insurance and endowment contracts
- Profit-sharing plan distributions
- Other employer plan distributions
- Survivor income benefit plans
- Charitable gift annuities

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution		OMB No. 1545-0119 2011 Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the Internal Revenue Service.			
		2a Taxable amount						
PAYER'S federal identification number		RECIPIENT'S identification number		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>		
RECIPIENT'S name		3 Capital gain (included in box 2a)		4 Federal income tax withheld				
Street address (including apt. no.)		5 Employee contributions / Designated Roth contributions or insurance premiums		6 Net unrealized appreciation in employer's securities				
City, state, and ZIP code		7 Distribution code(s)		8 Other				
10 Amount allocable to IRR within 5 years		11 1st year of desig. Roth contrib.		9a Your percentage of total distribution %		9b Total employee contributions		
Account number (see instructions)		12 State tax withheld		13 State/Payer's state no.		14 State distribution		
		15 Local tax withheld		16 Name of locality		17 Local distribution		

Form 1099-R

Department of the Treasury - Internal Revenue Service

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Following is a description of the most commonly used boxes on Form 1099-R.

Box 1. The total amount of the distribution before income tax or other withholdings is reported here. Items reported here include direct rollovers, transfers or conversions to Roth IRAs, recharacterized IRA contributions, IRA rollovers to employer plans, and distributions to plan participants from governmental §457(b) plans.

Amounts reported in box 1 are generally entered on Form 1040 on the line for “IRA distributions” (15a or 15b) or “Pensions and annuities” (16a or 16b). Other forms may also be required, depending on the circumstances. For more information, see the Form 1040 Instructions.

10		
11		
12		
13		
14		
15a		
15b		
16a		
16b		
17		
18		
19		

Box 2a. This box reports the part of the distribution that generally is taxable. **If there is no entry in this box, the payer may not have all the facts needed to calculate the taxable amount.** If that is the case, the first box in box 2b (taxable amount not determined) should be checked.

Payers are generally not required to determine the taxable amount for distributions from IRAs. To calculate the taxable amount for a traditional, SEP (simplified employee pension plan), or SIMPLE (savings incentive match plan for employees of small employers) IRA, see the instructions to Form 1040. To compute the taxable amount for a Roth IRA, use Form 8606, *Nondeductible IRAs*.

For a direct rollover, other than from a qualified plan to a Roth IRA, zero should be shown in box 2a, and zero should be entered on the “taxable amount” line of the taxpayer’s federal income tax return.

Box 2b. If the first box is checked, the payer was unable to determine the taxable amount. In this case, box 2a should be blank. If the second box is checked, the distribution was a total distribution that closed out the account.

Box 4. Federal income tax withheld is reported here and should be included on Form 1040 as tax withheld. If the return is not electronically filed **and there is an amount shown in box 4, copy B of Form 1099-R should be attached to the taxpayer’s return.**

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Box 7. The codes shown in box 7 are important. Following is a brief synopsis of most of the distribution codes used in Box 7 for **2010** distributions.⁵

1. **Code 1 — Early distribution, no known exception applies.** Code 1 is used when the taxpayer has not reached age 59½ and the payer is not aware of any exceptions under distribution codes 2, 3, or 4. Code 1 is also used when a taxpayer is 59½ or older but modifies a series of substantially equal periodic payments under IRC §72(q), (t), or (v) prior to the end of the 5-year period.
2. **Code 2 — Early distribution, exception applies.** Code 2 is used when the taxpayer has not reached age 59½, and the payer knows that there is an exception to the 10% early-distribution penalty. Usually, code 2 is used for the following distributions:
 - a. A distribution from a qualified retirement plan after separation from service in or after the year the taxpayer reached age 55
 - b. Part of a series of substantially equal periodic payments
 - c. A Roth IRA conversion (a traditional IRA converted to a Roth IRA)
3. **Code 3 — Disability.** Code 3 is used when the payer knows the disability exception applies to the 10% early-distribution penalty.
4. **Code 4 — Death.** Code 4 is used for payments to a decedent's beneficiary, including an estate or trust, regardless of the age of the decedent. The 10% early-distribution penalty does **not** apply.
5. **Code 6 — Section 1035 exchange.** Code 6 is used to indicate the tax-free exchange of life insurance, annuity, or endowment contracts under IRC §1035.
6. **Code 7 — Normal distribution.** Code 7 is used for distributions from a plan — including a traditional IRA, a §401(k), or §403(b) plan — if the taxpayer is at least 59½. Code 7 is never used for a Roth IRA.
7. **Code 8 — Excess contributions plus earnings or excess deferrals (and/or earnings) taxable in 2011.** Code 8 is used for a **corrective IRA distribution** withdrawn on or before the due date of the return (including extensions). This applies for contributions **made in 2011** for 2010, but **withdrawn** in 2011. However, see the explanation for Code P below for contributions **made in 2010** and withdrawn in 2011. Code 8 is also used for **corrective distributions** of excess deferrals (and/or earnings) to the following retirement plans:
 - a. §401(a) plans (qualified employer pension, profit-sharing, and stock-bonus plans)
 - b. §401(k) plans
 - c. §403(a) annuity plans
 - d. §403(b) salary-reduction agreements (tax-sheltered annuities)
 - e. §408(k)(6) salary-reduction simplified employee pensions (SARSEPs)

Note. Corrective distributions are reported on Form 1099-R for the year of the distribution regardless of when the distribution is taxable to the participant. Code P is used instead of code 8 for a corrective IRA distribution that is taxable in **2010**. See **Examples 3–5** shown later in this section.

8. **Code 9 — Cost of current life insurance protection.** Code 9 is used to report premiums paid by a trustee or custodian for current life or other insurance protection.

⁵. 2010 Instructions for Forms 1099-R and 5498.

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9. **Code A — May be eligible for the 10-year averaging method on Form 4972, *Tax on Lump-Sum Distributions*.** Code A is used only for participants born before January 2, 1936, or their beneficiaries.
10. **Code F — Charitable gift annuity**

Note. See pages 100–105 in the 2007 *University of Illinois Federal Tax Workbook* for an explanation of charitable gift annuities and a thorough example with completed forms and schedules. This is available at www.taxschool.illinois.edu/taxbookarchive.

11. **Code G — Direct rollover and rollover contributions.** Code G is used when a trustee makes a direct rollover from a qualified plan to another qualified plan, a §403(b) plan, or an IRA on behalf of the employee/participant.
12. **Code P — Excess contributions plus earnings/excess deferrals taxable in 2010.** Code P is used instead of code 8 when a corrective IRA distribution withdrawn in 2011 is taxable in 2010. This applies when the contribution was made in 2010 and withdrawn in 2011. See the explanation for code 8 for contributions **made in 2011** for 2010 and withdrawn in 2011. The IRS suggests that the payer should advise the recipient at the time the distribution is made that the earnings are taxable in the year in which the excess IRA contribution was made.

Note. See Examples 3–5 shown later in this section.

13. **Code Q — Qualified distribution from a Roth IRA.** Code Q is used when the payer knows that the participant meets the 5-year holding period and:
- a. Has reached age 59½,
 - b. Has died, or
 - c. Is disabled.
14. **Code T — Roth IRA distribution, exception applies.** Code T is used if the payer does not know whether the participant meets the 5-year holding period, but the participant:
- a. Has reached age 59½,
 - b. Has died, or
 - c. Is disabled.
15. **Code J — Early distribution from a Roth IRA.** Code J is used when neither code Q nor T applies. The distribution is tax free if it does not exceed the total of:
- a. Regular Roth IRA contributions, plus
 - b. Conversion Roth IRA contributions.

For all Roth IRA distributions, the tax-free portion of the balance is withdrawn before the taxable portion (earnings).⁶ However, if any portion of the distribution is attributable to funds converted from a traditional IRA within five years of the conversion year, that portion may be subject to the 10% early-withdrawal penalty. See IRS Pub. 590, *Individual Retirement Arrangements (IRAs)*, for the ordering rules.

Note. A combination of two codes, numeric or alpha, may appear in box 7 of Form 1099-R. Pages 13–15 of the 2011 *Instructions for Forms 1099-R and 5498* list the allowable code combinations.

⁶ IRS Pub. 590, *Individual Retirement Arrangements (IRAs)*.

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Some Form 1099-R situations are confusing and require special preparer attention and action. One such situation is an IRA distribution of excess contributions plus earnings.

Example 3. Ann is a 55-year-old single taxpayer. She made a 2010 traditional IRA contribution of **\$5,000** on January 3, 2010. When her accountant, Ruth, prepared her 2010 tax return, she discovered that due to Ann's much-lower-than-expected 2010 earned income, her allowable 2010 IRA contribution was limited to **\$2,000**.

On March 20, 2011, Ann notified the IRA trustee of her 2010 excess IRA contribution of \$3,000. The trustee made a corrective IRA distribution of \$3,210 on March 28, 2011. The \$3,210 consisted of:

Excess 2010 IRA contributions	\$3,000
Earnings on the excess \$3,000 amount (computed by the trustee)	210
Amount of corrective IRA distribution made on March 28, 2011	\$3,210

Ann receives the following 2011 Form 1099-R from the IRA trustee in January 2012.

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code Main Street Bank 100 Main St. Heresville, IL 61111		1 Gross distribution \$ 3210.00		OMB No. 1545-0119 2011 Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. Copy B Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return. This information is being furnished to the Internal Revenue Service.
		2a Taxable amount \$ 210.00		2b Taxable amount not determined <input type="checkbox"/> Total distribution <input type="checkbox"/>		
PAYER'S federal identification number 37-1111111	RECIPIENT'S identification number 222-11-1111	3 Capital gain (included in box 2a) \$		4 Federal income tax withheld \$		
RECIPIENT'S name Ann Rand Street address (including apt. no.) 400 Atlas Rd City, state, and ZIP code Somewhere, IL 69999		5 Employee contributions / Designated Roth contributions or insurance premiums \$		6 Net unrealized appreciation in employer's securities \$		
		7 Distribution code(s) P		IRA/SEP/SIMPLE <input checked="" type="checkbox"/>	8 Other \$ %	
		9a Your percentage of total distribution %		9b Total employee contributions \$		
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 State tax withheld \$		13 State/Payer's state no.		14 State distribution \$
Account number (see instructions)		15 Local tax withheld \$		16 Name of locality		17 Local distribution \$

Form **1099-R** Department of the Treasury - Internal Revenue Service

Question 3A. How should Ruth proceed with the preparation of Ann's 2010 tax return?

Answer 3A. Ann's 2010 Form 1040 should report the following:

Item	Line Number on Form 1040	Amount
IRA deduction	32 (IRA deduction)	\$2,000

The explanation for line 21 should be "Earnings on corrective distribution" or something similar. A statement may be attached to explain the \$210 entry.

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Ann is not liable for either the 6% excise tax on excess contributions or the 10% early-withdrawal penalty on the \$3,000 excess IRA contribution. However, the \$210 of taxable earnings is subject to the 10% penalty unless Ann qualifies for one of the exceptions. In 2010, she meets none of the exceptions for waiver of the penalty.

Ruth prepares the following Form 5329, *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*, to attach to Ann's 2010 Form 1040.

Form 5329 <small>Department of the Treasury Internal Revenue Service (99)</small>	Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts ► Attach to Form 1040 or Form 1040NR. ► See separate instructions.	<small>OMB No. 1545-0074</small> <div style="font-size: 2em; font-weight: bold; text-align: center;">2010</div> <small>Attachment Sequence No. 29</small>
<small>Name of individual subject to additional tax. If married filing jointly, see instructions.</small> Ann Rand		<small>Your social security number</small> 222-11-1111
Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return	<small>Home address (number and street), or P.O. box if mail is not delivered to your home</small> <div style="height: 20px; border: 1px solid black;"></div>	
	<small>City, town or post office, state, and ZIP code</small> <div style="height: 20px; border: 1px solid black;"></div>	<small>Apt. no.</small> <div style="height: 20px; border: 1px solid black;"></div>
<small>If you only owe the additional 10% tax on early distributions, you may be able to report this tax directly on Form 1040, line 58, or Form 1040NR, line 56, without filing Form 5329. See the instructions for Form 1040, line 58, or for Form 1040NR, line 56.</small>		
Part I Additional Tax on Early Distributions <small>Complete this part if you took a taxable distribution before you reached age 59½ from a qualified retirement plan (including an IRA) or modified endowment contract (unless you are reporting this tax directly on Form 1040 or Form 1040NR—see above). You may also have to complete this part to indicate that you qualify for an exception to the additional tax on early distributions or for certain Roth IRA distributions (see instructions).</small>		
1	Early distributions included in income. For Roth IRA distributions, see instructions	1 210
2	Early distributions included on line 1 that are not subject to the additional tax (see instructions). Enter the appropriate exception number from the instructions: _____	2
3	Amount subject to additional tax. Subtract line 2 from line 1	3 210
4	Additional tax. Enter 10% (.10) of line 3. Include this amount on Form 1040, line 58, or Form 1040NR, line 56 Caution: If any part of the amount on line 3 was a distribution from a SIMPLE IRA, you may have to include 25% of that amount on line 4 instead of 10% (see instructions).	4 21

Caution. IRA trustees are not consistent when preparing Form 1099-R for the year of the corrective distribution. Using the facts for **Example 3**, some IRA trustees will do one of the following on the 2011 Form 1099-R:

- \$3,210 will be reported in both boxes 1 (gross distribution) and 2a (taxable amount) and box 2b (taxable amount not determined) will be checked.
- \$3,210 will be reported in box 1 (gross distribution), box 2a (taxable amount) will be blank, and box 2b (taxable amount not determined) will be checked.

Note. The Instructions for Recipient on the reverse side of Copy B of the 2010 Form 1099-R state: “For distributions from a traditional IRA, SEP, or SIMPLE IRA, generally the payer is not required to compute the taxable amount. See the Form 1040 or 1040A instructions to determine the taxable amount.”

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Example 4. Ann, from **Example 3**, is extremely busy and doesn't want to take the time in March 2011 to contact the trustee of her IRA.

Question 4A. What should Ruth do in this situation?

Answer 4A. She should request an extension for Ann's 2010 return on Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*. This allows Ann until October 17, 2011, to have the excess 2010 IRA contribution withdrawn. However, in this case, the corrective IRA distribution will likely be more than \$3,210 because of increased earnings. Therefore, the other income reported on line 21 of Ann's 1040 will be more than \$210.

Ann will not be liable for the 6% excise tax on the \$3,000 excess IRA contribution if the corrective distribution is made on or before October 17, 2011, the due date of her return (including extensions). This assumes her 2010 return is filed by the extended due date. However, Ann will owe the 10% early-distribution penalty on the new earnings amount.

Caution. Corrective distributions of excess deferrals to **employer-sponsored plans** must be made by the due date of the return **without** regard to extensions (generally by April 15). If the excess is taken out after April 15, it must be included in income **both** in the year of deferral and in the year the distribution is received.⁷

Example 5. Ann, from **Example 3**, does not notify her IRA trustee of her 2010 excess IRA contribution of \$3,000 until November 1, 2011. Ruth filed a timely 2010 return for Ann. It reported the following:

Item	Line Number on Form 1040	Amount
IRA deduction	32 (IRA deduction)	\$2,000

The trustee made a corrective IRA distribution of \$3,300 on November 10, 2011. The \$3,300 consisted of:

Excess 2010 IRA contributions	\$3,000
Earnings on excess \$3,000 amount (computed by the trustee)	300
Amount of corrective distribution made on November 10, 2011	\$3,300

Question 5A. What should be done in this situation?

Answer 5A. Ruth must file an amended 2010 return for Ann on Form 1040X. It will report the previously unreported \$300 of earnings. The amended return will also report the following penalties.

- The 10% early-withdrawal penalty on the \$300 of taxable earnings
- The 6% excise tax on the \$3,000 of excess contributions

This is shown on Form 5329 on the following page.

⁷ IRS Pub. 525, *Taxable and Nontaxable Income*.

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For Example 5

Form 5329 <small>Department of the Treasury Internal Revenue Service (99)</small>	Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts <small>▶ Attach to Form 1040 or Form 1040NR. ▶ See separate instructions.</small>	<small>OMB No. 1545-0074</small> 2010 <small>Attachment Sequence No. 29</small>
<small>Name of individual subject to additional tax. If married filing jointly, see instructions.</small> Ann Rand		<small>Your social security number</small> 222-11-1111
Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return	<small>Home address (number and street), or P.O. box if mail is not delivered to your home</small>	<small>Apt. no.</small>
	<small>City, town or post office, state, and ZIP code</small>	<small>If this is an amended return, check here ▶ <input type="checkbox"/></small>
<small>If you only owe the additional 10% tax on early distributions, you may be able to report this tax directly on Form 1040, line 58, or Form 1040NR, line 56, without filing Form 5329. See the instructions for Form 1040, line 58, or for Form 1040NR, line 56.</small>		
Part I Additional Tax on Early Distributions <small>Complete this part if you took a taxable distribution before you reached age 59½ from a qualified retirement plan (including an IRA) or modified endowment contract (unless you are reporting this tax directly on Form 1040 or Form 1040NR—see above). You may also have to complete this part to indicate that you qualify for an exception to the additional tax on early distributions or for certain Roth IRA distributions (see instructions).</small>		
1 Early distributions included in income. For Roth IRA distributions, see instructions		1 300
2 Early distributions included on line 1 that are not subject to the additional tax (see instructions). Enter the appropriate exception number from the instructions:		2
3 Amount subject to additional tax. Subtract line 2 from line 1		3 300
4 Additional tax. Enter 10% (.10) of line 3. Include this amount on Form 1040, line 58, or Form 1040NR, line 56		4 30
Caution: If any part of the amount on line 3 was a distribution from a SIMPLE IRA, you may have to include 25% of that amount on line 4 instead of 10% (see instructions).		
Part II Additional Tax on Certain Distributions From Education Accounts <small>Complete this part if you included an amount in income, on Form 1040 or Form 1040NR, line 21, from a Coverdell education savings account (ESA) or a qualified tuition program (QTP).</small>		
5 Distributions included in income from Coverdell ESAs and QTPs		5
6 Distributions included on line 5 that are not subject to the additional tax (see instructions)		6
7 Amount subject to additional tax. Subtract line 6 from line 5		7
8 Additional tax. Enter 10% (.10) of line 7. Include this amount on Form 1040, line 58, or Form 1040NR, line 56		8
Part III Additional Tax on Excess Contributions to Traditional IRAs <small>Complete this part if you contributed more to your traditional IRAs for 2010 than is allowable or you had an amount on line 17 of your 2009 Form 5329.</small>		
9 Enter your excess contributions from line 16 of your 2009 Form 5329 (see instructions). If zero, go to line 15		9
10 If your traditional IRA contributions for 2010 are less than your maximum allowable contribution, see instructions. Otherwise, enter -0-		10
11 2010 traditional IRA distributions included in income (see instructions)		11
12 2010 distributions of prior year excess contributions (see instructions)		12
13 Add lines 10, 11, and 12		13
14 Prior year excess contributions. Subtract line 13 from line 9. If zero or less, enter -0-		14
15 Excess contributions for 2010 (see instructions)		15 3,000
16 Total excess contributions. Add lines 14 and 15		16 3,000
17 Additional tax. Enter 6% (.06) of the smaller of line 16 or the value of your traditional IRAs on December 31, 2010 (including 2010 contributions made in 2011). Include this amount on Form 1040, line 58, or Form 1040NR, line 56		17 180
Part IV Additional Tax on Excess Contributions to Roth IRAs		

2011 Federal Tax Fundamentals

Question 5B. Does Ann need to report anything on her 2011 return to show that the excess contribution was corrected?

Answer 5B. Yes. Ann should file a 2011 Form 5329 and complete Part III as shown here:

Form 5329 Department of the Treasury Internal Revenue Service (99)	Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts ▶ Attach to Form 1040 or Form 1040NR. ▶ See separate instructions.	OMB No. 1545-0074 2011 Attachment Sequence No. 29
Name of individual subject to additional tax. If married filing jointly, see instructions. Ann Rand		Your social security number 222-11-1111
Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return	Home address (number and street), or P.O. box if mail is not delivered to your home Apt. no.	
	City, town or post office, state, and ZIP code If this is an amended return, check here <input type="checkbox"/>	
If you only owe the additional 10% tax on early distributions, you may be able to report this tax directly on Form 1040, line 58, or Form 1040NR, line 56, without filing Form 5329. See the instructions for Form 1040, line 58, or for Form 1040NR, line 56.		
Part I Additional Tax on Early Distributions Complete this part if you took a taxable distribution before you reached age 59½ from a qualified retirement plan (including an IRA) or modified endowment contract (unless you are reporting this tax directly on Form 1040 or Form 1040NR—see above). You may also have to complete this part to indicate that you qualify for an exception to the additional tax on early distributions or for certain Roth IRA distributions (see instructions).		
1	Early distributions included in income. For Roth IRA distributions, see instructions	1
2	Early distributions included on line 1 that are not subject to the additional tax (see instructions). Enter the appropriate exception number from the instructions:	2
3	Amount subject to additional tax. Subtract line 2 from line 1	3
4	Additional tax. Enter 10% (.10) of line 3. Include this amount on Form 1040, line 58, or Form 1040NR, line 56	4
Caution: If any part of the amount on line 3 was a distribution from a SIMPLE IRA, you may have to include 25% of that amount on line 4 instead of 10% (see instructions).		
Part II Additional Tax on Certain Distributions From Education Accounts Complete this part if you included an amount in income, on Form 1040 or Form 1040NR, line 21, from a Coverdell education savings account (ESA) or a qualified tuition program (QTP).		
5	Distributions included in income from Coverdell ESAs and QTPs	5
6	Distributions included on line 5 that are not subject to the additional tax (see instructions)	6
7	Amount subject to additional tax. Subtract line 6 from line 5	7
8	Additional tax. Enter 10% (.10) of line 7. Include this amount on Form 1040, line 58, or Form 1040NR, line 56	8
Part III Additional Tax on Excess Contributions to Traditional IRAs Complete this part if you contributed more to your traditional IRAs for 2011 than is allowable or you had an amount on line 17 of your 2010 Form 5329.		
9	Enter your excess contributions from line 16 of your 2010 Form 5329 (see instructions). If zero, go to line 15	9
10	If your traditional IRA contributions for 2011 are less than your maximum allowable contribution, see instructions. Otherwise, enter -0-	10
11	2011 traditional IRA distributions included in income (see instructions)	11
12	2011 distributions of prior year excess contributions (see instructions)	12
13	Add lines 10, 11, and 12	13
14	Prior year excess contributions. Subtract line 13 from line 9. If zero or less, enter -0-	14
15	Excess contributions for 2011 (see instructions)	15
16	Total excess contributions. Add lines 14 and 15	16
17	Additional tax. Enter 6% (.06) of the smaller of line 16 or the value of your traditional IRAs on December 31, 2011 (including 2011 contributions made in 2012). Include this amount on Form 1040, line 58, or Form 1040NR, line 56	17

FORM 1099-INT

Form 1099-INT, *Interest Income*, must be filed if the taxpayer, in the course of a trade or business or as a nominee/middleman, did one or more of the following:

- Paid or credited interest of \$10 or more,
- Withheld and paid foreign tax on such interest, or
- Withheld federal income tax under the backup withholding rules for the interest earned

Recipients are required to report all taxable interest. The list of payers should be itemized on Schedule B, *Interest and Ordinary Dividends*, if the recipient:

- Has over \$1,500 of taxable interest or ordinary dividends;
- Received interest from a seller-financed mortgage and the buyer used the property as a personal residence;
- Has accrued interest from a bond;
- Is reporting original issue discount (OID) in an amount less than the amount shown on Form 1099-OID;
- Is reducing interest income on a bond by the amount of amortizable bond premium;
- Is claiming exclusion of interest from series EE or I U.S. savings bonds issued after 1989;
- Received interest or ordinary dividends as a nominee;
- Has a financial interest in, or signature authority over, a financial account in a foreign country; or
- Received a distribution from, or was a grantor of, or transferor to, a foreign trust.

If Schedule B is required, all interest reported on Form 1099-INT should be listed even though it may not all be taxable. For example, a taxpayer may receive a Form 1099-INT for a savings account shared with a sibling. In this case, the full amount of interest is reported on the taxpayer's Schedule B. A separate line reports a "Nominee Distribution" for the portion of the interest paid to the sibling, which is then subtracted from the total. The taxpayer must also file Form 1099-INT as a nominee/middleman.

Tax-deferred interest is not included on 1099-INT forms. This includes interest earned on IRAs. Interest paid or credited on long-term original issue discount obligations is reported on Form 1099-OID.

Example 6. During 2011, Amelia Rate and her sister, Bedelia, cashed in their jointly owned CD. They also earned tax-exempt interest from ownership of Cobb County municipal bonds. Amelia's SSN appears first on these accounts. Amelia gets two Forms 1099-INT in January 2012: one showing \$2,000 in Box 1 for interest earned on the CD, and another from Cobb County showing \$14,000 tax-exempt interest in box 8.

- Amelia reports the entire \$2,000 on Schedule B and then subtracts the \$1,000 given to Bedelia as a nominee as shown on the Schedule B that follows.
- Amelia will report her \$7,000 share of the tax-exempt income on Form 1040, line 8(b).
- **Finally, Amelia needs to send Bedelia a Form 1099-INT showing \$1,000 interest in box 1 and \$7,000 tax-exempt interest in box 8.**

Amelia's two Forms 1099-INT and her Schedule B are shown on the following page. Amelia's Form 1099-INT that she sends to Bedelia follows.

Note. If tax-exempt interest affects the taxable social security calculation, use Form 8275, *Disclosure Statement*, to reconcile the difference between Form 1099-INT and the amount entered on Line 8(b) of Form 1040.

2011 Federal Tax Fundamentals

For Example 6

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. First Ninth Bank 1111 Main Street Decatur, IL 62522 217-555-9999		Payer's RTN (optional) 1 Interest income \$ 2000.00 2 Early withdrawal penalty \$	OMB No. 1545-0112 <div style="font-size: 2em; font-weight: bold; text-align: center;">2011</div> Form 1099-INT	Interest Income
PAYER'S federal identification number 36-9999999	RECIPIENT'S identification number 333-44-5555	3 Interest on U.S. Savings Bonds and Treas. obligations \$		
RECIPIENT'S name Amelia Rate Street address (including apt. no.) 227 Shiloh Road City, state, and ZIP code Decatur, IL 62522 Account number (see instructions)		4 Federal income tax withheld \$	5 Investment expenses \$	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		6 Foreign tax paid \$	7 Foreign country or U.S. possession \$	
		8 Tax-exempt interest \$	9 Specified private activity bond interest \$	
		10 Tax-exempt bond CUSIP no. (see instructions)		

Form **1099-INT** (keep for your records) Department of the Treasury - Internal Revenue Service

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Cobb County 555 Main Court Decatur, GA 30300 915-555-9999		Payer's RTN (optional) 1 Interest income \$ 2 Early withdrawal penalty \$	OMB No. 1545-0112 <div style="font-size: 2em; font-weight: bold; text-align: center;">2011</div> Form 1099-INT	Interest Income
PAYER'S federal identification number 36-0000009	RECIPIENT'S identification number 333-44-5555	3 Interest on U.S. Savings Bonds and Treas. obligations \$		
RECIPIENT'S name Amelia Rate Street address (including apt. no.) 227 Shiloh Road City, state, and ZIP code Decatur, IL 62522 Account number (see instructions)		4 Federal income tax withheld \$	5 Investment expenses \$	Copy B For Recipient This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		6 Foreign tax paid \$	7 Foreign country or U.S. possession \$	
		8 Tax-exempt interest \$ 14000.00	9 Specified private activity bond interest \$	
		10 Tax-exempt bond CUSIP no. (see instructions)		

Form **1099-INT** (keep for your records) Department of the Treasury - Internal Revenue Service

2011 Federal Tax Fundamentals

For Example 6

SCHEDULE B (Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service (99)

Interest and Ordinary Dividends

▶ Attach to Form 1040A or 1040.

▶ See instructions on back.

OMB No. 1545-0074

2011

Attachment
Sequence No. **08**

Name(s) shown on return

Amelia Rate

Your social security number

333-44-5555

Part I

Interest

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 8a.)

Note. If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

- 1** List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions on back and list this interest first. Also, show that buyer's social security number and address ▶

First Third Bank

Subtotal

Nominee distribution to Bedelia Rate

Amount

2,000

2,000

(1,000)

1

- 2** Add the amounts on line 1
- 3** Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815
- 4** Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ▶

1,000

1,000

Note. If line 4 is over \$1,500, you must complete Part III.

Part II

Ordinary Dividends

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 9a.)

Note. If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

- 5** List name of payer ▶

5

- 6** Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ▶

6

Note. If line 6 is over \$1,500, you must complete Part III.

Part III

Foreign Accounts and Trusts

(See instructions on back.)

You must complete this part if you **(a)** had over \$1,500 of taxable interest or ordinary dividends; **(b)** had a foreign account; or **(c)** received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

- 7a** At any time during 2011, did you have a financial interest in or signature authority (or other authority that is comparable to signature authority) over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See instructions on back for exceptions and filing requirements for Form TD F 90-22.1

- b** If "Yes," enter the name of the foreign country ▶

- 8** During 2011, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back

Yes	No
	✓
	✓

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 17146N

Schedule B (Form 1040A or 1040) 2011

2011 Federal Tax Fundamentals

For Example 6

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Amelia Rate 225 Shiloh Road Decatur, IL 62522 217-555-1234		Payer's RTN (optional) 1 Interest income \$ 1000.00 2 Early withdrawal penalty \$	OMB No. 1545-0112 <div style="font-size: 2em; font-weight: bold; text-align: center;">2011</div> Interest Income Form 1099-INT	Copy B For Recipient <small>This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.</small>
PAYER'S federal identification number 333-44-5555	RECIPIENT'S identification number 444-99-5555	3 Interest on U.S. Savings Bonds and Treas. obligations \$		
RECIPIENT'S name Bedelia Rate Street address (including apt. no.) 227 Shiloh Road City, state, and ZIP code Decatur, IL 62522		4 Federal income tax withheld \$	5 Investment expenses \$	
Account number (see instructions)		6 Foreign tax paid \$	7 Foreign country or U.S. possession	
		8 Tax-exempt interest \$ 7000.00	9 Specified private activity bond interest \$	
		10 Tax-exempt bond CUSIP no. (see instructions)		

Form **1099-INT** (keep for your records) Department of the Treasury - Internal Revenue Service

Financial institutions frequently offer small gifts to attract new customers or encourage current customers to add to existing accounts. Form 1099-INT is not required for de minimis premiums that have a value of \$10 or less for a deposit of under \$5,000 or no more than a \$20 value if the deposit is \$5,000 or more.⁸

Payers of interest must furnish a copy of the official Form 1099-INT, or an acceptable substitute form, to each recipient, either in person or by separate first-class mailing, no later than January 31.

Note. Interest on U.S. savings bonds is exempt from state and local income taxation.

FORM 1099-DIV

Form 1099-DIV, *Dividends and Distributions*, must be furnished by a taxpayer no later than January 31 to each person if one or more of the following payments were made during the year.

- Dividends and other stock distributions of \$10 or more
- Foreign tax withholding on dividends and stock distributions
- Federal income tax withholding on dividends under the backup withholding rules
- Liquidation payments of \$600 or more

Following is a description of the more commonly used boxes on Form 1099-DIV.

Box 1a. Ordinary dividends include dividends from money market funds, net short-term capital gains from mutual funds, and other stock distributions.

Ordinary dividends shown in box 1a are reported on line 5 of Schedule B. The ordinary dividends total from Schedule B is then reported on line 9a of Form 1040.

⁸ Rev. Proc. 2000-30, 2000-1 CB 1276.

2011 Federal Tax Fundamentals

Box 1b. With certain exceptions, **qualified dividends** are dividends paid by domestic corporations and qualified foreign corporations. The following dividends are **not** qualified dividends even if they are reported in box 1b.⁹

- Dividends on any share of stock held for less than 61 days during the 121-day period that began 60 days before the ex-dividend date¹⁰
- Dividends attributable to periods totaling more than 366 days that the recipient received on any share of preferred stock held for less than 91 days during the 181-day period that began 90 days before the ex-dividend date
- Dividends that relate to payments that the recipient is obligated to make with respect to short sales or positions in substantially similar property
- Dividends paid by a regulated investment company (RIC) that are not treated as qualified dividend income under IRC §854
- Dividends paid by a real estate investment trust (REIT) that are not treated as qualified dividend income under IRC §857(c)
- Deductible dividends paid on employer securities

For individuals, estates, and trusts, qualified dividends are currently taxed at a maximum rate of 15%. The tax rate is zero for individuals whose other income is taxed at the 10% or 15% rate. These rates are effective through December 31, 2012.

Qualified dividends are also included in the total reported in box 1a. Total qualified dividends are reported on line 9b of Form 1040.

Example 7. Sawyer Mackenzie owns stock in Caterpillar. Sawyer receives a 1099-DIV from Caterpillar for the amount of qualified dividends paid to him in 2011. Sawyer's Form 1099-DIV, Schedule B, and a portion of his Form 1040 follow.

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-0110		Dividends and Distributions
PAYER'S name, street address, city, state, ZIP code, and telephone no. Caterpillar Inc. 100 NE Adams St. Peoria, IL 61629 (309) 675-1000		1a Total ordinary dividends \$ 2105.00	2011 Form 1099-DIV	
		1b Qualified dividends \$ 2105.00		
PAYER'S federal identification number 37-602744	RECIPIENT'S identification number 555-44-3333	2a Total capital gain distr. \$	2b Unrecap. Sec. 1250 gain \$	
		2c Section 1202 gain \$	2d Collectibles (28%) gain \$	
RECIPIENT'S name Sawyer Mackenzie		3 Nondividend distributions \$	4 Federal income tax withheld \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.) 1560 Cornbelt Lane			5 Investment expenses \$	
City, state, and ZIP code Iowa City, IA 52240		6 Foreign tax paid \$	7 Foreign country or U.S. possession	
Account number (see instructions)		8 Cash liquidation distributions \$	9 Noncash liquidation distributions \$	
Form 1099-DIV		(keep for your records)		Department of the Treasury - Internal Revenue Service

⁹. Instructions for Form 1099-DIV.

¹⁰. The ex-dividend date is the first date following the declaration of a dividend on which the buyer of a stock is not entitled to receive the next dividend payment. Instead, the seller will get the dividend.

2011 Federal Tax Fundamentals

For Example 7

SCHEDULE B (Form 1040A or 1040)		Interest and Ordinary Dividends		OMB No. 1545-0074 <div style="font-size: 24pt; font-weight: bold;">2011</div> Attachment Sequence No. 08																								
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040A or 1040.		▶ See instructions on back.																								
Name(s) shown on return Sawyer Mackenzie			Your social security number 555-44-3333																									
Part I Interest (See instructions on back and the instructions for Form 1040A, or Form 1040, line 8a.) Note. If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.			1	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">Amount</th> </tr> </thead> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>	Amount																							
Amount																												
2 Add the amounts on line 1			2	<table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr><td> </td><td> </td></tr> </tbody> </table>																								
3 Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815			3	<table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr><td> </td><td> </td></tr> </tbody> </table>																								
4 Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ▶			4	<table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr><td> </td><td> </td></tr> </tbody> </table>																								
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Amount																												
5	2,105																											
Part II Ordinary Dividends (See instructions on back and the instructions for Form 1040A, or Form 1040, line 9a.) Note. If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.			5	<table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> <tr><td> </td><td> </td></tr> </tbody> </table>																								
6 Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ▶			6	<table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr><td> </td><td> </td></tr> </tbody> </table>																								
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Part III Foreign Accounts and Trusts (See instructions on back.)			<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 10%; text-align: center;">Yes</th> <th style="width: 10%; text-align: center;">No</th> </tr> </thead> <tbody> <tr> <td>7a At any time during 2011, did you have a financial interest in or signature authority (or other authority that is comparable to signature authority) over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See instructions on back for exceptions and filing requirements for Form TD F 90-22.1</td> <td style="text-align: center;"> </td> <td style="text-align: center;"> </td> </tr> <tr> <td>b If "Yes," enter the name of the foreign country ▶</td> <td style="text-align: center;"> </td> <td style="text-align: center;"> </td> </tr> <tr> <td>8 During 2011, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back</td> <td style="text-align: center;"> </td> <td style="text-align: center;"> </td> </tr> </tbody> </table>			Yes	No	7a At any time during 2011, did you have a financial interest in or signature authority (or other authority that is comparable to signature authority) over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See instructions on back for exceptions and filing requirements for Form TD F 90-22.1			b If "Yes," enter the name of the foreign country ▶			8 During 2011, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back														
	Yes	No																										
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For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 17146N

Schedule B (Form 1040A or 1040) 2011

2011 Federal Tax Fundamentals

For Example 7

Income Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	
	8a	Taxable interest. Attach Schedule B if required	8a	
	b	Tax-exempt interest. Do not include on line 8a	8b	
	9a	Ordinary dividends. Attach Schedule B if required	9a	2,105
	b	Qualified dividends	9b	2,105
	10	Taxable refunds, credits, or offsets of state and local income taxes	10	
	11	Alimony received	11	
	12	Business income or (loss). Attach Schedule C or C-EZ	12	
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13	
	14	Other capital gains or (losses). Attach	14	

Box 2a. Total long-term **capital gain distributions** from a RIC or REIT are reported in box 2a. This includes all amounts shown in boxes 2b, 2c, and 2d. The amount reported here is generally reported on Schedule D, *Capital Gains and Losses*, on line 13. However, if both of the following conditions apply, it is not necessary to file Schedule D.

- The only amounts the taxpayer has to report on Schedule D are capital gain distributions from Form(s) 1099-DIV, box 2a.
- None of the Forms 1099-DIV have an amount in box 2b, 2c, or 2d.

If both of the above apply, the total capital gain distributions may be entered directly on Form 1040, line 13 (capital gain or (loss)).

Box 2b. This box shows the amount of **unrecaptured §1250 gain** from certain depreciable real property. This amount should be entered on line 19 of the Unrecaptured Section 1250 Gain Worksheet found in the Schedule D instructions.

Box 3. The amount reported here shows a distribution that is not paid out of the earnings and profits of a corporation. A **nondividend distribution** reduces the basis of the recipient's stock. It is not taxed until the recipient's basis in the stock is fully recovered. When the basis of the stock has been reduced to zero, any additional nondividend distribution received is a capital gain. Whether the capital gain is long-term or short-term depends on how long the taxpayer holds the stock.

Example 8. Claire Voyant bought stock in Weejee Inc. in 1996 for \$1,000. In 1999, she received a **nondividend distribution** of \$800. Claire did not include this amount in her income, but she reduced the basis of the stock to \$200.

Claire received a nondividend distribution of \$300 in 2011. The first \$200 of this amount reduced her basis in Weejee Inc. to zero. She reported the other \$100 as a long-term capital gain for 2011. Claire must also report any nondividend distribution she receives on the stock in future years as a long-term capital gain.

Claire's Form 1099-DIV for 2011 is shown on the following page.

2011 Federal Tax Fundamentals

For Example 8

☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. Weejee Inc. 999 Board Lane Little Rock, AR 72201 501-555-1234		1a Total ordinary dividends \$	OMB No. 1545-0110 <div style="font-size: 2em; font-weight: bold; text-align: center;">2011</div>	Dividends and Distributions
PAYER'S federal identification number 94-1234567		1b Qualified dividends \$	Form 1099-DIV	
RECIPIENT'S identification number 111-00-9999		2a Total capital gain distr. \$	2b Unrecap. Sec. 1250 gain \$	Copy B For Recipient
RECIPIENT'S name Claire Voyant Street address (including apt. no.) 2708 Seer Lane City, state, and ZIP code Homeville, FL 32000		2c Section 1202 gain \$	2d Collectibles (28%) gain \$	
Account number (see instructions)		3 Nondividend distributions \$ 300.00	4 Federal income tax withheld \$	This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
		5 Investment expenses \$	6 Foreign tax paid \$	
		7 Foreign country or U.S. possession	8 Cash liquidation distributions \$	
		9 Noncash liquidation distributions \$	\$	
Form 1099-DIV (keep for your records) Department of the Treasury - Internal Revenue Service				

Box 4. Backup withholding is reported here. Recipients who do not furnish their TINs in the required manner have federal income tax withheld at a 28% rate on certain dividend payments. Form W-9, *Request for Taxpayer Identification Number and Certification*, is used to request the TIN of the recipient. The amount shown in this box should be included on Form 1040 as tax withheld.

Box 5. The recipient's pro rata share of certain amounts deductible by a nonpublicly offered RIC is reported here. This amount is included in box 1a. If the taxpayer itemizes deductions, these expenses may be deducted as "other expenses" on Schedule A, subject to the 2% of adjusted gross income threshold.

Box 6. Creditable foreign tax withheld and paid on dividends and other distributions is reported here. An RIC must report only the amount it elects to pass through to the recipient. The taxpayer may be able to claim the amount reported here as a deduction on Schedule A, or as a credit on Form 1040. For 2010, the foreign tax credit is reported on line 47 of Form 1040.

2011 Federal Tax Fundamentals

The Form 1099-K reporting requirements affect both companies that issue Forms 1099 to their vendors and companies that accept third-party settlement payments from payment settlement entities (PSE).

1. Payments made through PSEs are reportable by the PSEs and **not** the parties that made the initial payments.

Example 9. Jordan LaForge, a sole proprietor, charges Enterprise Collectibles \$800 to repair its furnace. On January 31, 2011, Enterprise pays Jordan for the service using a company credit card.

Previously, Enterprise would have been required to report this payment as nonemployee compensation on Form 1099-MISC, *Miscellaneous Income*. **Starting with 2011 transactions, Enterprise will not report this payment.** The PSE will report the payment on Form 1099-K.

2. The reportable amount includes **all** payment transactions for each recipient **without adjustments** for credits, cash equivalents, discount amounts, fees, refunded amounts, or any other amounts. There is no distinction between payments related to trade or business use and personal use.

Example 10. Jordan, from **Example 9**, receives \$776 from the PSE after it processes the \$800 credit card payment from Enterprise. The PSE must include the entire \$800 in box 1 of the 2011 Form 1099-K.

3. The reportable amounts are subject to **backup withholding** requirements.¹³ PSEs must withhold 28% of the gross payments made after **December 31, 2011**, if the merchant fails to provide a correct TIN. PSEs are allowed to verify TINs against the name/TIN combination contained in the IRS's database.
4. There is a **de minimis exception** to the reporting requirements. A PSE is only required to report on merchants who:
 - a. Receive more than \$20,000 from the PSE; **and**
 - b. Process more than 200 transactions through the PSE.
5. A company that receives payments from a PSE on behalf of other payees and then distributes those payments to the other payees will **receive** a Form 1099-K from the PSE **and issue** Forms 1099-K to the ultimate recipients of the payments.

Example 11. Merle Borman Cosmetics processes credit card payments on behalf of its independently owned franchise stores. The bank that pays the main corporate entity issues a Form 1099-K to Merle Borman Cosmetics. Borman then issues Forms 1099-K to each of its franchise owners.

OBSERVATIONS

1. To avoid duplicate reporting, the initial payers must be able to separate their disbursement records by payment method. However, some payers will not make this distinction when they prepare Forms 1099-MISC. Taxpayers should design their bookkeeping records to facilitate reconciliation.
2. Some taxpayers report only the net deposits from PSEs as gross receipts. It will be easier to reconcile Form 1099-K income if taxpayers revise their bookkeeping methods to include the gross amounts in income. Processing fees, discounts, and refunds should be tracked separately as expenses.
3. PSEs have been allowed to use the IRS's TIN matching program since July 30, 2008, to verify TINs. The IRS hopes that this will reduce the number of TIN errors and the number of required backup withholding notices.¹⁴

¹³ IRC §3406(b)(3).

¹⁴ IRS Ann. 2009-6, 2009-9 IRB 643.

FORM 1099-A

Form 1099-A, *Acquisition or Abandonment of Secured Property*, is required to be filed by any lender who is in the trade or business of lending money and who, in full or partial satisfaction of the indebtedness, acquires an interest in the debt-secured property or who has reason to know that the property was abandoned. A copy of Form 1099-A (or an acceptable substitute statement) must be furnished to the borrower by January 31 of the year following the year the lender acquired an interest in the property, or knows or has reason to know the property was abandoned. The lender must also file a copy with the IRS by February 28, or by April 1 if electronically filed. The lender must indicate the date on which the lender acquired an interest in the property, or the date the lender learned that the property was abandoned.

Example 12. Sherlock Home Sales sells low-cost homes. Sherlock provides financing to homebuyers with poor credit. If a buyer acquires a home and later abandons it, Sherlock issues Form 1099-A to the buyer.

Property is defined as any real property (including the borrower's principal residence), any intangible property, and tangible personal property (not including 100% personal use property, such as a car). Abandonment occurs when the objective facts and circumstances indicate that the borrower intended to and has permanently discarded the property from use.

REPORTING THE INCOME

Observation. When a client brings a Form 1099-A to the tax practitioner, the practitioner should consult IRS Pub. 544, *Sales and Other Dispositions of Assets*. Each Form 1099-A is different and the tax reporting varies depending on the taxpayer's situation.

The abandonment of property is a disposition of property. As indicated above, abandonment occurs when the taxpayer voluntarily and permanently relinquishes possession and use of the property with the intention of ending ownership but without transferring the property to anyone else. Loss from the abandonment of business or investment property is deductible as an ordinary loss, even if the property is a capital asset. The loss is the property's adjusted basis when abandoned. This rule also applies to leasehold improvements the lessor made for the lessee.

Note. IRS Pub. 544, *Sales and other Dispositions of Assets*, explains how to determine gain or loss if the property is later subject to foreclosure or repossession.

An abandonment loss is deducted in the tax year in which the loss is sustained. A taxpayer cannot deduct any loss from abandonment of the taxpayer's main home or other property that was held for personal use.

There are four basic tax filing outcomes.

1. If the lender acquires an interest in the property, such as through foreclosure, the borrower has a reportable gain or loss equal to the difference between the taxpayer's adjusted basis in the property and the amount realized. This is normally the amount of canceled debt (box 2 of Form 1099-A) or the proceeds from the foreclosure sale, whichever is greater.
2. For personal-use property, any gain is reported on Schedule D, *Capital Gains and Losses*. A loss on personal-use property is normally not deductible.
3. If the property was business or income-producing property, the gain or loss is reported on Form 4797, *Sales of Business Property*.
4. If the fair market value (FMV) of the property (Form 1099-A, box 4) is less than the outstanding debt (Form 1099-A, box 2) and the taxpayer is personally liable for the debt (Form 1099-A, box 5), the difference is the part of the gain on the foreclosure that the borrower may be required to report as ordinary income.

2011 Federal Tax Fundamentals

Example 13. Bill Dew financed a timeshare in December 2002 for his personal use. His mortgage loan was for \$8,900. On February 1, 2011, Bill stopped paying his loan. He wrote to the timeshare company explaining that he could no longer afford to keep the timeshare and was abandoning it. The lender agreed not to pursue any deficiency against Bill. Bill receives a 2011 Form 1099-A for his abandonment of the timeshare. The principal balance at the time of abandonment was \$7,500 and the FMV was \$5,000. Bill's adjusted basis in the property is \$6,000.

☐ CORRECTED (if checked)

LENDER'S name, street address, city, state, ZIP code, and telephone no. First Bank of Anywhere 111 First Place Anywhere, IL 61111 815-555-5000		OMB No. 1545-0877 <div style="font-size: 2em; font-weight: bold;">2011</div> Form 1099-A	Acquisition or Abandonment of Secured Property Copy B For Borrower <small>This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.</small>	
LENDER'S federal identification number 36-0000001	BORROWER'S identification number 100-10-1000	1 Date of lender's acquisition or knowledge of abandonment 02/01/2011		2 Balance of principal outstanding \$ 7500.00
BORROWER'S name Bill Dew Street address (including apt. no.) 100 First Street City, state, and ZIP code Anywhere, IL 61111		3 		4 Fair market value of property \$ 5000.00
Account number (see instructions)		5 If checked, the borrower was personally liable for repayment of the debt <input checked="" type="checkbox"/>		
		6 Description of property Timeshare		

Form **1099-A** (keep for your records) Department of the Treasury - Internal Revenue Service

Step 1. Calculate Bill's gain on the cancellation of debt:

Principal balance outstanding (box 2)	\$7,500
Less: FMV of property (box 4)	<u>(5,000)</u>
Ordinary income from cancellation of debt	\$2,500

This income is taxable as other income on line 21 of Bill's 2011 Form 1040 unless one of the exceptions for cancellation of debt applies. These exceptions are discussed later in the Form 1099-C section of this chapter.

Step 2. Calculate Bill's gain or loss on the abandonment of the property:

Lesser of principal balance outstanding (box 2) or FMV (box 4)	\$5,000
Plus: any proceeds received from the foreclosure sale	<u>0</u>
Total	\$5,000
Less: adjusted basis of abandoned property	<u>(6,000)</u>
Gain/(loss) from abandonment	(\$1,000)

This loss is not deductible because Bill held the property for personal use.

2011 Federal Tax Fundamentals

For Example 13

Form 1040		Department of the Treasury—Internal Revenue Service (99)		2011		OMB No. 1545-0074		IRS Use Only—Do not write or staple in this space.																										
For the year Jan. 1–Dec. 31, 2011, or other tax year beginning , 2011, ending , 20						See separate instructions.																												
Your first name and initial Bill			Last name Dew			Your social security number 1 0 0 1 0 1 0 0 0																												
If a joint return, spouse's first name and initial			Last name			Spouse's social security number																												
Home address (number and street). If you have a P.O. box, see instructions. 100 First Street						Apt. no.		▲ Make sure the SSN(s) above and on line 6c are correct.																										
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Anywhere, IL 61111						Presidential Election Campaign																												
Foreign country name			Foreign province/county			Foreign postal code			Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse																									
Filing Status		1 <input checked="" type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child																																
Exemptions		6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a b <input type="checkbox"/> Spouse c Dependents: <table border="1"> <thead> <tr> <th>(1) First name</th> <th>Last name</th> <th>(2) Dependent's social security number</th> <th>(3) Dependent's relationship to you</th> <th>(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> </tbody> </table> d Total number of exemptions claimed								(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>
(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)																														
				<input type="checkbox"/>																														
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				<input type="checkbox"/>																														
				<input type="checkbox"/>																														
If more than four dependents, see instructions and check here <input type="checkbox"/>		Boxes checked on 6a and 6b No. of children on 6c who: • lived with you • did not live with you due to divorce or separation (see instructions) Dependents on 6c not entered above Add numbers on lines above ▶ 1																																
Income		7 Wages, salaries, tips, etc. Attach Form(s) W-2 8a Taxable interest. Attach Schedule B if required b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required b Qualified dividends 9b 10 Taxable refunds, credits, or offsets of state and local income taxes 11 Alimony received 12 Business income or (loss). Attach Schedule C or C-EZ 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> 14 Other gains or (losses). Attach Form 4797 15a IRA distributions 15a b Taxable amount 15b 16a Pensions and annuities 16a b Taxable amount 16b 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 18 Farm income or (loss). Attach Schedule F 19 Unemployment compensation 20a Social security benefits 20a b Taxable amount 20b 21 Other income. List type and amount Form 1099-A 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶ 2,500																																
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a W-2, see instructions. Enclose, but do not attach, any payment. Also, please use Form 1040-V.																																		

FORM 1099-C

Beginning in 2005, every organization that has a significant portion of its trade or business dedicated to the lending of money must file a Form 1099-C, *Cancellation of Debt*, upon cancellation of indebtedness of \$600 or more for a debtor.

The lender submits Form 1099-C to the IRS and to the person whose debt was canceled or forgiven. The form reports the amount of the canceled debt in box 2. For borrowers who disposed of their home in a short sale, foreclosure, or other settlement process, the amount shown is the loan principal that was **left unpaid after the settlement**. Box 4 describes the debt and box 7 reports the FMV of the property. In a foreclosure situation, the gross bid price from the foreclosure sale is shown as the FMV.

The Form 1099-C, like the Form 1099-A, must be furnished by January 31 to the borrower and filed by February 28 with the IRS. If it is electronically filed, the date for filing with the IRS is April 1. For purposes of Form 1099-C filing, **debt** means any amount owed to the lender including principal, interest, fees, penalties, administrative costs, and fines. The amount of debt canceled may be all or only a part of the total amount owed.

2011 Federal Tax Fundamentals

For Form 1099-C purposes, “cancellation” can involve any the following.

- A discharge in bankruptcy under Title 11 for business or investment debt
- The debt becoming unenforceable in a receivership, foreclosure, or similar court proceeding
- The statute of limitations for collecting the debt has expired
- The creditor elects foreclosure remedies that, by law, end the creditor’s right to collect
- A probate or similar proceeding
- A discharge of indebtedness under an agreement between the creditor and the debtor to cancel the debt at less than full consideration
- A discharge of indebtedness because of a decision or a defined policy of the creditor to discontinue collection activity and cancel the debt
- The expiration of a 36-month repayment testing period

Some transactions are **exempt** from Form 1099-C reporting. These include the following.¹⁵

- Cancellation of nonbusiness or noninvestment debts in bankruptcy
- The interest portion of canceled debt
- Nonprincipal amounts (e.g., penalties, fines, fees, and administrative costs) of canceled debt
- Cancellation of debt of a foreign debtor by a foreign branch
- Transfers of debt between related debtors (doesn’t meet the definition of “cancellation”)
- Release of a debtor from debt if other debtors are fully liable (doesn’t meet the definition of “cancellation”)
- Transactions involving a guarantor
- Transactions involving seller financing of nonfinancial goods or services when the seller is not in the primary business of lending money

Example 14. Trent Black owes \$10,000 in credit card debt. After he loses his job and is out of work for over a year, the credit card company on July 1, 2011, agrees to reduce the amount of his debt to \$5,000. Trent has debt forgiveness income of \$5,000 (\$10,000 – \$5,000).

The bank issues the following Form 1099-C to Trent.

<input type="checkbox"/> CORRECTED (if checked)		OMB No. 1545-1424	
CREDITORS name, street address, city, state, ZIP code, and telephone no. Credit Services 1804 Main Highway St. Louis, MO 63034 314-555-1234		1 Date canceled 07/01/2011	<div style="font-size: 2em; font-weight: bold;">2011</div> <div style="font-weight: bold;">Form 1099-C</div>
		2 Amount of debt canceled \$ 5000.00	
		3 Interest if included in box 2 \$	
CREDITOR'S federal identification number 99-0000000	DEBTOR'S identification number 555-44-3333	4 Debt description Credit card debt	
DEBTOR'S name Trent Black Street address (including apt. no.) 100 Woot Lane City, state, and ZIP code St. Louis, MO 63005			
Account number (see instructions)		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>	Copy B For Debtor This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
6 Bankruptcy (if checked) <input type="checkbox"/>		7 Fair market value of property \$	
Form 1099-C		(keep for your records) Department of the Treasury - Internal Revenue Service	

¹⁵ Treas. Reg. §1.6050P-1.

2011 Federal Tax Fundamentals

REPORTING THE INCOME

Generally, any nonbusiness canceled debt (the amount reported on Form 1099-C, box 2) is reported on Form 1040, line 21 (other income). If it is business debt, it is reported on the appropriate business form, such as Schedule C, *Profit or Loss From Business (Sole Proprietorship)*, or Schedule F, *Profit or Loss From Farming*. It is subject to self-employment tax. Debt forgiveness related to rental activities is reported on Schedule E, *Supplemental Income and Loss*.

If any interest on the debt is also canceled, it is included in the amount on Form 1099-C, box 2, and is also reported separately in box 3. If the interest **would not be** deductible when the taxpayer paid it (such as interest on a personal loan), the taxpayer should include the entire amount reported on Form 1099-C, box 2, in income. If the interest **would be** deductible when the taxpayer paid it (such as with a business loan), the amount included in income should be the amount on Form 1099-C, box 2, minus the interest amount shown in box 3.

Not all canceled debt is taxable.¹⁶ The following are reasons for exclusion.

- The discharge occurs in a title 11 case.
- The discharge occurs when the taxpayer is insolvent.
- The discharge is qualified farm indebtedness.
- The discharge is qualified real property business indebtedness in the case of a taxpayer other than a C corporation.
- The indebtedness discharge is qualified principal residence indebtedness which is discharged before January 1, 2013.

Form 982, *Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)*, must be completed in order to claim these exclusions.

Some financial institutions offer a discount for the early payment of a mortgage loan. The amount of the forgiven principal is canceled debt and must be reported in the borrower's income.

¹⁶ IRC §108.

INFORMATION RETURN PENALTIES

Persons who are required to file information returns (such as Forms 1099) and fail to do so by the prescribed filing date are subject to a penalty. This penalty varies based on when the correct information return is filed. For information returns required to be filed after December 31, 2010, the following penalties apply under IRC §6721.

1. **First-tier penalty.** If a person files a correct information return with the IRS after the prescribed filing date but within 30 days after the prescribed filing date, the amount of the penalty is \$30 per return, with a maximum penalty of \$250,000 per calendar year.¹⁷ The maximum penalty for small businesses is \$75,000 per calendar year.¹⁸
2. **Second-tier penalty.** If a person files a correct information return with the IRS more than 30 days after the prescribed filing date but on or before August 1 of the calendar year in which the required filing date occurs, the amount of the penalty is \$60 per return, with a maximum penalty of \$500,000 per calendar year.¹⁹ The maximum penalty for small businesses is \$200,000 per calendar year.
3. **Third-tier penalty.** If a correct information return is not filed with the IRS on or before August 1 of the calendar year in which the required filing date occurs, the amount of the penalty is \$100 per return, with a maximum penalty of \$1.5 million per calendar year.²⁰ The maximum penalty for small businesses is \$500,000 per calendar year.
4. **Penalty for intentional disregard.** If the failure to file correct information returns with the IRS is due to intentional disregard of the filing requirement, the penalty imposed for each failure is the greater of:
 - \$250, or
 - A fixed percentage of the aggregate amount of the items required to be reported correctly.²¹

Example 15. Zondra Corporation, whose average annual gross receipts for the most recent three taxable years is \$100 million, filed 5,000 Forms 1099 with the IRS on July 30, 2011. However, these forms were due **to the IRS** on February 28, 2011. The second-tier penalty on these information returns is \$300,000 ($\$60 \times 5,000$).

Zondra filed an additional 20,000 Forms 1099 (also due **to the IRS** on February 28, 2011) with the IRS on August 31, 2011. The third-tier penalty on these returns is \$1.5 million ($\$100 \times 20,000 = \2 million, capped at \$1.5 million).

There is a corresponding penalty under IRC §6722 for failure to furnish payee statements to taxpayers on a timely basis. The penalty amounts and due dates mirror the §6721 penalties listed above.

Note. If businesses both fail to file information returns with the IRS and fail to furnish payee statements, they are subject to penalties under both §§6721 and 6722.

¹⁷ IRC §6721(b)(1).

¹⁸ A small business is defined in IRC §6721(d) as a firm having average annual gross receipts for the three most recent taxable years that do not exceed \$5 million.

¹⁹ IRC §6721(b)(2).

²⁰ IRC §6721(a)(1).

²¹ See IRC §6721(e)(2).

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Example 16. Use the same facts as in **Example 15**. On July 30, 2011, Zondra Corporation furnished 5,000 Forms 1099 which were due **to the payees** on January 31, 2011, to payees on July 30, 2011. The second-tier penalty on these information returns is \$300,000 ($\$60 \times 5,000$).

On August 31, 2011, Zondra furnished 20,000 Forms 1099, (also due **to the payees** on January 31, 2011). The third-tier penalty on these returns is \$1.5 million ($\$100 \times 20,000 = \2 million, capped at \$1.5 million).

These penalties are in addition to the penalties Zondra incurred by failure to file timely Forms 1099 with the IRS, as explained in **Example 15**.

RECIPIENT INFORMATION

The full name and address of the recipient should be shown in the section provided on the information return. If payments have been made to more than one recipient or the account is in more than one name, the name of the recipient whose TIN is first shown on the return should be listed first. The names of any other individual recipients may be listed below the first line, if desired.

Specific information reported on information returns varies depending on the category of the recipient.²²

- **Sole proprietor. The individual's name must be shown on the first line.** On the second line, the “doing business as” (DBA) name may be entered. Either the individual's social security number (SSN) or the employer identification number (EIN) of the business may be reported in the space provided for the TIN. The IRS prefers use of the SSN.
- **Limited liability company.** For a single-member LLC that is a disregarded entity, the individual's name should be entered on the first line and the LLC's name should be listed on the second line. The TIN reported for a disregarded entity can be either the individual's SSN or the business's EIN. If the LLC is a corporation or partnership, only the entity's EIN should be entered.
- **Bankruptcy estate.** If an information return is required for an individual in Chapter 11 bankruptcy and the debtor has notified the business issuing the Form 1099 of the bankruptcy estate's EIN, then the post-petition gross income, gross proceeds, or other reportable payments should be reported on the information return using the estate's name and EIN. After the bankruptcy is closed, any subsequent information returns should be filed with the individual's name and SSN.
- **Corporation or Partnership.** The entity's business name and EIN must be reported.
- **Deceased individual.** Income reportable after the death of an individual must reflect the TIN of the payee (i.e., the estate or surviving joint owner).

²² General Instructions for Certain Information Returns.

2011 Federal Tax Fundamentals

REQUESTING A RECIPIENT'S TIN

Taxpayers may be subject to a penalty for an incorrect or missing TIN on an information return. Therefore, it is important that businesses obtain information from all payees. Form W-9, *Request for Taxpayer Identification Number and Certification*, can be used for this purpose. The confidentiality of the information obtained must be maintained and used only to comply with tax laws.

Example 17. Trent receives a request from his credit card company to complete the following Form W-9.

Form W-9 (Rev. January 2011) Department of the Treasury Internal Revenue Service	Request for Taxpayer Identification Number and Certification	Give Form to the requester. Do not send to the IRS.
Name (as shown on your income tax return) Trent Black		
Business name/disregarded entity name, if different from above		
Check appropriate box for federal tax classification (required): <input checked="" type="checkbox"/> Individual/sole proprietor <input type="checkbox"/> C Corporation <input type="checkbox"/> S Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Trust/estate <input type="checkbox"/> Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=partnership) ▶ _____ <input type="checkbox"/> Other (see instructions) ▶ _____		
<input type="checkbox"/> Exempt payee		
Address (number, street, and apt. or suite no.) 100 Woot Lane City, state, and ZIP code St. Louis, MO 63005		Requester's name and address (optional)
List account number(s) here (optional)		
Part I Taxpayer Identification Number (TIN) Enter your TIN in the appropriate box. The TIN provided must match the name given on the "Name" line to avoid backup withholding. For individuals, this is your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 3. For other entities, it is your employer identification number (EIN). If you do not have a number, see <i>How to get a TIN</i> on page 3. Note. If the account is in more than one name, see the chart on page 4 for guidelines on whose number to enter.		
Social security number <div style="border: 1px solid black; padding: 2px; display: flex; justify-content: space-around;"> 555 - 44 - 3333 </div>		Employer identification number <div style="border: 1px solid black; padding: 2px; display: flex; justify-content: space-around;"> - </div>
Part II Certification Under penalties of perjury, I certify that: 1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and 2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and 3. I am a U.S. citizen or other U.S. person (defined below). Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions on page 4.		
Sign Here	Signature of U.S. person ▶ _____	Date ▶ _____

If the recipient does not provide a TIN, the box for the recipient's TIN on the information return is left blank. A penalty may be imposed on recipients who fail to furnish their correct TINs to requesters.

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BACKUP WITHHOLDING

Backup withholding at a 28% rate may apply if reportable payments were made (e.g., interest, dividends, rents, royalties, commissions, nonemployee compensation, and certain other payments). Reportable payments are subject to backup withholding in the following circumstances.

- The payee fails to furnish their TIN to the requester.
- The payee fails to certify that the TIN provided is correct for interest, dividend, and broker and barter exchange accounts opened or instruments acquired after 1983.
- The IRS notifies the taxpayer to impose backup withholding because the payee furnished an incorrect TIN.
- The taxpayer is notified that the payee is subject to backup withholding for interest and dividend accounts or instruments under IRC §3406(a)(1)(C).
- The payee fails to certify that they are not subject to backup withholding for interest and dividend accounts opened or instruments acquired after 1983.

Backup withholding is reported annually on Form 945, *Annual Return of Withheld Federal Income Tax*. It must also be reported on the information returns of applicable payees even if the amount of the payment is less than the amount for which an information return is normally required.

TIN MATCHING

The IRS allows payers or authorized agents who are required to file Forms 1099-B, DIV, INT, MISC, OID, and PATR to match TIN and name combinations with IRS records before submitting the forms to the IRS. TIN Matching is one of the IRS e-services products accessible through the IRS website. The IRS anticipates that payers who validate TIN/name combinations before filing information returns will receive fewer backup withholding (CP 2100) and penalty notices.

For program guidelines, go to **www.irs.gov** and enter keyword “TIN matching” in the upper right corner or see IRS Pub. 2108-A, *On-Line Taxpayer Identification Number (TIN) Matching Program*. The IRS does not impose any fees for use of the TIN matching system.

ELECTRONIC FILING

Taxpayers who are required to file 250 or more information returns with the IRS **must** file electronically. The 250-return threshold applies **separately** to each type of Form 1099.

Example 18. Rester Co. must file 500 Forms 1099-DIV and 100 Forms 1099-INT. Rester is required to file the Forms 1099-DIV electronically but is not required to file its Forms 1099-INT electronically.

The IRS encourages electronic filing even for taxpayers filing fewer than 250 returns.

IRS Pub. 1220, *Specifications for Filing Forms 1097-BTC, 1098, 1099, 3921, 3922, 5498, 8935, and W2-G Electronically*, provides the specifications for reporting electronically. It is updated annually and is available at **www.irs.gov**.

DUE DATE

The due date for Forms 1099 filed with the IRS electronically is March 31. For the due dates of other information returns, see the chart at the end of this chapter.

An automatic 30-day extension of time to file can be obtained by completing Form 8809, *Application for Extension of Time To File Information Returns*. The Form 8809 must be submitted by the due date of the returns in order to obtain the 30-day extension. One additional extension of not more than 30 days can be requested by submitting a second Form 8809 before the end of the first extension period. However, requests for an additional extension of time are not automatic and are generally granted only in cases of extreme hardship or catastrophic event.²³

²³ Form 8809 Instructions (Rev. Sept. 2010).

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APPROVAL FOR ELECTRONIC FILING

To request authorization to file Forms 1099 electronically, Form 4419, *Application for Filing Information Returns Electronically (FIRE)*, is used. Form 4419 should be filed at least 30 days before the due date of the returns. Once the approval for electronic filing is obtained, the taxpayer need not reapply each year.

WAIVER

To request a waiver from the electronic filing requirement, the taxpayer should submit Form 8508, *Request for Waiver From Filing Information Returns Electronically*. This form must be filed at least 45 days before the due date of the returns. The waiver is effective for only one tax year. Taxpayers must reapply at the appropriate time each year if a waiver is needed for more than one year.

PENALTIES

Taxpayers that are required to file electronically but fail to do so without an approved waiver are subject to a penalty of \$50 per return. The penalty may be waived if reasonable cause can be established. However, the taxpayer can file up to 250 paper returns; these returns will not be subject to the penalty for failure to file electronically.

FILING CORRECTED FORMS 1099

PAPER FORMS

If an error is discovered on a paper Form 1099 after it is filed with the IRS, the taxpayer must take the following measures.

- File Copy A of the corrected forms along with Form 1096 as soon as possible with the IRS Service Center.
 - ♦ A separate Form 1096, *Annual Summary and Transmittal of U.S. Information Returns*, should be used for each type of return that is being corrected.
 - ♦ An “X” should be entered in the “CORRECTED” checkbox at the top of the Form 1099(s) when correcting a form previously filed with the IRS or furnished to the recipient.
- Furnish corrected statements to the affected recipients.

Example 19. Trent receives a Form 1099-C that incorrectly reports his canceled debt as \$5,000 instead of the correct amount of \$4,000. He contacts the accounting department of Credit Services, and they issue him a corrected form, as shown below.

☒ CORRECTED (if checked)

CREDITOR'S name, street address, city, state, ZIP code, and telephone no. Credit Services 1804 Main Highway St. Louis, MO 63034 314-555-1234		1 Date canceled 07/01/2011	OMB No. 1545-1424 2011 Form 1099-C	Cancellation of Debt
		2 Amount of debt canceled \$ 4000.00		
		3 Interest if included in box 2 \$		
CREDITOR'S federal identification number 99-0000000	DEBTOR'S identification number 555-44-3333	4 Debt description Credit card debt		Copy B For Debtor This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if taxable income results from this transaction and the IRS determines that it has not been reported.
DEBTOR'S name Trent Black		5 If checked, the debtor was personally liable for repayment of the debt <input checked="" type="checkbox"/>		
Street address (including apt. no.) 100 Woot Lane				
City, state, and ZIP code St. Louis, MO 63005				
Account number (see instructions)		6 Bankruptcy (if checked) <input type="checkbox"/>	7 Fair market value of property \$	

Form **1099-C** (keep for your records) Department of the Treasury - Internal Revenue Service

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For Example 19

Do Not Staple 6969

Form 1096 Department of the Treasury Internal Revenue Service		Annual Summary and Transmittal of U.S. Information Returns				OMB No. 1545-0108 2010									
FILER'S name Credit Services Street address (including room or suite number) 1804 Main Highway City, state, and ZIP code St. Louis, MO 63034															
Name of person to contact Ennie Bodie			Telephone number (314) 555-1234			For Official Use Only <table border="1"><tr><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr></table>									
Email address ebodie@creditserv.com			Fax number (314) 555-4321												
1 Employer identification number 99-0000000		2 Social security number		3 Total number of forms 1		4 Federal income tax withheld \$									
						5 Total amount reported with this Form 1096 \$4000.00									
6 Enter an "X" in only one box below to indicate the type of form being filed.						7 If this is your final return , enter an "X" here <input type="checkbox"/>									
W-2G 32 <input type="checkbox"/>	1098 81 <input type="checkbox"/>	1098-C 78 <input type="checkbox"/>	1098-E 84 <input type="checkbox"/>	1098-T 83 <input type="checkbox"/>	1099-A 80 <input type="checkbox"/>	1099-B 79 <input type="checkbox"/>	1099-C 85 <input checked="" type="checkbox"/>								
1099-CAP 73 <input type="checkbox"/>	1099-DIV 91 <input type="checkbox"/>	1099-G 86 <input type="checkbox"/>	1099-H 71 <input type="checkbox"/>	1099-INT 92 <input type="checkbox"/>	1099-LTC 93 <input type="checkbox"/>										
1099-MISC 95 <input type="checkbox"/>	1099-OID 96 <input type="checkbox"/>	1099-PATR 97 <input type="checkbox"/>	1099-Q 31 <input type="checkbox"/>	1099-R 98 <input type="checkbox"/>	1099-S 75 <input type="checkbox"/>	1099-SA 94 <input type="checkbox"/>	3921 25 <input type="checkbox"/>								
3922 26 <input type="checkbox"/>	5498 28 <input type="checkbox"/>	5498-ESA 72 <input type="checkbox"/>	5498-SA 27 <input type="checkbox"/>												

If errors are discovered that affect state or local information only, corrected returns should not be submitted to the IRS. Taxpayers should contact state or local tax departments for help with this type of correction.

Note. A 2011 Form 1096 must be used in conjunction with a 2011 corrected Form 1099-C or similar corrected form. The above Form 1096 shown is for 2010 because the 2011 was not yet available at the time this book went to press.

The chart on the following page shows specific procedures to correct erroneous information returns.²⁴

²⁴ General Instructions for Certain Information Returns.

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Filing Corrected Return on Paper Forms

Identify the correction needed based on **Error Type 1 or 2**; then follow the steps to make the corrections and file the form(s). Also see Part H on page 6.

Error Type 1	Correction
<p>Incorrect money amount(s), code, or checkbox, or Incorrect address, or Incorrect payee name, or A return was filed when one should not have been filed.</p> <p>These errors require only one return to make the correction.</p> <p><i>Caution: If you must correct a TIN and/or a name and address, follow the instructions under Error 2.</i></p>	<p>A. Form 1098, 1099, 3921, 3922, 5498, or W-2G</p> <ol style="list-style-type: none"> 1. Prepare a new information return. 2. Enter an "X" in the "CORRECTED" box (and date (optional)) at the top of the form. 3. Correct any recipient information such as money amounts and address. Report other information as per original return. <p>B. Form 1096</p> <ol style="list-style-type: none"> 1. Prepare a new transmittal Form 1096. 2. Provide all requested information on the form as it applies to Part A, 1 and 2. 3. File Form 1096 and Copy A of the return with the appropriate service center. 4. Do not include a copy of the original return that was filed incorrectly.

Error Type 2	Correction
<p>No payee TIN (SSN, EIN, QI-EIN, or ITIN), or Incorrect payee TIN, or Incorrect name and address, or</p> <p>Original return filed using wrong type of return (for example, a Form 1099-DIV was filed when a Form 1099-INT should have been filed).</p> <p>Two separate returns are required to make the correction properly. Follow all instructions for both Steps 1 and 2.</p>	<p>Step 1. Identify incorrect return submitted.</p> <ol style="list-style-type: none"> 1. Prepare a new information return. 2. Enter an "X" in the "CORRECTED" box (and date (optional)) at the top of the form. 3. Enter the payer, recipient, and account number information exactly as it appeared on the original incorrect return; however, enter 0 (zero) for all money amounts. <p>Step 2. Report correct information.</p> <p>A. Form 1098, 1099, 3921, 3922, 5498, or W-2G</p> <ol style="list-style-type: none"> 1. Prepare a new information return. 2. Do not enter an "X" in the "CORRECTED" box at the top of the form. Prepare the new return as though it is an original. 3. Include all the correct information on the form including the correct TIN, name, and address. <p>B. Form 1096</p> <ol style="list-style-type: none"> 1. Prepare a new transmittal Form 1096. 2. Enter the words "Filed To Correct TIN," "Filed to Correct Name and Address," or "Filed to Correct Return" in the bottom margin of the form. 3. Provide all requested information on the form as it applies to the returns prepared in Steps 1 and 2. 4. File Form 1096 and Copy A of the return with the appropriate service center. 5. Do not include a copy of the original return that was filed incorrectly.

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ELECTRONIC FORMS

If errors are discovered on information returns that were electronically filed, corrections may be filed on paper as long as the number of incorrect returns is under 250. Otherwise, the corrections must be filed electronically. The 250-return threshold applies separately to each type of information return.

Example 20. Rester Co. from **Example 18** discovers that the same payee address was reported on all 500 Forms 1099-DIV and 100 Forms 1099-INT, due to a programming glitch. Rester Co. must correct the 500 Forms 1099-DIV electronically but may issue paper corrections of the Forms 1099-INT, if it chooses to do so.

The following protocol must be observed when submitting corrections electronically.²⁵

- Do not send the entire file again; only the information returns being corrected should be submitted.
- Information returns omitted from the original file should not be coded as corrections. These returns must be separately submitted as original returns.
- The same payee account number that was used on the original submission must be used on the corrected return.
- Corrections should be filed as soon as possible to mitigate any potential penalties. Corrected recipient statements should also be furnished as soon as possible.
- If a payer realizes that duplicate reporting has occurred, the IRS Information Returns Branch (IRS-IRB) should be contacted for instructions on how to proceed. The standard correction process will not resolve duplicate reporting.
- If a payer discovers errors that affect a large number of payees, the IRS-IRB underreporter section should be contacted at (866) 455-7438 for requirements in addition to sending corrected returns and notifying the payees.

For specific information on filing corrected information returns electronically, see IRS Pub. 1220.

²⁵ Rev. Proc. 2010-26, 2010-30 IRB 91.

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Guide to Information Returns (If any date shown falls on a Saturday, Sunday, or legal holiday, the due date is the next business day.)

Form	Title	What to Report	Amounts to Report	Due Date	
				To IRS	To Recipient (unless indicated otherwise)
1042-S	Foreign Person's U.S. Source Income Subject to Withholding	Income such as interest, dividends, royalties, pensions and annuities, etc., and amounts withheld under Chapter 3. Also, distributions of effectively connected income by publicly traded partnerships or nominees.	See form instructions	March 15	March 15
1098	Mortgage Interest Statement	Mortgage interest (including points) and certain mortgage insurance premiums you received in the course of your trade or business from individuals and reimbursements of overpaid interest.	\$600 or more	February 28*	(To Payer/ Borrower) January 31
1098-C	Contributions of Motor Vehicles, Boats, and Airplanes	Information regarding a donated motor vehicle, boat, or airplane.	Gross proceeds of more than \$500	February 28*	(To Donor) 30 days from date of sale or contribution
1098-E	Student Loan Interest Statement	Student loan interest received in the course of your trade or business.	\$600 or more	February 28*	January 31
1098-T	Tuition Statement	Qualified tuition and related expenses, reimbursements or refunds, and scholarships or grants (optional).	See instructions	February 28*	January 31
1099-A	Acquisition or Abandonment of Secured Property	Information about the acquisition or abandonment of property that is security for a debt for which you are the lender.	All amounts	February 28*	(To Borrower) January 31
1099-B	Proceeds From Broker and Barter Exchange Transactions	Sales or redemptions of securities, futures transactions, commodities, and barter exchange transactions.	All amounts	February 28*	February 15**
1099-C	Cancellation of Debt	Cancellation of a debt owed to a financial institution, the Federal Government, a credit union, RTC, FDIC, NCUA, a military department, the U.S. Postal Service, the Postal Rate Commission, or any organization having a significant trade or business of lending money.	\$600 or more	February 28*	January 31
1099-CAP	Changes in Corporate Control and Capital Structure	Information about cash, stock, or other property from an acquisition of control or the substantial change in capital structure of a corporation.	Amounts of stock or property valued at \$100 million or more	February 28*	(To Shareholders) January 31
1099-DIV	Dividends and Distributions	Distributions, such as dividends, capital gain distributions, or nontaxable distributions, that were paid on stock and liquidation distributions.	\$10 or more, except \$600 or more for liquidations	February 28*	January 31**
1099-G	Certain Government Payments	Unemployment compensation, state and local income tax refunds, agricultural payments, and taxable grants.	\$10 or more for refunds and unemployment	February 28*	January 31
1099-H	Health Coverage Tax Credit (HCTC) Advance Payments	Health insurance premiums paid on behalf of certain individuals.	All amounts	February 28*	January 31
1099-INT	Interest Income	Interest income.	\$10 or more (\$600 or more in some cases)	February 28*	January 31**
1099-LTC	Long-Term Care and Accelerated Death Benefits	Payments under a long-term care insurance contract and accelerated death benefits paid under a life insurance contract or by a viatical settlement provider.	All amounts	February 28*	January 31
1099-MISC	Miscellaneous Income (Also, use to report direct sales of \$5,000 or more of consumer goods for resale.)	Rent or royalty payments; prizes and awards that are not for services, such as winnings on TV or radio shows.	\$600 or more, except \$10 or more for royalties	February 28*	January 31**
		Payments to crew members by owners or operators of fishing boats including payments of proceeds from sale of catch.	All amounts		
		Section 409A income from nonqualified deferred compensation plans (NQDCs).	All amounts		
		Payments to a physician, physicians' corporation, or other supplier of health and medical services. Issued mainly by medical assistance programs or health and accident insurance plans.	\$600 or more		
		Payments for services performed for a trade or business by people not treated as its employees. Examples: fees to subcontractors or directors and golden parachute payments.	\$600 or more		
		Fish purchases paid in cash for resale.	\$600 or more		
		Crop insurance proceeds.	\$600 or more		
		Substitute dividends and tax-exempt interest payments reportable by brokers.	\$10 or more		February 15**
		Gross proceeds paid to attorneys.	\$600 or more		February 15**
1099-OID	Original Issue Discount	Original issue discount.	\$10 or more	February 28*	January 31**
1099-PATR	Taxable Distributions Received From Cooperatives	Distributions from cooperatives passed through to their patrons including any domestic production activities deduction and certain pass-through credits.	\$10 or more	February 28*	January 31

*The due date is March 31 if filed electronically.

**The due date is March 15 for reporting by trustees and middlemen of WHFITs.

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Guide to Information Returns *(Continued)*

Form	Title	What to Report	Amounts to Report	Due Date	
				To IRS	To Recipient (unless indicated otherwise)
1099-Q	Payments From Qualified Education Programs (Under Sections 529 and 530)	Earnings from qualified tuition programs and Coverdell ESAs.	All amounts	February 28*	January 31
1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	Distributions from retirement or profit-sharing plans, any IRA, insurance contracts, and IRA recharacterizations.	\$10 or more	February 28*	January 31
1099-S	Proceeds From Real Estate Transactions	Gross proceeds from the sale or exchange of real estate and certain royalty payments.	Generally, \$600 or more	February 28*	February 15
1099-SA	Distributions From an HSA, Archer MSA, or Medicare Advantage MSA	Distributions from an HSA, Archer MSA, or Medicare Advantage MSA.	All amounts	February 28*	January 31
3921	Exercise of an Incentive Stock Option Under Section 422(b)	Transfer of an employer's stock to an employee pursuant to the exercise of an incentive stock option under section 422(b).	All amounts	February 28*	January 31
3922	Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c)	Transfer(s) of stock acquired through an employee stock purchase plan under section 423(c)	All amounts	February 28*	January 31
5498	IRA Contribution Information	Contributions (including rollover contributions) to any individual retirement arrangement (IRA) including a SEP, SIMPLE, and Roth IRA; Roth conversions; IRA recharacterizations; and the fair market value (FMV) of the account.	All amounts	May 31	(To Participant) For FMV/RMD Jan 31; For contributions, May 31
5498-ESA	Coverdell ESA Contribution Information	Contributions (including rollover contributions) to a Coverdell ESA.	All amounts	May 31	April 30
5498-SA	HSA, Archer MSA, or Medicare Advantage MSA Information	Contributions to an HSA (including transfers and rollovers) or Archer MSA and the FMV of an HSA, Archer MSA, or Medicare Advantage MSA.	All amounts	May 31	(To Participant) May 31
W-2G	Certain Gambling Winnings	Gambling winnings from horse racing, dog racing, jai alai, lotteries, keno, bingo, slot machines, sweepstakes, wagering pools, poker tournaments, etc.	Generally, \$600 or more; \$1,200 or more from bingo or slot machines; \$1,500 or more from keno	February 28*	January 31
W-2	Wage and Tax Statement	Wages, tips, other compensation; social security, Medicare, withheld income taxes; and advance earned income credit (EIC) payments. Include bonuses, vacation allowances, severance pay, certain moving expense payments, some kinds of travel allowances, and third-party payments of sick pay.	See separate instructions	To SSA	To Recipient
				Last day of February*	January 31

*The due date is March 31 if filed electronically.

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Types of Payments

Below is an alphabetic list of some payments and the forms to file and report them. However, it is not a complete list of all payments, and the absence of a payment from the list does not indicate that the payment is not reportable. For instructions on a specific type of payment, see the separate instructions in the form(s) listed.

Type of Payment	Report on Form	Type of Payment	Report on Form
Abandonment	1099-A	Income tax refunds, state and local	1099-G
Accelerated death benefits	1099-LTC	Indian gaming profits paid to tribal members	1099-MISC
Acquisition of control	1099-CAP	Interest income	1099-INT
Advance earned income credit	W-2	Tax-exempt	1099-INT
Advance health insurance payments	1099-H	Interest, mortgage	1098
Agriculture payments	1099-G	IRA contributions	5498
Allocated tips	W-2	IRA distributions	1099-R
Alternate TAA payments	1099-G	Life insurance contract distributions	1099-R,
Annuities	1099-R		1099-LTC
Archer MSAs:		Liquidation, distributions in	1099-DIV
Contributions	5498-SA	Loans, distribution from pension plan	1099-R
Distributions	1099-SA	Long-term care benefits	1099-LTC
Attorney, fees and gross proceeds	1099-MISC	Medicare Advantage MSAs:	
Auto reimbursements, employee	W-2	Contributions	5498-SA
Auto reimbursements, nonemployee	1099-MISC	Distributions	1099-SA
Awards, employee	W-2	Medical services	1099-MISC
Awards, nonemployee	1099-MISC	Mileage, employee	W-2
Barter exchange income	1099-B	Mileage, nonemployee	1099-MISC
Bonuses, employee	W-2	Military retirement	1099-R
Bonuses, nonemployee	1099-MISC	Mortgage insurance premiums	1098
Broker transactions	1099-B	Mortgage interest	1098
Cancellation of debt	1099-C	Moving expense	W-2
Capital gain distributions	1099-DIV	Nonemployee compensation	1099-MISC
Car expense, employee	W-2	Nonqualified deferred compensation:	
Car expense, nonemployee	1099-MISC	Beneficiary	1099-R
Changes in capital structure	1099-CAP	Employee	W-2
Charitable gift annuities	1099-R	Nonemployee	1099-MISC
Commissions, employee	W-2	Original issue discount (OID)	1099-OID
Commissions, nonemployee	1099-MISC	Patronage dividends	1099-PATR
Commodities transactions	1099-B	Pensions	1099-R
Compensation, employee	W-2	Points	1098
Compensation, nonemployee	1099-MISC	Prizes, employee	W-2
Contributions of motor vehicles, boats, and airplanes	1098-C	Prizes, nonemployee	1099-MISC
Cost of current life insurance protection	1099-R	Profit-sharing plan	1099-R
Coverdell ESA contributions	5498-ESA	Punitive damages	1099-MISC
Coverdell ESA distributions	1099-Q	Qualified plan distributions	1099-R
Crop insurance proceeds	1099-MISC	Qualified tuition program payments	1099-Q
Damages	1099-MISC	Real estate transactions	1099-S
Death benefits	1099-R	Recharacterized IRA contributions	1099-R, 5498
Accelerated	1099-LTC	Refund, state and local tax	1099-G
Debt cancellation	1099-C	Rents	1099-MISC
Dependent care payments	W-2	Retirement	1099-R
Direct rollovers	1099-Q,	Roth conversion IRA contributions	5498
	1099-R, 5498	Roth conversion IRA distributions	1099-R
Direct sales of consumer products for resale	1099-MISC	Roth IRA contributions	5498
Directors' fees	1099-MISC	Roth IRA distributions	1099-R
Discharge of indebtedness	1099-C	Royalties	1099-MISC
Dividends	1099-DIV	Timber, pay-as-cut contract	1099-S
Donation of motor vehicle	1098-C	Sales:	
Education loan interest	1098-E	Real estate	1099-S
Employee business expense reimbursement	W-2	Securities	1099-B
Employee compensation	W-2	Section 1035 exchange	1099-R
Excess deferrals, excess contributions, distributions of	1099-R	SEP contributions	W-2, 5498
Exercise of incentive stock option under section 422(b)	3921	SEP distributions	1099-R
Fees, employee	W-2	Severance pay	W-2
Fees, nonemployee	1099-MISC	Sick pay	W-2
Fishing boat crew members proceeds	1099-MISC	SIMPLE contributions	W-2, 5498
Fish purchases for cash	1099-MISC	SIMPLE distributions	1099-R
Foreclosures	1099-A	Student loan interest	1098-E
Foreign persons' income	1042-S	Substitute payments in lieu of dividends or tax-exempt	
401(k) contributions	W-2	Interest	1099-MISC
404(k) dividend	1099-DIV	Supplemental unemployment	W-2
Gambling winnings	W-2G	Tax refunds, state and local	1099-G
Golden parachute, employee	W-2	Tips	W-2
Golden parachute, nonemployee	1099-MISC	Transfer of stock acquired through an employee stock	
Grants, taxable	1099-G	purchase plan under section 423(c)	3922
Health care services	1099-MISC	Tuition	1098-T
Health insurance advance payments	1099-H	Unemployment benefits	1099-G
Health savings accounts:		Vacation allowance, employee	W-2
Contributions	5498-SA	Vacation allowance, nonemployee	1099-MISC
Distributions	1099-SA	Wages	W-2
Income attributable to domestic production activities,			
deduction for	1099-PATR		

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