

# GUIDE TO COMPLEX DEBT REPORTING



Under the Cost Basis Legislation (CBL), broker dealers are required to report cost basis and annual income adjustments for “complex debt” securities. The CBL was first introduced in 2008 and required incremental increases to the amount of cost basis and income adjustment information reported annually to the IRS by agents such as Janney. Complex debt instruments purchased or acquired before 2016 will remain “non-covered,” meaning Janney will not report the basis or adjustment information on those shares to the IRS, however clients will still be able to see any pertinent information we have on their 1099 consolidated tax form.

## WHAT IS CONSIDERED “COMPLEX DEBT?”

Per the IRS, “complex debt” for tax reporting purposes includes debt instruments in the following categories:

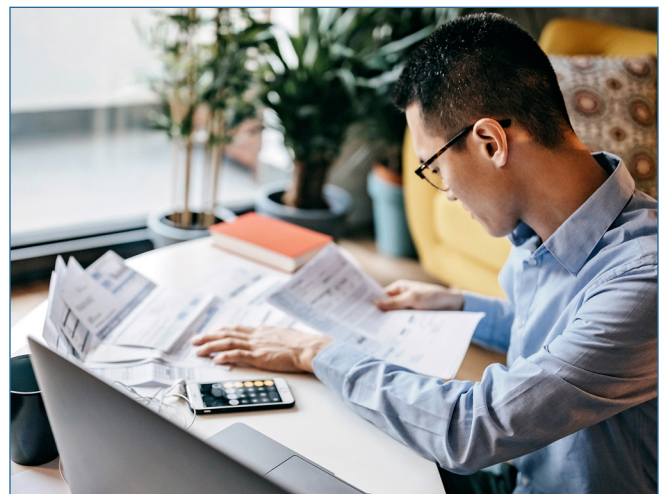
- A debt instrument that provides for more than one rate of stated interest (for example, a debt instrument with stepped interest rates)
- A convertible debt instrument (that is, one that permits the holder to convert it into stock of the issuer)
- A stripped bond or coupon
- A debt instrument that requires payment of either interest or principal in a currency other than the U.S. dollar
- A debt instrument that entitles the holder to a tax credit(s)
- A debt instrument that provides for a payment-in-kind feature
- A debt instrument issued by a non-U.S. issuer
- A debt instrument for which the terms of the instrument aren’t reasonably available to the broker within 90 days of the date the debt instrument was acquired by the customer
- A debt instrument issued as part of an investment unit (for example, a debt instrument issued with an option, security, or other property)
- A debt instrument evidenced by a physical certificate unless such certificate is held (whether directly or through a nominee, agent, or subsidiary) by a securities depository or by a clearing organization described in Treas. Reg. § 1.1471-1(b)(18)
- A contingent-payment debt instrument

- A variable-rate debt instrument
- An inflation-indexed debt instrument (for example, a Treasury Inflation-Protected Security)

If you have any questions on assets that do not fit into the above categories, or if you are uncertain if a certain asset qualifies, please see Treas. Reg. §1.6045-1(n)(3) for the specific requirements to determine if a debt instrument is a “covered security.”

## How This Affects Your 1099 Form

The consolidated 1099 form will break out cost basis information and adjustments for complex debt in a reportable section. For example, a position of an asset classified as “complex debt” which has an acquisition date of 01/01/2016 or later and was sold or disposed of during the tax year will report under “**Short Term Transactions For Covered Tax Lots**” or “**Long Term Transactions For Covered Tax Lots**” depending upon the holding period.



## Where Is Interest Income Reported?

Interest income is aptly reported on the 1099-INT section of the consolidated 1099 form, as shown below. The summary of interest income in the applicable account is found on page 2 of the consolidated 1099 form with detailed information shown by CUSIP and/or symbol in the later section labeled "Detail for Interest Income." In addition, tax-exempt interest details are shown in the following section, labeled "Detail for Tax-Exempt Interest." See below for examples.

INTEREST INCOME		20XX 1099-INT	OMB No. 1545-0112
<b>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.</b>			
1- Interest income (not included in line 3)		2,389.64	
2- Early withdrawal penalty		0.00	
3- Interest on US Savings Bonds & Treasury obligations		547.16	
4- Federal income tax withheld		0.00	
5- Investment expenses		0.00	
7- Foreign country or US possession:	6- Foreign tax paid:	0.00	
8- Tax-exempt interest (includes line 9)		2,706.26	
9- Specified private activity bond interest (AMT)		1,956.26	
10- Market discount (covered lots)		71.49	
11- Bond premium (covered lots)		174.25	
12- Bond premium on Treasury obligations (covered lots)		10.95	
13- Bond premium on tax-exempt bonds (categorized below)		7.69	
Tax-exempt obligations (covered lots)		0.00	
Tax-exempt private activity obligations (AMT, covered lots)		7.69	
14- Tax-exempt and tax credit bond CUSIP number		See detail	

The following amounts are not reported to the IRS. They are presented here for your reference when preparing your tax return(s).

Taxable accrued interest paid	0.00
Taxable accrued Treasury interest paid	21.31
Tax-exempt accrued interest paid	0.00
Tax-exempt accrued interest paid (AMT)	408.47
Taxable accrued nonqualified interest paid	0.00
Tax-exempt accrued nonqualified interest paid	0.00
Tax-exempt accrued nonqualified interest paid (AMT)	0.00
Nonqualified interest	494.40
Tax-exempt nonqualified interest	0.00
Tax-exempt nonqualified interest (AMT)	0.00
Interest shortfall on contingent payment debt	0.00
Bond premium- Non Treasury obligations (noncovered lots)	18.58
Bond premium- Treasury obligations (noncovered lots)	0.00
Bond premium- Tax-exempt obligations (noncovered lots)	235.54
Bond premium- Tax-exempt obligations (AMT, noncovered lots)	0.00
Market discount (noncovered lots)	0.00

## How Is OID Reported?

OID is reported as income each year as it accrues, whether or not you receive any payments from the debt instrument issuer.

For example, if you hold a zero coupon bond with a maturity 10 years from issuance which is issued at \$900 and redeems at \$1,000, you would have \$10 in OID reported as income each year.

Examples of how this information is reported on the Consolidated 1099 form are shown below. Additional details are shown per CUSIP and/or symbol in the later sections of the Consolidated 1099 form labeled "Detail for Original Issue Discount." Tax-exempt will indicate the applicable state or U.S. territory or possession per CUSIP.

For further information on how OID is calculated and reported for different types of debt instruments, see the specifics on IRS Publication 1212. See pages 10-14 for complex debt OID calculations specifically.

For a directory of REMICs and CDOs, as well as directions on how to request information from specific issuers, please refer to IRS Publication 938.

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Information		Account 12345678		
) mm/dd/yyyy				
<b>ORIGINAL ISSUE DISCOUNT AND ADJUSTMENTS</b>				
<i>Use bond-by-bond details from the Form 1099-OID page(s) to determine amounts of Original Issue Discount income for your income tax return(s). The amounts shown in this section are for your reference when preparing your income tax return(s).</i>				
Original issue discount for 20XX		1,018.69		
Acquisition premium (covered lots)		0.00		
Acquisition premium (noncovered lots)		0.00		
Original issue discount on Treasury obligations		1,810.49		
Acquisition premium, Treasury obligations (covered lots)		0.00		
Acquisition premium, Treasury obligations (noncovered lots)		0.00		
Tax-exempt OID		3,034.65		
Tax-exempt OID (lots not reported)		0.00		
Acquisition premium (covered)		970.58		
Acquisition premium (lots not reported)		0.00		
Tax-exempt OID on private activity bonds		113.59		
Tax-exempt OID on private activity bonds (lots not reported)		0.00		
Acquisition premium (AMT, covered)		113.59		
Acquisition premium (AMT, lots not reported)		0.00		
Market discount (all lots)		0.00		
Early withdrawal penalty		0.00		
Investment expenses		0.00		

FIS WALL STREET CONCEPTS		Account	12345678	Page	17 of	32
20XX		Detail for Interest Income		mm/dd/yyyy		
<i>This section of your tax information statement contains the payment level detail of taxable interest and associated bond premium. Market discount will be shown here only if you have elected to recognize it currently rather than at the time of sale or maturity. Bond premium and market discount for covered tax lots are totaled on Form 1099-INT and reported to the IRS. For noncovered tax lots, they are totaled and presented beneath the 1099-INT for informational purposes and are not reported to the IRS.</i>						
<i>To provide a complete picture of activity for each investment, we also include here nonreportable transactions such as accrued interest paid on purchases and payment or receipt of nonqualified interest. Other amounts, such as federal, state and foreign tax withheld and investment expenses are shown as negative amounts but do not net against the reportable income totals.</i>						
<i>Some amounts shown as Agency interest may be exempt from state tax. You may wish to consult with your tax advisor, the IRS or your state tax authority regarding the proper treatment.</i>						
Security description	CUSIP and/or symbol	Date	Amount	Transaction type	Notes	
CREDIT INTEREST 1-1 TO 1-31		01/31/XX	15.00	Credit interest		
CREDIT INTEREST 2-1 TO 2-28		02/28/XX	16.00	Credit interest		
CREDIT INTEREST 3-1 TO 3-31		03/31/XX	16.00	Credit interest		
CREDIT INTEREST 4-1 TO 4-30		04/30/XX	14.00	Credit interest		
AMG CAP TR II 5.15 CONV/ PFD	00170F209 AATRL	01/17/XX	123.60	Nonqualified interest		
		04/17/XX	123.60	Nonqualified interest		
		07/17/XX	123.60	Nonqualified interest		
		10/14/XX	123.60	Nonqualified interest		
			494.40	Total nonqualified interest		
AETNA INC BE 7.25% DUE 08/15/23	008117A08	03/14/XX	-21.62	Bd prem covered interest		
		02/15/XX	362.50	Bd prem covered interest		
		08/14/XX	362.50	Bd prem covered interest		
		08/15/XX	362.50	Bd prem covered interest		
			725.00	Total interest		
			-43.75	Total Bd premium- covered lots		

## WHAT IS OID?

Original issue discount (OID) is a form of interest. It is the difference between a debt instrument's stated redemption price at maturity and its issue price (acquisition price for a stripped bond or coupon). Zero coupon bonds and debt instruments that pay no stated interest until maturity are examples of debt instruments that have OID.

FIS WALL STREET CONCEPTS		Account	12345678	Page	20 of	32
20XX		Detail for Tax-Exempt Interest		mm/dd/yyyy		
<i>This section of your tax information statement contains the payment level detail of tax-exempt interest and associated bond premium. Market discount will be shown here only if you have elected to recognize it currently rather than at the time of sale or maturity. Market discount income is NOT federally tax-exempt. Bond premium and market discount for covered tax lots are totaled on Form 1099-INT and reported to the IRS. Totals for the noncovered lots are displayed in the section following the Form 1099-INT.</i>						
<i>To provide a complete picture of activity for each investment, we also include here nonreportable transactions such as accrued interest paid on purchases and payment or receipt of nonqualified interest. Other amounts, such as federal and state tax withheld and investment expenses are shown as negative amounts but do not net against the reportable income totals.</i>						
<i>Income and adjustment totals at the end of this section are categorized by your state of residence, US possessions and other states. Note that income is shown as 'In state' only if it is exempt from state taxation.</i>						
Security description	CUSIP and/or symbol	State	Date	Amount	Transaction Type	Notes
GENEVIER COLLEGE CITY & CNTY ARRP R	349181184	CO	02/15/XX	765.63	Tax-exempt interest AMT	
CO Samba 6.125% DUE 11/15/25		CO	11/15/XX	765.63	Tax-exempt interest AMT	
				1,531.26	Total Tax-exempt interest	
IOWA ST UNIV SCIENCE & TEC UN	462582XU6	IA	12/31/XX	-118.73	Bd prem noncovered	
RE: 10% CALLABLE 5.000%			01/01/XX	375.00	Tax-exempt interest	
07/01/2023			06/30/XX	116.81	Bd prem noncovered	
			07/01/XX	375.00	Tax-exempt interest	
				762.00	Total Tax-exempt interest	
				-235.54	Total Bond premium- noncovered lots	

## OTHER USEFUL DEFINITIONS

**Accrual period:** An accrual period is an interval of time used to measure OID. The length of an accrual period can be 6 months, a year, or some other period no longer than one year, depending on when the debt instrument was issued.

**Acquisition premium:** Acquisition premium is the excess of a debt instrument's adjusted basis immediately after purchase, including purchase at original issue, over the debt instrument's adjusted issue price at that time.

**Adjusted issue price:** The adjusted issue price of a debt instrument at the beginning of an accrual period is used to figure the OID allocable to that period. In general, the adjusted issue price at the beginning of the debt instrument's first accrual period is its issue price. The adjusted issue price at the beginning of any subsequent accrual period is the sum of the issue price and all the OID includible in income before that accrual period minus any payment previously made on the debt instrument, other than a payment of qualified stated interest.

**Debt instrument:** The term "debt instrument" means any instrument or contractual arrangement that constitutes indebtedness under general principles of federal income tax law (including, for example, a bond, debenture, note, certificate, or other evidence of indebtedness). It generally does not include an annuity contract.

**Issue price:** The issue price generally is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of these instruments was sold.

**Market discount:** Market discount arises when a debt instrument purchased in the secondary market has decreased in value since its issue date, generally because of an increase in interest rates. An OID debt instrument has market discount if your adjusted basis in the debt instrument immediately after you acquired it (usually its purchase price) was less than the debt instrument's issue price plus the total OID that accrued before you acquired it. The market discount is the difference between the issue price plus accrued OID and your adjusted basis.

**Premium:** A debt instrument is purchased at a premium if its adjusted basis immediately after purchase is greater than the total of all amounts payable on the debt instrument after the purchase date, other than qualified stated interest. The premium is the excess of the adjusted basis over the payable amounts. See Publication 550 for information on the tax treatment of bond premium.

**Qualified stated interest (QSI):** In general, qualified stated interest is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually over the term of the debt instrument at a single fixed rate.

**Nonqualified stated interest (NQSI):** Non-qualified stated interest reflects periodic payments on contingent debt securities (a type of complex debt for reporting purposes). If the non-qualified interest paid was greater than the amount projected by the issuer, the excess will be reported on IRS Form 1099INT.

**Stated redemption price at maturity:** A debt instrument's stated redemption price at maturity is the sum of all amounts (principal and interest) payable on the debt instrument other than qualified stated interest.

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Definition Reference: <https://www.irs.gov/pub/irs-pdf/p1212.pdf>

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