

# 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 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.* 

## 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.

## 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 forms 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.

INTEREST INCOME

FIS WALL STREET CONCEPTS				Account	12345678		
	1	Detail for Interest In	come				
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To provide a complete picture of activity for	or each investment, we also include her	e nonreportable transactions su	ch as accrued intere	st paid on purchases and payment o	or receipt of nor	qualified	
interest. Other amounts, such as federal,	state and foreign tax withheld and inve	stment expenses are shown as	negative amounts bu	it do not net against the reportable in	ncome totals.	· · · ·	
Some amounts shown as Agency interest	may be exempt from state tax. You may	wish to consult with your tax	advisor, the IRS or v	our state tax authority regarding the	proper treatme	nt.	
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Security description	CUSIP and/or symbol	Date	Amount	Transaction type		Notes	
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REDIT INTEREST 2-1 TO 2-28		02/28/XX	18.00	Credit interest			
REDIT INTEREST 3-1 TO 3-31		03/31/XX	18.00	Credit interest			
REDIT INTEREST 4-1 TO 4-30		04/30/XX	14.00	Credit interest			
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		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			
ETNA INC B/E 7.25% DUE 08/15/23	008117AG8	02/14/XX	-21.52	Bd prem covered			
		02/15/XX	362.50	Interest			
		08/14/XX	-22.23	Bd prem covered			
		08/15/XX	362.50	Interest			
			362.50 725.00 -43.75	Interest Total Interest Total Bd premium- covered lots			

FIS WALL STREET CONCEPTS						Account	12345678		
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when preparing your fax return(s).       Taxable accrued Interest paid     0.00       Taxable accrued Interest paid     21.31       Tax-exerpt accrued Interest paid     0.01       Taxable accrued Interest paid     0.01       Taxable accrued Interest paid     0.01       Taxable accrued nonqualified Interest paid     0.00       Tax-exerpt accrued nonqualified Interest paid     0.00       Tax-exerpt accrued Interest paid (AMT)     40.40       Tax-exerpt nonqualified Interest paid (AMT)     40.40       Tax-exerpt nonqualified Interest paid (AMT)     60.40       Tax-exerpt nonqualified Interest paid (AMT)     60.40       Tax-exerpt nonqualified Interest (AMT)     60.00       Bond premium: Non Trassury obligations (noncovered lots)     5.50       Bond premium: Trax-sury obligations (noncovered lots)     2.00       Bond premium: Tax-sury obligations (noncovered lots)     2.00		
when preparing your fax return(s).       Taxable accrued Interest paid     0.00       Taxable accrued Interest paid     21.31       Tax-exerpt accrued Interest paid     0.01       Taxable accrued Interest paid     0.01       Taxable accrued Interest paid     0.01       Taxable accrued nonqualified Interest paid     0.00       Tax-exerpt accrued nonqualified Interest paid     0.00       Tax-exerpt accrued Interest paid (AMT)     40.40       Tax-exerpt nonqualified Interest paid (AMT)     40.40       Tax-exerpt nonqualified Interest paid (AMT)     60.40       Tax-exerpt nonqualified Interest paid (AMT)     60.40       Tax-exerpt nonqualified Interest (AMT)     60.00       Bond premium: Non Trassury obligations (noncovered lots)     5.50       Bond premium: Trax-sury obligations (noncovered lots)     2.00       Bond premium: Tax-sury obligations (noncovered lots)     2.00	The following amounts are not reported to the IRS. They are presented her	e for your reference
Taxable accounce Interest paid     0.00       Taxable accounce Interest paid     21.31       Tax-exempt accrued Interest paid     0.01       Tax-exempt accrued Interest paid     0.00       Tax-exempt accrued Interest paid     0.01       Tax-exempt accrued Interest paid     0.01       Tax-exempt accrued Interest paid     0.00       Tax-exempt accrued nonqualified Interest paid     0.00       Nonqualified Interest     404.40       Tax-exempt accrued nonqualified Interest (AMT)     0.00       Interest shortbill on confligent payment debt     0.00       Interest shortbill on confligent payment debt     0.00       Bond premium- Traxery diaglations (Interest (AMT)     2.02       Bond premium- Traxery diaglations (Interest (BAT)     2.02       Bond premium- Traxery diaglations (Interest (BAT)     2.02       Bond premium- Traxery diaglations (Interest (AMT)     2.02       Bond premium- Traxery diaglations (Interest (BAT)     2.02       Bond premium- Traxery diaglations (Interest (AMT)     2.02       Bond premium- Traxery diaglations (Interest (AMT)     2.02		e los your reference
Taxable accrued Treasury interest paid     21.31       Tax-exempt accrued Interest paid (AVT)     408.47       Taxable accrued Interest paid (AVT)     408.47       Taxable accrued Interest paid (AVT)     0.00       Taxable accrued Interest (AVT)     0.00       Search accrued Interest (AVT)     0.00       Tax-exempt nonqualified Interest (AVT)     0.00       Bond premium- Non Treastry objactions (Interest (AVT)     0.00       Bond premium- Non Treastry objactions (Interest (AVT)     0.00       Bond premium- Tax-exempt oblactions (INT, noncovered lots)     18       Bond premium- Tax-exempt oblactions (INT, noncovered lots)     0.05       Bond premium- Tax-exempt oblactions (INT, noncovered lots)     0.00		
Tax-exempt accrued interest paid     0.00       Tax-exempt accrued interest paid     0.01       Tax-base accrued interest paid     0.02       Tax-base accrued interest paid     0.02       Tax-base accrued interest paid     0.00       Tax-base accrued interest paid     0.00       Tax-exempt accrued interest paid     0.00       Noncaalified interest     404.40       Tax-exempt accrued interest paid     0.00       Interest shortbill on contingent payment debt     0.00       Bond premium- Trassury displations (innocovered lots)     1.85       Bond premium- Trassury displations (innocovered lots)     2.02       Bond premium- Trassury displations (innocovered lots)     0.00	Taxable accrued interest paid	
Tax-exempt accrued interest paid (AMT)     498.47       Taxable accrued nonqualified interest paid     0.00       Tax-exempt accrued nonqualified interest paid     0.00       Tax-exempt nonqualified interest paid     0.00       Tax-exempt nonqualified interest paid     0.00       Tax-exempt nonqualified interest (AMT)     0.04       Tax-exempt nonqualified interest (AMT)     0.00       Interest shortfail on configering payment debt     0.00       Bond premium- Non Trassary obligations (intoncovered lots)     1.8       Bond premium- Tax-exempt obligations (intoncovered lots)     25.54       Bond premium- Tax-exempt obligations (intoncovered lots)     25.54       Bond premium- Tax-exempt obligations (intoncovered lots)     0.00		
Taxable accrued nonpulified interest paid     0.00       Tax-exempt nonpulified interest     0.00       Tax-exempt nonpulified interest     0.00       Tax-exempt nonpulified interest     0.00       Tax-exempt nonpulified interest     0.00       Interest shortfall on contingent payment debt     10.80       Bond premium- Trax-average challons (noncovered lots)     0.00       Bond premium- Tax-exempt challons (noncovered lots)     25.54       Bond premium- Tax-exempt challons (noncovered lots)     0.00	Tax-exempt accrued interest paid	
Tax-exempt accrued oncoulaffed interest paid     0.00       Tax-exempt accrued oncoulaffed interest paid (AMT)     0.00       Noncalified interest     449       Tax-exempt oncoulaffed interest (AMT)     0.00       Tax-exempt oncoulaffed interest (AMT)     0.00       Dance accept oncoulaffed interest (AMT)     0.00       Stard premium- NonTrassing obligations (noncovered lots)     18.83       Bond premium- Trassurg diagations (noncovered lots)     20.54       Bond premium- Trassurg diagations (noncovered lots)     20.54       Bond premium- Trassurg diagations (noncovered lots)     20.54       Bond premium- Trassurg diagations (NMT, noncovered lots)     20.54		
Tax-exempt accrued nonqualified interest     944.40       Nonqualified interest     944.40       Tax-exempt nonqualified interest     0.00       Tax-exempt nonqualified interest (ANT)     0.00       Interest shortfall on configent payment debt     0.00       Bend premium- Travaury polipitations (noncovered lots)     0.00       Bond premium- Tax-exempt obligations (noncovered lots)     25.54       Bond premium- Tax-exempt obligations (noncovered lots)     0.00	Taxable accrued nonqualified interest paid	
Nonqualified interest     494.40       Tax-exempt nonqualified interest     0.00       Bond premium-     0.00       Bond premium-     0.00       Bond premium-     18.86       Bond premium-     7.82.00		
Tax-exempt nonpulafied interest     0.00       Tax-exempt nonpulafied interest (AMT)     0.00       Interest shortfall on configent payment debt     0.00       Bond premium- Non Treasury obligations (noncovered lots)     18       Bond premium- Tax-exempt obligations (noncovered lots)     25.54       Bond premium- Tax-exempt obligations (noncovered lots)     25.54       Bond premium- Tax-exempt obligations (noncovered lots)     0.00	Tax-exempt accrued nonquained interest paid (AMT)	
Tax-exempt nonqualified interest (ANT)     0.00       Interest shortali on contingent payment debt     0.00       Bond premium- Non Treasury obligations (noncovered lots)     0.83       Bond premium- Tax-exempt obligations (noncovered lots)     0.00       Bond premium- Tax-exempt obligations (noncovered lots)     0.25,54       Bond premium- Tax-exempt obligations (noncovered lots)     0.00       Bond premium- Tax-exempt obligations (Noncovered lots)     0.00		
Interest shortfall on contingent payment debt 0.00 Bond premium- Non Treasury obligations (noncovered lots) 18.68 Bond premium- Treasury obligations (noncovered lots) 0.00 Bond premium- Tax-exempt obligations (noncovered lots) 235.64 Bond premium- Tax-exempt obligations (Alfr, noncovered lots) 0.00	Tax-exempt nonqualitied interest	
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 (NMT, noncovered lots)     0.00		
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	Rend promium, New Treasury obligations (poperword lots)	
Bond premium- Tax-exempt obligations (noncovered lots) 235.54 Bond premium- Tax-exempt obligations (AMT, noncovered lots) 0.00	Bond premium river reasony obligations (noncovered lots)	
Bond premium- Tax-exempt obligations (AMT, noncovered lots) 0.00	punu premium- Treasury unigations (noncovered lots)	

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	mm/dd/vvvv		
ORIGINAL ISSUE DISCOU	INT AND ADJUSTMENTS		
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 amount		
section are for your reference when	n preparing your income tax return(s).		
Original issue discount for 20X	x	1.0	18.69
Acquisition premium (covered )			0.00
Acquisition premium (noncover			0.00
Original issue discount on Trea		1,8	10.49
Acquisition premium, Treasury			0.00
Acquisition premium, Treasury	obligations (noncovered lots)		0.00
Tax-exempt OID		3,0	34.65
Tax-exempt OID (lots not repor	ted)		0.00
Acquisition premium (covered)		9	70.58
Acquisition premium (lots not re			0.00
Tax-exempt OID on private acti		1	13.59
Tax-exempt OID on private acti			0.00
Acquisition premium (AMT, cov	ered)	1	13.59
Acquisition premium (AMT, lots	not reported)		0.00
Market discount (all lots)			0.00
Early withdrawal penalty			0.00
Investment expenses			0.00

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.

## **OTHER USEFUL DEFINITIONS**

Accrual period: An accrual period is an interval 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 number 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 premiums.

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

**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.

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

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