

FREQUENTLY ASKED QUESTIONS

Tax Reporting

Q: LPL mails the majority of the 1099-C forms on February 15. Isn't this considered late?

A: No. In the fall of 2008, the IRS recognized that there was not sufficient time to make the necessary changes in January, verify the data, print the forms, and mail them by January 31; therefore, it changed the deadline from January 31 to February 15. However, we still mail 1099-C forms to clients with the simplest holdings on January 31.

Q: Does reclassification only impact LPL, or does it affect other broker/dealers? Do the issuers understand the impact to our clients?

A: Income reallocation is an industry wide event and each broker dealer handles income reclassification differently. Some, like LPL Financial, mail 1099 consolidated forms in multiple mailing waves to capture reclassifications on your original 1099 Tax Information Statement. This mailing schedule reduces your chance of receiving an amended 1099 and having to re-file your tax return due to amendments. LPL continues to work closely with our issuing partners to help them understand the impact a late reclassification has on the client and to urge communication with LPL when late information is expected to be received.

Q: Why did some of my clients receive a 1099-C this year when they didn't receive one last year?

A: Your clients received a 1099-C this year because they received more than \$10 in taxable income in the form of:

- Dividend income
- Interest income
- Proceeds from share sales income

Q: What tax forms are available on ClientWorks?

A: 1099-C, 1099-R, 1099-Q, 1042-S, 2439, 5498 and 5498- ESA forms are available on ClientWorks.

Q: Can my clients download their tax data to Turbo Tax?

A: Clients must have an active Account View profile to upload their tax data into Turbo Tax.

Once all forms are available, they can be downloaded. We recommend that your client waits to download their tax forms until they have received their tax statements in the mail to compare the data and ensure the Turbo Tax download is complete and accurate.

The Turbo Tax User Guide is available on the Resource Center by searching for the keywords "Turbo Tax User Guide." For technical questions, please contact [Intuit TurboTax](#).

Q: Will my client be able to import the cost basis information from the Realized Gains and Losses statement from ClientWorks into Turbo Tax?

A: No, but the cost basis will be automatically imported from the 1099-B form. Clients should refer to their mailed hard-copy statements for accuracy.

Q: If I want to submit a request for a Courtesy 1099-C, a Duplicate Tax form, or a Corrected Tax form, can I do that online?

A: Yes, you can use the General Tax Reporting Request located in ClientWorks > Client Management > Requests > Client Online Request > General Tax Reporting.

Q: My client lost one of their LPL tax documents. How can I get another?

A: Using ClientWorks, your office can print out and send a copy of the tax document to your client. The IRS disclosure must accompany this document and may be printed from ClientWorks.

Q: When will my clients received their corrected 1099s?

A: The correction mailing schedule is as follows:

Correction Run Cycle	Mailing Date
1st Correction Run	February 15
2nd Correction Run	March 1
3rd Correction Run	March 15
4th Correction Run	March 29
5th Correction Run	April 11
6th Correction Run	July 19
7th Correction Run	October 10

***Prior year corrections are included in the above schedule if requested.

Q: What is state supplemental tax information and why is it important to my clients?

A: Most states allow mutual funds to pass through the state tax exemption on income earned from investments in U.S. government federal obligations. As a result, your clients may be allowed to exclude income derived from these earnings from their state tax returns.

These requirements can vary by state; therefore, tax preparers need additional information to accurately calculate your clients' tax obligation. For your clients' accounts that hold these securities, the supplemental state information will be included on their 1099 Consolidated tax form.

Q: A prior-year contribution correction was made to my clients SEP or SIMPLE IRA but a corrected 5498 was generated. Why?

A: Unlike a traditional IRA contribution, an SEP or SIMPLE IRA contribution is reported in the year in which it is made to the account. Please reference the IRS instructions for boxes 8 and 9 on Form 5498.

Q: One of my client's 5498's had an incorrect contribution reflected. How do I get it corrected?

A: Complete and submit the Tax Correction—5498 Form (CM100) with supporting documentation to the Retirement Accounts Department. If a correction is necessary, a corrected 5498 will be sent to your client.

Q: Why didn't my client receive a 1099-R?

A: Your client will not receive a 1099-R if he or she didn't take any reportable distribution in the tax year.

Q: My client passed away and the beneficiary party needs split reporting of the account's income for the year. How can this be accommodated?

A: Only one 1099 is generated for each account. To accommodate a request for split reporting, separate accounts need to be established. If separate accounts were not established, the beneficiaries should contact their tax advisor to determine whether nominee reporting would be applicable for their situation.

Q: A mutual fund dividend distribution was reinvested that I requested to have it reversed. How will this activity appear on the Realized Gains and Losses Report?

A: The adjustment results in a realized gain or loss because shares were sold based upon current market pricing on the date of the request. The ClientWorks Realized Gains and Losses Report will temporarily reflect a FIFO (first in, first out) sale, but once adjustments are completed, the Realized Gains and Losses Report will indicate that the shares acquired by the dividend reinvestment which was reversed have been. For non-retirement accounts, a 1099-B will also be issued.

Q: How should a client treat a short sale that hasn't closed by year-end?

A: As of January 1, 2011, the IRS requires brokers to report sales of securities in the tax year in which the short sale closed. For more information, please consult IRS Publication 550 – Investment Income and Expenses.

Q: How is cost basis updated for bankruptcies?

A: When bankruptcies occur cost basis will be updated once sufficient information regarding taxability and future distributions is available. If a bankruptcy related position is sold, any subsequent distributions will not have cost basis applied and will recognize a full gain when redeemed. Clients should consult their tax professional if they require guidance regarding the reporting of any gains or losses.

Q: There are qualified dividends showing on the 1099-B and they are not showing on the Realized Gain and Loss Report. Why?

A: It's likely they were proceeds resulting from a sale of rights of unregistered American Depository Receipts (ADRs). ADRs that were not registered under the United States Securities Act of 1933 couldn't pass distributed rights to ADR holders. As a result, they sold these rights in their foreign market and distributed the proceeds to ADR holders. The proceeds were originally received and paid as qualified dividends. Issuers provide the 1099-B reclassification information to us after the end of the year.

Q: Why does the Gross Proceeds amount that appears on the 1099-B section of the 1099-C differ from the Total Sold Value that appears in the Realized Gains and Losses Report section?

A: The 1099-B section of the 1099-C displays information on securities from transactions involving proceeds, while the Realized Gains and Losses Report section displays the applicable "Gain or Loss" resulting from sale or redemption. Differences may also appear when changes in control or capital structure occur on securities held in your client's account. The Realized Gains and Losses Report may not capture principal payment transactions; however, these proceeds are included on the 1099-B. Please consult with your tax advisor or accountant on the treatment of these transactions for tax reporting purposes.

Q: How are the values on the 1099(INT)(DIV)(MISC) derived?

A: The values are derived in the following manner:

1099 INT – Interest income could be derived from interest on bank deposits, accumulated dividends paid by a life insurance company, or indebtedness (including bonds, debentures, notes, and certificates other than those of the U.S. Treasury) issued in registered form or of a type offered to the public. In addition, interest could be attributable to a WHFIT, or accrued by a real estate mortgage investment conduit (REMIC), a financial asset securitization investment trust (FASIT) regular interest holder, or paid to a collateralized debt obligation (CDO) holder.

1099 DIV – Qualified dividends are dividends paid during the tax year from domestic corporations and qualified foreign corporations. Dividends the recipient received on any share of stock held for less than 61 days during the 121-day period that began 60 days before the ex-dividend date are not qualified dividends.

1099 MISC – Income that must be reported to the IRS if the individual or corporation is of American origin, even if the income itself is from a foreign source, unless it is specifically exempt in the United States. This income may be gained in property, money, or other assets from royalties, rents, prizes, dividends, interest, or any other income otherwise unreported to the IRS.

Q: Who is responsible for reporting distributions from a qualified plan to the IRS?

A: For those accounts that elected during the account opening process to participate in LPL's 1099-R reporting service, upon request, LPL will do 1099-R reporting for qualified plans using LPL retirement documents. The employer or plan sponsor is responsible for distribution reporting for all other qualified plans.

Filing Extensions

Q: How do I know if a client should file an extension?

A: It's always a good idea to maintain an open line of communication with your client and your client's tax advisor throughout the year. This dialog will help determine if filing an extension is the best course of action. There are many reasons filing an extension might make sense for your client. For example, the volume of data or complexity of certain transactions inside or outside an LPL account, such as the sale of a rental property, may require additional time to address. Also, if one of your clients is expected to receive an LPL 1099 in the third wave of 1099 mailings in March, it may be reasonable to consider filing an extension to allow sufficient time for the CPA to accurately complete the client's tax filing forms.

Q: What does filing an IRS extension do?

A: Filing an extension grants additional time (six months) to submit a complete and accurate return. However, your client will still need to estimate whether they will owe any taxes and pay that estimated balance by April 15. Extending the return allows you and your client's tax professional more time to prepare the client's tax return to ensure filing of an accurate tax return. In many cases, the client may still be waiting for additional information such as their Schedule K-1 or corrected 1099s, to complete their return.

Q: What are the primary benefits of extending a tax return?

A: Filing an extension allows additional time to file returns without penalty when the client is waiting for missing information or tax documents (such as corrected 1099s). Just remember that an extension provides additional time to file, but not additional time to pay.

Penalties may be assessed if sufficient payment is not remitted with the extension. The client qualifies for additional time to fund certain types of retirement plans, tax filing deadline plus extensions to fund SEP IRAS, SIMPLE IRAS, and all QUALIFIED PLANS.

It is often less expensive (and easier) to file an extension rather than rushing to meet the deadline and having to amend the return later.

Q: Is the client more likely to be audited if they extend?

A: Extending will not increase the client's likelihood of being audited by the IRS. It's better to file an extension rather than to file a return that's incomplete or does not give the client adequate time to review carefully before signing.

Q: Should the client do anything differently if they're filing an extension?

A: No. The client still should give their tax advisor whatever information they have as soon as it becomes available, and should expect to pay any anticipated taxes owed by April 15.

If the client is required to make quarterly estimated tax payments, his or her first quarter estimated tax payment is still due April 15. The tax advisor may recommend that the client pay the balance due for last year and their first quarter estimated tax payment for this year with the extension.

If the client is anticipating a large refund, the tax advisor will likely try to get the extended return done as soon as possible once all tax information is available. The tax advisor may also want to discuss tax planning opportunities with the client so that in future years, they don't give the IRS an interest-free loan!

For more information on filing extensions, please visit <https://www.irs.gov/forms-pubs/extension-of-time-to-file-your-tax-return>

Preliminary Tax Statement

Q: What is a Preliminary 1099-Consolidated Tax Information Statement?

A: A preliminary 1099-Consolidated Tax Information Statement is an advanced draft copy of your clients' 1099 tax forms.

Q: Can my client use the preliminary 1099-Consolidated Tax Information Statement to file their taxes?

A: No. This draft form should NOT be considered final and should NOT be used for the purpose of filing tax returns with the IRS or with any state or other regulatory authority. All pages of this document is for your information only and may assist you with tax preparation.

Q: Even though this is a preliminary 1099 tax form, is this information final?

A: No. Your 1099 Tax Information Statement is not finalized because your account holds certain securities that are subject to income reclassification and/or subject to special reporting requirements.

Before your statement can be finalized, additional tax reporting information is required from these securities; and, has not yet been provided by the issuers of these securities.

Q: When will the preliminary 1099 statement be available?

A: The advanced preliminary copy of your clients' 1099 tax form will be available on ClientWorks, and, AccountView on February 19.

Q: If my client received a preliminary 1099 Consolidated Tax form, when will they receive their original tax form?

A: Your client will receive their original tax forms either March 1 or March 15.

Q: Will the preliminary statements be mailed?

A: No, the preliminary statement will not be mailed.

Q: Will the preliminary statements be viewable on TurboTax?

A: No, the preliminary statement will not be viewable on TurboTax.

Q: Will my client receive a preliminary statement for any other tax forms?

A: No. Preliminary tax statements are ONLY available for 1099-Consolidated.

Q: How will I know which document is the preliminary tax statement form in ClientWorks?

A: The oldest form will be at the bottom. On 2/19, the preliminary form will be the first link. The preliminary copy will have a watermark "For informational purposes only"

Cost Basis

General Questions

Q: How do I determine which securities do not reflect cost basis in my client's account?

A: You can utilize the Unrealized and Realized Gain/Loss Reports from ClientWorks. To access these reports, click on Client Management | Accounts or Clients. Search for the appropriate account number. Check off the box next to the account, click Actions and select Reports | Run Report. Select a template that has the Unrealized Gain Loss and/or Realized Gain Loss Widget.

Reference the ClientWorks: Client Reporting Guide on the Resource Center for instructions on creating a report template.

Q: How can I assist my client in having more accurate, comprehensive cost basis information reported in ClientWorks, Account View, and on brokerage statements (if applicable)?

A: You can review your clients' accounts in ClientWorks on the investments tab to identify securities and share quantities for which LPL Financial does not have cost basis information. Share quantities with unknown cost display an "N/A" in the Purchase Cost column. Cost basis can be added onto share quantities using Cost Basis Update.

Q: Does LPL Financial offer Estate Valuation reports or Date of Death Reports?

A: No, LPL Financial currently does not offer an estate valuation report. LPL only offers a historical portfolio appraisal report available through Portfolio Manager Reports. However, the historical appraisal report is not an estate valuation report. An estate valuation uses IRS compliant Fair Market Value pricing methods to compute the estate value of assets held on the date of death, while a historical appraisal simply uses market closing prices.

You can refer to an outside source such as Estate Valuations & Pricing Systems, Inc. <http://www.evpsys.com/>. They are one of the industry leaders in estate valuations, and services are offered for a nominal fee.

Q: Can the cost basis be stepped up using the date of death on a decedent's account?

A: The process of stepping basis is only offered through the internal account journal process. Using the Move Money Tool, you can select a Death Distribution styled journal which will step the cost basis of assets acquired on or before the date of death to an IRS compliant estate value. If assets will not be journal from the decedent's account, you must provide the new cost basis information via the ClientWorks Cost Basis Update Request.

Cost Basis – ClientWorks

Q: Is cost basis information displayed in ClientWorks?

A: Yes. Cost Basis is displayed in ClientWorks on the Client Management Investments page, Cost Basis Update Request, and in the Realized Gain Loss and Unrealized Gain Loss Reports.

Q: Where can I select specific tax lots to sell from the client's portfolio in ClientWorks?

A: Specific tax lots can be selected for Versus Purchase (VSP) once a sell order has executed on the Equity /Options and Mutual Funds Order Executions Screens.

Please note that trades in some accounts will be suppressed from this screen (e.g., PWP accounts, MWP accounts, other Managed Accounts)

Q: Will I have the opportunity to identify or change specific tax lots that will be sold?

A: Yes, regardless of how a trade is placed (e.g., via the Trade Desk, ClientWorks, rebalancing tool, etc.) advisors will have the opportunity to identify or change specific tax lots to sell through settlement date using the Order Executions Screens for Equity/Option or Mutual Funds.

Please note that trades in some accounts will be suppressed from this screen (e.g., PWP accounts, MWP accounts, other Managed Accounts). If you would like to select specific lots for an order that doesn't appear on the order Executions screens, please contact the Service Center.

Q: Can I submit a VSP request to change tax lots selection after settlement date?

A: No, per IRS Regulations VSP adjustments are not permitted after settlement date.

Q: Is the cost basis that is displayed in ClientWorks available on a report?

A: Yes. Unrealized and Realized Gain and Loss reports are available. You can request both types of reports with multiple options for sorting and summarization. The reports are available from the Actions drop down menu on the Clients or Accounts page in Client Management. A report template with the Realized Gain Loss or Unrealized Gain Loss widget needs to be created before these reports can be ran. Reference the ClientWorks: Client Reporting Guide on the Resource Center for instructions on creating a report template. These reports are acceptable for releasing to clients.

Q: I have provided cost basis. Why is N/A displayed in the cost basis column of the Account Investment tab?

A: There are two possible causes for this condition:

1. LPL Financial may not have the cost basis information for all shares of the security. In ClientWorks, to determine the specific quantity of shares not reflecting cost basis, expand the security to display tax lots on the Investments tab; or view the security's tax lots on the Unrealized or Realized gains and losses report.
2. The total number of shares from the tax lots may not equal the number of shares held in the account; please contact the Service Center to request a cost basis reconciliation for the position.

Q: Where can I find the Cost Basis Update Request in ClientWorks?

A: In ClientWorks, click on Client Management | Requests | Create Online Request | Cost Basis Update Request.

Q: What cost basis should I provide on the Cost Basis Update Request?

A: In most cases (except for those specified below), please provide adjusted cost basis. Cost basis should be adjusted to the date of transfer, the date shares were received into the LPL account. Adjusted cost basis is the client's original cost basis of a security, adjusted to compensate for sales, splits, and corporate actions that have occurred prior to the transfer into the LPL Financial account.

For unit investments trusts (UITs), provide the original acquisition date, adjusted unit cost and adjusted total cost basis. Cost basis should be adjusted (reduced) for all return of capital payments previously received on the UIT prior to the transfer into the LPL Financial account.

For original issue discount bonds (OIDs), provide the original acquisition date, original unit cost, and original total cost basis. The system will adjust (increase) cost for OID accruals.

For mortgage backed bonds (FNMA, GNMA & FHLMC), provide the original acquisition date, original unit cost, and original total cost basis. The system will adjust (reduce) the original cost basis to compensate for principal payments received.

Cost Basis – Monthly and Quarterly Statements

Q: Can cost basis be displayed on the client's monthly account statement?

A: Yes, this feature is optional and is available for both brokerage and advisory accounts. There are two ways to activate cost basis display:

1. For new accounts, select cost basis reporting on the Suitability Tab.
2. For Existing accounts, go to Client edit account | Click Financials/Suitability | Make update in Cost Basis area

Q: Will every tax lot be detailed on the client statement?

A: All positions are displayed net; positions with multiple tax lots are (rolled-up) summarized by a single row of data for each position.

Q: Do I need to display cost basis tax lot information on the monthly statement to capture purchase and sale activity in the account?

A: No. Cost basis is automatically captured for all purchases and sales of securities held in the LPL Financial account.

Q: How will my client be informed of the tax lots sold?

A: Generally, LPL Financial will be placing the tax lot information directly on the trade confirmation for trades in which tax lots were closed on a Versus Purchase (VSP) basis. LPL Financial will not display tax lots on trades where tax lots were closed using the default first-in, first-out basis.

Q: My client received a Tax Lot Transfer Report, what is this and why did they receive it?

A: The new IRS regulations require broker/dealers to notify clients when a security is transferred or removed from their account using a cost basis method other than FIFO.

Q: My client did not receive a trade confirmation, but he did receive a closed tax lot report. Why is that?

A: Certain account types such as Manager Select and Personal Wealth Portfolios do not receive trade confirmations from LPL Financial. However, under the new IRS regulations they are required to receive information regarding closed tax lots when FIFO is not used.

Q: Will Trade Confirmations with Tax Lot Reports be available to me through ClientWorks?

A: Yes, the trade confirms/ tax lot reports your clients receive are available within ClientWorks. To access the trade confirms, go to Client Management | Accounts or Clients. Search for the appropriate account number and select the account by clicking on the account number or the client's name. The trade confirms will be found in Statements | Trade Confirmations.

Q: How do I provide LPL Financial the cost basis information for the securities received by a transfer, so N/A does not appear on the monthly statement?

A: Cost basis information can be added to an account using the Cost Basis Update Request in ClientWorks | Client Management | Requests | Create Online Request | Cost Basis Update Request.

Q: Will mutual funds that are held directly at the fund (level 4) and outside investments linked to the LPL Financial account display cost basis information on the monthly statement?

A: No. LPL Financial can only report cost basis information for securities held directly in the LPL Financial account.

Q: Is there a fee to display cost basis on the statement?

A: No. Cost basis is free of charge.

Cost Basis – Tax Reporting

Q: Will LPL Financial report gains and losses to the Internal Revenue Service (IRS)?

A: Yes. For securities covered under cost basis legislation, LPL Financial provides adjusted cost basis, gross proceeds from the sale and whether the holding period of the disposed security was long- or short-term. For non-covered securities, only gross proceeds from the sale is provided to the IRS; if available, adjusted cost basis and holding period is displayed on 1099-B for assistance with preparing your tax return.

Q: If a tax lot is not covered by cost basis legislation, will it still be reported on the 1099-B?

A: Yes, adjusted cost basis, proceeds from sale, and holding period will be displayed for the client on 1099-B within the non-covered securities section. However, only the gross proceeds will be reported to the IRS.

Q: What's the difference between long-term and short-term gains?

A: The sale of a security is long-term if it has been held for longer than one year. Tax rates for long-term gains are subject to capital gain tax rates, which, for many taxpayers, are lower. Long-term capital gains are generally taxed at 15% or 0%. However, there are three exceptions:

- Any eligible gain of qualified small business stock (QSBS) not excluded by section 1202 is subject to tax at a 28% rate.
- Net capital gain from selling collectibles (such as coins or art) is taxed at a maximum 28% rate.
- The part of any net capital gain from selling Section 1250 real property that is required to be recaptured in excess of straight-line depreciation is taxed at a maximum 25% rate.

The sale of a security is short-term if the security is held for one year or less. Tax rates for short-term gains are the same as your personal income tax rate.

Q: How will LPL Financial calculate gains and losses?

A: LPL Financial calculates gains and losses by subtracting adjusted cost basis (original purchase price plus commissions, trade fees, and other adjustments due to wash sales, amortization, accretion, and corporate actions) from net proceeds from the sale (after deducting selling costs such as trade fees and commissions).

LPL Financial calculates cost basis using data from your opening transaction (purchase transaction or short sale transaction), or from purchase information that you have provided to us or that we have obtained from data supplied to us by your former broker dealer. Because the accuracy of cost basis data depends upon these third-party inputs, LPL Financial is not able to guarantee the availability, accuracy, or completeness of such cost basis data.

Q: Can I see a breakdown between short- and long-term gains and losses on an unrealized or realized basis?

A: Yes, the Unrealized and Realized Gain and Loss Reports available on ClientWorks will display short- and long-term gains or losses if the Summary options were selected in the widget settings of the report template. Additionally, with the optional display of cost basis information activated for the monthly brokerage statement, year-to-date realized gains and losses are displayed on a quarterly basis, on the March, June, September and December statements and will break down short- and long-term gains or losses only for the realized gain/loss section.

Q: What are holding periods?

A: In general, securities are deemed to be short-term if they are held for one year or less. Securities are deemed to be long-term if they are held for more than one year (e.g., a year plus one day). Holding periods are computed using the trade dates.

Q: How do I report cost basis to securities issued outside the U.S.?

A: Non-U.S. issued securities are subject to the legislation. LPL Financial will report cost basis to the IRS for foreign equities purchased on or after January 1, 2011. You will continue to be responsible for submitting cost basis information to the IRS for both covered and uncovered securities.

Q: What about securities that are gifts and/or inheritances?

A: Assets received as a gift carry dual basis; the donor's basis and the fair market value (FMV) from the date of the gift. The basis that will be used to calculate gain or loss is based upon the following IRS rules and will be determined at the time the recipient sells the gift. If the asset is sold for more than the donor's basis, then the donor's basis is used to determine the taxable gain. If the asset is sold for less than the FMV of the gift, then the FMV is used to determine the taxable loss. If the asset is sold for a price that falls between the donor's basis and the FMV, then no gain or loss is recognized. After the gifted asset is sold, realized gain or loss, if any will be computed based upon these rules.

For unrealized assets received as a gift, ClientWorks displays the security's dual basis and the unrealized gain or loss is computed from the IRS gift rules listed above. On the monthly brokerage statement, unrealized assets received as a gift display do nor's basis and unrealized gain or loss is also computed using donor basis.

State Withholding FAQs

Q: How do I obtain proof that my client's withholding payment was made to the state agency?

A: Your client will receive a Form 1099-R reporting the withholding amount paid for the tax year. The client should file the 1099-R with their tax return to claim the withholding credit. LPL makes the state withholding payments at the firm level and not individual client level; thus, we won't be able to provide details of each individual withholding payment.

Q: When is the latest that clients can request withholding adjustments?

A: December 14 is the deadline to make any withholding adjustments.

Q: What should my client do if they find out state withholding was made to the incorrect state after December 31?

A: Your client will need to file with the incorrect state to claim a refund and should consult with a tax advisor to determine the best course of action.

Q: My client's address has temporarily changed due to vacationing at a summer home. How do I ensure that any state withholding applied on retirement distributions continue to pay to the correct state?

A: Since the client's permanent residence address has not changed, do not change the client's mailing address on their registration. Instead, submit a request to have duplicate statements sent to the temporary address or set up the temporary address as an "interested party" mailing, so state withholding is not impacted and your client's 1099-R forms will report correctly. It will show state taxes paid to the correct jurisdiction.