

## Contents

<b>The Brokerage Statement</b>	<b>1</b>
Reporting Income from Interest, Dividends, and Capital Gains	1
Overview	1
Required Information	1
Scope/Eligibility	2
References	2
Capital Gains (Form 1099-B)	3
Filling in the “Cap Gn Wkt” Worksheet	4
How Entries in the Worksheet Propagate into the Return	5
The Forms 8949	6
Transactions with No Adjustments	6
Capital Loss Carryover	6
Federal Income Tax Withheld	7
Interest (1099-INT)	8
Filling in the “Sch B Interest Stmt” Worksheet	8
How Entries in the Worksheet Propagate into the Return	9
U.S. Savings Bonds	9
Municipal (Tax Exempt) Bonds	9
Investment Expense	10
Alternative Minimum Tax	10
Dividends (1099-DIV)	11
Filling in the “Sch B Dividend Stmt” Worksheet	11
How Entries in the Worksheet Propagate into the Return	12
Nondividend Distributions	12
Investment Expense	12
Foreign Tax Paid	12
Liquidation of Business	13
Summary	13

# The Brokerage Statement

## Reporting Income from Interest, Dividends, and Capital Gains

### Overview

Some of our more fortunate taxpayers have stocks and bonds. At the end of the year, they receive a summary statement from their broker that contains information about activity in their account.

### Required Information

All the information required will be contained in the brokerage statement. A sample summary page of a brokerage statement is shown in Fig. 1. It is divided into four parts: Proceeds from the purchase or sale of stocks and bonds (Capital Gains); Interest income; Dividend income; and Original Issue Discounts. The body of the brokerage statement contains the details behind these summaries.

<b>Recipient's Name and Address:</b> JOHN Q. PUBLIC	<b>Account Number:</b> 123-456789 <b>Recipient's Identification Number:</b> ***-**-9999	<b>2018 TAX AND YEAR-END STATEMENT</b>																																																												
<b>Payer Information:</b> EMPLOYER LLC <b>Federal Information Number:</b> 1234567																																																														
This is important tax information and is being furnished to the IRS (except as indicated). 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 determined that it has not been reported.																																																														
<b>Summary of Form 1099-B</b> Details are reported to the IRS. Refer to the 1099-B section of this statement for those details.	<b>2018 Form 1099-DIV</b> <b>Dividends and Distributions</b> <b>OMB No. 1545-0110</b>																																																													
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;">Box</th> <th style="width: 90%;">Amount</th> </tr> </thead> <tbody> <tr><td>1a</td><td>Total Ordinary Dividends.....6,000.00</td></tr> <tr><td>1b</td><td>Qualified Dividends.....1,000.00</td></tr> <tr><td>2a</td><td>Total Capital Gain Distributions.....500.00</td></tr> <tr><td>2b</td><td>Unrecaptured Section 1250 Gain.....50.00</td></tr> <tr><td>2d</td><td>Collectibles (28%) Gain.....600.00</td></tr> <tr><td>3</td><td>Nondividend Distributions.....3,000.00</td></tr> <tr><td>4</td><td><b>Federal Income Tax Withheld.....0.00</b></td></tr> <tr><td>5</td><td>Investment Expenses.....0.00</td></tr> <tr><td>6</td><td>Foreign Tax Paid.....0.00</td></tr> <tr><td>8</td><td>Cash Liquidation Distributions.....0.00</td></tr> <tr><td>9</td><td>Noncash Liquidation Distributions.....0.00</td></tr> <tr><td>10</td><td>Exempt Interest Dividends.....0.00</td></tr> <tr><td>11</td><td>Specified Private Activity Bond Interest Dividends.....0.00</td></tr> <tr><td>12/13/14</td><td>State/State ID #/ State Tax Withheld.....IL/1289/450.00</td></tr> </tbody> </table>	Box	Amount	1a	Total Ordinary Dividends.....6,000.00	1b	Qualified Dividends.....1,000.00	2a	Total Capital Gain Distributions.....500.00	2b	Unrecaptured Section 1250 Gain.....50.00	2d	Collectibles (28%) Gain.....600.00	3	Nondividend Distributions.....3,000.00	4	<b>Federal Income Tax Withheld.....0.00</b>	5	Investment Expenses.....0.00	6	Foreign Tax Paid.....0.00	8	Cash Liquidation Distributions.....0.00	9	Noncash Liquidation Distributions.....0.00	10	Exempt Interest Dividends.....0.00	11	Specified Private Activity Bond Interest Dividends.....0.00	12/13/14	State/State ID #/ State Tax Withheld.....IL/1289/450.00	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;">Box</th> <th style="width: 90%;">Amount</th> </tr> </thead> <tbody> <tr><td>1</td><td>Interest Income.....6,000.00</td></tr> <tr><td>3</td><td>Interest on U.S. Savings Bonds &amp; Treasury Obligations.....1,000.00</td></tr> <tr><td>4</td><td>Federal Income Tax Withheld.....500.00</td></tr> <tr><td>5</td><td>Investment Expenses.....50.00</td></tr> <tr><td>6</td><td>Foreign Tax Paid.....600.00</td></tr> <tr><td>8</td><td>Tax-Exempt Interest.....3,000.00</td></tr> <tr><td>9</td><td>Specified Private Activity Bond Interest.....0.00</td></tr> <tr><td>10</td><td>Market Discount (For Covered Transactions Only).....0.00</td></tr> <tr><td>11</td><td>Bond Premium (For Covered Transactions Only).....0.00</td></tr> <tr><td>12</td><td>Bond Premium on Treasury obligations (For Covered Transactions Only).....0.00</td></tr> <tr><td>13</td><td>Bond Premium on Tax-Exempt Bond (For Covered Transactions Only).....0.00</td></tr> <tr><td>14</td><td>Tax-Exempt Bond CUSIP No. ....Various</td></tr> <tr><td>15/16/17</td><td>State/State ID #/ State Tax Withheld.....IL/12 6789/400</td></tr> <tr><td colspan="2">FATCA Filing Requirement.....</td></tr> </tbody> </table>	Box	Amount	1	Interest Income.....6,000.00	3	Interest on U.S. Savings Bonds & Treasury Obligations.....1,000.00	4	Federal Income Tax Withheld.....500.00	5	Investment Expenses.....50.00	6	Foreign Tax Paid.....600.00	8	Tax-Exempt Interest.....3,000.00	9	Specified Private Activity Bond Interest.....0.00	10	Market Discount (For Covered Transactions Only).....0.00	11	Bond Premium (For Covered Transactions Only).....0.00	12	Bond Premium on Treasury obligations (For Covered Transactions Only).....0.00	13	Bond Premium on Tax-Exempt Bond (For Covered Transactions Only).....0.00	14	Tax-Exempt Bond CUSIP No. ....Various	15/16/17	State/State ID #/ State Tax Withheld.....IL/12 6789/400	FATCA Filing Requirement.....		
Box	Amount																																																													
1a	Total Ordinary Dividends.....6,000.00																																																													
1b	Qualified Dividends.....1,000.00																																																													
2a	Total Capital Gain Distributions.....500.00																																																													
2b	Unrecaptured Section 1250 Gain.....50.00																																																													
2d	Collectibles (28%) Gain.....600.00																																																													
3	Nondividend Distributions.....3,000.00																																																													
4	<b>Federal Income Tax Withheld.....0.00</b>																																																													
5	Investment Expenses.....0.00																																																													
6	Foreign Tax Paid.....0.00																																																													
8	Cash Liquidation Distributions.....0.00																																																													
9	Noncash Liquidation Distributions.....0.00																																																													
10	Exempt Interest Dividends.....0.00																																																													
11	Specified Private Activity Bond Interest Dividends.....0.00																																																													
12/13/14	State/State ID #/ State Tax Withheld.....IL/1289/450.00																																																													
Box	Amount																																																													
1	Interest Income.....6,000.00																																																													
3	Interest on U.S. Savings Bonds & Treasury Obligations.....1,000.00																																																													
4	Federal Income Tax Withheld.....500.00																																																													
5	Investment Expenses.....50.00																																																													
6	Foreign Tax Paid.....600.00																																																													
8	Tax-Exempt Interest.....3,000.00																																																													
9	Specified Private Activity Bond Interest.....0.00																																																													
10	Market Discount (For Covered Transactions Only).....0.00																																																													
11	Bond Premium (For Covered Transactions Only).....0.00																																																													
12	Bond Premium on Treasury obligations (For Covered Transactions Only).....0.00																																																													
13	Bond Premium on Tax-Exempt Bond (For Covered Transactions Only).....0.00																																																													
14	Tax-Exempt Bond CUSIP No. ....Various																																																													
15/16/17	State/State ID #/ State Tax Withheld.....IL/12 6789/400																																																													
FATCA Filing Requirement.....																																																														
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;">Box</th> <th style="width: 90%;">Amount</th> </tr> </thead> <tbody> <tr><td>1</td><td>Interest Income.....6,000.00</td></tr> <tr><td>3</td><td>Interest on U.S. Savings Bonds &amp; Treasury Obligations.....1,000.00</td></tr> <tr><td>4</td><td>Federal Income Tax Withheld.....500.00</td></tr> <tr><td>5</td><td>Investment Expenses.....50.00</td></tr> <tr><td>6</td><td>Foreign Tax Paid.....600.00</td></tr> <tr><td>8</td><td>Tax-Exempt Interest.....3,000.00</td></tr> <tr><td>9</td><td>Specified Private Activity Bond Interest.....0.00</td></tr> <tr><td>10</td><td>Market Discount (For Covered Transactions Only).....0.00</td></tr> <tr><td>11</td><td>Bond Premium (For Covered Transactions Only).....0.00</td></tr> <tr><td>12</td><td>Bond Premium on Treasury obligations (For Covered Transactions Only).....0.00</td></tr> <tr><td>13</td><td>Bond Premium on Tax-Exempt Bond (For Covered Transactions Only).....0.00</td></tr> <tr><td>14</td><td>Tax-Exempt Bond CUSIP No. ....Various</td></tr> <tr><td>15/16/17</td><td>State/State ID #/ State Tax Withheld.....IL/12 6789/400</td></tr> <tr><td colspan="2">FATCA Filing Requirement.....</td></tr> </tbody> </table>	Box	Amount	1	Interest Income.....6,000.00	3	Interest on U.S. Savings Bonds & Treasury Obligations.....1,000.00	4	Federal Income Tax Withheld.....500.00	5	Investment Expenses.....50.00	6	Foreign Tax Paid.....600.00	8	Tax-Exempt Interest.....3,000.00	9	Specified Private Activity Bond Interest.....0.00	10	Market Discount (For Covered Transactions Only).....0.00	11	Bond Premium (For Covered Transactions Only).....0.00	12	Bond Premium on Treasury obligations (For Covered Transactions Only).....0.00	13	Bond Premium on Tax-Exempt Bond (For Covered Transactions Only).....0.00	14	Tax-Exempt Bond CUSIP No. ....Various	15/16/17	State/State ID #/ State Tax Withheld.....IL/12 6789/400	FATCA Filing Requirement.....		<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;">Box</th> <th style="width: 90%;">Amount</th> </tr> </thead> <tbody> <tr><td>1</td><td>Interest Income.....6,000.00</td></tr> <tr><td>3</td><td>Interest on U.S. Savings Bonds &amp; Treasury Obligations.....1,000.00</td></tr> <tr><td>4</td><td>Federal Income Tax Withheld.....500.00</td></tr> <tr><td>5</td><td>Investment Expenses.....50.00</td></tr> <tr><td>6</td><td>Foreign Tax Paid.....600.00</td></tr> <tr><td>8</td><td>Tax-Exempt Interest.....3,000.00</td></tr> <tr><td>9</td><td>Specified Private Activity Bond Interest.....0.00</td></tr> <tr><td>10</td><td>Market Discount (For Covered Transactions Only).....0.00</td></tr> <tr><td>11</td><td>Bond Premium (For Covered Transactions Only).....0.00</td></tr> <tr><td>12</td><td>Bond Premium on Treasury obligations (For Covered Transactions Only).....0.00</td></tr> <tr><td>13</td><td>Bond Premium on Tax-Exempt Bond (For Covered Transactions Only).....0.00</td></tr> <tr><td>14</td><td>Tax-Exempt Bond CUSIP No. ....Various</td></tr> <tr><td>15/16/17</td><td>State/State ID #/ State Tax Withheld.....IL/12 6789/400</td></tr> <tr><td colspan="2">FATCA Filing Requirement.....</td></tr> </tbody> </table>	Box	Amount	1	Interest Income.....6,000.00	3	Interest on U.S. Savings Bonds & Treasury Obligations.....1,000.00	4	Federal Income Tax Withheld.....500.00	5	Investment Expenses.....50.00	6	Foreign Tax Paid.....600.00	8	Tax-Exempt Interest.....3,000.00	9	Specified Private Activity Bond Interest.....0.00	10	Market Discount (For Covered Transactions Only).....0.00	11	Bond Premium (For Covered Transactions Only).....0.00	12	Bond Premium on Treasury obligations (For Covered Transactions Only).....0.00	13	Bond Premium on Tax-Exempt Bond (For Covered Transactions Only).....0.00	14	Tax-Exempt Bond CUSIP No. ....Various	15/16/17	State/State ID #/ State Tax Withheld.....IL/12 6789/400	FATCA Filing Requirement.....		
Box	Amount																																																													
1	Interest Income.....6,000.00																																																													
3	Interest on U.S. Savings Bonds & Treasury Obligations.....1,000.00																																																													
4	Federal Income Tax Withheld.....500.00																																																													
5	Investment Expenses.....50.00																																																													
6	Foreign Tax Paid.....600.00																																																													
8	Tax-Exempt Interest.....3,000.00																																																													
9	Specified Private Activity Bond Interest.....0.00																																																													
10	Market Discount (For Covered Transactions Only).....0.00																																																													
11	Bond Premium (For Covered Transactions Only).....0.00																																																													
12	Bond Premium on Treasury obligations (For Covered Transactions Only).....0.00																																																													
13	Bond Premium on Tax-Exempt Bond (For Covered Transactions Only).....0.00																																																													
14	Tax-Exempt Bond CUSIP No. ....Various																																																													
15/16/17	State/State ID #/ State Tax Withheld.....IL/12 6789/400																																																													
FATCA Filing Requirement.....																																																														
Box	Amount																																																													
1	Interest Income.....6,000.00																																																													
3	Interest on U.S. Savings Bonds & Treasury Obligations.....1,000.00																																																													
4	Federal Income Tax Withheld.....500.00																																																													
5	Investment Expenses.....50.00																																																													
6	Foreign Tax Paid.....600.00																																																													
8	Tax-Exempt Interest.....3,000.00																																																													
9	Specified Private Activity Bond Interest.....0.00																																																													
10	Market Discount (For Covered Transactions Only).....0.00																																																													
11	Bond Premium (For Covered Transactions Only).....0.00																																																													
12	Bond Premium on Treasury obligations (For Covered Transactions Only).....0.00																																																													
13	Bond Premium on Tax-Exempt Bond (For Covered Transactions Only).....0.00																																																													
14	Tax-Exempt Bond CUSIP No. ....Various																																																													
15/16/17	State/State ID #/ State Tax Withheld.....IL/12 6789/400																																																													
FATCA Filing Requirement.....																																																														

Figure 1: A Typical Brokerage Statement Front Page

Each part represents a corresponding IRS form: 1099-B, 1099-INT, 1099-DIV, and 1099-OID, respectively, which contains data that must be filed with the IRS. The 1099-B deals with “Proceeds from the purchase or sale of stocks and bonds (Capital Gains)”; the 1099-INT provides information regarding interest income received by the taxpayer; the 1099-DIV is related to dividend income; and 1099-OID deals with Original Issue Discounted bonds. Capital gains are reported on Sch D; interest is reported on Sch B Part I; and dividends are reported on Sch B Part II, with associated worksheets and supporting forms. Income from Original Issue Discounted bonds is reported in the year of sale and is OUT-OF-SCOPE for CEP preparers.

For the most part, in TaxWise, information from the 1099s is entered into various worksheets and other forms that are linked to the appropriate lines in Form 1040. Most information is not entered directly into Form 1040. This document provides a quick review of the brokerage statement and its contents and how this information is reported using TaxWise.

### Scope/Eligibility

CEP serves individuals with income under \$30,000 and families (more than one person in the household) with income under \$55,000. If a taxpayer comes to us with a brokerage statement, we will enter relevant information into TaxWise to generate the appropriate forms. However, we may need to refer some taxpayers to a professional preparer. The circumstances that require professional help will be labeled OUT-OF-SCOPE for CEP preparers.

### References

For VITA-specific information, see [VITA/TCE Volunteer Resource Guide, pp. D-11 to D-22](#).

## Capital Gains (Form 1099-B)

The capital gains portion of the brokerage statement is shown in Fig. 2.

<b>Summary of Form 1099-B</b>	
<b>Details are reported to the IRS. Refer to the 1099-B section of this statement for those details.</b>	
	<b><u>Amount</u></b>
Gross Proceeds (For Covered and Noncovered Transactions).....	6,000.00
Cost or Other Basis (For Covered and Transactions Only).....	5,000.00
<b>Federal Income Tax Withheld - Proceeds.....</b>	<b>500.00</b>
State Taxes Withheld - Proceeds.....	150.00
<i>Regulated Futures and Currency Forward Contracts</i>	
Profit or (Loss) Realized in 2018.....	0.00
Unrealized Profit or (Loss) on Open Contracts - 12/31/2017.....	0.00
Unrealized Profit or (Loss) on Open Contracts - 12/31/2018.....	0.00
Agregate Profit or (Loss).....	0.00
<b>Federal Income Tax Withheld - Reg. Futures and Foergn Curr. Forward Contracts....</b>	<b>0.00</b>
State Taxes Withheld - Reg. Futures and Foreign Curr. Forwarded Contracts.....	0.00

Figure 2: The 1099-B Portion of the Front Page of the Brokerage Statement.

Capital gains may seem like a formidable topic, but don't get discouraged. In TaxWise, most of the data entry is done in a single worksheet, which is the "Cap Gn Wkt" worksheet, normally found in the left side bar. You may also need to enter carryover information in Sch D, and Federal Taxes Withheld in Form 1040 Part II.

Capital gains are classified according to duration and whether the basis was reported to the IRS. Capital gains can be short-term (code A to C) or long-term (codes D to F). To be a long-term capital gain, a security must be held for at least one year and one day. Codes A and D apply if the basis was reported, B and E if not reported, and C and F if reporting status is unknown.

The detailed section of the brokerage report is divided into long-term and short-term sections as shown in Fig. 3. The code A is highlighted. This information, given in the detailed pages in the brokerage statement, is entered in "Cap Gn Wkt." TaxWise will automatically transfer the numbers into the applicable pages in Form 8949, Sch D, and Form 1040. Use the example below as a guide to filling out the worksheet.

2018 Form 1099-B		Proceeds from Broker and Barter Exchange Transactions					OMB No. 1545-0715	
(For individuals report details on Form 8949)								
Disposition	Quantity	Date Acquired	Date Sold or Disposed	Proceeds	Cost or Other Basis	Market Discount	Option Premium	Realized Gain or (Loss)
Transaction Disposition Method	(Box 1a)	(Box 1b)	(Box 1c)	(Box 1d)	(Box 1e)	W=Wash Sale Loss		
<b>Short -Term Transactions for Which Basis is Reported on Form 8949, Part I, With Box A Checked</b>								
<b>Covered (Box 3)</b>								
Description (Box 1a): CAPITAL COMPANY								
SELL	FIRST IN FIRST OUT	100	1/01/201X	06/01/201X	1,000.00	1,200.00	200.00 <sup>w</sup>	0
SELL	FIRST IN FIRST OUT	200	1/01/201X	06/02/201X	2,000.00	1,600.00		400
SECURITY TOTAL					3,000.00	2,800.00	200.00 <sup>w</sup>	400
Short-Term Covered Total					3,000.00	2,800.00	200.00 <sup>w</sup>	400
<b>Long -Term Transactions for Which Basis is Reported on Form 8949, Part II, With Box D Checked</b>								
<b>Covered (Box 3)</b>								
Description (Box 1a): BEACH COMPANY								
SELL	FIRST IN FIRST OUT	100	1/01/20XX	6/1/2018	1,000.00	600	100.00 <sup>o</sup>	400
SELL	FIRST IN FIRST OUT	200	1/01/20XX	6/2/2018	2,000.00	1,600.00	200.00 <sup>o</sup>	400
SECURITY TOTAL					3,000.00	2,200.00	300.00 <sup>o</sup>	800
Long-Term Covered Total					3,000.00	2,200.00	300.00 <sup>o</sup>	800
For tax-reporting purposes, the difference between covered and noncovered shares is this:								
For covered shares, we're required to report cost basis to both you and the IRS.								
For noncovered shares, the cost basis reporting is sent only to you.								
You are responsible for reporting the sale of noncovered shares.								

Figure 3: "1099-B Details from the Brokerage Report"

### Filling in the "Cap Gn Wkt" Worksheet

Data entry into "Cap Gn Wkt", shown in Fig. 4, is as follows:

1. Column (a): Enter the contents of box 1a from Form 1099-B.
2. Column 1099: Enter the code from the header of the subcategory in Form 1099-B.
3. Column TSJ: Enter Taxpayer, Joint or Spouse, depending on who owns the account.
4. Column \*: is OUT-OF-SCOPE for CEP preparers; leave it blank.
5. Column (b): Enter the contents of box 1b from Form 1099-B.
6. Column (c): Enter the contents of box 1c from Form 1099-B.
7. Column (d): Enter the contents of box 1d from Form 1099-B.
8. Column (e): Enter the contents of box 1e from Form 1099-B.
9. Column (f): Use if adjustment is made to basis, or if grouping transactions. To explain any adjustment to gain or (loss) in column (g), enter the appropriate code(s) in column (f). If more than one code applies, enter all the codes that apply in alphabetical order (for example, "BOQ"). Don't separate the codes by a space or comma.

- 10. Column (g): Enter adjustment or 0.
- 11. Column (h): Gain or loss is calculated by TaxWise.
- 12. Column S/L: Is provided by TaxWise but may be overridden if necessary.

US Schedule D		Capital Gain or Loss Transactions Worksheet							2018	
1099 column: Enter "A" for short-term transactions reported on Form 1099-B with the basis reported to the IRS. Enter "B" for short-term transactions reported on Form 1099-B but the basis is not reported to the IRS. Enter "C" for short-term transactions for which you cannot enter A or B. Enter "D" for long-term transactions reported on Form 1099-B with the basis reported to the IRS. Enter "E" for long-term transactions reported on Form 1099-B but the basis is not reported to the IRS. Enter "F" for long-term transactions for which you cannot enter D or E.										
* Check if 28% rate gain or (loss).										
(a) Description of property	1 0 9 9	T S J	(b) Date acquired	(c) Date sold	(d) Sales price	(e) Cost or other basis	(f) Code	(g) Adjustments to gain or loss	(h) Gain or loss	S / L
SHORT TERM	A	<input type="checkbox"/>	VA/R/IOUS	06/02/2018	3000	2800		0	200	S
LONG TERM	D	<input type="checkbox"/>	VA/R/IOUS	06/02/2018	3000	2200		0	800	L
		<input type="checkbox"/>			0	0		0	0	

Figure 4: "Cap Gn Wkt"

Note also that long- and short-term gains are determined by the code A to F entered in column 1099 in the "Cap Gn Wkt."

For most CEP clients, the basis will have been reported to the IRS, and codes A and D will apply for short- and long-term gains respectively. In these cases, in which the basis was reported to the IRS, the preparer may fill the rows with aggregate data taken from each section of the 1099-B broker's statement. For column b, Date Acquired, you may use VARIOUS or the longest period dates for short-term capital gains, and the shortest period dates for long-term capital gains. By using aggregate data, the preparer minimizes typing errors and makes the return easier to read.

If codes B, C, E or F apply, the IRS requires that every transaction must listed on Form 8949.

Use INHERIT in Date Acquired column for assets inherited during the tax year. Capital gains on inherited property are not taxed. Property inherited from someone who died in 2010 is OUT-OF-SCOPE for CEP preparers unless the taxpayer can provide the basis information.

How Entries in the Worksheet Propagate into the Return

Data entry into the "Cap Gn Wkt" propagates into the following documents:

- 1. All forms 8949 A to F, which propagate to
- 2. Sch D Part I for short-term capital gains;
- 3. Sch D Part II for long-term capital gains; and

4. Sch D Tax worksheet, "Sch D Wkt 2" to calculate the carryovers, which are entered in Sch D Part I and II.
5. Capital gains are entered on Sch 1 line 13, and tallied down to line 22.
6. TaxWise then propagates Sch 1 line 22 as additional income in Form 1040 line 6.

The Forms 8949

TaxWise will fill Forms 8949 as shown in Fig. 5a and Fig. 5b.

1	(a) Description of property	T S J	(b) Date acquired	(c) Date sold or disposed of	(d) Sales price	(e) Cost or other basis	(f) Code	(g) Adjustments to gain or loss	(h) Total gain or loss
	SHORT TERM	T	VA/RI/OUS	06/02/2018	3000	2800		0	200
					0	0		0	0

Figure 5a: Form 8949 Pg. 1 A

\* 28% rate gain or (loss) includes all "collectibles gains and losses" (as defined in the instructions) and up to 50% of the eligible gain on qualified small business stock (section 1202).

1	(a) Description of property	T S J	(b) Date acquired	(c) Date sold or disposed of	(d) Sales price	(e) Cost or other basis	(f) Code	(g) Adjustments to gain or loss	(h) Total gain or loss
	LONG TERM	T	<input type="checkbox"/> VA/RI/OUS	06/02/2018	3000	2200		0	800
			<input type="checkbox"/>		0	0		0	0

Figure 5b: Form 8949 Pg. 2 D

Transactions with No Adjustments

Under certain circumstances, Form 8949 might not be necessary. If the taxpayer is reporting short-term transactions for which there are no adjustments, they may be reported on line 1a of Sch D. Otherwise, leave 1a blank and go to "Cap Gn Wkt."

Also, if the taxpayer is reporting long-term transactions for which there are no adjustments, they may be reported on line 8a of Sch D. Otherwise, leave 8a blank and go to "Cap Gn Wkt."

Capital Loss Carryover

If the taxpayer has a prior-year short-term carryover, enter in Sch D Part I line 6. If the taxpayer has a prior-year long-term carryover, enter in Sch D Part II line 14. These entries are shown in Fig. 6a and Fig. 6b. A maximum of \$3,000 capital loss can be claimed in any given tax year. If a loss carryover greater than \$3,000 is entered in Sch D, the excess will propagate into "Sch D Wkt2" and may be applied in subsequent years. If the taxpayer has a remaining carryover, place a copy of "Sch D Wkt 2" in her folder so that it'll be available for subsequent-year returns.

<b>b</b>	Totals for all transactions reported on Form(s) 8949 with box A checked	3000	2800	0	200
<b>2</b>	Totals for all transactions reported on Form(s) 8949 with box B checked	0	0	0	0
<b>3</b>	Totals for all transactions reported on Form(s) 8949 with box C checked	0	0	0	0
<b>Short-term totals</b>		3000	2800	0	200
	trusts from Schedule(s) K-1				0
<b>6</b>	Short-term capital loss carryover				2000
	If using TSJ, spouse's short-term loss carryover			0	
<b>7</b>	<b>Net short-term capital gain or (loss)</b>				-1800

Figure 6a: Sch D Part I

<b>b</b>	Totals for all transactions reported on Form(s) 8949 with box D checked	3000	2200	0	800
<b>9</b>	Totals for all transactions reported on Form(s) 8949 with box E checked	0	0	0	0
<b>10</b>	Totals for all transactions reported on Form(s) 8949 with box F checked	0	0	0	0
<b>Long-term totals</b>		3000	2200	0	800
<b>14</b>	Long-term capital loss carryover				1000
	If using TSJ, spouse's long-term loss carryover			0	
	28% gain or loss			0	
	Loss carryover + 1041K-1, line 11c, + loss from line 7			0	
	Net 28% gain or loss. Listed on line 18 if a gain			0	
<b>15</b>	<b>Net long-term capital gain or (loss)</b>				-200

Figure 6b: Sch D Part II

### Federal Income Tax Withheld

Finally, Form 1099-B shows that federal income tax was withheld. Enter this amount on Form 1040 Pg. 2, line 16, as shown in Fig. 7.

<b>16</b>	Federal income tax withheld		500
	Enter Federal withholding from 1099s (1099B, etc)	500	

Figure 7: Form 1040 Pg. 2, line 16

## Interest (1099-INT)

Fig. 8 shows the Interest part of the front page of the brokerage statement. Typically, this is all you will need to report interest income.

2018 1099-INT		Interest Income	OMB No. 1545-0112
<u>Box</u>			<u>Amount</u>
1	Interest Income .....		6,000.00
3	Interest on U.S. Savings Bonds & Treasury Obligations .....		1,000.00
4	Federal Income Tax Withheld .....		500.00
5	Investment Expenses .....		50.00
6	Foreign Tax Paid .....		600.00
8	Tax-Exempt Interest .....		3,000.00
9	Specified Private Activity Bond Interest .....		0.00
10	Market Discount (For Covered Transactions Only) .....		0.00
11	Bond Premium (For Covered Transactions Only) .....		0.00
12	Bond Premium on Treasury obligations (For Covered Transactions Only) .		0.00
13	Bond Premium on Tax-Exempt Bond (For Covered Transactions Only) .....		0.00
14	Tax-Exempt Bond CUSIP No. ....		Various
15/16/17	State/State ID #/ State Tax Withheld.....		IL/12 6789/400
	FATCA Filing Requirement.....		

Figure 8: 1099-INT portion of the front page of the Brokerage Statement.

## Filling in the "Sch B Interest Stmt" Worksheet

The worksheet called "Sch B Interest Stmt" will normally be found in your left sidebar in TaxWise. All interest information is entered on this form. A sample form is shown in Fig. 9.

US Schedule B		Interest Received					2018		
Amounts shown in Box 8 should not be entered in the "Box 1 or 3 amount" column. Instead, enter an "E" in the "NAEOB column" and the amount from Box 8 in the "NAEOB amount" column.									
Payer	Box 1 or 3 amount	TSJ	State adjust + / -	Amount	NAE OB	NAEOB amount	AMT PAB	Early penalty	Federal withheld
BROKERAGE FIRM	6000	T		0		0	0	0	500
US Savings Bonds	1000	T	-	1000		0	0	0	0
TAX EXEMPT BOND	0	T		0	E	3000	0	0	0
	0			0		0	0	0	0
	0			0		0	0	0	0

Figure 9: "Sch B Interest Stmt" worksheet

These are the rules to follow in making data entries into the “Interest Stmt” worksheet:

1. Payer: Enter an identifier of less than 20 characters.
2. Box 1 or 3 amount: Enter the contents of box 1 or 3 from 1099-INT.
3. TSJ: Enter Taxpayer, Joint or Spouse, depending on who owns the account.
4. State adjust amount: Make an entry only if a dividend is taxed differently by the state.
5. NAEOB: Use code E and enter tax-exempt interest only.
6. NAEOB amount: For code E, enter the contents of box 8 from 1099-INT.
7. AMT PAB: Enter the contents of box 9 from 1099-INT.
8. Early penalty: More likely seen in retirement accounts, but it does happen.
9. Federal withheld: Enter the contents of box 4 from 1099-INT.

Entries in boxes 10 to 13 in 1099-INT pertain to any premium paid above face value when purchasing a bond. The taxpayer can amortize a part of the premium against income. Returns with bond premiums need professional attention and are OUT-OF-SCOPE for CEP preparers.

For codes NAEOB, all are OUT-OF-SCOPE for CEP preparers, except E for tax-exempt income.

Boxes 15 to 17 are related to state withholding, if any, and should be included in the state return.

### How Entries in the Worksheet Propagate into the Return

Data entry into the Interest Statement propagates into the following documents:

1. Form 1040, page 2, line 2a tax exempt interest, and 2b for taxable interest income.
2. Form 1040 Sch 1, line 30 penalty for early withdrawal.

### U.S. Savings Bonds

Interest from U. S. government bonds is fully taxable by the IRS but is treated as tax-exempt by the state. A negative correction is used in the State Adjust column. The entry for a \$1,000 U.S. savings bond is shown in box 3 on 1099-INT, and our entry into “Sch B Interest Stmt” in Fig. 9.

### Municipal (Tax Exempt) Bonds

Interest on state municipal bonds is not taxed by the IRS or the state. Write E in the NAOB column and enter the amount in the column next to it. The amount will be propagated directly to 1040 pg. 2, line 2a. It will not be taxed.

Interest on out-of-state municipal bonds is not taxed by the IRS but is by the state. A positive correction is used in the State Adjust column.

### Investment Expense

Box 5 on 1099-INT shows investment expense. This can be claimed as an itemized deduction on Sch A. Most of our clients will use the standard deduction, so this entry would not affect the tax. You will seldom see this entry for CEP clients.

### Alternative Minimum Tax

If there is an entry in box 9 of Form 1099-INT, it must be entered in the AMT PAB column of the "Sch B Interest Stmt" worksheet. TaxWise will place this number in Form 6251 line g and calculate the alternative minimum tax. The result is placed in Form 1040 Sch 2, line 45 and finally Form 1040 page 2, line 11b. However, the AMT would not likely affect the tax for CEP clients, because our clients have relatively low income. So even if you run across a 1099-INT with something in the box, it will probably not affect the return, but it is something to keep in mind.

Note also that the AMT is charged against tax-exempt interest. For clarity it should be entered on the same line with the tax-exempt bond. (See Fig. 9.)

## Dividends (1099-DIV)

Figure 10 shows the Dividend part of the front page of the brokerage statement. Typically, this is all you will need to report the dividend income.

2018 Form 1099-DIV		Dividends and Distributions	OMB No. 1545-0110
<b>Box</b>			<b>Amount</b>
1a	Total Ordinary Dividends.....		6000.00
1b	Qualified Dividends .....		1,000.00
2a	Total Capital Gain Distributions .....		500.00
2b	Unrecaptured Section 1250 Gain.....		50.00
2d	Collectibles (28%) Gain.....		600.00
3	Nondividend Distributions.....		3,000.00
<b>4</b>	<b>Federal Income Tax Withheld .....</b>		<b>0.00</b>
5	Investment Expenses.....		0.00
6	Foreign Tax Paid.....		0.00
8	Cash Liquidation Distributions.....		0.00
9	Noncash Liquidation Distributions.....		0.00
10	Exempt Interest Dividends.....		0.00
11	Specified Private Activity Bond Interest Dividends.....		0.00
12/13/14	State/State ID #/ State Tax Withheld.....		IL/1289/450.00

Figure 10: 1099-DIV portion of the front page of the Brokerage Statement.

### Filling in the “Sch B Dividend Stmt” Worksheet

The worksheet called “Sch B Dividend Stmt” will normally be found in your left sidebar in TaxWise. All dividend information is entered on this form. A sample form is shown in Fig. 11.

US Schedule B		Dividend Income							2018		
Payer	Ordinary dividends	Qualified dividends	TSJ	State adjust +/- Amount	N	Capital gain	1250 gain	28% gain	Fed. with.	Exempt int. div.	AMT PAB
BROKERIDGE	6000	1000	T	0		500	0	600	0	0	0
	0	0		0		0	0	0	0	0	0
	0	0		0		0	0	0	0	0	0

Figure 11: “Sch B Dividend Stmt” worksheet

Again, data should be entered in aggregate if possible.

Data entry is as follows:

1. Payer: Enter an identifier of less than 20 characters.
2. Ordinary dividends: Enter the contents of box 1a from 1099-DIV.

3. Qualified dividends: Enter the contents of box 1b from 1099-DIV.
4. TSJ: Enter Taxpayer, Joint or Spouse, depending on who owns the account.
5. State Adjust amount: Make an entry only if a Dividend is taxed differently by the state.
6. Column 6: Not used.
7. Capital gain: Enter the contents of box 2a from 1099-DIV.
8. 1250 gain: Enter the contents of box 2b from 1099-DIV.
9. 18% gain: Enter the contents of box 2d from 1099-DIV.
10. Fed. with.: Enter the contents of box 4 from 1099-DIV.
11. Exempt Int. div.: Enter the contents of box 10 from 1099-DIV.
12. AMT PAB: Enter the contents of box 11 from 1099-DIV.

If line 2c of 1099-DIV shows an entry, the return should be referred to a professional preparer, and is OUT-OF-SCOPE for CEP preparers. This entry represents a section 1202 gain.

Boxes 13 to 15 are related to state withholding, if any, and should be included in the state return.

### *How Entries in the Worksheet Propagate into the Return*

Data entry into the Dividend Statement propagates into the following documents:

1. Form 1040, line 3a and 3b for qualified and ordinary dividends, respectively.
2. Form 6251, line 13, and Form 1040, line 45, for the alternative minimum tax.

### *Nondividend Distributions*

If there is an entry in box 3 of 1099-DIV, it represents a return of basis, which is not a taxable event. However, at the time of sale of the asset, this amount will be subtracted from the basis cost and result in a higher capital gains tax. If the asset wasn't sold in the current tax year, ignore this entry.

### *Investment Expense*

IF Box 5 on 1099-DIV shows investment expense, it can be claimed as an itemized deduction on Sch A. Most of our clients will use the standard deduction, so this entry would not affect the tax. You will seldom see this entry for CEP clients.

### *Foreign Tax Paid*

If there is foreign tax paid in box 6 of 1099-INT or 1099-DIV, and this is the only foreign income this taxpayer has and is no more than \$300 (\$600 if MFJ), the amount can be entered In Form 1116 in the box provided at the top of the form. This amount will propagate to line 48 in Form 1040 Sch 3. Otherwise, the return is OUT-OF-SCOPE for CEP preparers.

### Liquidation of Business

Boxes 8 and 9 in 1099-DIV concern distribution of proceeds from the liquidation of a business. For Box 9, the cash distribution is treated as a return of capital and is reported as a capital gain in Sch D. For Box 10, the noncash distribution is treated as tax exempt income, and may be added as a line in the interest statement. This would be considered OUT-OF-SCOPE for CEP preparers.

### Summary

And yet a final word of caution: Not all 1099s are alike. The software in TaxWise is very stable over the course of a given tax year. But brokerage statements differ from broker to broker, and from year to year. Be careful! Compare your statements to the samples presented in this note, recognize the differences, and act accordingly.