

UNDERSTANDING INCOME REALLOCATION

WHAT IS INCOME REALLOCATION?

Income reallocation is a process by which the issuer of a security changes the tax characterization of distributions made during the tax year, possibly resulting in a more favorable tax treatment. This process takes place after the end of the year, when the issuer of the security makes the announcement. The IRS requires the final allocation to be reported on the Form 1099 issued to investors.

Example: An investor receives a \$100 distribution from ABC Inc. on July 1st. At the time of the distribution ABC calls it a nonqualified dividend. After the end of the year, the company announces that this distribution is actually composed of 50% qualified dividends and 50% return of capital. At this point the Tax Reporting department updates the 1099 to reflect this change in status.

WILL THIS IMPACT THE TIMING OF MY 1099?

Potentially, yes. These changes to tax characterization can occur as late as February or March of the following year (sometimes even later). Because we at Raymond James want to provide you with the most accurate information possible, we delay the mailing of 1099s for accounts which hold securities that have not yet made the income reallocation announcement, but are expected to.

WHAT SECURITIES ARE IMPACTED BY INCOME REALLOCATION?

The types of securities impacted by income reallocation typically include Unit Investment Trusts, Mutual Funds, Real Estate Investment Trusts, Exchange Traded Funds and select Equity Securities.

Please note that not all securities reallocate, even if they are one of the types listed above. Additionally, there may be securities that have not reallocated for many years that may start reallocating on any given year.

WHEN IS THE CUT OFF FOR INCOME REALLOCATION?

Per the IRS, amendments to a 1099 should be made for up to three tax years.

WHEN IS THE FINAL MAILING DATE FOR THE COMPOSITE FORM 1099?

Because brokers are required by the IRS to amend any 1099 tax form that has an adjustment (for more than \$100) there is no guaranteed final mailing date. An adjustment could prompt an amended form to be produced at any point in the year. However, generally income reallocation slows greatly by late March.

HOW DOES RAYMOND JAMES COMPARE TO OTHER FIRMS WHEN IT COMES TO REPORTING INCOME REALLOCATION?

Each brokerage firm handles income reallocation differently. Some, like Raymond James, delay reporting to capture reallocation on the original tax form mailed to clients, which prevents the chance of the client filing a tax return and later having to re-file due to amendments.

Other firms mail all forms in mid-February and mark the forms with a footnote stating that amended 1099s will be issued as additional tax data is received from third parties. Depending on the timing of the reallocations and mailing dates, more than one amended form could be generated.

We feel we are providing the best possible service for our clients by holding off on sending tax forms until they're considered complete, reducing the likelihood of you potentially having to amend an already filed tax return and incurring additional tax preparation charges.

Please note changes in tax laws or regulations may occur at any time and could substantially impact your situation. While we are familiar with the tax provisions of the issues presented herein, as Raymond James Financial Advisors we are not qualified to render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

RAYMOND JAMES®

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