



# Instructions for Form 1099-B

Section references are to the Internal Revenue Code unless otherwise noted.

## What's New

**Widely held fixed investment trusts (WHFITs).** The IRS has issued final regulations on the reporting requirements for WHFITs. Beginning January 1, 2007, trustees and middlemen are required to report all items of gross income and proceeds attributable to a trust interest holder (TIH) of a WHFIT on Forms 1099. Previously, WHFITs were required to file Form 1041; however, WHFITs that were required to file Form 1041 for 2006 were instructed to check the final return box on that form.

Trustees and middlemen must report the amount of non *pro-rata* partial principal payments (as defined in Regulations section 1.671-5(b)(13)), trust sales proceeds (as defined in Regulations section 1.671-5(b)(21)), redemption asset proceeds (as defined in Regulations section 1.671-5(b)(14)), redemption proceeds (as defined in Regulations section 1.671-5(b)(15)), the sales asset proceeds (as defined in Regulations section 1.671-5(b)(17)), and the sales proceeds (as defined in Regulations section 1.671-5(b)(18)) that are attributable to a TIH for the calendar year on Form 1099-B.

To determine the amount of each item of proceeds to be reported on Form 1099-B, see generally Regulations section 1.671-5. If the trustee provides WHFIT information using the safe harbor rules in Regulations section 1.671-5(f)(1) or (g)(1), the trustee or middleman must determine the amounts reported on Forms 1099 under Regulations section 1.671-5(f)(2) or (g)(2), as appropriate.

**Requirement to furnish a tax information statement to TIH by March 17, 2008.** A tax information statement that includes the information provided to the IRS on Form 1099-B, as well as additional information identified in Regulations section 1.671-5(e) must be provided to TIHs. The written tax information statement for 2007 furnished to the TIH is due on or before March 17, 2008. The amount of an item of a trust expense that is attributable to a TIH must be included on the tax information statement provided to the TIH and is not required to be included in box 5 on the Form 1099-DIV. See Regulations section 1.671-5(e) for a complete list of the items of information that must be included in the statement to the TIH.

Trustees and middlemen must follow all the rules for filing Forms 1099 with the IRS and furnishing statements to the TIHs (except as noted above). For more filing requirements, see the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G.

## Reminder

In addition to these specific instructions, you should also use the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G. Those general instructions include information about:

- Backup withholding
- Electronic reporting requirements
- Penalties

- Who must file (nominee/middleman)
- When and where to file
- Taxpayer identification numbers
- Statements to recipients
- Corrected and void returns
- Other general topics

You can get the general instructions from the IRS website at [www.irs.gov](http://www.irs.gov) or by calling 1-800-TAX-FORM (1-800-829-3676).

## Specific Instructions for Form 1099-B

A broker or barter exchange must file Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, for each person:

- For whom the broker has sold (including short sales) stocks, bonds, commodities, regulated futures contracts, foreign currency contracts, forward contracts, debt instruments, etc.,
- Who received cash, stock, or other property from a corporation that the broker knows or has reason to know has undergone a change in control or substantial change in capital structure, or
- Who exchanged property or services through a barter exchange.

## Brokers

A broker is any person who, in the ordinary course of a trade or business, stands ready to effect sales to be made by others. A broker may include a U.S. or foreign person or a governmental unit and any subsidiary agency.

You are considered a broker if:

- You are an obligor that regularly issues and retires its own debt obligations or
- You are a corporation that regularly redeems its own stock.

However, for a sale, redemption, or retirement at an office outside the United States, only a U.S. payer or U.S. middleman is a broker. See Regulations sections 1.6045-1(g)(1)(i) and 1.6049-5(c)(5).

You are not considered a broker if:

- You are a corporation that purchases odd-lot shares from its stockholders on an irregular basis (unless facts indicate otherwise),
- You manage a farm for someone else, or
- You are an international organization that redeems or retires its own debt. See Regulations section 1.6045-1(a)(1).

## Reporting

### Acquisition of control or substantial change in capital structure.

Any broker that holds shares on behalf of a customer in a corporation that the broker knows or has reason to know based on readily available information has engaged in a transaction of acquisition of control or substantial change in capital structure, must file Form 1099-B. Readily available information includes information from a clearing organization, such as the Depository Trust Company (DTC) or from information published on the IRS website or in an IRS publication.

A broker is not required to file Form 1099-B for a customer who is an exempt recipient (under Regulations sections 1.6045-1(c)(3)(i) or 1.6043-4(b)(5)). For a list of exempt recipients, see the 2007 Instructions for Form 1099-CAP.

If a broker is required to file a Form 1099-B for a customer to report proceeds from an acquisition of corporate control or change in capital structure, the broker may satisfy the filing requirements by filing and furnishing one Form 1099-B for amounts reported under both Regulations sections 1.6045-1 and 1.6045-3. However, if the customer had additional transactions during the year with the reporting corporation, then a separate Form 1099-B would be required to report each of these transactions.

**Cash on delivery account.** For a sale of securities through a "cash on delivery" or similar account, only the broker that receives the gross proceeds from the sale against delivery of the securities sold is required to report the sale. However, if such broker's customer is a "second-party broker" that is an exempt recipient, only the second-party broker is required to report the sale.

**Foreign currency.** If the proceeds of a sale are paid in foreign currency, you must convert the amount to be reported into U.S. dollars. Generally, you must convert the foreign currency on the payment date at the spot rate or by following a reasonable spot rate convention. For example, you may use a month-end spot rate or monthly average spot rate. See Regulations section 1.6045-1(d)(6).

**Transactional/aggregate reporting.** Report each transaction (other than regulated futures or foreign currency contracts) on a separate Form 1099-B. Report transactions involving regulated futures or foreign currency contracts on an aggregate basis.

**Substitute payments.** Do not report substitute payments in lieu of dividends and tax-exempt interest on Form 1099-B. Instead, report these payments in box 8 of Form 1099-MISC, Miscellaneous Income. See section 6045(d) and the Instructions for Form 1099-MISC.

**Stock options.** If an employee, former employee, or other service provider, in connection with the performance of services, obtains substantially vested shares of stock from the exercise of a stock option, and sells that stock through a broker on the same day, then the broker may not be required to report the sale on Form 1099-B. For details, see Rev. Proc. 2002-50 which is on page 173 of Internal Revenue Bulletin 2002-29 at [www.irs.gov/pub/irs-irbs/irb02-29.pdf](http://www.irs.gov/pub/irs-irbs/irb02-29.pdf).

**Partnership sale.** Form 8308, Report of a Sale or Exchange of Certain Partnership Interests, does not have to be filed if, under section 6045, a return is required to be filed by a broker on Form 1099-B for the transfer of the partnership interest.

**Exceptions.** Brokers are not required to file, but may file, Form 1099-B for:

1. Sales for exempt recipients, including corporations, charitable organizations, IRAs, the United States, a state, or political subdivisions.
2. Sales initiated by dealers in securities and financial institutions.
3. Sales by custodians and trustees, provided the sale is reported on a properly filed Form 1041, U.S. Income Tax Return for Estates and Trusts.
4. Sales at issue price of interests in certain regulated investment companies.
5. Obligor payments on:
  - a. Nontransferable obligations, such as savings bonds or CDs.

b. Obligations for which gross proceeds are reported on other Forms 1099, such as stripped coupons issued before July 1, 1982.

c. Retirement of short-term obligations with original issue discount that is reported on Form 1099-INT, Interest Income. However, Form 1099-B is required for the retirement of short-term state obligations having no original issue discount.

d. Callable demand obligations that have no premium or discount.

6. Sales of foreign currency unless under a forward or regulated futures contract that requires delivery of foreign currency.

7. Sales of fractional shares of stock if gross proceeds are less than \$20.

8. Retirements of book-entry or registered form obligations if no interim transfers have occurred.

9. Exempt foreign persons as defined in Regulations section 1.6045-1(g)(1)(i).

10. Sales of Commodity Credit Corporation certificates.

11. Spot or forward sales of agricultural commodities. See below.

12. Some sales of precious metals. See below.

13. Grants or purchases of options, exercises of call options, or entering into contracts that require delivery of personal property or an interest therein.

**Spot or forward sales of agricultural commodities.**

Agricultural commodities include grain, feed, livestock, meat, oil seed, timber, or fiber. A spot sale is a sale that results in almost immediate delivery of a commodity. A forward sale is a sale under a forward contract.

However, report sales of agricultural commodities under a regulated futures contract, sales of derivative interests in agricultural commodities, and sales of receipts for agricultural commodities issued by a designated warehouse. A designated warehouse is a warehouse, depository, or other similar entity designated by a commodity exchange in which or out of which a particular type of agricultural commodity is deliverable to satisfy a regulated futures contract. Sales of warehouse receipts issued by any other warehouse are not reportable.

**Sales of precious metals.** A sale of a precious metal (gold, silver, platinum, or palladium) in any form that may be used to satisfy a Commodity Futures Trading Commission (CFTC)-approved regulated futures contract (RFC) if the quantity, by weight or by number of items, is less than the minimum required to satisfy a CFTC-approved RFC. A sale of a precious metal in any form that cannot be used to satisfy a CFTC-approved RFC is not reportable.

For example, Form 1099-B is not required to be filed for the sale of a single gold coin in the form and quality deliverable in satisfaction of a CFTC-approved contract because all CFTC contracts for gold coins currently call for delivery of at least 25 coins.

Sales of precious metals for a single customer during a 24-hour period must be aggregated and treated as a single sale to determine if this exception applies. This exception does not apply if the broker knows or has reason to know that a customer, either alone or with a related person, is engaging in sales to avoid information reporting.



*No reporting on Form 1099-B will be required for securities futures contracts (SFCs) unless guidance issued after Notice 2003-8, which is on page 310 of Internal Revenue Bulletin 2003-4 at [www.irs.gov/pub/irs-irbs/irb03-04.pdf](http://www.irs.gov/pub/irs-irbs/irb03-04.pdf), imposes such a reporting obligation.*

**Exemption certificate.** A broker may require an exempt recipient to file a properly completed Form W-9, Request for Taxpayer Identification Number and Certification, or similar form. You may treat an exempt recipient that fails to do so

as a recipient that is not exempt. See part J in the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G for more information.

## Barter Exchanges

A barter exchange is any person or organization with members or clients that contract with each other (or with the barter exchange) to jointly trade or barter property or services. The term does not include arrangements that provide solely for the informal exchange of similar services on a noncommercial basis. Persons who do not contract a barter exchange but who trade services do not file Form 1099-B. However, they may be required to file Form 1099-MISC.

**Transactional/aggregate reporting.** Barter exchanges involving noncorporate members or clients must report each transaction on a separate Form 1099-B. Transactions involving corporate members or clients of a barter exchange may be reported on an aggregate basis.

**Member information.** In the recipient area of the Form 1099-B, enter information about the member or client that provided the property or services in the exchange.

**Exceptions.** Barter exchanges are not required to file Form 1099-B for:

1. Exchanges through a barter exchange having fewer than 100 transactions during the year.
2. Exempt foreign persons as defined in Regulations section 1.6045-1(g)(1).
3. Exchanges involving property or services with a fair market value of less than \$1.00.

## Brokers and Barter Exchanges

**Statements to recipients.** If you are required to file Form 1099-B, you must provide a statement to the recipient. For more information about the requirement to furnish a statement to the recipient, see part M in the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G.

**2nd TIN not.** You may enter an "X" in this box if you were notified by the IRS twice within 3 calendar years that the payee provided an incorrect taxpayer identification number (TIN). If you mark this box, the IRS will not send you any further notices about this account. However, if you received both IRS notices in the same year, or if you received them in different years but they both related to information returns filed for the same year, do not check the box at this time. For purposes of the two notices in 3-year rule, you are considered to have received one notice. You are not required to send a second "B" notice to the taxpayer upon receipt of the second notice. See part N in the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G for more information.

 For more information on the TIN Matching System offered by the IRS, see the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G.

## Corporation's Name

For an acquisition of control or change in capital structure, enter the corporation's name.

## Account Number

The account number is required if you have multiple accounts for a recipient for whom you are filing more than one Form 1099-B. Additionally, the IRS encourages you to designate an account number for all Forms 1099-B that you file. See part L in the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G.

## Box 1a. Date of Sale or Exchange

For broker transactions, enter the trade date of the sale or exchange. For barter exchanges, enter the date that cash, property, a credit, or scrip is actually or constructively received.

## Box 1b. CUSIP No.

For transactional reporting by brokers, enter the CUSIP (Committee on Uniform Security Identification Procedures) number of the obligation.

## Box 2. Stocks, Bonds, etc.

Enter the aggregate gross proceeds from all dispositions of securities (including short sales), commodities, or forward contracts. For reporting an acquisition of control or substantial change in capital structure, include in box 2 the aggregate amount of cash and the fair market value of any stock or other property received. See *Reporting* on page B-1 for more information for brokers. Show a loss, such as one from a closing transaction on a forward contract, as a negative amount by enclosing it in parentheses. If the aggregate amount reported includes a loss from a corporation that has undergone a change in control or substantial change in capital structure, advise the recipient separately of the loss amount and check box 12. The recipient is prohibited from using the loss to offset other capital gains.

To determine gross proceeds, you may take into account commissions and option premiums if this treatment is consistent with your books. You may not take into account state and local transfer taxes. Check the applicable box to indicate which amount has been reported to the IRS. Do not include amounts shown in boxes 8 through 11.

Do not include any accrued interest on bonds sold between payment dates (or on a payment date) in this box. Instead, report this accrued interest on Form 1099-INT.

## Box 3. Bartering

Enter the gross amounts received by a member or client of a barter exchange. This includes cash received, the fair market value of any property or services received, and the fair market value of any trade credits or scrip credited to the member's or client's account. However, do not include amounts received by a member or client in a subsequent exchange of credits or scrip. Do not report negative amounts.

## Box 4. Federal Income Tax Withheld

Enter backup withholding. For example, persons who have not furnished their TIN to you in the manner required are subject to withholding at a 28% rate on certain amounts required to be reported on this form. Use Form W-9 to request the TIN of the recipient. For foreign recipients, request the recipient complete the appropriate Form W-8. See the Instructions for the Requester of Forms W-8BEN, W-8ECI, W-8EXP, and W-8IMY.

## Box 5. Number of Shares Exchanged

Enter the number of shares in the reporting corporation that were exchanged by the shareholder.

## Box 6. Classes of Stock Exchanged

Enter the class of stock (for example, preferred, common, etc.) exchanged in the reporting corporation for cash or other property received. Abbreviate the class to fit the entry. For example, enter "C" for common stock, "P" for preferred, or "O" for other. Also abbreviate any subclasses.

## Box 7. Description

For transactions other than an acquisition of control or substantial change in capital structure, enter a brief description of the disposition item (for example, 100 shares

of XYZ Corp. stock). If necessary, abbreviate the description so that it fits within box 7. For regulated futures contracts and forward contracts, enter "RFC" or other appropriate description.

For bartering transactions, show the services or property provided.

### **Regulated Futures Contracts—Brokers Only:**

#### **Box 8. Profit or (Loss) Realized in 2007**

Enter the profit or (loss) realized by the customer on closed regulated futures or foreign currency contracts in 2007.

#### **Box 9. Unrealized Profit or (Loss) on Open Contracts—12/31/2006**

Enter the unrealized profit or (loss) on open regulated futures or foreign currency contracts at the end of 2006.

#### **Box 10. Unrealized Profit or (Loss) on Open Contracts—12/31/2007**

Enter the unrealized profit or (loss) on open regulated futures or foreign currency contracts at the end of 2007.

#### **Box 11. Aggregate Profit or (Loss)**

Enter the aggregate profit or (loss) for the year from regulated futures or foreign currency contracts. Use boxes 8, 9, and 10 to figure the aggregate profit or (loss).