2002

Instructions for Form 1099-DIV

Section references are to the Internal Revenue Code.

What's New for 2002?
Recent legislation reduced the backup withholding rate. The backup withholding rate will be 20% for reportable payments made in 2002 and 2003.

An Item To Note
In addition to these specific instructions, you should also use the 2002 General Instructions for Forms 1099, 1098, 5498, and W-2G. Those general instructions include information about:
- Backup withholding
- Magnetic media and electronic reporting requirements
- Penalties
- 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 Web Site www.irs.gov or by calling 1-800-TAX-FORM (1-800-829-3676).

Specific Instructions for Form 1099-DIV
File Form 1099-DIV, Dividends and Distributions, for each person:
- To whom you have paid dividends (including capital gains dividends) and other distributions on stock of $10 or more,
- For whom you have withheld and paid any foreign tax on dividends and other distributions on stock,
- For whom you have withheld any Federal income tax under the backup withholding rules, or
- To whom you paid $600 or more as part of a liquidation.

Dividends
If you make a payment that may be a dividend but you are unable to determine whether any part of the payment is a dividend by the time you must file Form 1099-DIV, the entire payment must be reported as a dividend. See regulations under section 6042 for a definition of dividends.

Exceptions
You are not required to report on Form 1099-DIV the following:
1. Taxable dividend distributions from life insurance contracts. Taxable dividend distributions from life insurance contracts are reported on Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
2. Exempt-interest dividends from regulated investment companies. Exempt-interest dividends from regulated investment companies retain their tax-exempt status and are not reported on Form 1099-DIV or 1099-DIV, Interest Income. Instead, see section 852(b)(5) for reporting requirements.
3. Substitute payments in lieu of dividends. For payments received by a broker on behalf of a customer in lieu of dividends as a result of the transfer of a customer’s securities for use in a short sale, see Box 8 in the 2002 Instructions for Form 1099-MISC.
4. Payments made to certain payees. Payments made to certain payees including a corporation, tax-exempt organization, any IRA, U.S. agency, state, the District of Columbia, U.S. possession, or registered securities or commodities dealer are not reported on Form 1099-DIV.

Section 404(k) Dividend
Report on Form 1099-DIV dividends distributed under section 404(k) on stock held by an employee stock ownership plan (ESOP) or a tax credit ESOP. If a section 404(k) distribution is made in the same year as a total distribution from the ESOP, you may report the entire amount on Form 1099-R or you may report the dividends on Form 1099-DIV and the remaining amount on Form 1099-R.

RiCs and ReIts
Dividend payment delayed until January. If a regulated investment company (RIC) or a real estate investment trust (REIT) declares a dividend in October, November, or December payable to shareholders of record on a specified date in such a month, the dividends are treated as paid by the RIC or REIT and received by the shareholders on December 31 of such year as long as the dividends are actually paid by the RIC or REIT during January of the following year. Report the dividends on Form 1099-DIV for the year preceding the January they are actually paid. See sections 852(b)(7) and 857(b)(9).

If a dividend paid in January is subject to backup withholding, withhold when the dividend is actually paid. Therefore, backup withholding in January, deposit the withholding when appropriate, and reflect it on Form 945, Annual Return of Withheld Federal Income Tax, for the year withheld. However, since the dividend is reportable on Form 1099-DIV in the prior year, the related backup withholding is also reportable on the prior year Form 1099-DIV.

Qualified 5-year gain. If any part of the capital gain distribution reported in box 2a is qualified 5-year gain, report the gain in box 2c. Qualified 5-year gain. Taxed at a rate of 8%, qualified 5-year gain is the aggregate long-term capital gain taken into account by the RIC or REIT in a tax year beginning after December 31, 2000, from property held for more than 5 years. The qualified 5-year gain is determined without regard to collectibles gain, unrecovered section 1250 gain (described in section 1(h)(7)(A)(i)) from certain depreciable real property, and gain on qualified small business stock.

Qualified small business stock—RICs. Under section 1202, a 50% exclusion may be allowed on the gain from the sale or exchange of qualified small business stock (QSBS) issued after August 10, 1993, and held for more than 5 years. If any part of the capital gain distribution reported in box 2a may qualify for...
this exclusion (taking into consideration the shareholder’s holding period), report the gain in box 2e, and furnish the recipient a statement that reports separately for each designated section 1202 gain:
- Name of the corporation that issued the stock that was sold,
- Date(s) on which the RIC acquired the stock,
- Date sold,
- Shareholder’s part of the sales price,
- Shareholder’s part of the RIC’s basis in the stock, and
- Amount of the shareholder’s section 1202 gain.

Restricted Stock

Statements to Recipients
If you are required to file Form 1099-DIV, you must provide a statement to the recipient. For information about the requirement to furnish an official or acceptable substitute Form 1099-DIV to recipients in person or by statement mailing, see part H in the 2002 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.

Box 1. Ordinary Dividends
Enter ordinary dividends, including dividends from money market funds, net short-term capital gains from mutual funds, and other distributions on stock. Include reinvested dividends and section 404(k) dividends. Include the recipient’s share of investment expenses that you report in box 5.

Box 2a. Total Capital Gain Distr.
Enter total capital gain distributions (long-term). Include all amounts shown in boxes 2b, 2c, 2d, and 2e.

For more information about reporting amounts in boxes 2a through 2e, see Notice 97-64, 1997-2 C.B. 323, and section 1(h).

Box 2b. 28% Rate Gain
Enter any amount included in box 2a that is a 28% rate gain from sales or exchanges of collectibles.

Box 2c. Qualified 5-Year Gain
Enter any amount included in box 2a that is a qualified 5-year gain. See Qualified 5-year gain on page DIV-1.

Box 2d. Recap. Sec. 1250 Gain
Enter any amount included in box 2a that is an unreaptured section 1250 gain from certain depreciable real property.

Box 2e. Section 1202 Gain
Enter any amount included in box 2a that is a section 1202 gain from certain qualified small business stock. See Qualified small business stock—RICs on page DIV-1.

Box 3. Nontaxable Distributions
Enter nontaxable distributions, if determinable.

Box 4. Federal Income Tax Withheld
Enter backup withholding. For example, if a recipient does not furnish its TIN to you in the manner required, you must backup withhold at a 30% rate on certain dividend payments reported on this form. Use Form W-9, Request for Taxpayer Identification Number and Certification, to request the TIN of the recipient.

Box 5. Investment Expenses
Enter the stockholder’s pro rata share of certain amounts deductible by a nonpublicly offered RIC in computing its taxable income. This amount is includible in the stockholder’s gross income under section 67(c) and must also be included in box 1.

Box 6. Foreign Tax Paid
Enter any foreign tax withheld and paid on dividends and other distributions on stock. A RIC must report only the amount it elects to pass through to the shareholder. Report this amount in U.S. dollars.

Box 7. Foreign Country or U.S. Possession
Enter the name of the foreign country or U.S. possession to which the withheld tax applies. Boxes 8 and 9 apply only to corporations in partial or complete liquidation. Do not include these amounts in box 1.

Box 8. Cash Liquidation Distr.
Enter cash distributed as part of a liquidation.

Enter noncash distributions made as part of a liquidation. Show the fair market value as of the date of distribution.