What’s New

Qualified small business stock. For qualified small business stock acquired after February 17, 2009 and before January 1, 2011, the exclusion of any gain from the sale or exchange of the stock held for more than 5 years is increased from 50% to 75%. See Qualified small business stock—RICs on page 2.

Qualified tax credit bonds. For tax years ending after February 17, 2009, RICs can elect to distribute to shareholders credits attributed to tax credit bonds it holds. See Qualified tax credit bonds on page 2.

New Form 1097-BTC, Bond Tax Credit. The IRS has developed Form 1097-BTC for reporting tax credit bonds distributed by issuers and holders of tax credit bonds. See Qualified tax credit bonds on page 2.

Truncating recipient’s identification number on paper payee statements. Notice 2009-93 allows filers of this form to truncate a recipient’s identification number (social security number (SSN), individual taxpayer identification number (ITIN), or adoption taxpayer identification number (ATIN)) on paper payee statements for tax years 2009 and 2010. See part M in the 2010 General Instructions for Certain Information Returns (Forms 1098, 1099, 3921, 3922, 5498, and W-2G).

Reminder

In addition to these specific instructions, you should also use the 2010 General Instructions for Certain Information Returns. Those general instructions include information about the following topics:

- 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 or by calling 1-800-TAX-FORM (1-800-829-3676).

Specific Instructions

File Form 1099-DIV, Dividends and Distributions, for each person:

- To whom you have paid dividends (including capital gain dividends) and other distributions on stock of $10 or more,
- For whom you have withheld any foreign tax on dividends and other distributions on stock,
- For whom you have withheld any federal income tax on dividends under the backup withholding rules, or
- To whom you have 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 the 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. RICs on page 2.
2. Exempt-interest dividends from regulated investment companies retain their tax-exempt status, but are reported on Form 1099-INT. Interest Income (see section 862(b)(5)).
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 a loan of a customer’s securities, see the instructions for box 8 in the 2010 Instructions for Form 1099-MISC.
4. Payments made to certain payees including a corporation, tax-exempt organization, any IRA, Archer MSA, or health savings account (HSA), U.S. agency, state, the District of Columbia, U.S. possession, or registered securities or commodities dealer.

Important: Certain distributions commonly referred to as “dividends” are actually interest and are to be reported on Form 1099-INT. These include so-called “dividends” on deposit or on share accounts in credit unions, domestic building and loan associations, domestic and federal savings and loan associations, and mutual savings banks.

Qualified Dividends

Except as provided below, qualified dividends are dividends paid during the tax year from domestic corporations and qualified foreign corporations. For individuals, estates, and trusts, qualified dividends are taxed at a maximum rate of 15% (generally, the rate is zero for individuals whose other income is taxed at the 10% or 15% rate).

Exceptions. The following dividends are not qualified dividends:

- 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. See the instructions for box 1b on page 3. When determining the number of days the recipient held the stock, you cannot count certain days during which the recipient’s risk of loss was diminished. The ex-dividend date is the first date following the declaration of a dividend on which the purchaser of a stock is not entitled to receive the next dividend payment. When counting the number of days the recipient held the stock, include the day the recipient disposed of the stock but not the day the recipient acquired it.
- Dividends attributable to periods totaling more than 366 days that the recipient received on any share of preferred stock held for less than 91 days during the 181-day period that began 90...
Qualified Dividends
Section 404(k) Dividends, RICs and REITs

The plan participants or their beneficiaries. See Proc. 83-38, 1983-1 C.B. 773, and Rev. Rul. 83-22, 1983-1 C.B. 352. Dividends that relate to payments that the recipient is withholding, withhold when the dividend is actually paid. See sections 852(b)(7) and 857(b)(9) for RICs and REITs respectively.

If a dividend paid in January is subject to backup withholding, withhold when the dividend is actually paid. Therefore, backup withhold 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 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 issued after August 10, 1993, and held for more than 5 years. For qualified small business stock acquired after February 17, 2009, and before January 1, 2011, the exclusion is increased to 75%. A 60% exclusion may be allowed if the stock is empowerment zone stock acquired after December 21, 2000. However, the percentage exclusion increase does not apply to empowerment zone stock. If any part of the capital gain distribution reported in box 2a may qualify for this exclusion (taking into consideration the recipient’s holding period), report the gain in box 2c, and furnish the recipient a statement that reports separately for each designated section 1202 gain the:

- Name of the corporation that issued the stock that was sold,
- Date(s) on which the RIC acquired the stock,
- Date sold,
- Recipient’s part of the sales price,
- Recipient’s part of the RIC’s basis in the stock, and
- Amount of the recipient’s section 1202 gain and whether the gain is gain on empowerment zone business stock.

Qualified tax credit bonds. If a RIC or REIT holds any qualified tax credit bonds, any interest that the RIC or REIT recognizes on the bonds is included in the RIC’s or REIT’s gross income. See section 54A and Notice 2009-15, 2009-6 I.R.B. 449, available at www.irs.gov/irb/2009-06_IRB/ar08.html. For tax years ending after February 17, 2009, RICs can make an election to distribute any credits allowed to shareholders or beneficiaries. See report tax credit bond credits distributed by a RIC or REIT on Form 1099-DIV or Form 1099-BTC.

Restricted Stock

Widely Held Fixed Investment Trusts (WHFITs)
Trustees and midlemen must report the gross amount of dividend income attributable to a trust income holder (TIH) in the appropriate box on Form 1099-DIV, if that amount exceeds $10. If the trustee or midlemen provides WHFIT information using the safe harbor rules in Regulations section 1.671-5(f)(1) or (g)(1), the trustee or midlemen must determine the amounts reported on all Forms 1099 under section 1.671-5(f)(2) or (g)(2), as appropriate.

Due date exception and other requirements for furnishing the tax information statement to TIHs. A tax information statement that includes the information provided to the IRS on all Forms 1099 filed for the calendar year with respect to the TIH’s interest in the WHFIT, as well as additional information identified in Regulations section 1.671-5(e), must be provided to the TIHs. The written tax information statement furnished to the TIH for 2010 is due on or before March 15, 2011. The amount of an item of 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.

For more filing requirements, see the 2010 General Instructions for Certain Information Returns.
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, by statement mailing, or electronically, see part M in the 2010 General Instructions for Certain Information Returns.

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-years rule, you are considered to have received one notice and you are not required to send a second “B” notice to the taxpayer. For more information, see section 1368 for more information.

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-DIV. Additionally, the IRS encourages you to designate an account number for all Forms 1099-DIV that you file. See part L in the 2010 General Instructions for Certain Information Returns.

Box 1a. Total Ordinary Dividends
Enter 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 paid directly from the corporation. Include as a dividend the amount of the recipient’s share of investment expenses that you report in box 5.

An S corporation reports as dividends on Form 1099-DIV only distributions made during 2010 out of accumulated earnings and profits. See section 1368 for more information.

Box 1b. Qualified Dividends
Enter the portion of the dividends in box 1a that qualify for the zero and 15% capital gains rates. Include dividends for which it is impractical to determine if the section 1(h)(11)(B)(iii) holding period requirement has been met. See Qualified Dividends on page 1.


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

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

Box 2c. 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 2.

Box 2d. Collectibles (28%) Gain
Enter any amount included in box 2a that is a 28% rate gain from sales or exchanges of collectibles.

Box 3. Nondividend Distributions
Enter nondividend 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 28% 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. For foreign recipients, use the applicable Form W-8. See the Instructions for the Requester of Forms W-8BEN, W-8ECI, W-8EXP, and W-8IMY.

Box 5. Investment Expenses
Enter the recipient’s pro rata share of certain amounts deductible by a nonpublicly offered RIC in computing its taxable income. This amount is includible in the recipient’s gross income under section 67(c) and must also be included in box 1a. Do not include any investment expenses in box 1b.

Box 6. Foreign Tax Paid
Enter creditable foreign tax withheld and paid (within the meaning of section 901) on dividends and other distributions on stock. A RIC must report only the amount it elects to pass through to the recipient. 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.

RICs—special reporting instructions. Do not complete box 7. Under Regulations section 1.853-4, country-by-country reporting to shareholders for the amount reported in box 6 is not required. The requirement to file a separate statement to the Internal Revenue Service has been modified to require filing a statement that elects the application of section 853 for the tax year with the return for the tax year. See Regulations section 1.853-4 for more information. Do not send the statement with the Forms 1096 and 1099.

Boxes 8 and 9 apply only to corporations in partial or complete liquidation. Do not include these amounts in box 1a or 1b.

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.