

S-CORPORATION 1099-B REPORTING

Section 6045(g)(4) of the Internal Revenue Code, requires that financial institutions, such as Wedbush Securities Inc., report proceeds transactions (including adjusted basis) for corporations organized under sub chapter "S" of the IRC, beginning tax year 2012. Only sales that involved covered securities acquired after 01/01/12 and subsequently disposed of are subject to reporting and backup withholding.

STATE REPORTING

Wedbush may be required to report payments of interest or interest-dividends on federally tax-exempt municipal bonds to state tax authorities, such as California, for non-California municipal bonds.

WHAT DO YOU DO IF YOU HAVE FURTHER QUESTIONS?

Please consult your tax advisor for questions about how the new cost basis reporting requirement for "covered" securities affects your particular circumstance. Contact your Wedbush Financial Advisor for any other questions.

For more information, please refer to 2010 and 2011 tax brochures available on ClientLink.

WEDBUSH

WEDBUSH SECURITIES INC.



Important Tax Reporting Information

2012 & 2013

WEDBUSH SECURITIES INC.
1000 Wilshire Boulevard, Los Angeles, CA 90017
(213) 688 - 8000 • www.wedbush.com
Member NYSE/FINRA/SIPC

The IRS deadline to mail tax statements has changed from January 31 to February 15.

DELAY IN COST BASIS REPORTING FOR OPTIONS AND DEBT INSTRUMENTS

Relative to cost basis reporting, the third phase of the Emergency Economic Stabilization Act of 2008 requires financial institutions, such as Wedbush Securities Inc., to begin reporting the cost basis of debt instruments and option contracts. This requirement was scheduled to go into effect on January 1, 2013. However, the Internal Revenue Service has postponed this phase to January 1, 2014.

DELAYED MAILING OF 1099 STATEMENTS

As we have done in the past, the mailing of your 1099 Consolidated Tax Statement will be delayed until the third week of February for holders of RICs (i.e., Mutual Funds, which include Closed-End Funds and certain equities), REITs (i.e., Real Estate Investment Trusts), Unit Investment Trusts (UITs), and Widely Held Fixed Investments Trusts (WHFITs) that distributed income in 2012. These types of instruments typically reallocate income from one category to another. Unfortunately, these changes are not always announced in a timely manner, which causes us to issue you a corrected 1099 statement. In addition, you may want to file your tax return closer to the IRS deadline in the event a corrected 1099 is issued due to a late report of income reallocation by these instruments. However, if you do not hold these types of instruments, we will mail your 1099 Consolidated Tax Statement by the IRS deadline, February 15, 2013.

1099-B ENHANCEMENTS AND IRS CHANGES

The summary section of the 1099-B Box 3, "Cost or Other Basis of Covered Securities" will now display the total cost basis from "covered" securities. However, the Gross Proceeds grand total, Box 2a, includes gross proceeds from all five sections. Therefore, these two figures should not be used in computing gain/loss.

Box 15 "Check if Loss Not Allowed" has been moved to Box 2b on the 1099-B. It will display in the detail section with an "X" if loss is not allowed due to corporate inversion. This information is being reported to the IRS.

The following four fields are now being displayed in 1099-B:

Disallowed Loss* - A loss that cannot be used due to a re-purchase or pre-purchase of an identical security within 30 days. It is a portion of the basis from a purchase(s) that is not allowed to be used against the sale proceeds in computing gain/loss. This amount is being reported to the IRS.

Wash Sale* - An adjustment applied to the open cost due to deferred wash sale loss. The purpose is to track and display the portion of the basis that was previously disallowed and is now being applied. This amount is not being reported to the IRS.

Option Premium Open* - Option premium amount as the result of an exercise or assignment. The purpose is to assist in the calculation of the capital gain/loss when an option is assigned or exercised. This amount is not being reported to the IRS.

Option Premium Closed* - Option premium amount as the result of an exercise or assignment. The purpose is to assist in the calculation of the capital gain/loss when an option is assigned or exercised. This amount is not being reported to the IRS.

PRINCIPAL PAYMENTS

The IRS requires payers such as Wedbush, to report principal payments on the 1099-B. If you own factored securities, such as mortgage backed securities and receive scheduled principal payments, they will be displayed in the 1099-B "Term Unknown" section, without corresponding cost basis. Return of Principal are considered a reduction to basis and gain/loss will be reflected once the position is closed. These principal payments will be grouped and subtotaled by CUSIP. Since these principal payments are being reported to the IRS, they need to be accounted for in your filing.

EXEMPT-INTEREST DIVIDENDS 1099-DIV FORM

Exempt-interest dividends from a mutual fund or other Regulated Investment Company (RIC) will be reported on Form 1099-DIV Box 10 Exempt-Interest Dividends and Box 11 Specified Private Activity Bond Interest Dividends and no longer reported on Form 1099-INT Boxes 9 and 10. Tax exempt interest, however, will continue to be reported on 1099-INT.

CALIFORNIA AND MAINE STATE WITHHOLDING

Forms 1099-B, 1099-INT, 1099-DIV, 1099-MISC and 1099-OID will be displaying the new "State Tax Withheld" box, the reportable state code and State Identification Number. This information will be reported to the IRS, who will then report this information to the appropriate State. Separate State substitute forms will no longer be issued.

REPORTING COST BASIS ON MUTUAL FUND AND DIVIDEND REINVESTMENT SHARES

The Emergency Economic Stabilization Act of 2008 requires financial institutions, such as Wedbush Securities Inc., to begin reporting the cost basis of open-end Mutual Funds, equity-based dividend reinvestment plans (DRP) and regulated investment companies (RIC) in a DRP that are purchased beginning in 2012. These securities are classified as "covered" by the IRS and the cost basis will be reported to the IRS when they are sold or redeemed.

DIVIDEND REINVESTMENT

The cost basis for shares purchased through a dividend reinvestment plan is the dividend amount being used to purchase the stock. Thus, if a dividend of \$200 was reinvested for 10 shares, the basis for each share would be \$20.00 (i.e. \$200 divided by 10). The \$200.00 is taxed as part of your Dividend Income for the year and can be found in the 1099-DIV. The holding period begins on the date that the shares are purchased into the account.

SELL ORDER VERSUS SPECIFIC PURCHASE TO BE DONE BEFORE SETTLEMENT DATE

Wedbush offers the ability to specifically identify a tax lot to be sold when selling a portion of a security. Please note that the new legislation states that when a specific tax lot is chosen to be sold and the chosen tax lot is "covered", you will only have until settlement date to properly select the tax lot to be used. Wedbush will continue to apply the FIFO accounting method to all accounts unless otherwise instructed. Please coordinate the adjustment of your sell order versus purchase trades with your Wedbush Financial Advisor if you intend to use the specific identification method.

*A value of \$0 in any of these fields means that none of the criteria applies to you. For more information, please refer to 2010 and 2011 tax brochures available on ClientLink.