

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

## **DELAYED MAILING OF 1099 STATEMENTS**

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For the purpose of reducing or eliminating your 1099 corrections, the mailing of your 1099 Consolidated Tax Statement will be delayed until the third week of February for holders of Registered Investment Companies (RICs) (i.e., Mutual Funds, which include Close-End Funds and certain equities), Real Estate Investment Trusts (REITs), Unit Investment Trusts (UITs), and Widely Held Fixed Investments Trusts (WHFITs) that distributed income in 2013. 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 entities. However, if you do not hold these types of instruments, we will mail your 1099 Consolidated Tax Statement by the IRS deadline, February 15th, 2014.

## **COST BASIS REPORTING FOR OPTIONS & DEBT INSTRUMENTS**

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The third phase of the Emergency Economic Stabilization Act of 2008 requires financial institutions, such as Wedbush, to begin reporting the cost basis of certain less complex debt instruments and option contracts purchased on and after January 1, 2014. Wedbush will begin reporting the cost basis of the more complex debt instruments starting January 1, 2016. Below is a list of the more complex debt instruments:

- REMICs and CMOs
- Stepped-rate bonds
- Convertible Debt
- STRIPs
- Foreign currency bonds
- Certain tax credit bonds
- PIK bonds
- Foreign issued debt
- Debt issued part of an investment unit
- Short-term debt

Although basis reporting is not required until the fixed income product is sold, the new regulations do set default elections which will affect our current Amortization and Accretion (A/A) parameters and calculations. You can choose an election other than the default. Please see a detailed listing of the four elections on the back of this brochure.

All taxpayer elections must be made in writing. E-mail and fax instructions will also be accepted. We have created a Letter of Authorization for you to make elections. All elections must be made by 12/31 of the year of the purchase. If an election is made on or before 12/31, all calculations that affect basis will be reprocessed based on that election.

### **Options**

We are required to report the cost basis and proceeds of each option transaction made as of 1/1/14. Moreover, exercise and assignment will result in cost basis or proceeds adjustment on the underlying security by the proceeds or basis received from the option contract.

### **WASH SALE RULE ON DEBT INSTRUMENTS & OPTIONS**

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The Wash Sale Rule is now being applied to certain covered debt instruments and options. If you sell an option at a loss and subsequently buy the underlying security within the 30-day window, the loss from the option will be disallowed and deferred to the underlying repurchased security.

### **STATE REPORTING**

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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 FTB, for non-California municipal bonds.

### **WHAT DO YOU DO IF YOU HAVE FURTHER QUESTIONS?**

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

**WEDBUSH**  
WEDBUSH SECURITIES INC.



## **IMPORTANT TAX REPORTING INFORMATION**

2013 & 2014

WEDBUSH SECURITIES INC.

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## AMORTIZATION & ACCRETION (A/A) ELECTIONS TABLE

Below is a chart that outlines the default elections set by the regulations and the terms of the taxpayer elections allowed by the IRS. The Comments column contains information that may assist you in deciding whether or not you should make the election. The amortization of bonds is required for tax purposes. Amortization requires bondholders of premium bonds to reduce the cost basis of their holdings every tax reporting period to reflect the economic reality that as bonds approach maturity, they must be redeemed at par or 100%. Holders of discount bonds employ a similar strategy called accretion where the cost basis of the bond is increased toward par, or 100%, as each year the bond moves toward maturity. This is a complicated topic and we recommend that you share this chart with your tax advisor to determine which method of calculation is best for you and let your investment executive know so that they can assist you in submitting your election.

|   | ELECTION  | DESCRIPTION   | BROKER DEFAULT                   | TAXPAYER ELECTION | REVOCATION   | COMMENTS  |
|---|---|---|----------------------------------|-------------------|--|---|
| 1 | Market Discount Computation Method  | Indicates if the Constant Yield or Straight Line method is used for calculating the Market Discount | Straight Line                    | Constant Yield    | Not permitted                                      | Wedbush Securities currently uses constant yield method. All bonds purchased prior to 1/1/14 will retain constant yield computation. All bonds purchased on or after 1/1/14 will use straight-line computation. If you choose Constant Yield election you must provide a list of cusips or specify all.   |
| 2 | Treatment of Interest as Original Interest Discount (OID) to Amortize Premium | Indicates if the Taxable Debt Interest, Amortization and Accretion is treated as OID                | No                               | Yes               | Permitted with the consent of the IRS Commissioner | Wedbush Securities does not currently treat all interest as OID so there is no change. If you choose to make this election, OID will be calculated and the sum of OID and qualified stated interest will be summed and reported as OID on the Consolidated 1099. If you choose to treat all interest as OID you must provide a list of cusips or specify all.   |
| 3 | Recognition of Market Discount Income   | Indicates if the Market Discount is included in Income currently or at the time of sale             | At sale, redemption or maturity, | Current inclusion | Permitted with the consent of the IRS Commissioner | Wedbush Securities currently adjusts basis for market discount. However, Wedbush does not report the income on the 1099. For fixed income instruments purchased on or after 1/1/14, market discount will no longer be used to adjust basis unless you make the election to include it in current income. This means that bonds purchased prior to 1/1/14 will have basis adjusted and bonds purchased on or after 1/1/14 will not have basis adjusted. If this election is made, you will see the interest reported on the Consolidated 1099; however, there won't be a corresponding entry on your monthly statement(s). |
| 4 | Amortize Taxable Bond Premium   | Indicates if Taxable Bond Premium should be Amortized   | Yes                              | No                | Permitted with the consent of the IRS Commissioner | Under the broker default, all open tax lots will be adjusted. This means that all taxable debt will have adjusted basis unless you choose not to amortize.  |

THIS TAX REPORTING INFORMATION IS PROVIDED FOR GENERAL GUIDANCE. THE TAX INFORMATION CONTAINED HEREIN IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED AS, THE BASIS OF TAX ADVICE. SINCE STATE AND FEDERAL TAX LAWS CAN BE VERY COMPLEX AND SUBJECT TO DIFFERENT INTERPRETATIONS, YOU MAY NEED TO CONSULT A TAX ADVISOR.