DELAYED MAILING OF 1099 STATEMENTS

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 Closed-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 2015. These types of instruments typically reallocate income from one category to another. Unfortunately, these changes are not always reported 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, 2016.

COST BASIS REPORTING FOR COMPLEX DEBT INSTRUMENTS & OPTIONS

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

- REMICs and CMOs
- Contingent payment debt
- Stepped-rate bonds
- Convertible debt
- Contingent payment debt
- Variable rate debt
- STRIPs
- Foreign currency bonds
- Certain tax credit bonds
- PIK bonds
- Foreign issued credit
- Debt issued part of an investment unit
- Short-term debt
- Derivatives (Enhanced Yield Securities)
- Index linked securities/Market Linked CD's/Structured Products
- Redemption Linked Securities/Structured Products
- Deferred Interest
- Debt Issued as part of a UIT/Bond Fund
- Perpetual Maturity Bonds
- Government & Corporate Inflation-Indexed Bonds

FORM 1099-B

In order for the IRS to achieve their new cost basis reporting requirements for debt instruments and option contracts that began in tax year 2014, they added new boxes to forms 1099-B, 1099-OID and 1099-INT. Form 1099-B was redesigned to conform to Form 8949, Sales and Other Dispositions of Capital Assets. Box 1f, Adjustment Code, was added to indicate the types of adjustments: W for wash sale, D for market discount, and C for collectibles. The 1099-B detail section includes a field for accrued market discount on a sale transaction. In addition, for options contracts that were closed, the 1099-B detail section displays a gain or loss as a positive or negative amount, respectively, and is reported in Box 1d. For expired long options contracts, the 1099-B detail section reflects $0.00 as proceeds and conversely, for expired short options, it displays the amount of your premium as proceeds. All of these boxes remain unchanged for tax year 2015.

FORM 1099-INT & 1099-OID

Box 10, Market Discount and Box 11, Bond Premium was added by the IRS to Form 1099-INT. For tax year 2015, the IRS has added Box 13, Bond Premium on Tax-Exempt Bonds to Form 1099-INT. Box 5, Market Discount and Box 6, Acquisition Premium was added by the IRS to Form 1099-OID. These are secondary market adjustments for OID and non-OID bonds. These calculations are being provided by our service bureau and are applied to your tax lot(s) on each of the payment dates and at other specific events to adjust the cost basis appropriately. At year-end, these amounts are reported in the above referenced boxes. In order to provide a complete and consistent picture, we are displaying both covered and non-covered secondary market adjustments. However, we are reporting to the IRS only those that are covered. These transactions are identified as

Important Tax Reporting Information

2015 & 2016

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“covered” and “non-covered” in the detail section under Activity in your 1099 Consolidated Tax Statement.

1099-OID Box 1, Original Issue Discount (OID) and Box 8, OID on US Treasury Obligations displays OID as covered and non-covered amounts in the transaction detail section. However, please be aware that all OID is reportable regardless if it displays as covered or non-covered.

AMORTIZATION & ACCRETION (A/A) ELECTIONS

For debt instruments purchased after January 1, 2015, the IRS changed the broker default of Market Discount Computation from Straight Line to the Constant Yield method. This change was instituted by the IRS in response to industry commenters who indicated that the use of the constant yield method would generally result in a more favorable tax result for most 1099-B recipients.

You can choose an election other than the firm default, which is set by the IRS, on how you would like the amortization of your premium or the accretion of your discount to be calculated. All elections must be made by 12/31 of the year of the purchase. For more detailed information regarding this important election, go to https://clientlink.wedbush.com and click on “My Disclosures” at the bottom of the page for links to the “Important Tax Reporting Information for 2015/2016”.

Due to the complexity of these bond elections and accrual methods, you are encouraged to consult a tax advisor to determine what methods best meet your tax situation.

MARK-TO-MARKET ACCOUNTING METHOD

For traders who have made a valid 475(f) election with the IRS, beginning with the 2015 tax year, Wedbush is able to support this election by suppressing the wash sale rules. This will allow a qualified trader to file their taxes based upon the “mark-to-market” method of accounting. A qualified trader can choose to activate the suppression feature by filling out the Mark-to-Market Election Form and submitting it to Wedbush.

WASH SALE RULE FOR OPTIONS & DEBT INSTRUMENTS

The Wash Sale Rule is now being applied to certain covered debt instruments and options. If you sell an option at a loss and buy the underlying security within the 30-day window (i.e. 30 days before or after the date the loss is recognized), the loss from the option will be disallowed and deferred to the underlying repurchased security.

FATCA

The Foreign Account Tax Compliance Act (FATCA) refers to the provisions included in the Hiring Incentives to Restore Employment Act signed into law on March 18, 2010 and became effective January 1, 2014. It adds a new chapter to the Internal Revenue Code (Chapter 4) aimed at addressing perceived tax abuse by U.S. persons through the use of offshore accounts. The new rules require foreign financial institutions (FFIs) to provide the IRS with information on certain U.S. persons invested in accounts outside of the U.S. and for certain non-U.S. entities to provide information about any U.S. owners. Payors/US withholding agents, such as Wedbush, are required to comply with these new withholding and reporting requirements. FATCA withholding begins for fixed or determinable annual or periodical (FDAP) payments made on or after January 1, 2015. Reporting of gross proceeds will begin January 1, 2016. The IRS also announced that withholding on gross proceeds has been delayed to January 1, 2019.

FATCA provisions apply to withholdable payments. Withholdable payments are defined as:

- Any payment of interest (including any portfolio interest and original issue discount), dividends, rents, royalties, salaries, wages, annuities, licensing fees and other FDAP income, gains and profits, if such payment is from sources within the U.S.
- Any gross proceeds from the sale or disposition of U.S. property of a type that can produce interest or dividends
- Interest paid by foreign branches of U.S. banks

Income effectively connected with U.S. business is generally exempt from withholding under FATCA.

Form 1042S has been redesigned by the IRS to include Chapter 3 and Chapter 4 (Non-Resident Alien “NRA”) withholdings in order to fulfill these new reporting requirements. A foreign account can only be subject to one type of withholding. Chapter 4 subjects foreign and undocumented U.S. entity accounts to a withholding rate of 30%.

For tax year 2015, the IRS now requires US withholding agents that are also US payors, such as Wedbush, to file Form 8966 – FATCA Report to report information with respect to certain US accounts, substantial US owners of passive NFFEs, US accounts held by owner-documented FFIs, and certain other accounts as applicable based on the filer’s Chapter 4 status. Wedbush will be fulfilling this requirement by utilizing the new check boxes added to the Consolidated 1099 Tax Statements in lieu of Form 8966.

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 FTB, for non-California municipal bonds.

WHAT DO YOU DO IF YOU HAVE FURTHER QUESTIONS?

Please consult a 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.