

Updated tax documents and income reclassification

Broker-dealers, including Ameriprise Financial, sometimes receive income reclassifications and other similar adjustments from companies that issue investment products such as stocks, bonds or mutual fund shares after we have mailed tax documents to clients.

If you own Ameriprise® brokerage account(s) or Managed Account investment(s) that are not part of an IRA or other retirement plan, the investments you hold may reclassify which may, in turn, result in updates to the tax documents you already received from Ameriprise Financial.

If you receive an updated tax document, please work with a qualified tax professional to determine how these changes may affect your tax returns.

This article provides:

- Explanation of income reclassification
- Tax reporting requirements for companies
- Tips to help you during tax season

Explanation of income reclassification

Income reclassification refers to changes that companies make to all or part of previously reported dividend (or interest) income to some other tax classification.

- **Return of capital.** A reclassification from a taxable dividend to a return of capital can occur in many types of investments such as stock of companies, mutual funds, Real Estate Investment Trusts (REITs), etc., due to the following sequence of events:
 - A dividend is paid which is believed to be a distribution of a company's earnings and profits.
 - A distribution by a corporation is taxed as a dividend to the extent of the corporations' earnings and profits. Any portion of a distribution that exceeds the corporation's earnings and profits is generally a non-taxable return of capital.
 - In some cases, a company may realize after the end of the year that its distributions exceeded its earnings and profits.
 - In this situation, all or part of the distribution may be reclassified from a taxable dividend to a return of capital which is generally non-taxable.¹
- **Change in tax treatment of distributions.** In addition to return of capital, other types of reclassifications can occur for investments such as mutual funds, Exchange Traded Funds (ETFs), Unit Investment Trusts (UITs) or REITs, because they make dividend distributions which may

include other income types which qualify for special tax treatment, e.g. capital gain distributions or exempt-interest dividends. The most common types of reclassifications, other than return of capital, are:

- Dividend to long-term capital gain distribution
- Long-term capital gain distribution to dividend
- Exempt-interest dividend to taxable dividend

Other types of changes to income reported on tax documents may occur but are less common.

- **Information reported after deadline.** Year-end tax documents sent to you by the IRS mailing deadline² report the information we've received to date about the investments.
 - This information may change later because issuers update their tax information as part of their year-end audit and reporting processes.
- **Investment type.** Income reclassifications are more likely for certain investments.
 - Review the *Investment types most likely to reclassify each year* page to understand if your investments may be impacted.
 - If you own an investment likely to reclassify, talk to a qualified tax professional about the possibility of delaying filing your tax returns until early April to avoid re-filing.

Tips to help you during tax season

- Most companies provide updated income information by late March, but may provide updated income information up to, and even past the individual tax return filing deadline every year.
- Financial services companies that receive updated income information from a company/investment may provide updated tax reporting information to their clients who own that investment³.
- You may receive multiple updated tax documents, mailed at different times, if you own multiple investments that provide updated income information³.
- Copies of updated tax documents from can be viewed online when they're mailed.
 - Log in to the secure site on ameriprise.com and select Documents to locate and view your tax documents.
- Most income reclassifications are reported on Form 1099-DIV, Dividends and Distributions
- Tax updates can also include other documents depending on the information provided by the issuing company and the activity within the account.
- Reclassifications that change cost basis information for both covered and noncovered⁴ investments (i.e., return of capital) may result in an updated Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, if some or all of the underlying investment was sold during the year, but after the payment of a distribution that was later reclassified.
- You may wish to consider waiting until early April to file your tax returns to avoid refiling costs resulting from updated tax documents.
- Consult your tax advisor or attorney regarding your specific situation.

If you receive updated tax documents be aware that:

- We will only mail the tax document(s) being updated or any new tax documents. If you previously received other 2020 tax documents that don't require updates, they will not be mailed again.
- The word "CORRECTED" will be printed at the top of the document along with the date of correction to help you identify the latest version.
- New tax documents mailed after the IRS deadline, when no previous tax document was sent for an account, will not say "CORRECTED".
- To make it easier for you to find the changes that have been made to your tax reporting, your updated tax package will include a statement called "Summary of Changes from Previous Statement."
 - The "Summary of Changes from Previous Statement" will list the previous value, the corrected value and the amount of change by box number.
 - See "End-notes" on your tax documents for additional information.
- If you previously imported your tax data into tax preparation tools, such as *TurboTax®*, *H&R Block®*, *TaxAct®* or the *Ameriprise* tax download tool, additional imports or manual adjustments may be needed.
- The Package ID and Document ID printed on your amended tax package, which are your login credentials, will be the same as the Package ID and Document ID on the original tax package. Any subsequent import using these login credentials will capture the most up-to-date tax data for all accounts with 2020 tax data available for import from that package, including updates.
- For more information visit *TurboTax®* FAQ, *H&R Block®* FAQ *TaxAct®* FAQ or the *Ameriprise* tax download FAQ articles at ameriprise.com/financial-goals-priorities/taxes.

Contact

For questions about your account(s) contact:

- Your Ameriprise financial advisor
- Ameriprise Financial client service center at 800.862.7919, choose option 3 at the prompt

¹A return of capital also reduces the cost basis of the stock, fund, or other investment. If the cost basis is reduced to zero any further distributions are treated as a capital gain,

²The IRS mailing deadline is Feb. 16, 2021 for Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, and other forms related to an account that may receive Form 1099-B, even if no Form 1099-B is required because no sale occurred in the account. The Form 1099-B reports sales of securities.

³The Protecting Americans from Tax Hikes (PATH) Act provides that tax statements are not required to be corrected when the change is \$100 or less (\$25 for tax withholding). This is the De Minimus Safe Harbor rule. For more information see Tax filing FAQ.

⁴For more information about mandatory cost basis reporting requirements and for definition of covered and noncovered investments visit Cost basis reporting FAQ.

Ameriprise Financial, Inc. and its affiliates do not offer tax or legal advice. Consumers should consult with their tax advisor or attorney regarding their specific situation.

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