

## Updated tax statements and income reclassification

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

If you own *Ameriprise*<sup>®</sup> 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 statements you already received from Ameriprise Financial.

If you receive an updated tax statement, 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 companies make to all or part of previously reported dividend (or interest) income to some other tax classification.

- 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 corporation's earnings and profits. Any distribution which is more than the earnings and the profits is generally a non-taxable return of capital.
  - In some cases, a company may realize after the end of the year that it had paid out more in distributions than 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.<sup>1</sup>
- In addition to returns 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 statements may occur but are less common.

- Year-end tax statements sent to you by the IRS mailing deadline<sup>2</sup> report the information we've received to date about the investments.
  - This information may change later because issuers update their information as part of their year-end audit and reporting processes.
- 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
  - Some companies provide updated income information up to, and even past the individual filing deadline every year.
  - Financial services companies that receive updated income information from a company/investment may provide updated tax reporting information to clients who own that investment<sup>3</sup>.
  - Updated tax statements are produced and mailed periodically.
  - You may receive multiple updated tax statements at different times if you own multiple investments that provide updated income information<sup>3</sup>.
  - Copies of updated statements are available online when they're mailed.
- Most income reclassifications are reported on Form 1099-DIV, Dividends and Distributions
  - Tax updates can also include other statements 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 noncovered<sup>4</sup> 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.
- If you receive updated tax statements be aware that:
  - We will only mail the tax statement(s) being updated or any new tax statements. If you previously received other 2018 tax statements that don't require updates, they will not be mailed again.
  - The word "CORRECTED" will be printed on the Table of Contents next to the account number and at the top of the statement along with the date to identify the latest version.
  - New statements mailed after the IRS deadline, when no previous tax statement was sent for an account, will not say "CORRECTED" on the Table of Contents or on the tax statement.
  - 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 to Current Statement."
  - The letter "C" will mark any reclassified dividends on the supplemental "Detail for Dividend and Distribution" statement.
  - See "End-notes" on your tax statements for additional information.

- If you previously imported your tax data into tax preparation tools, such as *TurboTax®*, *H&R Block®* or the *Ameriprise* tax download tool, additional imports or manual adjustments may be needed.
- The Package ID and Document ID on the front page of 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 2018 tax data available for import from that package, including updates.
- For more information visit [TurboTax® FAQ](#), [H&R Block® FAQ](#) or [Ameriprise tax download FAQ](#).

## 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

<sup>1</sup>A 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,

<sup>2</sup>The IRS mailing deadline is Feb. 15, 2019 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.

<sup>3</sup>The Protecting Americans from Tax Hikes (PATH) Act of 2015 enacted by Congress 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. This rule is available for tax reporting updates beginning with the 2016 tax year. For more information see [Tax filing FAQ](#).

<sup>4</sup>For 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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