

Interest and Dividend Income

Form 1040 Lines 8-9
Pub 4012 D-8 to D-10
Pub 4491 Part 3



NTTC Training – 2014

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Interest Income – What Is It?

- Earnings on
 - Bank, savings, and credit union deposits
 - Certificates of Deposit
 - Bonds (corporate or government)
 - Money loaned out



NTTC Training – 2014

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Interest Income – What Is It?

- **It is not earned income**
 - Money, not a person, is earning the income
- **Reported in year earned**
 - Usually when posted to account

Where to Find Interest Income

- **Form 1099-INT**
- **Brokerage Statement**
- **Schedule K-1 (see K-1 lesson)**
- **No tax form from payer**
 - Seller financed mortgage interest income
 - Private or foreign payer
 - Interest less than \$10

Interest Income

- **Whether or not reported by the payer on a tax form, all interest must be included in the return**
 - **Taxable**
- OR**
- **Exempt**
- **Other calculations can be impacted**

Interest Income



- **All interest is taxable except interest from**
 - **State or municipal obligations; including**
 - ✱ **D.C.**
 - ✱ **U.S. possessions**
 - ✱ **See Pub 4491 page 71 for others**
 - **U.S. obligations (T-Bills, Savings Bonds, etc.) are fully taxable for federal tax***
- *may be exempt from state tax**

Interest Income

The Tax Form

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		Payer's RTN (optional)	OMB No. 1545-0112	2014 Interest Income Form 1099-INT
		1 Interest income		
		\$		Copy 1 For State Tax Department
		2 Early withdrawal penalty		
PAYER'S federal identification number	RECIPIENT'S identification number	\$	3 Interest on U.S. Savings Bonds and Treas. obligations	
		\$		
RECIPIENT'S name		\$	4 Federal income tax withheld	
Street address (including apt. no.)		\$	5 Investment expenses	
City or town, state or province, country, and ZIP or foreign postal code		\$	6 Foreign tax paid	
		\$	7 Foreign country or U.S. possession	
		\$	8 Tax-exempt interest	
		\$	9 Specified private activity bond interest	
		\$	10 Market discount	
		\$	11 Bond premium	
Account number (see instructions)		\$	12 Tax-exempt bond CUSIP no.	
		\$	13 State	
		\$	14 State identification no.	
		\$	15 State tax withheld	
		\$		

Form **1099-INT** www.irs.gov/form1099int Department of the Treasury - Internal Revenue Service



Interest Income

The Tax Form

● **Excerpt from sample brokerage statement**

Form 1099-INT*	2013 Interest Income	Copy B for Recipient (OMB NO. 1545-0112)
1 Interest Income		32.92
2 Early Withdrawal Penalty00
3 Interest on U.S. Savings Bonds and Treas. Obligations00
4 Federal Income Tax Withheld.....		.00
5 Investment Expenses.....		.00
6 Foreign Tax Paid.....		.00
7 Foreign Country or U.S. Possession		
8 Tax-Exempt Interest.....		153.00
9 Specified Private Activity Bond Interest.....		.00
10 Tax-Exempt Bond CUSIP no.		



The Interview



- **A conversation**

Yes No Unsure Check appropriate box for each question in each section

Part III – Income – Last Year, Did You (or Your Spouse) Receive

4. (B) Interest/Dividends from: checking/savings accounts, bonds, CDs, brokerage? (Forms 1099-INT, 1099-DIV)

The Interview – A Conversation

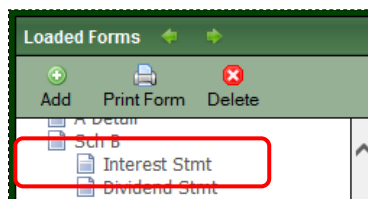
- **Prior year's return**
- **Forms 1099-DIV, -INT, -OID, or substitute**
 - **Organize them by type**
 - **If many, alphabetize for easier input and easier quality review**
- **Forms K-1 (limited) – see K-1 lesson**

Use the correct year forms, usually 2014!

Entering Interest Income




- Always use Interest Stmt*



- Select in Forms Tree

*except for seller financed interest income

Entering Interest Income

- Interest Stmt not on tree?
(use link-link method) 
- Link from 1040, line 8a to Sch B
- Link from Sch B, line 1b to Interest Stmt

Interest Income

The Input Form

- Abbreviate payer name if needed
- Determine federal tax rule first

US Schedule B Interest Received

Amounts shown in Box 8 should not be entered in the "Box 1 or 3 amount" column. Instead, enter an "E" in the "NAEOB column" and the amount from Box 8 in the "NAEOB amount" column.

Payer	Box 1 or 3 amount	TSJ	State adjust +/- Amount	NAE OB	NAEOB amount	AMT PAB	Early penalty	Federal withheld
	0		0		0	0	0	0
	0		0		0	0	0	0
	0		0		0	0	0	0



NAEOB Code E – Exempt interest

- State or municipal obligations
- Exempt interest reported by broker
- Do not use for certain EE/I bonds used for education – out of scope
- Enter in NAEOB amount column only (not Box 1 or 3)

Amounts shown in Box 8 should not be entered in the "Box 1 or 3 amount" column. Instead, enter an "E" in the "NAEOB column" and the amount from Box 8 in the "NAEOB amount" column.

Payer	Box 1 or 3 amount	TSJ	State adjust +/- Amount	NAE OB	NAEOB amount	AMT PAB	Early penalty	Fec with
State muni fund	0		0	E	75	0	0	



Interest Income

The Input Form

- Abbreviate payer name if needed
- Determine federal tax rule first
- Determine state tax rule second

US Schedule B Interest Received

Amounts shown in Box 8 should not be entered in the "Box 1 or 3 amount" column. Instead, enter an "E" in the "NAEOB column" and the amount from Box 8 in the "NAEOB amount" column.

Payer	Box 1 or 3 amount	TSJ	State adjust +/- Amount	NAE OB	NAEOB amount	AMT PAB	Early penalty	Federal withheld
	0		0		0	0	0	0
	0		0		0	0	0	0
	n		n		n	n	n	n



Interest Income

Enter other amounts as shown on tax form

- AMT PAB – private activity bond interest
- Early (withdrawal) penalty
 - TW carries to 1040 line 30
- Federal (tax) withheld

AMT PAB	Early penalty	Federal withheld
0	0	0



Interest Income

- **Foreign tax credit – see later Lesson**
 - **Input now so don't forget**
- **State tax withheld**
 - **Input now on appropriate state form so don't forget**

Interest Income

- **Complete one 1099-INT at a time**
- **Input all information on the form**
- **If brokerage statement, input all information on the brokerage statement**
- **Too easy to miss items if try to go back to a form a second time**

Interest Income Quiz

Is interest taxable on federal return?

- New York City bond interest? **No**
- Treasury bill interest? **Yes**
- Ford Motor Co bond interest? **Yes**
- Interest on loan to cousin Charlie? **Yes**

Interest Income – What Is It?



- Bonds can be purchased at a discount or with a premium
 - The discount is additional interest income
 - The premium is a reduction of interest income
- Both amortized over the life of the bond
- Payer does the math (we cannot)

Seller-financed Mortgage Interest



- Enter in Sch B top portion
- Link from first Sch B if need more forms
- Must have payer ID number to e-file

1a Seller-financed mortgages
 Interest income from seller-financed mortgages and the buyer used the property as a personal residence. Show the buyer's name, address, and social security number.

Name: _____ ID number: _____
 Address: _____
 _____ Amount: _____ 0 _____ 0

State Information for seller-financed mortgage interest
 Joint amount: _____ 0 Spouse amount: _____ 0

Foreign Interest Income/Account?

- Must ask and answer questions at bottom of Sch B
 - Foreign account/signature authority
 - Foreign trust
- If answer is “yes” to either, additional reporting may be required
- Remind taxpayer of additional filing responsibility

Limitations on Scope – Foreign Accounts



- **Bottom of Sch B – Part III**

You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; (b) had a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

	Yes	No
Part III Foreign Accounts and Trusts (See instructions on back.)		
7a At any time during 2013, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), formerly TD F 90-22.1 to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements		
b If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ▶		
8 During 2013, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back		

Dividend Income – What is it?



- **Payment by a corporation**
- **Paid to its shareholders**
- **Represents a portion of the corporation’s earnings**

Dividend Income – What is it?

- **Mutual funds* invest in (buy)**
 - **Stock of corporations**
 - **Bonds issued by private or government entities**
 - **Other investments**

***Includes ETFs (Exchange Traded Funds)**

Dividend Income – What is it?

- **Mutual funds “pay” to their investors**
 - **Dividends from the fund’s income**
 - ✱ **Dividend income from corporations**
 - ✱ **Interest income from bonds/accounts**
 - **Capital gain distributions from capital transactions that the fund makes**

Dividend Income – What is it?

- **Mutual fund dividends**
 - **Dividend income from corporations**
 - ✱ Will be identified as **ordinary/qualified**
 - **Interest income from bonds/accounts**
 - ✱ Will be identified as exempt if from exempt securities, e.g. state bonds
 - **But both are still dividends to the fund's shareholders**

Dividend Income



- **Ordinary dividend income, not qualified**
 - Taxed at regular tax rates
- **Qualified dividend income**
 - A subset of Ordinary Dividends
 - Taxed at capital gain rates



Where to Find Dividend Income

- Form 1099-DIV
- Substitute 1099-DIV (brokerage or mutual fund statement)
- Schedule K-1 (later Lesson)

Capital Gain Distributions

- Capital Gain Distributions represent share of profit from sale of assets within mutual fund
 - Always long term
 - Taxed at capital gain rates



Dividend Income

The Tax Form

VOID CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1a Total ordinary dividends	OMB No. 1545-0110	2014	Dividends and Distributions
		\$	Form 1099-DIV		
		1b Qualified dividends			
		\$			
PAYER'S federal identification number RECIPIENT'S identification number		2a Total capital gain distr.	2b Unrecap. Sec. 1250 gain	Copy 1 For State Tax Department	
		\$	\$		
		2c Section 1202 gain	2d Collectibles (28%) gain		
		\$ OOS	\$		
RECIPIENT'S name		3 Nondividend distributions	4 Federal income tax withheld		
		\$	\$		
Street address (including apt. no.)		5 Investment expenses	6 Foreign tax paid		
		\$			
City or town, state or province, country, and ZIP or foreign postal code		7 Foreign country or U.S. possession	8 Cash liquidation distributions		
			\$ OOS		
Account number (see instructions)		9 Noncash liquidation distributions	10 Exempt-interest dividends		
		\$ OOS	\$		
		11 Specified private activity bond interest dividends	12 State	13 State identification no.	14 State tax withheld
		\$	\$	\$	\$
		\$	\$	\$	\$

Form **1099-DIV** www.irs.gov/form1099div Department of the Treasury - Internal Revenue Service



Dividend Income

The Tax Form

● **Excerpt from sample brokerage statement**

Form 1099-DIV* 2014: Dividends and Distributions Copy B for Recipient (OMB NO. 1545-0110)

1a Total Ordinary Dividends	585.27
1b Qualified Dividends	395.49
2a Total Capital Gain Distributions (Includes 2b- 2 d)	192.43
2b Capital Gains that represent Unrecaptured 1250 Gain	0.00
2c Capital Gains that represent Section 1202 Gain	0.00
2d Capital Gains that represent Collectibles (28%) Gain	0.00
3 Nondividend Distributions	0.00
4 Federal Income Tax Withheld	0.00
5 Investment Expenses	0.00
6 Foreign Tax Paid	0.00
7 Foreign Country or U. S. Possession	0.00
8 Cash Liquidation Distributions	0.00
9 Non-Cash Liquidation Distributions	0.00
10 Exempt Interest Dividends	55.94
11 Specified Private Activity Bond Interest Dividends	0.00
12 State 13 State Identification No.	
14 State Tax Withheld	0.00



Dividend Income 1099-DIV

- **1a Ordinary dividends**
 - **1b Qualified dividends – a subset of ordinary dividends**
- **2a Capital gain distributions**
 - **2b §1250 gain – a subset of capital gain distribution**
 - **2d 28% gain – a subset of capital gain distribution**

Dividend Income

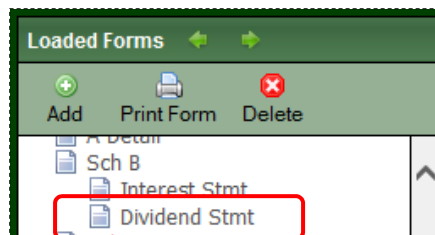
- **Reinvested dividends**
 - **Really, two transactions**
 - ✱ **Dividend income**
 - ✱ **Purchase of more shares**
 - **Payer effects both instantaneously**
- **Payers keep track of basis for covered securities (always taxpayer's responsibility)**

Entering Dividend Income



- Always use Dividend Stmt

- Select on Form Tree



Dividend Income

- Dividend Stmt not on tree?
(use link-link method)
 - Link from 1040, line 9a to Sch B
 - Link from Sch B, line 5a to Dividend Stmt



Input information as on 1099-DIV

The Input Form

- Abbreviate or truncate payer name to fit
- Column "N" (nominee) not applicable for in-scope returns

US Schedule B		Dividend Income						
Payer	Ordinary dividends	Qualified dividends	TSJ	State adjust +/- Amount	N	Capital gain	1250 gain	28% gain
	0	0		0		0	0	0

Input information as on 1099-DIV

The Input Form

- Exempt Int. Div.,
e.g. muni bond mutual fund
 - May need state adjustment
- PAB – careful there is no AMT – out of scope
- State withholding?
 - Input on applicable state form

Fed. with.	Exempt int. div.	AMT PAB
0	0	0

Dividend Income

- Complete one 1099-DIV at a time
- Input all information on the form
- If brokerage statement, input all information on the brokerage statement
- Avoid multiple views of forms

Dividend Income Quiz

- Payers of dividends of less than \$10 don't have to issue 1099 (true or false?)
 - True – same rule as for interest payers
- Taxpayers don't have to report dividends if they don't get a 1099 form (true or false?)
 - False – all income must be reported on the tax return [Check Intake Form](#)

Dividend Income Quiz

- Dividends reinvested in more shares are not taxable (true or false)?
 - False – the dividend income is the first transaction and the purchase of shares is a second transaction

Foreign Tax on 1099-INT or DIV

- Nonrefundable credit
- 1099-INT or 1099 – DIV boxes 6 & 7

6 Foreign tax paid \$	7 Foreign country or U.S. possession
------------------------------	--------------------------------------

- Input now on Form 1116 so don't forget
- Will be covered in later Lesson

Quality Review Interest/Dividend Income



- Check I&I – was interest/dividend box checked?
- Verify interest or dividend income is input correctly
 - Including any received with no paperwork
- State adjustments?

Quality Review Interest/Dividend Income

- Compare to prior year
 - Missing accounts?
- Foreign tax credit or deduction?
- Miscellaneous investment expense deduction?
- Delete unused rows on Interest/
Dividend Stmt

Other Item: 1099-INT or -DIV



- Investment expenses

- 1099-INT box 5
- 1099-DIV box 5

.	5 Investment expenses
\$	

- Possible itemized deduction

- Schedule A, Line 23
- Subject to 2% of AGI threshold

- Input now so don't forget

- More to be covered in another Lesson

Dividend Income

- Nondividend distributions

- Return of basis (cost)
- Basis in the paying security is reduced by the amount of nondividend distribution

➤ Payers keep track of basis for covered securities (always taxpayer's responsibility)

Limitations on Scope – 1099-INT

- Any of these codes needed on the Interest Statement?
 - N – Nominee
 - A – Accrued Interest
 - O – Original issue discount adjustment
 - B – Bond premium amortization adjustment
- Only “E” – exempt interest is in scope

Limitations on Scope – 1099-DIV

Review Forms 1099-DIV for *out-of-scope*:

- Box 2c Sec. 1202 gain
(small business stock)

2c Section 1202 gain
\$

- Boxes 8 or 9 – Liquidating distributions

8 Cash liquidation distributions	9 Noncash liquidation distributions
\$	\$

Limitations on Scope - 1099-INT or 1099-DIV



Would there be any Net Investment
Income Tax? (*out-of-scope*)

- Applies only if Adjusted Gross Income is more than:
 - MFJ or QW: \$250,000
 - MFS: \$125,000
 - Single or HoH: \$200,000

Interest and Dividend Income

Comments?



Questions?