

Some 1099 forms will arrive late

By Kathy Chu and Sandra Block
USA TODAY

Some brokerage houses are warning customers that their tax-reporting forms will be sent out late this year — and even after they go out, they may have to be corrected later.

The delays and corrections could force millions of taxpayers to file their returns — and get their refunds — later than usual.

At least five firms — Morgan Stanley, Merrill Lynch, Wachovia Securities, Edward Jones and Raymond James — are delaying mailing out at least some 1099 forms, which report dividend and interest income. They hope to avoid the errors that forced many firms to issue revised 1099s in recent years. The brokerages have received month-long extensions from the IRS to send out 1099s after the usual Jan. 31 deadline.

"We're trying to minimize the impact on clients," says Thomas Tremaine of Raymond James. Even once they receive the 1099s, clients should wait to file their returns as long as they can, Tremaine adds, because there "still could be corrections."

The problem this year? Financial firms must now list on the 1099s tax-exempt interest income from dividends and bonds and note how much of such interest is subject to the alternative minimum tax. Mutual funds calculate this information and send it to brokerages. "With the tax law change, mutual funds have additional analysis they have to do," says Julia Flenner of Wachovia. "I'm concerned they will deliver the information even later" than in previous years, resulting in amended 1099s.

Patricia McClanahan of the Securities Industry and Financial Markets Association expects amended 1099s this year to number "in the millions . . . despite our best efforts."

Cuts in the dividend and capital-gains tax rates in 2003 made tax preparation harder. Corrected 1099s jumped for that tax year to 14% — from a historic level of 5% to 8%. Corrections have hovered at 12% and 13% the past two years, amid further tax-law changes.

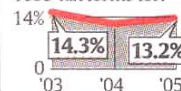
Even firms that plan to mail 1099s on time — such as Fidelity and A.G. Edwards — say information may need to be corrected.

"I do think it will be worse (than in previous years) mostly because of the required reporting of tax-exempt interest and dividends," says Betsy Buckingham, an enrolled agent in Huber Heights, Ohio. Buckingham says she prefers to postpone filing returns that could be affected by revised 1099s, if her clients agree.

Yet Mary McGuire, an enrolled agent in New York City, says many of her clients don't want to wait to file, especially if they're due a refund. "The people that come early just want to be finished," she says.

More corrections

Financial firms are correcting tax forms at a higher rate. Percentage of corrected 1099 tax forms for:



Note: Historically, 5% to 8% of 1099s are corrected each year.

Source: Securities Industry and Financial Markets Association

USA TODAY