

## Preparing for the 2011 Tax Season

As we find the 2011 Tax Season already upon us, we know many of you have questions regarding when your tax information will be available. We believe you will find the information below helpful, as it provides the estimated availability of both your Kanaly Trust tax information and the tax information provided by third parties, such as the Master Limited Partnerships (MLPs) and Hedge Funds.

We have also included two additional sections this year; the first discusses the necessary information to provide to your tax professional; and the second includes important information regarding your 1099-B and Realized Capital Gain/Loss Schedules.

### When will I Receive my Tax Information?

#### Consolidated Form 1099 (1099-DIV; 1099-INT; 1099-OID & 1099-B)

Under the 2008 Energy Act, the deadline for furnishing consolidated 1099 statements has been changed from January 31<sup>st</sup> to February 15<sup>th</sup>. The IRS grants an additional 30-day extension beyond February 15<sup>th</sup> which allows companies to minimize the risk of issuing 1099s before all necessary information is available. Kanaly Trust utilizes this extension given that our 1099s cannot be finalized until Wall Street Concepts calculates all mutual fund factors. We will issue the consolidated 1099s as soon as these factors are available which is typically the first week of March. This allows us to avoid issuing corrected 1099s at a later date. ***We anticipate that your consolidated 1099 will be mailed from our printing vendor on or before March 5, 2012.***

If you have more than one taxable account at Kanaly which is registered under the same tax identification number, the accounts will be consolidated for 1099 tax reporting purposes. This applies only to taxable accounts with sub-accounts and outside money managers/Separately Managed Accounts (SMAs).

#### Form 1099-R and/or Fair Market Value (FMV) Statement

If you have an IRA, Roth IRA or SEP account at Kanaly and any of the following occurred during 2011, you will receive a Form 1099-R:

- You received a distribution from the tax-deferred account; and/or
- You converted your IRA account to a Roth IRA account.

A FMV Statement will be mailed for each IRA, Roth IRA or SEP account held at Kanaly, regardless if you receive a Form 1099-R. Please note that the FMV Statement will not consolidate the SMAs with the main funding account. Therefore, you will receive a FMV Statement for all SMAs as well. The Form 5498 will not be mailed until May 15, 2012 and is not necessary for the completion of your 2011 tax return.

***We anticipate that your 1099-Rs and FMV Statements will be mailed from our printing vendor on or before January 31, 2012.***

## **Master Limited Partnership (MLP) Schedule K-1s**

If your Kanaly account holds any of the MLP investments detailed below, you will receive a Schedule K-1 from each partnership. Please keep in mind that the MLPs are merely investments and Kanaly has no control over the tax reporting which is provided by Price Waterhouse. Price Waterhouse will mail the Schedule K-1s directly to you. Kanaly will not receive a copy of your K-1. Please provide this information to your tax professional.

### **Estimated Availability of MLP Schedule K-1s**

(per <https://www.taxpackagesupport.com>)

<b>Entity</b>	<b>CUSIP</b>	<b>Date Available Online</b>	<b>Date Available for Mailing</b>
<b>Enterprise Products Partners, LP</b>	<b>EPD</b>	<b>3/21/2012</b>	<b>3/28/2012</b>
<b>Kinder Morgan Energy Partners, LP</b>	<b>KMP</b>	<b>2/16/2012</b>	<b>2/23/2012</b>
<b>Plains All American Pipeline, LP</b>	<b>PAA</b>	<b>2/29/2012</b>	<b>3/7/2012</b>
<b>PowerShares DB US Dollar Bullish</b>	<b>UUP</b>	<b>2/13/2012</b>	<b>2/20/2012</b>

Please note that Enterprise Products Partners, LP (EPD) is not anticipated to be available until March 21, 2012. We understand that this delivery date is only a few weeks away from the April 17, 2012 deadline. Please encourage your tax professionals to print your K-1s online via <https://www.taxpackagesupport.com>. K-1s are available online approximately a week before they are mailed. We will post a MLP Guide to the website as soon as the first K-1 becomes available.

## **Hedge Fund, Timbervest & Energy Opportunity Fund Schedule K-1s**

These Schedule K-1s will not be available until summer. The Hedge Fund K-1s may not be available until the end of summer, as in prior years. If any of your taxable accounts hold these investments an extension of time to file your tax return will need to be filed by the filing deadline of April 17, 2012.

## **Trust Schedule K-1**

If Kanaly's tax service prepares the tax return for a trust (Form 1041) in which you are a beneficiary, we anticipate that you will receive the Schedule K-1 from the trust beginning the last week in March. Please keep in mind that the trust tax return cannot be completed until all tax information is received from third parties. Therefore, if the trust holds an investment in Enterprise Products Partners, LP (EPD), your Schedule K-1 from the trust may not be available until the week of April 2, 2012. If the trust holds an investment in a hedge fund, you will need to file an extension, as your Schedule K-1 will not be available until late summer.

If an outside tax professional prepares the trust tax return, please contact that tax professional directly for the estimated availability of your Schedule K-1.

## **What Information Should I Provide to my Tax Professional?**

The information below is not intended to be an exhaustive list of all items required by your tax professional. It is only meant to serve as a guide. Please work directly with your tax professional as everyone's tax situation is unique.

### **Form 1099s, including 1099-DIV, 1099-INT, 1099-OID, 1099-B, 1099-MISC and 1099-R**

If you requested that Kanaly forward a copy of your 1099s to your tax professional, we will forward such copies for all of your Kanaly accounts.

### **Form W-2 and your year-end payroll statement**

Your year-end payroll statement may include important tax information which will assist your tax professional.

### **Form 1098, Property Tax Statement and Charitable Contributions**

Your tax professional requires this information to complete your itemized deductions.

### **Partnership, MLP, Trust, S-Corporation Schedule K-1s**

The majority of the above K-1s will be mailed directly to you. Please remember that Kanaly will not receive a copy of your MLP K-1s. These will be mailed directly to you; however, you and your tax professional will be able to print your MLP K-1s online at least a week before they are mailed. You will not need to forward a copy of your MLP K-1 to Kanaly. If Kanaly prepares a trust tax return and you have requested that we forward your tax information, we will forward a copy of your K-1 from the trust to your tax professional.

### **Kanally Account Statements**

Kanally strongly recommends that you provide a copy of your Kanally account statements to your tax professional. If you have requested that Kanally forward a copy of your statements, your tax professional will receive them in the frequency you requested (i.e. monthly, quarterly, annually, etc). Account statements for trust, partnership and foundation accounts will automatically be provided to your tax professionals, as they cannot complete the tax return without this information. Your account statements include important tax information that may not be included on your 1099, such as:

- Investment Management Fees, including the breakdown of assets to determine the allocation of such fees;
- Charitable Contributions;
- Detail of Gifts for your Gift Tax Return;
- Security Settlement Proceeds;
- Indication that a Partnership or Real Estate Interest was Sold; etc.

It is important to note that your account statements are intended to provide additional information to your tax professional and are in no way intended to be a substitute for your

Form 1099. The amounts of investment income and gains may not balance to your 1099. This is a result of timing differences which are caused by trades and income earned during the current year but not posted until the next calendar year. The information on your 1099 has been reported to the IRS.

## Important Notes for Form 1099-B and Realized Gain/Loss Schedule

### MLP Cost Basis reported on Form 1099-B

Please note that the cost basis reported on your Form 1099-B for all MLPs is the original purchase price. The basis has not been adjusted for partnership income/loss and distributions. MLP K-1 packages include a Sales Schedule which provides all the necessary detail to determine the actual basis in the partnership. You will need to input the original cost basis found on your 1099-B on the MLP K-1 Sales Schedule in order to calculate basis. This is not unique to Kanaly. If you own a MLP through another financial institution, you will need to perform the same calculation. Do not use the gain/loss provided on the 1099-B.

### Widely Held Fixed Investment Trusts (WHFIT) Reporting

Your Form 1099-B may reflect several transactions with zero cost basis and very little proceeds that are not reported on your Kanaly account statements (see below). These transactions are referred to as WHFITs. Your consolidated 1099 will include the WHFIT basis allocation factors on the last page. You may use these allocation factors to determine your gain; however, because the amounts are immaterial you may simply treat these transactions as long term capital gain with proceeds equaling gain. Please discuss the appropriate treatment with your tax professional.

#### 2010 Form 1099-B: Proceeds from Broker and Barter Exchange Transactions

Number of Shares	CUSIP	Description	Date Acquired	Date of Sale	Stocks, Bonds, etc.	Cost or other Basis	Net Gain or Loss	Federal Income Tax Withheld
<b>Unknown Term (or Cost) Sales Reported on 1099-B</b>								
718.000	78463V107	SPDR Gold Trust SPDR Gold Shares		1/7/2011	25.95	0.00	25.95	0.00
718.000	78463V107	SPDR Gold Trust SPDR Gold Shares		2/2/2011	25.76	0.00	25.76	0.00
718.000	78463V107	SPDR Gold Trust SPDR Gold Shares		3/1/2011	27.20	0.00	27.20	0.00
718.000	78463V107	SPDR Gold Trust SPDR Gold Shares		4/10/2011	26.86	0.00	26.86	0.00
680.000	78463V107	SPDR Gold Trust SPDR Gold Shares		5/7/2011	27.70	0.00	27.70	0.00
680.000	78463V107	SPDR Gold Trust SPDR Gold Shares		6/5/2011	29.68	0.00	29.68	0.00
680.000	78463V107	SPDR Gold Trust SPDR Gold Shares		7/8/2011	28.98	0.00	28.98	0.00

### **More information on WHFITs:**

Due to IRS reporting requirements under Regulation §1.671-5 which govern widely held fixed investment trusts (WHFITs), Kanaly is required to report the prorated share of the sales proceeds from the portfolios of (1) unit investment trusts, (2) securities derived from mortgage pools and (3) real estate investment conduits (REMICs) as return of principal on the respective Form 1099-B, *Proceeds from Broker and Barter Exchange Transactions*.

This return of principal is also reported on the Realized Gain/Loss section of the respective client's tax statement. Return of principal is reported as sales proceeds whether or not the client actually received a payment. This is due to the WHFIT "receipt-based" reporting rules. Each WHFIT is required to report the prorated share of sales proceeds as of the date that they were sold by the trust and the prorated share of expenses as of the date on which they were incurred by the trust. The expenses are deductible as miscellaneous itemized deductions. Under WHFIT regulations, proceeds are not reported on the date they are distributed to shareholders; therefore, proceeds may be reported as return of principal on the 2011 Form 1099-B even though they are not received by the client until 2012.

**Please visit our website as we will continue to provide updates and helpful tips over the next few months. If you have any questions, please contact your Relationship Manager.**