

STIFEL UNRELATED BUSINESS TAXABLE INCOME (UBTI) RELATED TO QUALIFIED ACCOUNTS

Stifel, Nicolaus & Company, Incorporated (Stifel) is an approved Non-Bank Custodian of Retirement Accounts and Qualified Plans. With this designation, Stifel is required to issue and file certain returns on behalf of our clients. One of the returns Stifel is required to file on our clients' behalf is IRS Form 990-T (Exempt Organization Business Income Tax Return).

Assets within qualified accounts, such as Individual Retirement Accounts (IRAs) and Education Savings Accounts (ESAs), are generally tax-exempt. The owner of the account does not pay any tax until the assets start to be withdrawn and reported to the taxpayer on a Form 1099R or 1099Q. The exception to this rule is: if a taxpayer holds a flow-through entity, such as a Limited Partnership (LP) or Master Limited Partnership (MLP), that generates \$1,000 or more in Unrelated Business Taxable Income (UBTI) within the tax reporting year. This information can be found on the K-1 issued by each partnership. Please keep in mind the K-1s are issued directly by the partnership and not by Stifel. Visit the "Helpful Sites and Phone Numbers" tab to assist you in finding certain K-1s. If you sold the partnership during the taxable year, a portion of the partnership liabilities may be allocated to you, the partner, and these liabilities may be treated as acquisition indebtedness. This, in turn, could subject a portion of the gain from your sale to be taxed as Unrelated Business Income (UBI).

Stifel has hired PricewaterhouseCoopers (PWC) to assist us with preparing and filing the 990-Ts on our clients' behalf. Stifel, with the assistance of PWC, will gather clients' current year K-1s. If you have unused UBTI loss on specific partnerships in prior years, you may be able to use the prior year losses to offset current year UBTI income. Evidence of prior year losses can be obtained from your prior year K-1s or previously filed 990-Ts that contain a loss carryforward. If you would like to use these losses and have the proper documentation, please submit to Stifel prior to April 30. Keep in mind, you can only offset a partnership's losses against that partnership's future gains on Form 990-T. You cannot aggregate partnership losses on Form 990-T.

If this is the first year your tax-deferred account has incurred UBTI, Stifel will apply for an Employer Identification Number (EIN) on your behalf. In doing so, we are required to provide some of your client information to the IRS. This EIN Number will be the EIN number that will be used in future years should your IRA warrant additional 990-T filings. If you have had to file a 990-T in a previous year, Stifel will use the number previously assigned to you. Please contact your Financial Advisor to provide Stifel with your previously assigned EIN.

For those clients that do incur UBTI, penalties and interest may be assessed by the IRS and included in the 990-T filing calculation if no estimated payments were made on your behalf. In these situations, PWC will calculate the additional amounts due as part of their 990-T tax return preparation. If you would like to make estimated payments to avoid additional penalties and interest, please contact your Financial Advisor for additional information.

Due to the late mailing of most K-1s and the time needed to prepare a Form 990-T, it will be necessary to file for an extension to avoid late filing penalties. This will not avoid penalties and interest that may be included in your calculations due to non-payment of taxes. As indicated previously, to avoid any additional penalties and interest calculations, estimated payments would be required. An IRS extension approval notice may be mailed to you directly from the IRS. This IRS extension approval information is for your records.

All appropriate taxes and fees will be automatically debited from your accounts when Stifel files the 990-T on your behalf. Stifel will charge a standard \$200 fee for the preparation and filing of the return. Amended returns will incur additional charges. All applicable taxes, penalties, and interest related to the taxable UBTI income will be submitted to the IRS directly from the related retirement account.

Stifel will obtain copies of all Form 990-T returns filed on your behalf with the IRS. A copy of your form can be obtained and viewed via Stifel Wealth Tracker. If you are not signed up for Stifel Wealth Tracker and would like a copy of your Form 990-T, please contact your Financial Advisor.

990-T FAQs

What is a 990-T?

Exempt Organization Business Income Tax Return. Per the IRS instructions, it is used to figure and report unrelated business income tax liability.

When are 990-Ts required?

If an IRA generates \$1,000 or more in unrelated business taxable income (UBTI), a 990-T will need to be filed. UBTI is generated when you hold partnerships in an IRA. It is comprised of Line 20v of the K-1. In addition, if you sold the partnership, the ordinary gains on the sales worksheet and possibly some/all of the capital gain are also considered UBTI. If you own multiple partnerships in your IRAs, you combine the positive UBTI totals for all the partnerships held in the same type of IRA to calculate the \$1,000 limit (i.e., all partnerships held in traditional IRAs).

Do I need the 990-T to file my individual tax return?

No. The 990-T does not impact your individual return. The 990-T is not filed using your social security number or Stifel's Tax ID number. If it is likely that a 990-T will be required, Stifel will obtain an EIN under the name of the IRA (Example: Sam Client IRA).

What is the filing deadline for the 990-T?

April 15 or October 15 with extension. Stifel will request an IRS extension of time to file for all IRAs that have a high probability of requiring a 990-T. The extension is necessary due to the fact that the partnerships do not provide the debt information until after the April 15 filing deadline. Our vendor needs the debt information to accurately analyze the information and, if necessary, prepare and file the 990-T.

Why was an extension filed for my account?

Stifel files an extension for any accounts that have a high likelihood of requiring a 990-T filing. Extensions are generally filed for any IRA accounts that meet one or more of the following criteria:

1. Positive UBTI of \$1,000 or more (found on Line 20v of the K-1)
2. \$1,000 or more in partnership sales
3. \$1,000 or more in Ordinary Gains from the Sales Worksheet on the K-1
4. Combined UBTI and partnership sales of \$1,000 or more

Remember that income from partnerships is combined by IRA type.

Where can I find the UBTI information?

UBTI information can be found on the K-1 on Line 20v. If you sold the partnership, additional UBTI information can be found on the Sales Schedule included with your K-1. Keep in mind, the K-1s are issued by the partnership and sent directly to you.

What from the K-1 is considered UBTI?

UBTI has three components:

1. UBTI found on line 20v of the K1
2. Ordinary Gains found on the Sales Schedule on the K1
3. Portion of the Capital Gain attributable to the debt financing of the partnership

What can I do to minimize the tax due?

1. **Review the K1.** Make sure the Ownership Schedule is accurate. Confirm both the total unit quantity and the date(s) acquired for the units. Please understand that the numbers reported on the K-1 are generated based off of this information.
2. **Make sure Stifel has the original cost basis if you sold the MLP.** Per the IRS, if you do not know your cost basis, you consider it zero when calculating your capital gain. **Gather the prior year K-1s and submit them to your financial advisor, especially if you sold the partnership.** Prior year negative UBTI may be able to be used to offset the current year gain.

What from my prior year K-1s can be used to decrease tax liability?

Negative Line 20v from prior year K-1s may be able to be used to decrease tax liability.

What is the deadline to submit prior year K-1s?

Prior year K-1s for the current 990-T process must be submitted to your financial advisor prior to April 30. Prior year K-1s submitted after the deadline can be used to file an amended return. Accounts filing amended returns to claim losses from prior year K-1s will be charged a \$200 filing fee for the amended return. This is in addition to the \$200 filing fee for the original return.

Why would I have a 990-T if I do not owe any tax?

To determine if you have a 990-T filing, you look at the positive Line 20v, positive ordinary gain, and the positive capital gain considered additional UBTI. If the positive numbers combined are \$1,000 or more, there is a filing requirement. To determine the tax due, you may be able to utilize the negative numbers to minimize the income and applicable tax. You may have enough positive income to require a filing, but enough deductions to make the tax due zero.

Why was I charged a \$200 fee?

If there is a 990-T filing requirement, Stifel charges a \$200 filing fee. Every account that has a 990-T is charged the fee, regardless of whether there is any tax due.

Can I avoid having to file 990-Ts?

If an IRA is invested in a master limited partnership (MLP) or a Limited Partnership (LP), a 990-T filing may be necessary. Selling a partnership, corporate actions, and bankruptcy increase the likelihood that a 990-T will be required. IRAs that do not hold MLPs, LPs, or other flow-through entities generally do not have a 990-T requirement.