Updated Information Regarding Cost Basis Reporting for Bonds

Beginning July 1, 2014 (Effective as of January 1, 2014)

IRS Regulations for Cost Basis Reporting

The Internal Revenue Service (IRS) has issued regulations requiring brokers and mutual fund companies to report cost basis information on covered securities (covered securities refers to securities acquired after certain effective dates as noted within this paragraph) to both investors and the IRS as part of Tax Form 1099-B. The third phase of these regulations will commence on January 1, 2014. Beginning on July 1, 2014, retroactive to January 1, 2014, Trust Company of Oklahoma will track and report cost basis information for less complex bonds and options (including warrants and rights) and will begin applying certain bond amortization methods for applicable bonds purchased on or after January 1, 2014. This tax information is reported to the IRS on specific tax forms, including Forms 1099-B, 1099-OID, and 1099-INT. The two prior phases pertained to equity securities acquired on or after January 1, 2011, and mutual funds and equities in Dividend Reinvestment Plans (DRIPs) acquired on or after January 1, 2012. The final phase will govern more complex bonds and options purchased on or after January 1, 2016.

What the IRS Regulations Mean to You

Trust Company of Oklahoma will track and report cost basis information for all covered securities on Form 1099-B and bond amortization information for applicable bonds on Form 1099-INT, Form 1099-OID, or other forms specified by the IRS, in accordance with the above timelines. As always, you are solely responsible for reporting accurate cost basis information to the IRS on your tax returns when you sell securities in a taxable account.

Accounts for which a Tax Form 1099-B is not generated, such as IRAs and other retirement plans, generally are not affected by these changes.

Bond Amortization Method Defaults

There are several bond amortization methods from which to choose for determining income and cost basis. Trust Company of Oklahoma's default methods for reporting bond amortization to you and the IRS are:

1. Do not treat all interest as original issue discount (OID)
2. Amortize Premium on Taxable Bonds based on Constant Yield Method
3. Accrue Market Discount based on Ratable Method (also straight line method)
4. Do not include Market Discount in income annually

If you would like to keep the default methods listed above, you do not need to take action. Trust Company of Oklahoma will use the applicable methods for individual bond holdings acquired and sold after January 1, 2014. If you wish to make a different selection, please contact us at 918-744-0553.

Subject to certain IRS restrictions (consult IRS Publication 550 and your tax advisor), you may change the default amortization selections to your preferred method for all applicable bond holdings acquired on or after January 1, 2014. Please review the table on Page 2 of this notice for additional explanation.

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BOND AMORTIZATION METHOD CHOICES[1]	
METHODS	**WHAT IT MEANS**
Treat All Interest as Original Issue Discount (OID)2 *Default Method: Do not treat all interest as OID*	You may elect to treat all interest on a debt instrument (typically bonds) acquired during the tax year as OID and include it in income. Interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount, and unstated interest as adjusted by any amortizable bond premium or acquisition premium. If you choose to treat all interest as OID, then the bond premium will be amortized using the constant yield method and accrued market discount will be calculated using the constant yield method and included in annual income.
Amortize Premium on Taxable Bonds *Default Method: Amortize premium on taxable bonds based on constant yield method*	Bond premium is the amount by which the price you paid (your basis) is more than the total of all amounts you will receive on the bond (other than qualified stated interest) after your purchase, which generally is the maturity value for a bond issued without OID. For example: A bond with a maturity value of $1,000 generally would have a $50 premium if you buy it for $1,050. If the bond yields taxable interest, you can choose to use a part of (or amortize) the premium to generally reduce the amount of interest that can be included in your income each year over the life of the bond. Our default method is to amortize the bond premium using the constant yield method, and we will reduce your basis in the bond by the amortization for the year. **Even though this is our default method for reporting to you and to the IRS, you must still follow the IRS requirement to make an election to amortize bond premium.**[2] You may change this default method to not amortize bond premium. The change will be made effective for the current year and subsequent years, but we cannot make the change retroactive for prior years.
Accrued Market Discount *Default Method: Accrue market discount based on ratable method*	The accrued market discount is calculated in one of two ways: 1. Ratable Accrual Method – Treats the market discount as accruing in equal daily installments during the period in which you hold the bond. The daily installments are calculated by dividing the market discount by the number of days after the date you acquired the bond, up to and including its maturity date. The daily installments are multiplied by the number of days you held the bond to calculate your accrued market discount. 2. Constant Yield Method – You may choose to accrue market discount using a constant interest rate. Your choice takes effect on the date you acquired the bond. This method treats the bond as having been issued on the date you acquired it. It treats the amount of your basis (immediately after you acquired the bond) as the issue price. Then the formula is applied for constant yield method as shown in IRS Publication 1212. If you are treating all interest as OID, then the Constant Yield Method is the only choice for calculating Accrued Market Discount.
Include Market Discount in Income Annually *Default Method: Do not include market discount in income annually*	When purchasing a market discount bond, you may choose to accrue the market discount over the period you own the bond and include the accrual for the current taxable year in your current income. Once you make this choice, it will apply to all market discount bonds you acquire during the tax year and in later tax years.

[1] Applies only to bond holdings acquired on or after January 1, 2014 (for certain less complex bonds) and January 1, 2016 (for more complex bonds).
[2] Learn more about all OID elections at Treasury Regulations Section 1.1272-3. Learn more about accrual of OID at IRS Publication 1212.

Any methods we have on our record, whether by default or by your election, and any change or revocation you notify us with respect to any methods on our record are not binding on the Internal Revenue Service (IRS). You must follow the IRS requirements to make the applicable election on your tax return, and you may need to seek IRS approval for any change or revocation of an election. Please see IRS Publication 550 for more information and consult your tax advisors.

Trust Company of Oklahoma and its employees do not provide legal or tax advice. Any tax-related discussion, including any attachments, is not intended or written to be used, and cannot be used, for the purposes of (i) avoiding any tax penalties or (ii) promoting, marketing, or recommending to any other party any transaction or matter addressed herein. Please consult your independent legal counsel and/or professional tax advisor regarding any legal or tax issues raised in this information.