

A Guide to Your 2016 1099 Consolidated Tax Statement

FEBRUARY 2017

Your Morgan Stanley 1099 Consolidated Tax Statement is designed to assist you in filing your federal income tax return. It is divided into two main sections: Reportable to the IRS and Nonreportable to the IRS. The Reportable to the IRS section shows the summary 1099 information reported to the IRS followed by the details of each item included in the summary. Depending on the services you use, the Nonreportable section may include a Realized Gain/(Loss) Summary, fees and expenses, and additional tax-related information.

New for 2016

FORM 1099-B CHANGES. Beginning in 2016, cost basis became reportable for sales of covered securities that have an ordinary gain or loss component as opposed to a capital gain or loss. The bulk of these types of securities are contingent payment debt instruments. A new section was added to Form 1099-B, which displays the ordinary covered and noncovered security transactions in their own subsection. The cost basis for these transactions will only be reported to the IRS for covered securities.

FORM 1099-INT CHANGES. Beginning in 2014, amortization for certain covered debt instruments is reported to the IRS on Form 1099-INT. The IRS made a change to Form 1099-INT in 2016 to report bond premium separately for U.S. Treasury Obligations. The amortization for taxable bonds is shown in box 11 (Bond Premium) and U.S. Treasury Obligations in box 12. Both fields are reportable to clients and to the IRS for covered securities only (acquired on or after 1/1/2014 for less complex fixed income, or 1/1/2016 for complex fixed income). As a service to clients, Morgan Stanley also includes amortization of bond premium in a supplemental section for noncovered securities only, but this information is not reported to the IRS.

FORM 1099-OID CHANGES. For 2016, the IRS has decided to have bond premium on bonds with Original Issue Discount be reported on Form 1099-OID. Box 10 (Bond Premium) was added to Form 1099-OID in 2016 to report this amount. Previously, the bond premium on bonds with OID was reported on Form 1099-INT box 11 (Bond Premium). Box 10 is reportable to clients and to the IRS for covered securities only (acquired on or after 1/1/2014).

FORMAT CHANGES TO THE 1099 CONSOLIDATED TAX STATEMENT

STATEMENT. Morgan Stanley is committed to reducing the amount of paper being sent to clients in all mailed communications. A concerted effort was made to review all aspects of the 1099 Consolidated Tax Statement and reduce blank pages and superfluous white space wherever possible. We've reduced the width of the top and bottom margins so we can fit more transactions on one page. We've removed blank pages and page breaks between certain sections to reduce page count. We've reduced spacing between and within certain sections. Although these changes, along with several other smaller adjustments, should reduce the number of pages in your 1099, we tried to keep the basic layout the same so as not to reduce the look and feel of the document.

Additional Highlights

MUNICIPAL BOND INTEREST BY STATE SECTION CHANGES.

This nonreportable section contains municipal bond interest by security, grouped and totaled by the state in which interest was generated. While this is a supplemental section and is for client use only, some of the amounts will be reported to the IRS and select state tax authorities on Form 1099-INT.

ANNUAL BOND AMORTIZATION SECTION CHANGES. Please note, only noncovered fixed income securities will be displayed in the Annual Bond Amortization section. Covered securities are reportable on Forms 1099-INT in box 11 (Bond Premium), box 12 (Bond Premium on US Treasury Obligations) and box 13 (Bond Premium on Tax-Exempt Bond), and in Form 1099-OID in box 10 (Bond Premium). Clients should use these boxes for reporting bond premium on their tax return. To avoid confusion, the covered securities were removed from the Annual Bond Amortization section.

1256 OPTIONS SECTIONS. This supplemental section displays Section 1256 Options, which are mark-to-market securities and are reported at an aggregate level on Form 1099-B in boxes 8 through 11. Since they are reported at a summary level and can be mixed in with futures transactions on the 1099-B, this section displays these transactions at tax lot level and give clients a clear picture of their 1256 activity for the year. There is one sub-section for realized 1256 options and another for unrealized 1256 options.

DISTRIBUTIONS RECEIVED FROM PUBLICLY TRADED

PARTNERSHIPS SECTION ON K-1 NOTIFICATION PAGE. A supplemental section for Distributions Received from Publicly Traded Partnerships is included in the K-1 Notification page. The distributions displayed for each partnership on this non-reportable section may not be equal to the income reported on the Form K-1 issued by the partnership.

FOREIGN SECURITY TAX INFORMATION SECTION. This supplemental section has two parts. The first contains a breakdown of domestic and foreign dividends, including ordinary and qualified amounts. The second part displays a summary of foreign investments, including foreign dividends, interest and any foreign tax paid on them. This supplemental data is offered to ease your tax return preparation efforts. Most of this data is reported to the IRS on Forms 1099-DIV and 1099-INT.

OPTIONS ON FUTURES CONTRACT SECTION. This non-reportable section displays an annual realized and unrealized gain/loss summary for options on futures contracts. This information is also for client use only and will not be reported to the IRS.

FOREIGN SOURCE INCOME PERCENTAGE FOR MUTUAL FUNDS

AND UIT'S SECTION ON FORM 1099-DIV DETAIL PAGE. The 1099-DIV detail page has a section which displays foreign source income percentages for Mutual Funds and UITs. This information is for client use only and will not be reported to the IRS. It will only display on the tax statement when foreign source income exists for at least one Mutual Fund or UIT holding.

COST BASIS REPORTING REGULATIONS IN EFFECT. The Energy Improvement and Extension Act of 2008 included provisions that require brokers to report to the IRS a customer's adjusted cost basis for securities sold and to classify any gain or loss on the sale as long term or short term. These reporting rules are being phased in over a multi-year period starting with securities acquired on or after January 1, 2011. The goals of this new requirement are to:

- Simplify basis reporting for investors by making broker reporting more closely match client reporting
- Reduce the tax gap on the reporting of capital gains
- Increase voluntary compliance
- Facilitate IRS enforcement

The regulations affect brokers and custodians who transact sales or transfer securities on behalf of customers, issuers of securities, and taxpayers who purchase or sell securities. The regulations provide rules for how brokers must calculate cost basis, determine holding period, identify securities sold and transfer cost basis information when securities are moved from one account to another. Here is an overview of the law and regulations and how they will be implemented by Morgan Stanley.

COST BASIS REPORTING HAS BEEN PHASED IN. The law provides for a four-stage phase in of cost basis reporting based on the type of security and the year acquired. Cost basis reporting is required for:

- Stock acquired on or after January 1, 2011
- Mutual fund and dividend reinvestment plan (DRIP) shares acquired on or after January 1, 2012
- Less complex fixed income securities, single stock futures, options and Section 1256 options acquired on or after January 1, 2014
- More complex fixed income securities include bonds with stepped rates, convertible debt, STRIPs, instruments making payments in foreign currency, contingent payment debt instruments, variable-rate debt and inflation-indexed securities, tax credit bonds, PIK bonds, foreign issued debt, bonds with terms unavailable for more than 90 days after

a customer acquisition, debt issued as part of an investment unit, physical certificates not held by a depository or clearing agent and options issued as part of an investment unit acquired on or after January 1, 2016

Securities acquired before 2011 are exempt from cost basis reporting. A revised IRS Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, starting with tax year 2011, includes cost basis and holding period information for sales of securities subject to cost basis reporting.

Accounts classified as S Corporations have been subject to cost basis reporting since 2012, while all other corporate accounts are exempt from 1099 reporting.

E-DELIVERY OF TAX FORMS. Clients who are enrolled in Morgan Stanley Online have the ability to have their tax forms e-Delivered. The IRS allows e-Delivery or print suppression of the following tax forms: 1099 Consolidated Tax Statement, 1099-R, 1099-Q, REMIC, 5498-ESA and 5498. Clients can enroll in this program by visiting the Profile & Settings section of Morgan Stanley Online and clicking on the e-Delivery link in the Communication Options box. Once enrolled, you will receive an email every time a new tax form is available for your account notifying you to visit Morgan Stanley Online to view the tax form in the Account Documents section on the Portfolio tab. Once enrolled in e-Delivery, you will no longer receive printed copies of your tax forms.

CALIFORNIA WITHHOLDING FORM 592-B. California instituted a 7% backup withholding policy starting in January of 2011. All California residents subject to federal backup withholding had this additional amount withheld on gross proceeds and miscellaneous income. Total annual withholding for the state of California will be reported to you in your 2016 1099 Consolidated Tax Statement on the CA 592-B Form in the Nonreportable to the IRS section.

SOCIAL SECURITY NUMBER MASKING. The IRS has permanently allowed Social Security numbers to be masked on Forms 1099. Your Social Security number is displayed with the first five digits masked (XXX-XX-1234). IRS rules no longer limit masking to Social Security numbers only, so Morgan Stanley will mask other tax identification numbers as well. Also, when we do not have an SSN or TIN on file for an account, only spaces will be displayed.

WHFIT TAX INFORMATION. IRS regulations require that additional tax information be given to holders of securities classified as Widely Held Fixed Investment Trusts (WHFITs).

WHFIT securities include unit investment trusts (UITs), mortgage trusts, royalty trusts, commodity trusts and HOLDERS trusts. WHFIT tax information is provided in an Additional Written Statement, one for each WHFIT security you held during 2016 that is included in your 1099 Consolidated Tax Statement. This statement is for your information only and is not sent to the IRS.

The IRS mailing date for WHFIT tax information is March 15th; however, Morgan Stanley issues WHFIT information in all three waves of 1099s. Which wave each security is included in is determined by when we receive its final tax distribution data.

Owners of royalty and commodity trusts will be mailed issuer tax information booklets by March 15, 2017. Please wait until you receive this information from the issuer in time to include it in your original tax statement. Due to the possibility that you may receive additional WHFIT tax information in a corrected tax statement, we recommend that you delay filing your tax return until after the March 15th mailing deadline.

SHORTFALLS ON CONTINGENT PAYMENT DEBT INSTRUMENTS.

Contingent payment debt instruments include Structured Investments such as Capital Protected Notes (CPNs), market-indexed notes and stock-linked notes. A net negative adjustment ("shortfall") occurs when an actual payment is less than a projected payment. Income from these instruments is reported on Form 1099-OID. The 1099-OID Detail section of your 1099 Consolidated Tax Statement will have a column for shortfall amounts if you own affected securities. You may be able to use a shortfall to reduce the amount of OID income you need to report on your tax return from this instrument. Please consult your tax advisor for guidance on how to report a shortfall.

MUTUAL FUND AND UIT STATE AND FEDERAL TAX

INFORMATION—INCOME SOURCE BREAKDOWN. This section lists the percentage of a fund's income that was earned from state, U.S. territory or U.S. federal obligations for each fund you own. It can assist you in determining the portion of the fund's income that may be exempt on your federal and state income tax returns.

MARRIED OPTIONS DETAILS. If you exercised put or call options during 2016, your 1099 Consolidated Tax Statement includes a Married Options Details section. The option premium listed in this section represents the amount by which the proceeds and cost basis reported on Form 1099-B has been adjusted ("married") due to the exercise or assignment of an option you either bought or sold.

The cost basis of the underlying stock has been reduced for puts that were assigned, and increased for calls that were exercised. The sales proceeds of the underlying stock has been increased by the option premium for calls that were assigned or decreased for puts that were exercised.

ACCESS AND DOWNLOAD YOUR TAX INFORMATION AND MANAGE YOUR ACCOUNTS ONLINE. Through Morgan Stanley's Online Services, you can view your accounts, follow market activity, download tax information and more. To sign up for access to your account information via Morgan Stanley Online, please go to www.morganstanley.com and click "Client Login/Morgan Stanley Online" then click on "Create a username." You can sign up today and get access to not only your 2016 tax information, but also real-time account data, market information, trade confirms, monthly statements and online bill pay service.²

If you prepare your own returns, you can import your 2016 Morgan Stanley tax information directly from Morgan Stanley Online into the TurboTax® or H&R Block Tax Software® programs, making it easier and faster for you to complete your tax returns. If your professional tax preparer uses Lacerte® or Pro System fx®, you may download your 2016 Morgan Stanley tax information data into a file that can be uploaded into Lacerte or Pro System fx® Tax Notebook™ applications. Gain and Loss information can be downloaded into Microsoft Excel via Morgan Stanley Online. If you require assistance with Morgan Stanley Online or the download functionality, please call the Morgan Stanley Client Service Tax Center at 866-324-6088.

We recommend that you review the Frequently Asked Questions (FAQs) and other information on downloading tax information available on the Morgan Stanley Online website.

You should understand that the tax information imported from Morgan Stanley Online to tax preparation software programs may not include all of the information required to properly complete your federal and/or state tax returns. It is essential that you complete any interview and/or review processes in their entirety and provide full and accurate answers to ensure that your tax information is correctly reported to the IRS and/or the state(s) to which you report. If you have specific questions regarding the preparation of your tax returns, you should contact your own tax advisor, the IRS or the Department of Taxation in the state(s) to which you report.

DIRECT DEPOSIT YOUR FEDERAL TAX REFUND INTO YOUR MORGAN STANLEY ACCOUNT. If you have not yet met the maximum IRA contribution limit, you can direct deposit

your federal income tax refund to make an IRA contribution for 2016 or 2017. Please remember that in order for your direct deposit to be treated as a 2016 IRA contribution, you must file your 2016 tax return by April 15, 2017. A direct deposit of a refund after April 15 cannot be used to make a 2016 IRA contribution. You can also deposit your refund into your Morgan Stanley Active Assets Account. Please contact your Financial Advisor or the Morgan Stanley Client Service Tax Center at 866-324-6088 for more information and instructions on direct deposit.

PAY YOUR TAXES WITH A SECURITIES BASED LOAN. Using cash or liquidating assets to pay taxes could potentially disrupt your investment strategy and may trigger capital gains taxes or transaction fees. If you qualify, a securities based loan has a simple application process, offers competitive interest rates and, once approved, funds are usually available in just a few days. Speak to your Financial Advisor or Private Wealth Advisor about paying your taxes with a securities based loan to potentially keep your current investment strategy intact.

Borrowing against securities may not be suitable for everyone. You should be aware that there are risks associated with a securities based loan, including possible maintenance calls on short notice, and that market conditions can magnify any potential for loss. For details, please see the important disclosures at the end of this document.

Consolidated Tax Statement

SUMMARY PAGE

1) 1099-DIV, DIVIDENDS AND DISTRIBUTIONS. Box 1a, Total Ordinary Dividends, includes all of your taxable dividends for 2016, including dividends from money market funds. Qualified Dividends, reported in box 1b, are also included in Total Ordinary Dividends in box 1a. Both amounts must be reported on your tax return. Capital Gain Distributions, box 2a, represent long-term capital gains from mutual funds and REITs. Dividends and distributions reported on Form 1099-DIV must be reported on your federal tax return whether paid in cash or shares. Box 10 includes exempt-interest dividends from a mutual fund or other regulated investment company paid to the client during the calendar year. This amount should be included on line 8b of Form 1040 or 1040A as tax-exempt interest. Box 11 shows exempt-interest dividends subject to the alternative minimum tax. This amount is also included in box 10.

2) 1099-INT, INTEREST INCOME (INCLUDING TAX-EXEMPT INTEREST).

Box 1 is the total of all of your taxable interest income for the year except for interest on Treasury bills, Treasury bonds and Treasury notes, which is reported in box 3. Included in box 1 is interest from the Morgan Stanley Bank Deposit Program and from any Federal Discount Notes held in the account. Interest from Federal Discount Notes is not calculated until after year-end and therefore is not displayed in your monthly statement during the tax year. Box 8, tax-exempt interest, includes tax-exempt bond interest, tax-free unit investment trust interest and accrued interest received on the sale of a municipal bond. Specified private activity bond interest (tax-exempt interest subject to federal alternative minimum tax) is reported separately in box 9 and is also included in the total tax-exempt interest reported in box 8. Tax-exempt interest is required to be reported on Form 1040, Line 8b. Box 10, market discount, includes the amount that accrued on the debt instruments you held during the year, assuming you made the election to include market discount in income as it accrues on covered securities. Box 11, bond premium, includes the amount of premium amortization for the year for taxable covered debt securities you held, assuming you did not make the election that you did not want to amortize bond premium. Box 12, bond premium on U.S. Treasury Obligations, includes the amount of premium amortization for the year for taxable covered U.S. Treasury Obligations securities you held, assuming you did not make the election that you did not want to amortize bond premium. Box 13, bond premium on tax-exempt bond, includes the amount of premium amortization for the year for tax-exempt covered debt securities you held. Box 14, tax-exempt bond CUSIP number will show the word "Various" if tax-exempt interest is reported in box 8.

3) 1099-OID, ORIGINAL ISSUE DISCOUNT. Original issue discount (OID), reported in box 1, is a form of interest. OID is generally the difference between a debt instrument's stated redemption price at maturity and its issue price. OID is based on the issue price, not the price you paid for the security. Box 2 reports other interest on these obligations, which is an amount separate from the OID. Other periodic interest shown here has not been reported on Form 1099-INT. Box 5, market discount, includes the amount that accrued on the debt instruments you held during the year, assuming you made the election to include market discount in income as it accrues on covered securities. Box 6, acquisition premium, includes the amount of acquisition premium amortization for the year for covered debt securities that reduces the amount of OID that is included as interest on your income tax return. Box 8 reports OID on U.S. Treasury obligations. Box 10, bond premium, includes

the amount of premium amortization for the year for taxable covered debt securities issue with OID that you held, assuming you did not make the election that you did not want to amortize bond premium.

Income from other debt instruments not issued at a discount may also be reported here. These include inflation-indexed debt instruments such as Treasury Inflation-Protected Securities (TIPS), equity-indexed CDs and certain \$25 par preferred securities.

Municipal original issue discount (OID) is exempt from 1099 reporting and is shown in the Nonreportable to the IRS, Supplemental Tax Information section.

Tax-exempt interest paid in 2016, including municipal OID, must be reported on your Form 1040. Tax-exempt AMT interest paid in 2016 must be taken into account in computing the alternative minimum tax reported on Form 1040.

REMICs AND CDOs. Form 1099-OID for Real Estate Mortgage Investment Conduit (REMIC) and Collateralized Debt Obligation (CDO) securities will be sent to you by March 15, 2017. This is in accordance with IRS rules. REMIC and CDO tax information is not included in this statement and will be sent to you in a separate mailing. Please do not file your income tax return until you receive this information.

4) 1099-MISC, MISCELLANEOUS INCOME. Income not reportable on other 1099 forms is reported here. Box 2 reports income from royalty trusts. Box 3, Other Income, may include amounts from legal settlements, fee and expense reimbursements and any amounts paid by Morgan Stanley to compensate clients for the negative tax implications of receiving substitute dividends. Substitute dividends, reported in box 8, occur when you pledge securities in your account as collateral or have a debit in a margin account, your securities are loaned out, and the security pays a dividend during that time. Substitute dividends are not eligible for the lower tax rate on qualified dividend income. Morgan Stanley pays accounts (other than corporate and tax-exempt accounts) that receive substitute dividends an account credit equal to 34.63% of the substitute dividend paid to compensate for the negative tax consequences. The amount of the credit is calculated based on the highest tax bracket of 39.6% plus the 3.8% Net Investment Income Tax. This gives you the same amount after federal taxes as if the substitute dividend was taxed at 23.8%, i.e., the maximum federal rate on qualified dividends, 20% plus the 3.8% Net Investment Income Tax.

Note: Morgan Stanley is not required to pay this credit. Morgan Stanley can, and reserves the right to, revise this policy at any time. The percentage used to calculate the credit can be changed or eliminated without notice.

5) 1099-B PROCEEDS FROM BROKER AND BARTER EXCHANGE

TRANSACTIONS. Proceeds from the sale of stocks, bonds, etc. are reported to the IRS at the detail level; a summary section is provided for your information only.

Box 1d reports your gross proceeds from transactions including sales of stocks, bonds and mutual funds, bond redemptions, equity options, taxable corporate actions such as mergers and tender offers, short sales, principal payments on mortgage-backed securities such as Ginnie Mae and Fannie Mae, and maturing CDs issued with a maturity of more than one year.

Box 1e shows the adjusted cost basis of a covered security that was sold during the year. If no adjustments were made, then the original cost basis is reported.

Box 1f reports the amount of accrued market discount on covered debt instruments.

Box 1g reports the amount of a disallowed loss on a wash sale involving covered securities. All sales of securities are reported based on trade date. Gross proceeds are net of commissions, fees and accrued interest except where noted and gross proceeds have been adjusted for option premium. Your cost basis will be reported to the IRS for covered securities only, but will be reflected on Form 1099-B for all securities. Please refer to the Realized Gain/(Loss) Summary in the Nonreportable to the IRS section of your consolidated tax statement for cost basis, holding period and realized gain and loss information for any transactions that are not reported on Form 1099-B.

In years prior to 2011, short sale proceeds were reported on Form 1099-B for the year in which the short position was established. Starting in 2011 and going forward, they are being reported in the year the short position is closed. Instructions for taxpayer reporting to the IRS have not changed for 2016. See instructions for Form 8949 column (c) and (d) explaining how to reconcile short sales reported on Form 1099-B and not recognize gain or loss from the reported short sale until the security is delivered to satisfy the short sale obligation. Complete Form 8949 Sales and Other Dispositions of Capital Assets before completing Schedule D. Use Form 8949 to list all capital gain and loss transactions; the subtotals from this form will then be carried over to Schedule D (Form 1040),

where gain or loss will be calculated in aggregate. For more information on cost basis, see the instructions for Form 8949, column (f), later, and these publications: Pub. 551, *Basis of Assets*. Pub. 550, *Investment Income and Expenses (Including Capital Gains and Losses)*.

6) DETAILS OF 1099—DIV, DIVIDENDS AND DISTRIBUTIONS.

This section lists the dividends you received by security. The portions of Ordinary Dividends that are eligible for the 0%/15%/20% maximum tax rate are shown in the Qualified Dividends column. Short-term capital gain distributions from mutual funds are included in Ordinary Dividends and are not included in Capital Gain Distributions. Unrecaptured Section 1250 Gain represents real property depreciation recapture. (See IRS instructions for Schedule D to determine if this amount is taxable to you.) Non-dividend distributions are a return of your investment, reduce your cost basis and are generally not taxable. Liquidation Distributions also reduce your cost basis. Any amount received that is not a dividend and in excess of your cost basis must be reported as a capital gain.

The Tax-Exempt Interest Dividends section displays Boxes 10 and 11 and the Investment Expense for Tax-Exempt Securities section displays the investment expenses related to the securities reported in Boxes 10 and 11. Box 11 (Specified Private Activity Bond Interest Dividends) while reported as a separate amount is also included in the box 10 (Exempt Interest Dividends) amount.

7) DETAILS OF 1099—INT, INTEREST INCOME. All interest income earned by your account, including tax-exempt interest, is listed here. Taxable interest includes interest on domestic and foreign corporate bonds, U.S. government and agency bonds, CDs, taxable municipal bonds, accrued interest on the sale of bonds, interest earned by unit investment trusts (UITs) taxable as grantor trusts and interest earned on the Morgan Stanley Bank Deposit Program. Tax-exempt interest (box 8) includes municipal bond interest from mutual funds, tax-free unit investment trust interest and accrued interest received on the sale of a municipal bond. Specified private activity bond interest (tax-exempt interest subject to federal alternative minimum tax) is reported separately in box 9 and also included in the total tax-exempt interest.

Market discount (box 10), bond premium (box 11), bond premium on U.S. Treasury Obligations, (box 12) and bond premium on tax-exempt bond (box 13) are displayed in one section for covered securities and in another section for noncovered securities. Only the covered amounts will be reported to the IRS.

8) DETAILS OF 1099-OID, ORIGINAL ISSUE DISCOUNT. This section provides more detailed information on how the amount of OID for each security was calculated. OID is accrued on a daily basis for each day you owned the security during the tax year. Since OID is accrued for tax purposes, the amount reported may not match the actual cash payments you received during the year. You may be required to include OID in income even if no cash payments were received.

If you paid an acquisition premium (a price above the adjusted issue price at time of purchase) or a bond premium (a price above the face amount), you may need to adjust the amount of OID reported on your tax return. Report the full amount shown on Form 1099-OID on your tax return. The adjustment, if any, should be reported separately. Market discount (box 5), acquisition premium (box 6) and bond premium (box 10) are displayed in one section for covered securities and in another section for noncovered securities. Only the covered amounts will be reported to the IRS.

OID for Real Estate Mortgage Investment Conduit (REMIC) and Collateralized Debt Obligation (CDO) securities are not reported here and will be sent to you by March 15, 2017.

The 1099-OID detail section has a column for shortfall amounts on contingent payment debt instruments. A net negative adjustment (“shortfall”) occurs when an actual payment is less than a projected payment. Income from these instruments is reported on Form 1099-OID. This column will only display on the statement when you have a shortfall amount. You may be able to use a shortfall to reduce the amount of OID income from this instrument you report on your tax return. Please consult your tax advisor for guidance on how to report a shortfall.

Please refer to IRS Publications 550, *Investment Income and Expenses* and 1212, *Guide to Original Issue Discount Instruments* when reporting OID on your tax return.

9) DETAILS OF 1099-B, PROCEEDS FROM TRANSACTIONS.

The 1099-B is segregated into seven sections: Short Term Covered Securities, Short Term Noncovered Securities, Long Term Covered Securities, Long Term Noncovered Securities, Noncovered Securities with an Undetermined Holding Period, Ordinary Covered Securities and Ordinary Noncovered Securities.

This information is reported to the IRS. Transactions reported here include sales of stocks, bonds and mutual funds, taxable

mergers and tenders, short sales, equity options, maturing bonds and CDs, and principal payments. Short sales are reported on Form 1099-B in the year the short position was closed. Transactions are reported based on trade date and are net of commissions and fees, except where indicated and gross proceeds have been adjusted for option premium. Short-term instruments such as Treasury bills, discount notes and commercial paper are reported here only if they are sold or redeemed prior to maturity or if we did not have the cost of the security in our records. Each transaction should be reported separately on your tax return. Your cost basis is only reported to the IRS for covered securities; however, cost basis for both covered and noncovered securities is being reported on your Form 1099-B.

Equity option transactions and Section 1256 options are reportable on Form 1099-B if acquired on January 1, 2014 or after. All other types of options will be reported on the Realized Gain/(Loss) Summary. The Summary will “marry” the cost/proceeds from option contracts with the underlying security upon the exercise or assignment of an option contract. Securities purchased or sold by the exercise or assignment of an option will have the cost/proceeds amount combined with the cost/proceeds of the underlying security.

CUSIP: For each transaction being reported on the 1099-B, a Committee on Uniform Security Identification Procedures (CUSIP) number will be shown to the right of the transaction description (box 1a).

Symbol: For each transaction, we will show the symbol of the security next to the CUSIP.

Box 1b reflects the date you acquired the security. For short sales, the date shown is the date you acquired the security delivered to close the short sale.

Box 1c shows the trade date of the sale or exchange. For short sales, the date shown is the date the security was delivered to close the short sale.

Box 1d reports your gross proceeds from transactions including sales of stocks, bonds and mutual funds, bond redemptions, taxable corporate actions such as mergers and tender offers, short sales, principal payments on mortgage-backed securities such as Ginnie Mae and Fannie Mae, and maturing CDs issued with a maturity of more than one year.

Box 1e shows the adjusted cost basis of a security that was sold during the year. Only adjusted cost basis for covered securities will be reported to the IRS. If cost basis was never adjusted, then the original cost basis will be reported.

Box 1f reports the amount of the sale that represents the accrued market discount and may give rise to ordinary income, and only involves covered securities.

Box 1g reports the amount of a disallowed loss on a wash sale for covered securities.

A Gain/(Loss) column is also displayed on the 1099-B, which will reflect profit or loss on each transaction reported. It is for your information only and will not be reported to the IRS for any transactions. The Gain/(Loss) column does NOT include any adjustment for the disallowed loss (box 1g). Your or your tax preparer would need to make the calculation.

Box 2 on the IRS Form 1099-B is used to denote the holding period of the security that was sold. It has three check boxes, one for Short Term, one for Long Term and one for Ordinary. The Morgan Stanley substitute Form 1099-B has separate sections to display short-term, long-term and ordinary transactions and also for those with an undetermined holding period. There is no actual box 2 appearing on our Form 1099-B.

Box 3. Consider box 3 (Basis Reported to IRS) as being checked for the Long Term Covered Securities, Short Term Covered Securities and Ordinary Covered Securities sections. We do not display box 3 on our substitute 1099-B form.

Box 5. Consider box 5 (Noncovered Security) as being checked for the Long Term Noncovered Securities, Short Term Noncovered Securities, Noncovered Securities with Undetermined Holding Period and the Ordinary Noncovered Securities sections. We do not display box 5 on our substitute 1099-B form.

A Notes column is on the 1099-B to show various footnote codes to highlight tax information about a particular transaction. Some examples of footnotes include short sales, corporate actions, wash sales, etc. The column only displays when there is at least one transaction that warrants a footnote.

10) REALIZED GAIN/(LOSS) SUMMARY. Your Realized Gain/(Loss) Summary is being provided for informational purposes only.

It is important that you consult with a professional tax advisor regarding your individual tax situation, because Morgan Stanley cannot provide you with tax advice. Although Morgan Stanley

is providing this information as an additional service, we do not represent or warrant that it is sufficient for tax reporting purposes and we are not liable for your reliance upon or use of this information. The Realized Gain/(Loss) Summary is not a substitute 1099-B form (or any other appropriate tax form), has not been supplied to the IRS and should not be filed with your tax returns. No transactions that are reportable on Form 1099-B will be reported on the Realized Gain/(Loss) Summary except for Contingent Debt transactions.

If cost basis information is not available, gain or loss will not be reflected on this Summary. For securities not purchased through Morgan Stanley, including securities purchased elsewhere and later transferred to Morgan Stanley, cost basis information may not be provided. To correct any information supplied by Morgan Stanley or to add cost basis information, please contact your Financial Advisor or Private Wealth Advisor.

ADDITIONAL INFORMATION INCLUDED IN YOUR CONSOLIDATED TAX STATEMENT

- Married Options Details
- Annual Bond Amortization
- Options on Futures Year End Summary
- Foreign Securities Summary
- Mutual Fund and UIT State & Federal Tax Information
- Municipal Bond Interest by State and U.S. Territory
- Supplemental tax information including accrued interest paid on the purchase of a bond and municipal original issue discount
- Tax-exempt and U.S. government fund state and federal tax information
- Form K-1 tax reporting notification (Form K-1 is mailed to you directly from the partnership. It is important that you do not file your tax return until you receive your Form K-1)
- WHFIT Additional Written Statement
- Fee and expense information
- Margin interest paid

Frequently Asked Questions

Q. WHAT ARE QUALIFIED DIVIDENDS?

A. Qualified dividends are dividends that are subject to the same 0%, 15% or 20% maximum tax rate that applies to long-term capital gains. They are shown on your Form 1099-DIV, box 1b. You must meet a holding period requirement to

report these dividends as qualified dividends. For common stock dividends, you must hold the dividend-paying security unhedged for more than 60 days during the 121-day period that begins 60 days before the ex-dividend date. For more information on qualified dividends, please refer to IRS Publication 550, *Investment Income and Expenses*.

Q. CAN I RECEIVE QUALIFIED DIVIDENDS FROM A MUTUAL FUND?

- A.** Yes. To the extent that a mutual fund receives qualified dividends from its investments, it can pay out these dividends to its shareholders. Distributions that are not treated as qualified dividends include dividends attributable to interest income, short-term capital gains and dividends that have not met the holding period requirements.

Q. WHY IS A MUTUAL FUND DISTRIBUTION I RECEIVED IN JANUARY 2017 BEING REPORTED ON MY 2016 FORM 1099-DIV?

- A.** If a mutual fund declares a dividend in October, November or December payable to shareholders of record on a date in one of those months but actually pays the dividend during January of the next calendar year, shareholders are considered to have received the dividend on December 31. Shareholders are taxed on the dividend based upon the record date, not the year it was actually paid.

Q. WHY ARE SHORT-TERM CAPITAL GAINS FROM MUTUAL FUNDS INCLUDED IN ORDINARY DIVIDENDS ON FORM 1099-DIV? CAN THEY BE BROKEN OUT TO OFFSET SHORT-TERM CAPITAL LOSSES?

- A.** Under IRS rules, short-term capital gains from mutual funds are included in ordinary dividends and cannot be used to offset short-term or long-term capital losses. Only long-term gains are reported as capital gain distributions on Form 1099-DIV. Mutual funds break out their short-term capital gains so that shareholders can determine which of their gains are from income and which are from appreciation.

Q. WHERE ARE TAX-EXEMPT DIVIDENDS FROM MONEY MARKET FUNDS AND MUTUAL FUNDS REPORTED?

- A.** Tax-exempt dividends from both money market funds and mutual funds are reported on Form 1099-DIV. It is possible for distributions from tax-exempt mutual funds to be reported as both taxable and/or tax-exempt on Form 1099-DIV. For example, a taxable capital gain distribution realized from the sale of bonds in the tax-exempt fund and the exempt-interest dividends from the same fund will be reported on Form 1099-DIV.

Q. WHAT BOND ELECTIONS ARE AVAILABLE?

- A.** There are several bond elections available for determining income and cost basis. Morgan Stanley's default methods for reporting bond adjustments to you and the IRS are:
1. Amortize Premium on Taxable Bonds
 2. Accrue Market Discount by the Ratable Method as opposed to the default Constant Yield Method
 3. Do not include Market Discount in income annually

To keep Morgan Stanley's default methods listed above, you do not need to take action. To change one or more, please contact your Financial Advisor or Private Wealth Advisor.

Q. WHAT TYPES OF ACCOUNT OWNERSHIPS ARE NOT SUBJECT TO COST BASIS REPORTING CHANGES?

- A.**
- Corporations, government entities, financial institutions, etc.
 - Retirement and education accounts are not subject to the new cost basis reporting changes
 - Distributions from these accounts will continue to be reported as they have in the past
 - Retirement and education accounts, as well as any one of them you might inherit, are listed below:
 - IRAs
 - Roth IRAs
 - SIMPLEs
 - SEPs
 - SAR-SEPs
 - 403(b)/TSCAs
 - 401(k)s
 - 401(a)s
 - Coverdell Education Savings Account (CESA)
 - 529 Plans

Q. WHERE CAN I FIND MORE INFORMATION ON THE COST BASIS REGULATIONS?

- A.** For more information, please see the IRS website at <http://www.irs.gov>.

Q. WHAT IS THE NEW CHECK BOX ON IRS FORM 1099-B, BOX 2, ORDINARY?

- A.** An additional check box was added to box 2 for situations in which some of a taxpayer's gain or loss may be ordinary rather than capital for the sale of taxable contingent payment debt instruments. In this situation, the ordinary box in box 2 is checked and an adjustment may be required. In the

instructions for Form 8949, see the Worksheet for Contingent Payment Debt Instrument Adjustment in Column (g) to figure the adjustment to enter in Form 8949 column (g). See Pub 550 or Pub 1212 for more information.

Q. WHERE IS WHFIT TAX INFORMATION LOCATED ON MY 1099 CONSOLIDATED TAX STATEMENT?

- A.** Your WHFIT tax information is reported in two sections of your 1099 Consolidated Tax Statement:
- 1.** Reportable to the IRS
 - WHFIT income is reported on Forms 1099-DIV, 1099-INT, 1099-MISC, 1099-OID and 1099-B plus the details sections.
 - 2.** Nonreportable to the IRS
 - Additional Written Statement—Restates the income reported on Forms 1099-DIV, 1099-INT, 1099-MISC and 1099-OID plus adds information not required to be reported on a 1099 that you may need in order to properly report your WHFIT income and expenses.

The information included on an Additional Written Statement will vary depending upon the type of property the WHFIT invests in. Your 1099 Consolidated Tax Statement includes one Additional Written Statement for each WHFIT security owned by you during the year except for OID mortgage trusts which will be reported in the REMIC statement.

Q. WHAT IS THE DIFFERENCE BETWEEN FORM 1099-OID AND FORM 1099-INT? BOTH ARE REPORTED AS INTEREST INCOME ON MY TAX RETURN.

- A.** Form 1099-OID is generally used to report income from debt instruments that are issued at a price that is less than the amount payable at maturity. OID is the difference between the issue price of the debt instrument and its stated redemption price at maturity. Under IRS rules, holders of these debt instruments are required to annually include as income the amount of accrued OID for the year. Common examples are OID bonds, zero coupon bonds, TIPS, REMICs and index-linked CDs. Certain debt obligations, not issued at a discount, may also be required to report income under the OID rules. Because OID securities use the accrual method, the amount reported on Form 1099-OID may differ from the cash payments you received.

Q. HOW ARE SHORT SALES REPORTED ON FORM 1099-B?

- A.** For short sales opened on or after January 1, 2011, we must report the sale for the year in which the short sale is closed. Previously, short sales were reported for the year in which the short sale was opened. Form 8949 has replaced schedule D-1 and has instructions for reporting short sales. Complete Form 8949 *Sales and Other Dispositions of Capital Assets* before completing Schedule D. Use Form 8949 to list all capital gain and loss transactions; the subtotals from this form will then be carried over to Schedule D (Form 1040), where gain or loss will be calculated in aggregate.

Q. IF I SOLD A BLOCK OF MULTIPLE TAX LOTS OF ONE SECURITY ON THE SAME DAY, WHY DO THE TRANSACTIONS APPEAR IN MULTIPLE SECTIONS ON MY 1099-B?

- A.** Due to the IRS cost basis regulations, 1099-B transactions must be designated as short term, long term, ordinary or undetermined and covered or noncovered. The design of the Morgan Stanley 1099-B form reports transactions from these seven groups in their own sections. So if a sale of 500 shares of stock was composed of three different lots, one acquired prior to 2011, one acquired in 2011 and one acquired in 2016, then the first lot would be reported in the Long Term Noncovered section. The second lot would be reported in the Long Term Covered section. The third lot would be reported in the Short Term Covered section because it was held less than 12 months. As a reminder, Schedule D now functions as a summary of all capital gains and loss transactions. All 1099-B transactions are to be detailed on Form 8949, *Sales and Other Dispositions of Capital Assets*.

Q. WHY DOES THE INCOME SHOWN ON MY YEAR-END STATEMENT DIFFER FROM MY 1099 INFORMATION?

- A.** The information reported on your year-end statement may not include certain adjustments necessary for tax reporting purposes. Some examples are:
- Mutual fund dividends declared in October, November or December but not actually paid until January are considered paid on December 31 for tax purposes.
 - Your statement reports dividends from foreign securities net of any withholding tax, while your 1099 reports the gross amount of the dividend.

Q. CAN I DIRECT DEPOSIT MY FEDERAL TAX REFUND INTO MY MORGAN STANLEY ACCOUNT?

- A.** Yes. The Refund section of Form 1040 allows you to enter account information for direct deposit of your federal tax refund. IRS Form 8888 lets you allocate your refund to up to three accounts. Please contact your Financial Advisor or the Morgan Stanley Client Service Tax Center at 866-324-6088 for more information and instructions.

Q. HOW CAN I HAVE A DUPLICATE TAX STATEMENT SENT TO MY TAX ADVISOR?

- A.** Ask your Financial Advisor for a Duplicate Statement/ Confirmation Authorization form or provide the names and addresses of the interested parties you would like to receive copies of your tax forms. Morgan Stanley will produce up to three Interested Party copies of select tax forms at no cost to you. If you are enrolled in Morgan Stanley Online, you can download a copy of your tax statement and send it to your tax advisor. You can enroll in Morgan Stanley Online by going to our website at www.morganstanley.com/online.

All information is securely encrypted. For assistance with the enrollment process, contact the Morgan Stanley Client Service Tax Center at 866-324-6088.

¹ TurboTax® and Lacerte® are registered trademarks of Intuit, Inc. H&R Block Tax Software® is a registered trademark of H&R Block, Inc. ProSystem fx® is a trademark of CCH, Inc. Certain products, such as money market funds, are not reported in the Gain/(Loss) Summary. Other ineligible products include limited partnerships, nonnetworked mutual funds and annuities.

² Bill payments can take up to four business days for the payee to receive.

The Active Assets Account is a brokerage account offered through Morgan Stanley Smith Barney LLC.

Securities based loans are provided by Morgan Stanley Smith Barney LLC, Morgan Stanley Private Bank, National Association or Morgan Stanley Bank, N.A. as applicable.

Important Risk Information for Securities Based Lending: You need to understand that: (1) Sufficient collateral must be maintained to support your loan(s) and to take future advances; (2) You may have to deposit additional cash or eligible securities on short notice; (3) Some or all of your securities may be sold without prior notice in order to maintain account equity at required maintenance levels. You will not be entitled to choose the securities that will be sold. These actions may interrupt your long-term investment strategy and may result in adverse tax consequences or in additional fees being assessed; (4) Morgan Stanley Bank, N.A., Morgan Stanley Private Bank, National Association or Morgan Stanley Smith Barney LLC (collectively referred to as "Morgan Stanley") reserves the right not to fund any advance request due to insufficient collateral or for any other reason except for any portion of a securities based loan that is identified as a committed facility; (5) Morgan Stanley reserves the right to increase your collateral maintenance requirements at any time without notice; and (6) Morgan Stanley reserves the right to call securities based loans at any time and for any reason.

With the exception of a margin loan, the proceeds from securities based loan products may not be used to purchase, trade or carry margin stock (or securities, with respect to Express CreditLine); repay margin debt that was used to purchase, trade or carry margin stock (or securities, with respect to Express CreditLine); and cannot be deposited into a Morgan Stanley Smith Barney LLC or other brokerage account.

To be eligible for a securities based loan, a client must have a brokerage account at Morgan Stanley Smith Barney LLC that contains eligible securities, which shall serve as collateral for the securities based loan.

Tax laws are complex and subject to change. Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice and are not "fiduciaries" (under ERISA, the Internal Revenue Code or otherwise) with respect to the services or activities described herein except as otherwise provided in writing by Morgan Stanley. Individuals are encouraged to consult their tax and legal advisors (a) before establishing a retirement plan or account, and (b) regarding any potential tax, ERISA and related consequences of any investments made under such plan or account.

Morgan Stanley Smith Barney LLC is a registered broker-dealer, member SIPC, and not a bank. Where appropriate, Morgan Stanley Smith Barney LLC has entered into arrangements with banks and other third parties to assist in offering certain banking related products and services.

Investment, insurance and annuity products offered through Morgan Stanley Smith Barney LLC are: NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED | NOT A BANK DEPOSIT | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY