

Advanced Markets

Tax Considerations¹ for Principal Protected Notes (PPNs)

PPNs, designed to pay proceeds at maturity, have unique tax considerations. While returns above principal at maturity are contingent, investors may be required to account for accrued interest as ordinary income for federal income tax purposes. Commonly referred to as “Phantom Income,” this accrued interest is compounded semi-annually and may generate tax exposure, on an annual basis, for PPN owners holding the investment within non-qualified accounts.

1. Issuers declare “Comparable Yields” for each individual CUSIP by capturing the yields on fixed rate Notes with equivalent (comparable) maturities. The Comparable Yield is published in the final Prospectus on original issue date.
2. Phantom income is calculated by multiplying the Face Amount of the PPN by the Comparable Yield (compounded semi-annually), then applied to the number of units owned by the investor.
3. Typically, a 1099-OID is generated and issued to the account owner declaring the amount of Phantom Income accrued during a given tax year.
4. Phantom Income (amount from 1099-OID) is considered ordinary income subject to federal income tax and results in a step-up in cost/tax basis until the sale, exchange, redemption or maturity of the PPN.
5. Proceeds from the PPN at maturity may result in an ordinary income gain or loss depending on the performance of the underlier and the amount of accrued Phantom Income.

For specific terms and tax advice, please refer to the offering documents and consult a tax, accounting or legal professional.

Hypothetical example of 3% Comparable Yield on a 5-Year PPN

Accrual Period	Accrual Amount	Cumulative Accrual	Tax/Cost Basis
Year 1	\$30.23	\$30.23	\$1,030.23
Year 2	\$31.13	\$61.36	\$1,061.36
Year 3	\$32.08	\$93.44	\$1,093.44
Year 4	\$33.05	\$126.49	\$1,126.49
Year 5	\$34.05	\$160.54	\$1,160.54

Hypothetical scenarios at maturity for \$100,000 investment

Initial Deposit	Tax/Cost Basis	Proceeds At Maturity	Tax Result
\$100,000	\$116,054	\$135,000	\$18,946 Ordinary Gain
\$100,000	\$116,054	\$106,000	\$10,054 Ordinary Loss
\$100,000	\$116,054	\$100,000	\$16,054 Ordinary Loss

¹ Considerations for United States Federal Income Tax Only.

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It's Important to Note...

PPNs may be treated as a “contingent debt instrument” for federal income tax purposes if they are held in a non-qualified account. While a PPN may not pay interest until maturity, if at all, you may be required to include your charged interest amount each year as income for federal income tax purposes. Purchasers who are not initial purchasers of PPNs at their issue price should consult their tax advisers with respect to the tax consequences of the investment. For specific terms, please refer to the offering documents. For individual tax advice, consult a tax, accounting or legal professional. Market-linked products are intended to be buy and hold investments. There may not be a liquid secondary market and if sold prior to maturity, principal may be at risk. Any return of principal, interest and gains generated is subject to the credit risk of the issuer. Dividends paid on the underlying index are not passed through to the market-linked product.

Questions?

Contact InspereX at **888.849.5732** or **advisorsupport@insperex.com**

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