

# **Bond Case Briefs**

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## **UBS Sued Over Muni-Bond Snafu that Cost Clients.**

**UBS Financial Services misreported interest paid on taxable munis, resulting in higher tax bills for clients, according to a lawsuit.**

UBS Financial Services Inc. is facing a new lawsuit that claims the firm's problems with tax reporting on municipal bonds overstated clients' taxable income, costing clients higher tax bills and creating potential damages.

Beginning with the 2014 tax year, UBS "incorrectly reported certain tax information to its clients relating to interest paid on taxable municipal bonds," according to the complaint, which was filed Tuesday in U.S. district court in New Jersey.

The plaintiff, Richard Goodman, resides in Michigan, and UBS allegedly admitted it had overstated his taxable income by \$100,000 for 2015 to 2018, according to the complaint, which is seeking class action status.

Overstating a client's income results in "substantial" overpayments of federal income taxes, according to the complaint.

Goodman's financial adviser at UBS in Michigan was Brian Edgar, according to the complaint. He left UBS last year and now works at Wells Fargo Advisors in Florida, according to his BrokerCheck report.

Improper reporting of interest paid on taxable municipal bonds is violation of Treasury regulations and UBS' own policies, according to the complaint.

UBS "failed to report amortizable bond premium for taxable municipal bonds as required by applicable Treasury regulations," according to the complaint. The firm's "incorrect tax information reporting to clients had the effect of substantially overstating the clients' taxable income costing money" to Goodman and other clients.

According to the complaint, the overall size of the municipal bond market is in the range of \$3.8 trillion to \$4 trillion.

"UBS disputes the allegations in the complaint and intends to vigorously defend against the lawsuit," said a UBS spokesperson on Friday morning.

Edgar did not return a call at Wells Fargo Advisors to comment.

The complaint cites two Finra actions against UBS involving municipal bonds, from 2015 and 2019. Most recently, the Financial Industry Regulatory Authority Inc. censured and fined UBS Financial Services \$2 million for "repeated failures" in addressing municipal short positions in a timely way and for inaccurately representing the tax status of thousands of interest payments to customers.

Interest payments from municipal bonds are generally subject to federal income taxes if the bond

proceeds are used for a purpose that substantially benefits private interests, and such bonds are called taxable municipal bonds, according to the complaint.

The interest payments from such bonds are often free from state and local income taxes in the state or locality where the bond was issued, with some exceptions.

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