

PERSONAL FINANCE

Cost Basis to Come on 1099B's

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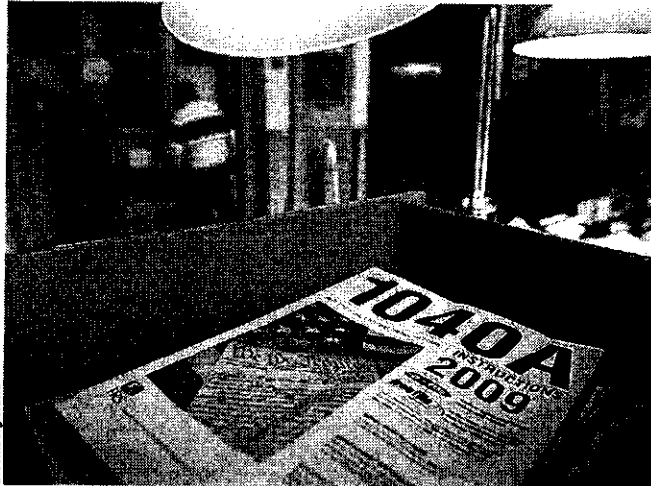
Individual investors and their accountants will soon have an easier way to determine the cost basis on securities sales for tax purposes—their stockbrokers and mutual-fund companies will be required to provide it.

The Internal Revenue Service has given brokers and fund firms guidance on how to follow a 2008 law that requires them to report new tax data about stocks bought next year and beyond.

Brokers and others had complained that they are ill-prepared to comply with the rule, but on Tuesday the IRS made it clear who must report cost basis, which transactions are reportable and what information needs to be reported. Brokers and others will now have to report information on the cost basis of securities to investors and to the IRS, in some cases as soon as Jan. 1, 2011.

Cost basis is used to calculate capital gains when securities are sold. Taxpayers or their accountants largely have done this on their own until now. Figuring cost basis is done differently, depending on how an investment was acquired. For a stock purchased by an owner, it's usually the price paid, plus any commissions.

Firms will provide information to investors and the IRS on Forms 1099-B, which they sell for customers, starting



Filling out the 1040 tax forms may get a bit easier in coming years, as brokers and mutual funds will be required to calculate cost basis.

with those bought on or after Jan. 1, 2011 (mutual-fund shares bought on or after Jan. 1, 2012). Form 1099-B, long used to report stock and mutual fund-sales prices, will be expanded in 2011 (2012 for mutual-fund shares) to include the cost or other basis of stock and mutual-fund shares sold or exchanged during the year.

Stockbrokers and mutual-fund companies will use the form to

investors will get information they need to more easily and accurately report their gains and losses, IRS Commissioner Doug Shulman said in a statement.

Much of the attention on the topic has focused on what the change will mean for financial firms, but it also will have a significant impact on the way tax advisers, brokers and taxpayers choose which stocks to buy and

sell. For a taxpayer who

shares in a lot, she

ent times, for different prices. The choice of lot has a direct bearing on cost basis.

The new rules will mean differences in the way lots are chosen and reported to the IRS.

The IRS on Tuesday also provided leeway to brokerage firms and custodians who transfer stock to other firms on behalf of clients, saying it wouldn't penalize them for not reporting transfers made in 2011.

Financial firms applauded that move. Ellen McCarthy, managing director of government affairs at the Securities Industry and Financial Markets Association, said the group appreciated the Treasury Department and IRS being "responsive to our request for transition relief on transfer reporting."

After the law was passed in 2008, companies sent comments on it to the IRS, which sought guidance from the industry on how to put it into action. Firms indicated problems they were having in complying, which varied depending on what part of the business they were in.

Stevie D. Conlon, senior director and tax counsel at Wolters Kluwer Financial Services, said financial firms have been working very hard to get ready to meet the new reporting requirements but that the "reality is, we haven't had enough time." She said she's "on transfer" for a lot, she