



Candy J. Lee
Financial Planning & Money Management
Candy J. Lee, NCM, CFP
President & CEO
701 Fifth Avenue
Suite 6870
Seattle, WA 98104
206-384-4949
800-488-2568
candy@candyjlee.com
www.candyjlee.com



Calculating Cost Basis Gets Easier This Year

Brokers must track and report cost basis to both you and the IRS



Anyone who has ever been baffled by calculating the net proceeds from the sale of an investment will find some relief, starting with the 2011 tax return due April 17. If you bought any stocks after January 1, 2011, and sold them later in the year, you should be receiving information from your broker shortly that tells you the adjusted cost basis of those stocks. Your adjusted cost basis, which affects the amount of tax you may owe on the sale, represents the original purchase price plus any commissions or other fees, and takes into account factors such as stock splits, corporate acquisitions or spinoffs, and reinvested dividends.

In the past, cost basis information has sometimes been available as a service; the Emergency Economic Stabilization Act of 2008 now requires all broker-dealers and other financial intermediaries to report the information on your 1099-B form. However, you won't be the only one to receive that information; your broker also is required to report the same information to the Internal Revenue Service. Individual taxpayers (or their tax preparers) will still be responsible for accurately reporting the net proceeds of a

sale on their federal income tax returns, but the IRS will now have a better way to double-check those figures.

In some cases, you're still on your own this year

The new reporting requirements don't mean you can empty your files completely. Because they're being phased in, the rules don't apply to stocks bought before January 1, 2011, for which you'll still need to do your own calculations, or to securities held in retirement accounts. Cost basis reporting does go into effect this year for mutual funds and stock bought as part of a dividend reinvestment plan; however, it will apply only to shares bought after January 1, 2012, and will be reported on the 1099-B that will be available in 2013 for the tax year 2012. And cost basis for bonds, options, and other securities won't have to be reported until 2013, so those will still need to be monitored independently.

Brokers also will be required to report losses that are disallowed as a result of a wash sale (which occurs when shares are sold and then repurchased within 30 days). However, they only have to do so if the newly acquired securities are identical to the securities sold (meaning the securities share the same CUSIP identification number). They also are not required to report adjusted cost basis for wash sales when the purchase and sale transactions occur in different accounts.

You can tailor your reporting method to suit your tax situation

Investors sometimes use cost basis to help manage their tax liability on a securities sale. If you're one of them, the reporting requirements make it more important to determine in advance what accounting method you wish to use for each sale. Most broker-dealers will designate a default option to use if you do not specify a method. That default will typically be the so-called FIFO method (an acronym for "first in, first out"), which means that the first shares of a security purchased are considered the first shares sold. However, your broker might also allow you to specify LIFO ("last in, first out") or designate specific shares as the ones sold. In some cases, such as shares bought through a direct reinvestment program, using an average cost basis for all shares may be most convenient (most mutual fund companies already employ this method of calculating cost basis).

If you don't want to use your broker's default method, you may be able to put in a standing order specifying the method you want to use for all trades, or choose on a case-by-case basis; you may also authorize your financial professional to make that decision for you. The rules permit investors to change the designated method for a given trade until the settlement date (the date on which money actually changes hands, which for a typical stock sale is three business days after execution of the trade). After the trade settles, you cannot change your mind about the method used.

Brokers also will be required to report to the IRS the cost basis of a short sale in the year in which the short is closed (in the past, it was done for the year a short sale was opened).

This information was developed by Forefield, Inc. an independent third party. It is general in nature, is not a complete statement of all information necessary for making an investment decision, and is not a recommendation or a solicitation to buy or sell any security. Investments and strategies mentioned may not be suitable for all investors. Past performance may not be indicative of future results.

