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Form 1099 Basis Reporting Should Worry Investors

A more accurate headline might be “Form 1099 Basis Reporting Should Worry Investors *Who Don’t Keep Good Records.*” After all, basis is about historical cost and being able to prove it. Amid many other tax changes, January 1, 2011 saw new Form 1099 rules taking effect that are nothing short of ground-breaking.

If you’re an investor, you may not feel it yet—in fact, you may notice nothing new until a *year* from now. But unless you’re prepared to rely blindly on your brokerage firm—a practice I don’t advise—you should review your record-keeping now. Cost basis reporting is generally required for stock acquired after December 31, 2010.

It’s your broker’s job to report the cost and by tracking your holding period to tell you—and the IRS—how much gain you have and whether it is short or long term. All of this will now be provided on Form [1099-B](#). And you thought you hated these forms before!

Short of an audit, the IRS previously had no way to know if you were reporting gains and losses correctly. The new law was passed in 2010, and its key features are summarized [here](#). Up until now, although some brokerage firms tracked historical cost information, most did not. Now it’s *required*.

Of course, there’s still time for you to start being more scrupulous in your record-keeping. Although these rules took effect January 1, 2011, the first

Forms 1099 with the newly required information won't be issued until January of 2012, covering transactions during the 2011 tax year.

Right now, you're likely thinking about filing your 2010 tax return and about watching for Forms 1099 that report 2010 income and sales. Again, the tracking doesn't apply to 2010. As in past years, for reporting basis and gain or loss on 2010 stock transactions you can elect between several approaches:

- First in first out (FIFO) that assumes you sell your oldest shares first.
- Specifically identify which shares you sell.
- Average your cost across all your shares of a given type.

In other words, it's business as usual when you do your 2010 tax return. But bear in mind that there are nuances and special rules that make these choices more complex than they sound. Besides, it's clear that good records are required, at least for the first two choices.

But I'd argue that good records are even more important starting in 2011. That's why you should think about this now. Start the year off with a record-keeping system, especially if you're an active investor. Why?

While brokers are required to keep and report information such as holding period and basis, I'd insure that I had my own records. There are IRS penalties on brokers who report in error. Still, I would not blindly rely on my broker, especially as the likely kinks in a new system are being worked out. If you change brokers, there are even more reasons to keep track of basis and holding period yourself.

For more, see:

[New Tax Reporting Rules](#)

[Cost Basis Reporting Resource Center](#)

[Little Change, But Some Relief, in IRS's Final Cost-Basis Regs](#)

[Cost Basis to Come on 1099B's](#)

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