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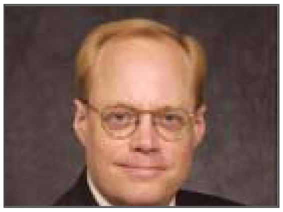

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Forms 1099 For Cost Basis: What, Me Worry?

You may ***think*** you already get plenty of Forms 1099, carefully saved for tax time reporting every dollar of interest, dividends, fees and more. But just wait. 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, 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.

Although the new law is just about to kick in, it was enacted by the Energy Improvement and Extension Act of 2008 part of the Emergency Economic Stabilization Act of 2008 (Public Law 110-343). After proposed rules in 2009, the IRS has just (in October 2010) published final regulations implementing the rules for who files what when. The final rules—all 139 pages of them—are here.

Why should you care? One reason is the obvious connection between cost basis and gain. There's already a required report when you ***sell*** stock. The broker must issue an IRS Form 1099-B reporting the gross proceeds you received in the sale. But sale price doesn't tell the IRS gain. Now, with a 1099 reporting your basis, sales price, and ***type*** of gain, the IRS can track how ***much*** gain you have and whether it is short or long term. If you fail to report it accurately, the mismatch should trigger an IRS inquiry. See The Truth About Forms 1099.

Many in the securities industry are understandably concerned about the tracking function they must now perform. They have to keep track of what you bought when and how much you actually make when you sell it. Clients often have a hard time determining how much they paid, especially on stock acquired long ago, inherited, purchased through a prior broker, etc.

Beginning on January 1, 2011, brokerage firms, mutual fund companies, banks and transfer agents will be required to track and report the cost of securities to both the IRS and the investor. Some firms voluntarily did this in the past, but they did not have to guarantee its accuracy or face penalties. And even more reporting is on the way. Additional rules take effect for mutual funds on January 1, 2012 and for debt instruments, options and other securities on January 1, 2013.

The IRS has provided some transitional relief, delaying for one year the application of the reporting rules and their penalties to financial firms that transfer customer accounts to another firm. See Notice 2010-67, Information Reporting Requirements Relating to Transfers of Securities. This delay is meant to give the securities industry a break. However, it could conceivably encourage some investors to transfer securities to another broker and then sell them within the one-year hiatus in an effort to skirt reporting their gain.

For many, though, the new reporting will be convenient, placing the burden less on investors to keep track of gains and more on the securities industry. Still, get used to the IRS having even more data about you. And if you were ever tempted to guess about how much you paid a share or how long you've held a position, don't.

For more about Forms 1099 reporting basis, see:

Cost Basis Reporting Resource Center

Little Change, But Some Relief, in IRS' Final Cost-Basis Regs

Cost Basis to Come on 1099B's

For more about Forms 1099, see:

IRS Form 1099 Wars

I'm Sending An IRS 1099: 1099 Are You Outta Your Mind?

The Truth About Forms 1099

Ten Things You Should Know About 1099s

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