

COST BASIS CHANGES CONTINUE

The 2011 changes will be followed by more in 2012 and 2013.

Presented by Glazer Financial Network

Have you bought any stocks this year? Before you sell any of them, remember that the IRS implemented new tax basis reporting rules for equities on January 1, 2011. Under the new rules, you will be informed of the basis, purchase price and type of gain as well as the gross proceeds from the sale - and so will the IRS.¹

Your 2012 1099-B will look a little different. The IRS wants better snapshots of investor gains and losses. In the past, some brokerages and custodians viewed cost basis reporting as a value-added service; now it is mandatory.

As cost basis methods can't be revised after a trade settles, brokers, custodians and independent Registered Investment Advisors (RIAs) are weighing the tax impact of investment sales with added scrutiny. More attention is being focused on after-tax comparisons, tax lot relief methods and wash sale identification.

For the record, any sold equities purchased before January 1, 2011 are subject to the old rules - that is, accurate cost basis reporting is on the shoulders of the taxpayer.²

In 2012, the new rules will apply to mutual funds, DRIPs & many ETFs. Mutual fund shares you buy before 2012 will not be impacted by the new legislation. However, if you buy added shares in these funds after January 1, 2012, the additional shares will be subject to the new tax basis reporting rules. The same goes for shares of any new funds you add to your portfolio.³

Many brokers use the average cost method as the default tax basis method for ETFs, DRIPs and mutual funds, but under the new regulations a client will be able to switch to other cost basis methods just by making a written request. IRS approval will no longer be needed for such a move.³

In 2013, the rules will apply to debt instruments & options. The IRS hasn't issued guidelines on the 2013 changes, but they may mirror the changes for 2011 and 2012.³

A good time to talk. With the new cost basis reporting rules kicking in across a wide swath of investments next year, this is a good time to get acquainted with the changes coming to mutual funds, ETFs and DRIP shares, the new 1099-Bs and what you are responsible for reporting, and the tax impact on your overall financial picture.

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Citations.

- 1 - blogs.forbes.com/robertwood/2010/10/20/forms-1099-for-cost-basis-what-me-worry/ [10/20/10]
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- 3 - content.schwab.com/web/as/public/costbasis/pdf/2012_Cost_Basis_White_Paper.pdf [6/11]