

# Capital Gain Reporting: Your 1099 Will Be Different This Year



September 2011

*In 2011, your broker is **required** to report your adjusted cost basis to the IRS on specified securities, as well as whether the gain or loss is long term or short term.*

*There are **different effective dates** for this additional information reporting, depending on the type of security involved.*

*You will need to **notify your investment advisor** if you do **not** want them to use the first-in, first-out (FIFO) method.*

## **Old Law**

In the past, your investment advisor may have supplied you with a summary of your capital gains and losses. This was often done as a courtesy or convenience to the taxpayer, but it was not required and it was never provided to the IRS. PwC reviewed this information in preparing your tax return and made adjustments as necessary.

## **New Law**

Starting this year, the Form 1099-B from your advisor is required to report not only the sales proceeds, but also your adjusted cost basis, and whether the gain or loss is short-term or long-term. This information will now be submitted to the IRS.

## **Effective Date**

This rule will be phased in over time. During 2011, advisors must provide this information if the security is stock of a corporation that was acquired after 2010. For mutual funds and dividend reinvestment plans, they must provide this information as of 1/1/12. They must provide this information for all other securities, including fixed income and options as of 1/1/13.

## **What Does this Mean to You?**

Unless you notify them otherwise, when your advisor provides this information to the IRS, they will use the first-in, first-out (FIFO) method for determining which lot of corporate stock you sold. They will use the average cost basis for mutual funds or dividend reinvestment plans. If you wish your advisor to use another method, you must notify them before the date of settlement, which is usually three days after the trade date.

FIFO may not be the most advantageous alternative if you are trying to manage your capital gains or losses, or intending to save your lowest basis stock for charitable contributions.

The result of the new law is that you will need to plan ahead -- advise your brokers which method you wish them to use as the default for your accounts, and be engaged with your advisors to notify them timely when a different method may be more appropriate for the goals of a particular transaction.

Your PwC team can help you determine how each alternative may impact your tax planning. If you have questions concerning the new rules, please contact one of our Personal Financial Services professionals listed on the next page. Or visit our website at [www.pwc.com/pfs](http://www.pwc.com/pfs) to locate the PwC contact nearest you.

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