

# Cost Basis Reporting

## ➤ Implementing Cost Basis should be on a Need to Know Basis ...

### ... And your Clients Need to Know

- Now that the first phase of the new Cost Basis reporting requirements has gone into effect, it is imperative that all impacted firms raise awareness among clients in order to maintain the highest levels of satisfaction. Communication with clients is critical to encourage questions earlier rather than later, and enable clients to make the best use of the newly provided information. A well-informed and prepared client translates into an empowered client who will raise fewer inquiries and experience less confusion during tax season - a situation that is beneficial to both you and your clients. Firms that can satisfy clients' needs will be better positioned to keep those clients and attract new ones. Jordan & Jordan can offer assistance to reporting firms in developing an enhanced client communication plan that will raise client awareness and better prepare both your firm and your clients in handling the new requirements.

## ➤ A 40,000 Foot View of the New Reporting Requirements

- The new Cost Basis regulations require that any entity that files an information return with the IRS showing gross proceeds from the sale of a security, will now have to report adjusted basis and classify any gains or losses resulting from the sale as short-term or long-term.<sup>1</sup> The 1099-B information will continue to be sent to both the IRS and the client. Clients will use their 1099-B forms to aid in the preparation of Schedule D for reporting capital gains or losses on their 1040 Tax Returns. Communication between the firm and the client will be a necessary event, now more than ever, to avoid discrepancies between what your client believes the Schedule D data should be and what your firm is reporting to the IRS. As your clients acclimate to the new reporting they will insist on having their Schedule D reconciled with your 1099-B long before the IRS becomes aware of any differences. The firm that recognizes this need and addresses it early will be able to reduce demands on its resources, limit the potential for irate clients, and focus attention on other business projects this year. Jordan & Jordan can help make this happen.

Jordan & Jordan has authored a series of 12 modules clearly describing in detail the impact to the client of the many changes to reporting regulations. These modules are also an excellent tool for educating your employees and support personnel as they become more engaged in servicing your customers' cost basis needs. These modules can be tailored to your firm's specific internal policies and procedures and modified as part of your firm's cost basis implementation program throughout 2011.

To discuss tailoring this detailed content to your firm's client communication program or internal training, please contact Mary Lou Von Kaenel, Managing Director of Management Consulting at 212-652-4483 or [marylou@jandj.com](mailto:marylou@jandj.com) or Martin Bentsen, Director of the Jordan & Jordan Cost Basis Practice at 720-933-0178 or [martin.bentsen@jandj.com](mailto:martin.bentsen@jandj.com).

<sup>1</sup> Sec 403 – Cost Basis Reporting HR 1424 / CBR Final Reg 2010 – TD 9504



# Twelve modules ready to fit your firm's client communications or training program

## Module 1

### **General Overview of the New Cost Basis Regulations**

Topics include: basic concepts of the regulations; how cost basis is calculated; different methods of lot relief; the new 1099-B forms; securities transactions including wash sales, short sales and DRPs; transferring securities; and the potential benefits and concerns for investors.

## Module 2

### **The Phase-in Period**

Topics include: information on the implementation timeline; the phase-in of covered securities; equities participating in DRPs; short sale reporting; S Corporations; the permanent difference between covered and non-covered securities; and the implications for investors.

## Module 3

### **A Primer on Basis Methodologies and Lot Selection**

Topics include: an in-depth view of how cost basis is calculated; the permitted lot selection methodologies; specific requirements of the new regulations related to tracking basis and making lot selections; and what the broker's default method for selecting lots means to the investor.

## Module 4

### **Dividend Reinvestment Plans**

Topics include: the differences in the purchase of DRP participating shares versus non-participating shares; calculating basis for DRP stocks including the average basis methodology; DRP lots and FIFO; withdrawals from DRPs; single account elections; and transferring DRP shares.

## Module 5

### **Mutual Funds**

Topics include: timing of mutual fund reporting requirements; distinction between RIC and non-RIC ETFs; turning non-covered fund shares into covered shares; calculating basis for mutual funds; selecting lot methodologies; and single account elections.

## Module 6

### **The Investment Advisor and the New Cost Basis Regulations**

Topics include: the impact of the new cost basis rules upon RIAs and clients; comprehensive overview of basis reporting changes; analysis of the need for synchronization and reconciliation between systems that Advisors rely upon; and the changing role of the custodian.

## Module 7

### **Wash Sale Reporting and Tracking under the New Cost Basis Regulations**

Topics include: wash sale concepts; a broker's responsibility for reporting wash sales within a single account versus a taxpayer's obligation for cross-account tracking; a comparison of 'identical' securities and 'substantially identical' securities; and basis calculations for wash sales.

## Module 8

### **Short Sale Reporting**

Topics include: the changes to reporting short sales in the new regulations; the transition of short sale reporting in 2010 and 2011; and the differences in treatment of short sales closed with covered and non-covered securities.

## Module 9

### **The New 1099-B: A Mini Schedule D**

Topics include: a review of the changes found in the new 1099-B form; the relationship between 1099-B data and the Schedule D; the ability of the IRS to reconcile a taxpayer's Schedule D with broker 1099-B reporting; and "proceeds only" reporting on non-covered securities.

## Module 10

### **Transfers – From the Customer Perspective**

Topics include: what transfer statements are and what they contain; important elements of gift and inheritance transfers; critical points the customer must know about transfers; and the self-imposed responsibilities a customer should assume to assure a successful transfer.

## Module 11

### **Gifts and Inheritances: What the New Cost Basis Regulations Demand**

Topics include: detailed information each client needs to know with respect to transfers involving gifts and inheritances; information on how basis and holding periods are calculated in the event of a gift or inheritance transfer; and what the customer can do to facilitate these transfers.

## Module 12

### **Brokers and the New Cost Basis Regulations**

Topics include: reasons why brokers will not be performing identically under the new cost basis reporting regulations; how brokers will vary in handling optional reporting; the constraints of varying systems and personnel structures; and how a firm can distinguish itself from the competition.