

**MEMO# 25021**

March 11, 2011

## **IRS Releases Cost Basis Reporting FAQs and New Draft Form 1099-B**

[25021]

March 11, 2011

TO: BDAC COST BASIS REPORTING TASK FORCE No. 6-11  
BANK, TRUST AND RECORDKEEPER ADVISORY COMMITTEE No. 17-11  
BROKER/DEALER ADVISORY COMMITTEE No. 15-11  
OPERATIONS MEMBERS No. 8-11  
TAX MEMBERS No. 5-11  
SMALL FUNDS MEMBERS No. 27-11  
TRANSFER AGENT ADVISORY COMMITTEE No. 19-11 RE: IRS RELEASES COST BASIS  
REPORTING FAQs AND NEW DRAFT FORM 1099-B

The Internal Revenue Service ("IRS") has posted on its website a Cost Basis Reporting Overview and Frequently Asked Questions. [\[1\]](#) The Overview and FAQs summarize the statutory and regulatory requirements for calculating and reporting cost basis on securities.

One item of note in the FAQs is question 55, which discusses the single account election and when a broker has accurate basis information for noncovered shares. Question 55 notes that brokers should exercise caution in making a single-account election for mutual fund shares if it is possible that the taxpayer may have averaged the basis of noncovered shares subject to the election with the basis of stock held by other brokers. For noncovered shares, a taxpayer makes the average cost election on the taxpayer's tax return, and, for shares sold before 2012, the taxpayer is required to average the basis of all identical stock held in any account. Therefore, it is possible that the shareholder may have redeemed identical shares in an account held with another broker, thereby affecting the average basis of all the taxpayer's shares in that fund. For the broker making the single-account election, the basis information for the noncovered shares thus no longer would be accurate.

The IRS also has released a new draft Form 1099-B. [\[2\]](#) The new draft contains one change from the revised Form 1099-B that was released in February. [\[3\]](#) Specifically, it eliminates box 7, Reported Gain or Loss. Thus, pursuant to the draft form, brokers would be required to report gross proceeds, cost basis, and any loss disallowed due to a wash sale, but brokers would not be required to calculate and report the taxpayer's gain or loss on the sale of securities.

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**endnotes**

[1] The Cost Basis Reporting Overview and FAQs can be found at <http://www.irs.gov/taxpros/article/0,,id=237099,00.html>.

[2] The new draft Form 1099-B can be found on the IRS's website at <http://www.irs.gov/pub/irs-dft/f1099b--dft.pdf>.

[3] See Institute [Memorandum](#) to BDAC Cost Basis Reporting Task Force No. 4-11, Bank, Trust and Recordkeeper Advisory Committee No. 15-11, Broker/Dealer Advisory Committee No. 13-11, Operations Members No. 7-11, Small Funds Members No. 26-11, Tax Members No. 3-11, and Transfer Agent Advisory Committee No. 16-11, dated February 24, 2011.

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