

MEMO# 24988

February 24, 2011

IRS Issues Revised Form 1099-B and Instructions to Reflect Cost Basis Reporting

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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
TRANSFER AGENT ADVISORY COMMITTEE No. 16-11 RE: IRS ISSUES REVISED FORM 1099-B
AND INSTRUCTIONS TO REFLECT COST BASIS REPORTING

The Internal Revenue Service (“IRS”) has issued a revised Form 1099-B and instructions for 2011. [\[1\]](#) The revised form contains a number of new boxes to reflect the cost basis reporting requirements that are effective for mutual funds shares acquired on or after January 1, 2012, and for other equities acquired on or after January 1, 2011.

Specifically, the revised Form 1099-B includes the following new boxes:

- Box 1b – Date of acquisition;
- Box 3 – Cost or other basis;
- Box 5 – Amount of loss disallowed due to a wash sale;
- Box 6 – Whether the property sold is a noncovered security;
- Box 7 – Amount of gain or loss; and
- Box 8 – Whether the gain or loss is short-term or long-term.

The instructions also contain new rules on how many forms must be filed for each transaction; short sales of securities; foreign currency; transfer statements; issuer returns; use of transfer taxes and option premiums in determining gross proceeds; and basis reporting.

Specific Instructions

The revised instructions state that brokers must report each transaction (other than regulated futures or foreign currency contracts) on a separate Form 1099-B. Sales of covered securities (as defined in the cost basis reporting regulations) with short-term gain or loss, covered securities with long-term gain or loss, and noncovered securities should be reported on separate Forms 1099-B, even if all three occurred in a single transaction. Brokers that use substitute statements may segregate long-term sales from short-term sales on the same statement.

For each sale of a covered security for which a Form 1099-B is required, brokers must report the date of acquisition (box 1b), cost or other basis (box 3), amount of loss disallowed due to a wash sale (box 5), amount of gain or loss (box 7), and whether the gain or loss is short-term or long-term (box 8). When reporting the sale of a noncovered security, brokers should check box 6 and leave boxes 1b, 3, 5, 7 and 8 blank. [\[2\]](#) Brokers may choose to report the information requested in boxes 1b, 3, 5, 7 and 8 and will not be subject to penalties for failure to report this information correctly for noncovered securities, so long as box 6 is checked.

Brokers may leave box 1b (date of acquisition) blank if the securities were acquired on a variety of dates or if box 6 has been checked for noncovered securities.

When reporting a loss in box 7, that loss should be adjusted to reflect any loss disallowed due to a wash sale. In other words, the amount entered in box 7 should equal the difference between the amount in box 3 (cost or other basis) and the total of the amounts in boxes 2 (gross proceeds) and 5 (wash sale loss disallowed). [\[3\]](#)

With respect to widely held fixed investment trusts (“WHFITs”), box 6 should be checked and boxes 1b, 3, 5, 7 and 8 left blank if the person filing the Form 1099-B is a broker reporting the sale of a security held by a WHFIT to the WHFIT trustee or is a WHFIT trustee or middleman reporting non pro rata partial principal payments, trust sale proceeds, redemption assets proceeds, redemption proceeds, sales asset proceeds, and sales proceeds (all as defined in Treas. Reg. § 1.671-5) to a trust interest holder.

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endnotes

[\[1\]](#) The revised form and instructions can be found [here](#) and [here](#) on the IRS’s website.

[\[2\]](#) The wording contained in box 6 on copy A and C of the Form 1099-B is different from that on copy B. Despite the wording, the information required in that box is the same for all three copies.

[\[3\]](#) For example, if the shareholder’s basis is \$100 (box 3), the gross proceeds from the sale are \$80 (box 2), and the loss disallowed due to a wash sale (box 5) is \$10, the broker should report a loss of \$10 in box 7.

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