

Cost Basis Legislation

Read about the new cost basis legislation and find out what you need to know about these tax reporting changes.

1 New legislation will require brokers to report details on gains and losses on securities in customer accounts to the IRS

In addition to longstanding requirements to report gross proceeds to customers and the IRS on Form 1099-B, the Emergency Economic Stabilization Act of 2008 requires brokers to report adjusted basis (often referred to as "cost basis") for "specified securities" on the annual IRS Form 1099-B and to indicate whether the holding periods of disposed securities were short- or long-term in nature.

The objective is to help ensure that investors report gains and losses of securities accurately in their annual tax filings.

Note: This will not affect the 1099 for tax year 2010 that you will receive in 2011. It will first affect 1099s for tax year 2011, sent in 2012.

2 Reporting changes will be phased in by security type over the next 3 years

The legislation goes into effect over a three-year period, during which specified securities become considered "covered" under the legislation in phases:

- **2011** – Stock. All stock held in a corporation, except those for which average cost is permissible, acquired on or after January 1, 2011. Includes both U.S. issued and non-U.S. issued stock.
- **2012** - Mutual Funds. Securities eligible for average cost acquired on or after January 1, 2012. Certain DRIPs and ETFs also fall into this category.
- **2013** - Options and Other Securities. Options as well as other securities prescribed by the IRS acquired on or after January 1, 2013

3 Only "covered" securities will be reported to the IRS

"Covered" refers to specified security types acquired on or after the effective dates in the legislation (i.e. January 1, 2011; January 1, 2012; January 1, 2013).

"Uncovered" and "noncovered" refer to securities that are not specified security types as well as specified security types acquired prior to the effective dates.

Only information for "covered" securities will be reported to the IRS in most cases. Brokers are allowed, but not required, to report information on uncovered securities.

4 *Currently*, Fidelity reports information about disposed securities to investors to help them complete their tax filings.

This information is not shared with the IRS.

“Proceeds from Broker and Barter Exchange Transactions” section of the 1099

We are required to report the information in this section to the IRS.

1099 - Supplemental

Currently, Fidelity also reports information about cost basis and realized gains and losses for all disposed securities in the “supplemental” pages of the 1099.

The information in the supplemental pages is not shared with the IRS. It is provided to investors as a courtesy to help them accurately complete their tax filings.

5 *Going forward*, Fidelity will be required to report cost basis and holding period to the IRS.

1099 - Proceeds from Broker and Barter Exchange Transactions

Going forward, Fidelity must report additional information for “covered securities” to the IRS.

The “Proceeds from Broker and Barter Exchange Transactions” section of the 1099 will be expanded to include adjusted cost basis, amount of gain/loss, and holding period (long-term or short-term).

Fidelity generally will not report basis and holding period information on “uncovered securities” to the IRS (proceeds information will continue to be reported the same as in previous years).

1099 - Supplemental

Going forward, Fidelity will continue to report information about cost basis and realized gains and losses for both “covered” and “uncovered” securities in the “supplemental” pages of the 1099.

The information in the supplemental section that is in addition to the information on the Proceeds from Broker and Barter Exchange Transactions section is not shared with the IRS. It is provided to investors as a courtesy to help them accurately complete their tax filings.

6 *Investors’ tax reporting requirements are not changing as a result of this legislation*

The expanded reporting requirements imposed on broker-dealers and mutual fund companies do not mitigate investors’ responsibility to accurately report capital gains and losses in their annual tax filings.

Taxpayers must continue to complete Schedule D and accurately report cost basis for short-term and long-term capital gains and losses.

7 Instances may occur when the information an investor reports to the IRS will differ from the information reported by the broker-dealer.

The information that broker-dealers report to the IRS will be based on their knowledge of transactions occurring in a specific account.

On the other hand, taxpayers are responsible for reporting realized gains and losses based on a holistic view of their entire financial picture.

Consequently, instances may occur when the information an investor reports to the IRS will differ from the information reported by the broker-dealer. The IRS plans to update Schedule D to accommodate the need for reconciling these differences.

8 Wash sales are an example of a type of transaction that may cause differences between the information reported to the IRS by broker-dealers and the information reported by taxpayers.

A wash sale occurs if you sell shares at a loss and buy additional shares (even in another account) of the same or substantially identical security within 30 days before or after the sale.

The wash sale rule is intended to prevent an investor from obtaining the benefit of a tax loss without materially reducing economic exposure to the investment.

Broker-dealers are required to report wash sales within the same account and for the same CUSIP.

Taxpayers are responsible for reporting wash sales for identical as well as substantially identical securities, across all owned taxable accounts.

Investors may want to discuss these types of transactions (and any other questions or concerns about reporting) with their tax advisors.

9 The legislation requires customers to assign tax lots prior to settlement date, rather than by the end of the calendar year

A tax lot is a record of the details of a purchase or acquisition of a security. Each acquisition of a security on a different date or for a different price constitutes a new tax lot.

To use the “specific identification” method to dispose a particular tax lot, the IRS regulations require customers to assign tax lots prior to settlement date on every sale of a security.

- **Specific identification (also referred to as “specific shares”):** When a stock or option order is placed, customers may choose specific tax lot shares by clicking the “Choose Specific Shares” checkbox on the order ticket.
- **Default:** If tax lots are not specified when an order is placed, IRS regulations deem the shares sold to be the first shares of the security that you acquired in the account. This is known as the FIFO (first in, first out) accounting method.
- **Alternative Lot Depletion Standing Instruction:** IRS regulations also allow brokers to accept a standing instruction other than the default (FIFO). As with the default, if tax lots are not specified when an order is placed, the standing instruction will

be used to determine which lots are sold first. Fidelity offers 7 such methods: Last In First Out (LIFO), High Cost, High Cost Long Term, High Cost Short Term, Low Cost, Low Cost Long Term, Low Cost Short Term. **To learn more about these depletion methods, Go To:** Update Accounts/Features > Cost Basis Information Tracking > Learn More About Cost Basis Methods

Note: Customers may not make changes to the lot assignment after the sale settles.

10 If securities are transferred, cost basis information will be sent along with the securities

When shares are transferred, adjusted cost basis and holding period will accompany the transfer instructions for “covered” securities.

11 Cost information for retirement accounts will not be reported to the IRS

Fidelity provides cost information for positions in retirement accounts as a courtesy to help customers estimate and track the change in market value of each position. This information is not to be used for tax reporting purposes. Fidelity will not report cost information for positions in retirement accounts to the IRS.

12 Cost information for corporate accounts will not be reported to the IRS until 2012

For S Corp accounts, gross proceeds reporting for sales of all securities begins in 2012, as does basis reporting for sales of “covered” securities.

13 For gifted or inherited securities, the original acquisition date determines whether it is “covered” or “uncovered”

If the original acquisition date (not the date of the gift or inheritance) for a security is after the effective dates, they will be considered “covered”.

If the original acquisition date for a security is before the effective dates, they will be “uncovered”.

14 Short sales will be reported in the year the short sale is closed

Reporting for short sales will be required in the year the short sale is closed. Fidelity will continue to withhold when the position is opened.

The tax information contained herein is general in nature, is provided for informational purposes only, and should not be construed as legal or tax advice. Fidelity does not provide legal or tax advice. Fidelity cannot guarantee that such information is accurate, complete, or timely. Laws of a particular state or laws that may be applicable to a particular situation may have an impact on the applicability, accuracy, or completeness of such information. Federal and state laws and regulations are complex and are subject to change. Changes in such laws and regulations may have a material impact on pre-and/or after-tax investment results. Fidelity makes no warranties with regard to such information or results obtained by its use. Fidelity disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Always consult an attorney or tax professional regarding your specific legal or tax situation.