

IRS Issues Final Regulations on New Basis Reporting Requirement; For Investors, Reporting Gains and Losses Gets Easier Starting in 2011

WASHINGTON — The Internal Revenue Service today issued final regulations under a law change that will require reporting of basis and other information by stock brokers and mutual fund companies for most stock purchased in 2011 and all stock purchased in 2012 and later years. The reporting will be to investors and the IRS. This additional reporting will be optional for stock purchased prior to these dates.

“This important reporting change means investors will now receive the information they need to more easily and accurately report their gains and losses,” said IRS Commissioner Doug Shulman. “We will continue to work closely with stakeholder groups to ensure a smooth implementation of the new requirement, which reduces the recordkeeping and paperwork burden for millions of taxpayers.”

These regulations, posted today in the Federal Register, implement a provision in the Energy Improvement and Extension Act of 2008. Among other things, the regulations describe who is subject to this reporting requirement, which transactions are reportable and what information needs to be reported. Besides providing numerous examples, they also adopt a number of comments and suggestions received since the proposed regulations were issued last December.

Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, long used to report sales prices, will be expanded in 2011 to include the cost or other basis of stock and mutual fund shares sold or exchanged during the year. Stock brokers and mutual fund companies will use this form to make these expanded year-end reports. The expanded form will also be used to report whether gain or loss realized on these transactions is long-term (held more than one year) or short-term (held one year or less), a key factor affecting the tax treatment of gain or loss. The expanded form, to be first used for calendar-year 2011 sales, must be filed with the IRS and furnished to investors in early 2012.

The IRS today also announced penalty relief for brokers and custodians for reporting certain transfers of stock in 2011.