

# IMPORTANT INFORMATION FOR CLIENTS: TAX & COST BASIS REPORTING FOR 2011

Recent changes in federal law will result in changes to cost basis reporting on 1099 tax forms sent to clients and the Internal Revenue Service for tax year 2011, as summarized below.

## What are the General Cost Basis Reporting Changes?

In most cases, cost basis is the amount you originally paid for a security. Special situations, such as when you have acquired securities by gift or inheritance, are covered by particular rules which determine your basis. In the past, Janney was not required to report cost basis to the IRS. However, Janney did provide cost basis information on your statement(s) and the 1099 Consolidated Statement in the non-reportable section for your convenience.

**Due to a change in IRS regulations, starting with the 2011 tax year, when you sell, redeem or dispose of a “covered” security, Janney is required to report the adjusted cost basis to the IRS—as well as whether the gain or loss is short-term or long-term. A covered security is defined as any security that will have the cost basis information reported to the IRS when the security is sold or redeemed.**

The cost basis must be adjusted for all wash sales (defined on page 2), corporate actions, including stock splits, mergers, reorganizations, spinoffs and other corporate actions as well as other required IRS adjustments.

**Any security purchased before 2011 is deemed “noncovered” by the IRS, and therefore, no cost basis information will be reported to the IRS when the security is sold or redeemed.**

## What Changes Are Occurring for Tax Years 2011 through 2013—and in Future Years?

The Emergency Economic Stabilization Act of 2008 included new tax reporting requirements for tax year 2011 and future years. This Act requires that broker-dealers and others to report to the IRS, on Form 1099-B, the adjusted cost basis of securities disposed of by sale, redemption or corporate action—and whether the gain or loss is short-term or long-term. These requirements

are being phased in over three years, as follows:

- **Tax year 2011** – The first phase took effect on January 1, 2011. IRS cost basis reporting is required for tax year 2011 for sale or disposition of equities, both common and preferred, exchange-traded funds, and real estate investment trusts purchased in 2011 and thereafter. IRS reporting for wash sales and short sales also begins in tax year 2011. Clients will notice these changes in the new Form 1099-B section of the Consolidated 1099 Tax Statement they receive early in 2012 for tax year 2011.
- **Tax year 2012** – IRS cost basis reporting will begin for sales of both open- and closed-end mutual funds purchased in 2012, and securities purchased through dividend reinvestment plans in 2012 and thereafter.
- **Tax year 2013** – The third and final phase takes effect on January 1, 2013. IRS cost basis reporting will begin for sales of bonds and other fixed income securities, master limited partnerships, unit investment trusts, and all other tradable securities purchased in 2013 and thereafter.

## What is the Cost Basis Reporting Default Method?

The legislation requires broker-dealers to use a default cost basis reporting method. For “covered” securities, the IRS default method is the First in First Out (FIFO) method. This is the default method Janney will apply, unless the client requests another method.

## What Cost Basis-Related Information Will Janney Report to the IRS?

In the past, Janney only reported the gross proceeds for any sale or redemption. **Starting in tax year 2011, Janney will also report the adjusted cost basis and holding period for sales or redemptions in the tax year applicable to the security’s reporting phase for “covered” securities.**

**Please note that Janney will also report proceeds from sale or disposition of “noncovered securities” to the IRS as it has in the past. Therefore, Janney will report to the IRS, as required by law, proceeds from the sale or disposition of all client investments in tax year 2011 and future years—while adding additional required reporting data for “covered” securities.**

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This is a sample of the new 1099-B section of the Consolidated 1099 Tax Statement that displays cost basis reported (for covered securities) and not reported (for noncovered securities) to the IRS, along with disallowed wash sales—which are also now reportable to the IRS. In the past, the 1099-B section of the Consolidated 1099 Tax Statement only displayed cost basis in the non-reportable section, as a courtesy to clients and their tax advisors.

2011 1099-B*		Proceeds from Broker and Barter Exchange Transactions (continued)				Page 13 of 25 Account 4444444444 OMB No. 1545-0715	
<b>8 - SHORT-TERM GAINS AND LOSSES - Category A (Cost basis is reported to the IRS.)</b>							
9-Description / CUSIP / Symbol						6 - Tax lots: COVERED	
1a - Date of sale or exchange						These columns are not reported to the IRS for category A	
Quantity		2 - Proceeds of stock, bonds, etc.†	1b - Date of acquisition	3 - Cost or other basis	Gain or loss	Additional information	
HOME DEPOT INC / CUSIP: 437076102							
11/15/11		300,000	12,000.00	06/30/11	13,400.00	1,000.00	Sale
		5-Wash sale loss disallowed: \$400.00					
CALIFORNIA PIZZA KITCHEN / CUSIP: 13054D109							
07/07/11		3,000,000	55,500.00	02/15/11	42,750.00	12,750.00	Merger
POST PROPERTIES / CUSIP: 737464107							
07/15/11		1,000,000	30,000.00	01/15/11	18,000.00	12,000.00	Sale
<b>8 - LONG-TERM GAINS AND LOSSES - Category B (Cost basis is NOT reported to the IRS.)</b>							
9-Description / CUSIP / Symbol						6 - Tax lots: NONCOVERED**	
1a - Date of sale or exchange						These columns are not reported to the IRS for category B	
Quantity		2 - Proceeds of stock, bonds, etc.†	Date of acquisition	Cost or other basis	Gain or loss	Additional information	
DENVER CO CITY & COUNTY 5.25% 8/1/08 / CUSIP: 123456789							
02/05/11		100,000,000	100,000.00	05/01/00	100,986.00	-986.00	Sale
HOME DEPOT INC / CUSIP: 437076102							
06/04/11		300,000	10,595.80	06/10/02	11,786.95	0.00	Sale
		Wash sale loss disallowed: \$1,191.15					

### Where Will This Information Be Reported?

Beginning in tax year 2011, your adjusted cost basis, realized gain or loss, and holding period (short-term or long-term gains) will be shown on the 1099-B section of your 1099 Consolidated Tax Statement. In the past, the 1099-B section only showed your proceeds from sales and redemptions.

### What Are the Changes to Wash Sale Reporting?

A wash sale is a purchase of an identical security 30 days before or after the sale of the same security for a realized loss. To address IRS requirements, beginning in tax year 2011, Janney will automatically adjust certain figures to account for wash sales. Upon the sale of a security triggering a wash sale, the realized loss will be adjusted to disallow the loss, resulting in a zero gain or loss. The Disallowed Wash Sale amount will then be added to the cost basis of the new purchase and be reported to the IRS on the 1099-B section of the 1099 Consolidated Statement. The security purchase date will then be changed to the purchase date of the security with the disallowed loss.

### An example of a common wash sale

	Action	Quantity	Date	Security	Cost Basis	Proceeds	Gain/Loss
Before Wash Sale Adjustment	Buy	100	1/14/2011	AT&T	\$2,500		
	Sell	100	5/2/2011	AT&T		\$1,500	
							(\$1,000)
	Buy	100	5/16/2011	AT&T	\$1,500		
After Wash Sale Adjustment	Buy	100	1/14/2011	AT&T	\$2,500		
	Sell	100	5/2/2011	AT&T		\$1,500	
							0
	Buy	100	1/14/2011	AT&T	\$2,500		

### What Are the Changes to Short Sale Reporting?

A short sale is the sale of a security (often a borrowed security) on a particular date with the intention of repurchasing the identical security at a later date. In the past, short sale proceeds were reported to the IRS in the year they were opened. These proceeds appear in the 1099-B section of the 1099 Consolidated Statements. Starting in tax year 2011,

Janney will be required to report both the proceeds and cost basis figures in the tax year that the short sale is closed. The cost basis and holding period will then be reported, with the proceeds amount, in the 1099-B section of the 1099 Consolidated Statement.

### What are the Changes to Gift and Inheritance-Related Transactions?

In the past, Janney did not track cost basis adjustments for gifted securities. Due to the new legislation, Janney now tracks any cost basis adjustments and automatically adjusts the cost basis after the sale or redemption of a gifted “covered” security. Please notify your Financial Advisor of any security(s) you are transferring as a gift so Janney can begin tracking these adjustments properly.

### What Happens to Cost Basis When Assets are Transferred in to, or out of, a Janney Account?

Brokerage firms, mutual fund companies and banks, as well as transfer agents, are required to provide the receiving firm with the client’s adjusted cost basis for covered securities (those covered by the new IRS requirements under the phases specified above).

### For More Information

Please contact your tax advisor or your Janney Financial Advisor with any questions regarding the changes to tax reporting for investment proceeds and how this may affect your specific tax situation. In addition, you can refer to the our website at [www.janney.com/taxes](http://www.janney.com/taxes) for additional tax-related information.

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