KEY IMPACTS OF THE COST BASIS LEGISLATION

Understanding cost basis legislation // How it impacts investors // Things to consider

RAYMOND JAMES®

KEY TAKEAWAYS

Raymond James is required to report detailed cost basis information for covered securities to the IRS on Form 1099-B. Additionally, cost basis adjustments are required for wash sales, gift/inherited and income reallocation. You'll continue to be responsible for reporting all cost basis information to the IRS on your tax returns.

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Unless otherwise specified by you or your financial advisor at the time of trade or transfer, Raymond James will calculate your gains and losses using the first-in, first-out (FIFO) cost basis accounting method.

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When you sell or transfer an investment, the cost basis accounting method used to calculate your gains and losses cannot be changed after your trade or transfer settles. It is important to consider tax implications at the time of trade or transfer.

CLARIFICATION ON THE NEW COST BASIS LEGISLATION

For many years, Raymond James has provided cost basis reporting information to clients as a value-added service. As of January 2011, the Economic Stabilization Act of 2008 requires Raymond James – along with all broker/dealers, banks, custodians and transfer agents – to record and report more detailed information on securities sales to the Internal Revenue Service. If you acquired and sold a security in a taxable account on or after the effective date, Raymond James will report cost basis information for the sold security to you and the IRS on Form 1099-B. These new regulations are being rolled out in three phases as outlined below.

3 REGULATION PHASES

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For equities acquired on or after January 1, 2011

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For regulated investment company (RIC) or mutual funds and dividend reinvestment plan (DRP) shares acquired on or after January 1, 2012, and S corporations beginning in 2012

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For fixed income, derivatives and other specified securities acquired on or after January 1, 2013

WHAT IS COST BASIS?

The concept of cost basis is simple. It's the price at which a security was acquired. However, calculating cost basis can be complex because that price must be adjusted for factors such as commissions, reinvested dividends, stock splits and any other corporate actions. Cost basis is essential in determining how much of a taxable profit you've made – or how much of a taxable loss you've incurred – on the sale of a security. That profit or loss, in turn, can have an impact on your total tax liability.

COVERED AND UNCOVERED SECURITIES

Covered securities are those acquired on or after the applicable dates outlined by the legislation. Securities acquired by clients before these dates are uncovered by the legislation. Broker/dealers are required to report cost basis on covered securities to the IRS. In addition, Raymond James will continue to report cost basis on uncovered securities to you as a value-added service. Taxpayers remain responsible for accurate reporting of cost basis on covered and uncovered securities to the IRS on their tax returns.

	COVERED SECURITIES	UNCOVERED SECURITIES
Broker/dealers vs. Taxpayer responsibility	Broker/dealers will report cost basis to IRS and taxpayer on Form 1099-B. Taxpayer will use Form 1099-B data in preparing their tax return filing for 2011 and following years.	Taxpayer will report cost basis to IRS.
Equities*	Acquired on or after January 1, 2011	Acquired prior to January 1, 2011
Mutual funds, dividend reinvestment plan (DRP) shares**	Acquired on or after January 1, 2012	Acquired prior to January 1, 2012
Fixed income, derivatives and other specified securities***	Acquired on or after January 1, 2013	Acquired prior to January 1, 2013

* Equities include corporate stock, ADRs, UITs, ETFs, REITs (other than stock in a regulated investment company [RIC] or stock acquired in connection with a dividend reinvestment plan [DRP]). Internal Revenue Code section 6045(g)(3)(C)(i) provides that the applicable date is January 1, 2011.

** For stock in a RIC (RIC stock) or stock acquired in connection with a DRP (DRP stock), 6045(g)(3)(C)(ii) provides that the applicable date is January 1, 2012.

*** For any other specified securities, section 6045(g)(3)(C)(iii) provides that the applicable date is January 1, 2013, or a later date to be determined in the future. The reporting rules related to options transactions apply only to options granted or acquired on or after January 1, 2013, as provided in section 6045(h)(3).

WHAT DOES THIS MEAN FOR ME?

In 2011, Raymond James began reporting covered transactions on 1099 forms and to the IRS. Clients will be required to report their cost basis; however, the new regulations require Raymond James to also report taxable cost basis information to the IRS. Clients should consider events that will impact their tax situation, including making sure the cost basis accounting method provided to the IRS matches our records. Cost basis information will continue to appear on brokerage statements and Investor Access. The information from the realized gain/loss report is now included on the 1099-B.

RECAP OF 2011 CHANGES

1

New legislation requires broker/dealers to calculate gain/loss on covered securities by using the first-in, first-out (FIFO) method as a default for trades and transfers and report this information to the IRS.

2

If your tax strategy utilizes a different cost basis accounting method other than FIFO, you and your financial advisor must indicate that at the time of trade or transfer. Please note, you have only until the settlement date to specify a particular tax lot to sell or transfer or to change the cost basis accounting method. No changes can be made once the trade settles or the transfer is complete. Your tax lot information can be found through Investor Access and your comprehensive statements. Your financial advisor can help you become more familiar with the information.

3

Gifted and inherited shares transferred between accounts must be identified, and applicable accounting rules must be applied to the gain/loss. For gifted shares, this includes capturing the donor's adjusted cost basis, the donor's holding period, the date of gift and the fair market value (FMV) on that date. If the donor's adjusted basis exceeds the FMV on the date of the gift, special rules apply that limit the loss the gift recipient can claim when the shares are sold. For inherited shares, the broker is generally required to value the security on the date of the account holder's death unless the estate executor instructs the broker to use an alternate date.

4

When it comes to tracking and reporting wash sales, the new law requires broker/dealers to report loss deferrals and other adjustments on Form 1099-B. However, broker/dealers are required only to analyze identical securities within a single account to determine if a wash sale has occurred. Clients are still obligated to apply the wash sale rules across all of their accounts when preparing tax returns.

WHAT'S NEW FOR 2012

NEW FORM 1099-B

As a result of the legislation, broker/dealers will be required to include additional cost basis information on Form 1099-B for the 2011 tax year. The redesigned form will be mailed to you by February 15, 2012, and will show cost basis and proceeds for covered equities sold or redeemed in 2011, plus whether the gain or loss is short- or long-term. The IRS is redesigning schedule D and creating a new form 8949 to accommodate the required information.

COST BASIS ACCOUNTING METHOD

The cost basis accounting methods that will be offered at Raymond James are:

- *First-in, first-out (FIFO)* – The lots you acquired first are sold first.
- *Last-in, first-out (LIFO)* – The lots you acquired last are sold first.
- *Highest-in, first-out (HIFO)* – The lots with the highest cost basis are sold first.
- *Minimum tax* – The lots with the minimum taxable impact are sold first.
- *Average cost* – The cost is derived by dividing the total dollar amount invested in a particular fund position by the number of shares. Shares are removed in FIFO order. This method is only available for regulated investment companies, open- and closed-end mutual funds, some exchange-traded funds and some unit investment trusts. Raymond James will apply bifurcated average cost for clients electing average cost. The IRS requires the election of average cost in writing to Raymond James.

AVERAGE COST BASIS AS AN ACCOUNTING METHOD

Average cost will become an acceptable cost basis accounting method for eligible securities. For those who elect average cost, a key change relates to bifurcation, which indicates a mutual fund position with two average costs: one for the uncovered shares and one for the covered shares. Mutual funds purchased prior to January 1, 2012, will not be covered by the legislation, but additional shares of the same fund purchased after the effective date will be covered. These share lots will be tracked separately for cost basis purposes and will be disposed in a FIFO manner. Once a sell or transfer has been placed, averaged tax lots will be locked into the average price per share. Keep in mind, there are specific IRS guidelines for electing, revoking and changing to or from average cost.

AVERAGE COST RULES

- *Electing average cost* – You'll be able to select average cost as a default cost basis accounting method for open- and closed-end mutual funds, some exchange-traded funds and unit investment trusts. As required by the legislation, you must submit all average cost elections in writing.
- *Revoking average cost elections* – You can revoke this election to have tax lots restored to the pre-average cost values and holding dates, and select an alternative method, as long as you have not placed a sell or transfer for any of the lots. As required by the legislation, you must submit all revocations in writing.
- *Changing average cost elections* – Once a sell or transfer has been placed, averaged tax lots will be locked into the average price per share. You can elect a new cost basis accounting method going forward; however, previous averaged lots will not be adjusted to the pre-average cost basis. New purchases will be calculated based on the new method. As required by the legislation, you must submit all changes in writing.

GIFTED, INHERITED AND TRANSFERRED SHARES

The rules will be the same for gifted, inherited and transferred shares of mutual funds as they are for equities, as long as they are not using average cost. For gifts in accounts that use average cost, if the donor's adjusted basis exceeds the fair market value (FMV) when the gift is made, those shares are not eligible for the average cost method. However, the average cost method can be applied if the recipient notifies the broker in writing that he or she accepts the FMV as the cost of the security going forward.

S CORPORATIONS

Also new in 2012, S corporations will become subject to tax reporting on Form 1099-B, which will require broker/dealers to identify whether corporate account holders are C or S corporations. If unknown, the broker/dealer must assume the account holder is an S corporation, and thus subject to mandatory reporting.

WHAT IF INFORMATION IS MISSING?

You are not required to report missing cost basis for uncovered securities to Raymond James. However, if you would like to see it displayed, Raymond James will continue to offer this as a service.

If the security was purchased at Raymond James and the cost basis is missing, contact your financial advisor for assistance. If the security was purchased elsewhere and the cost basis was not transferred, try to locate your original statements and trade confirmations, or request copies from your previous broker/dealer. If you still can't find the original purchase information, refer to a tax advisor or the IRS for advice.

Note: The IRS may allow the use of an estimate or may require you to report zero if you can't prove the cost basis. We encourage you to consult with a qualified tax advisor or CPA.

WORK WITH YOUR FINANCIAL ADVISOR

Calculating cost basis under this new legislation can be quite complex. It's a good idea to have several planning conversations with your advisor throughout the year, before tax season. Be sure to ask him or her to consult with your tax advisor too, to gauge the impact on your personal tax situation. Consider these questions the next time you meet with your advisor:

What cost basis accounting method is used within my account(s)?

Which of my investments will be impacted by the legislation?

Should I track wash sales across all my accounts?

We have provided this information to help you understand this new legislation and how it may relate to your specific circumstances. If you have any questions regarding the new IRS cost basis information reporting requirements, please contact your financial advisor for assistance.

Please note, changes in tax laws or regulations may occur at any time and could substantially impact your situation. While we are familiar with the tax provisions of the issues presented herein, we are not qualified to render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

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