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Adjust Recordkeeping Before Form 1099 Onslaught

I recently wrote about the coming plague of IRS Forms 1099. See [Let There Be Forms 1099](#). Quite apart from watching for the ubiquitous forms to come in the mail, some individual investors are worried about what they should do differently.

Keeping track of your own basis in a single stock can be tough. That's especially true if you inherited the stock or received it as a gift. Even if you bought it yourself and know what you paid, determining basis can be confusing if the stock split, your dividends were reinvested, or you made multiple purchases. That can be frustrating, but up to now the IRS had no way to track your basis without auditing you.

No longer. As in the past, you should keep track of the ups and downs in your basis so you accurately report gains and losses. Now the IRS can too. Want some good news? It will take years before many people feel the full bite of these rules.

First, anything you sell in 2010 isn't covered by reporting, even though you still have an obligation to be accurate on your tax return. Brokers must start reporting basis on Forms 1099 issued in January of 2012 for 2011 stock trades. If you bought stock before 2011 and sell it in 2011 or 2012, there's no basis reporting. Still, start getting used to it.

Which Shares? One step you should consider relates to lots of shares acquired at different prices. Say you hold 100 shares of Microsoft you bought in 2010 for \$25 a share, 100 shares you bought in 2008 for \$30 a share, and 100 shares you bought in 2006 for \$23 a share. Your broker holds them all, and you tell him to sell 100 shares in 2011. Which shares did he sell?

Such fact patterns will get more complicated with blocks of shares that are all subject to basis reporting (say 3 blocks of Microsoft you buy in 2011 at different prices). You may want to make your order to your broker quite explicit, specifying precisely which shares you want to sell. There's flexibility, but if you fail to specify you'll usually end up selling the earliest acquired shares, which may not be what you want.

Rely on 1099s. While you'd be well advised to keep track of your own basis, you can always rely on your broker. Brokers must report not only sales price but also basis and holding period, and most of these reports will probably be reliable. If you don't want to bother and you trust your broker and his firm's system, you can put it on your tax return.

For more about the importance of Forms 1099 see:

[Let There Be Forms 1099](#)

[Forms 1099 For Cost Basis: What, Me Worry?](#)

[IRS Form 1099 Wars](#)

[I'm Sending An IRS 1099: 1099 Are You Outta Your Mind?](#)

[The Truth About Forms 1099](#)

[Ten Things You Should Know About 1099s](#)

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