

Overview of Cost Basis Compliance for Transfer Agents

This presentation includes information based on our understanding of the IRS Cost Basis requirements. Consult your tax advisor on the specifics of how these rules apply to your company.

By Figtree Software



Agenda

1. What is Cost Basis Reporting and what responsibilities do Transfer Agents have?
2. What will you need to do to handle Cost Basis?
3. Exchanging Cost Basis information with Brokers
4. Cost Basis Scenarios
5. Corporate Actions and Cost Basis
6. 1099-B Tax Reporting for 2011
7. Dividend Reinvestment Plan issues



Terminology

- Assets
- Tax Lot
- Covered and Uncovered Tax Lots
- Cost Basis Statement
- Relieve Lots
- Unique Cost Basis ID
- Acquired vs. Issued Date

Part 1 – What is Cost Basis Reporting?



- 2008 Law passed by Congress to help collect more tax revenue
- Requires “Brokers” to provide Cost Basis information to IRS and shareholders after sale of stock

What does CB have to do with Transfer Agents?

- Some registrations are in shareholder and not brokerage names.
 - These shares can only be tracked by TA
- Relationship with Brokers
 - Shares transferred from and to Brokerage accounts
- 1099-B reporting
 - Some TA's may be responsible for this reporting
- Is My Company Responsible for Tracking CB?
 - Check with Tax Advisor



What is a Tax lot?

- Identifies (at least) Tax Reason, number of shares issued, acquired date, original and Adjusted Cost Basis
- Covered and Uncovered Lots
- What Cost Basis information has to be reported?



Covered Tax Lots

- Originally acquired on or after 1/1/11 for Equities
- Acquired for 'cash'
- Also Gifts and Inheritance
- Not held by an exempt entity



Penalties

- What if I don't track Cost Basis?
- Significant penalties for failing to comply
- Some remediation from reporting penalties for 2011
- Penalties are stiff



Question

- How many Tax Lots per stock certificate?

Part 2 – How to Handle Cost Basis



- Decide how you will transfer CB information to Brokers
 - CBRS
 - Paper Cost Basis Statements
- Provide Trade Confirmations to Shareholders
- Use transfer agent software that tracks Cost Basis and will generate CB statements and Requests
- Be prepared to handle end of year 1099-B tax reporting if required

Cost Basis Functions You Will Need



Cost Basis Functions You Will Need



- Track Cost Basis at the Tax Lot level
- Ability to Relieve Tax Lots
- Ability to edit and correct Cost Basis information
- Provide CB Statements for Brokers
- Prepare Requests to Brokers for Cost Basis
- Provide Confirmations and Statements including Cost Basis for Shareholders
- Ability to Prepare 1099-B Reports if your company is responsible for this



Question

- Who gets Industry standard CB Statements?



Processing Transactions

Receive CB ID info with Transfer Documents

- Broker should supply Cost Basis ID information and the shareholder's account ID at the Brokerage
- This information should be received by TA with Transactions whether from CEDE or directly from the Broker
- CB will usually be sent by Brokers after Transfer is complete

CB from Shareholders, Issuers, Estate

The forms that you provide for Shareholders to fill out when presenting a transfer should include request for all CB information



Who Presented Transfer?

- Broker Presented
 - Tax lot Information, Requests and Statements, dealt with after the transaction is complete
- Presented by other than Broker
 - Shareholder, Issuer, Plan Administrator, Estate Executor
 - Request for Tax Lot information when transaction is presented



Tax Reason

- Gift
 - Enter Gift Date, FMV on Gift Date
 - Tax Lot records should hold donor's adjusted cost basis and original basis date
 - The IRS directs that transactions be marked as Gift if you do not have CB information
- Sale
 - Enter Sale amount, acquired date (if different than issue date)
- Inheritance
 - Enter FMV on Estate date (may be supplied by Executor)



Relieve Lots

- Default should be FIFO (First In First Out)
- Shareholder may choose another method
- Decision cannot be changed after settlement date
- Notify shareholders of default in your system
- In most cases your software should process lot relief automatically:
 - If shareholder accepts default method
 - If all shares in the selected asset are being relieved
 - If the certificate is Registered to a Broker

When You Will Need to Edit Cost Basis After Transaction is Completed



- CB is provided by a Shareholder after a transaction is completed
- The Broker provides CB on a transfer from Broker Registration to non-Broker
- Cost Basis corrections provided by Broker or Shareholder

Part 3 – Exchanging CB Information with Brokers



- DTCC Cost Basis Reporting Service (“CBRS”)
- Standard Format Paper Statements



What is CBRS?

- Tool supported by DTCC that allows exchange of cost basis between TAs and Brokers



Advantages of Using CBRS



- Brokers will probably prefer that CB information be passed electronically
- Otherwise may be difficult to get in touch with appropriate Broker CB department
- CBRS available at little or no cost
- SMART Dialer option can be used to automate exchange of Cost Basis information between TA and Broker
- DTCC provides training on use of CBRS

Methods of Accessing CBRS



Method	Access	Cost	Can Automate?
Web Direct	Internet Access Manual data entry	Little or no cost for many	No
SMART Dialer	FTP through Modem	Approx \$50/month for most	Yes
Direct Connection	Direct Computer to Computer access	Starts at approx \$18,000/month	Yes

Printed CB Statements and Requests



- Can be used if both parties (TA and Broker) agree
- Standard form developed by Industry



Question

- What does CBRS stand for?

Part 4 – Scenarios



Each of the following scenarios will be reviewed in StockTrack

	Presented by	Type of Transaction
1	Broker	Transfer from a Brokerage account to Shareholder's name
2	Broker	Transfer from a Shareholder's name to a Brokerage account
3	Shareholder	Sale
4	Shareholder	Gift
5	Estate Executor	Inheritance



Question

- Gift – What information needs to be tracked?

Part 5 –

How do Corporate Actions Affect Cost Basis?



- Adjusted Cost Basis for Splits
- Adjusted Cost Basis for Stock Dividends
- Adjusted Cost Basis for Return of Capital
- Restate Corporate Action (Return of Capital)

Stock Dividend Adjustment to Cost Basis



1 for 10	Before	After
Number of Shares	100 Shares	110 Shares
Total Cost Basis	\$1,000	\$1,000
Adjusted CB/share	\$10	\$9.0909

Stock Split Adjustment to Cost Basis



1 for 2	Before	After
Number of Shares	100 Shares	50 Shares
Total Cost Basis	\$1,000	\$1,000
Adjusted CB/share	\$10	\$20

Return of Capital Adjustment to Cost Basis



\$1 per Share	Before	After
Number of Shares	100 shares	100 shares
Total Cost Basis	\$1,000	\$900
Adjusted CB/share	\$10	\$9



Question

- How do Corporate Actions effect Cost Basis?

Part 6 – 1099-B Tax Reporting



- Those defined as 'Brokers' by IRS are required to send to shareholders and IRS
- Forms for 2011 are still in draft
- Will need to contain Cost Basis at the Tax Lot level
- StockTrack will have provisions for handling 1099-B through Account Ability by the end of 2011

Part 7 – Dividend Reinvestment Plan Issue



- Qualified dividend reinvestment plans do not require cost basis tracking until 2012
- Special wording must appear in documents related to 10% reinvestment rule
- Plan will need to be reviewed to be considered a “qualified plan”



Review

1. What is Cost Basis Reporting?
2. Processing transactions with Cost Basis information
3. Exchanging Cost Basis information with Brokers
4. Prepare Trade Confirmations for shareholders
5. How Corporate Actions affect Cost Basis
6. Expanded 1099-B Tax reporting
7. Dividend Reinvestment Plan 10% issue

Resources



- The Securities Transfer Association Inc.
http://stai.org/ordr_rbook.php
Contains invaluable information on all facets of the Transfer Agent business including:
 - Scenarios – very helpful in understanding the requirements
 - Cost Basis Subcommittee document includes references to where on transfer documents you might find Cost Basis ID information
- CBRS User Guide
http://www.dtcc.com/products/documentation/cs/cbrs/CBRS_manual.pdf
- DTC Learning Center (CBRS Training)
<http://www.dtclearning.com/events>
- StockTrack Software site www.stocktracksoftware.com
- KPMG Final Cost Basis
http://www.us.kpmg.com/microsite/taxnewsflash/2010/Nov/Final_Cost_Basis.pdf
- PriceWaterhouseCoopers Final Cost document
<https://emarketing.pwc.com/reaction/images/FSMarketing/understandingFATCA.pdf>



Contact Information

- We used StockTrack to demonstrate how cost basis information should flow. This was not a presentation or demonstration of StockTrack.
- Thank you for participating in this presentation. Contact us at 973-539-9311 Ext. 7027 or email stock@figtree.com if you have questions or would like to learn more about StockTrack.
- stocktracksoftware.com