THE SECURITIES TRANSFER ASSOCIATION, INC.
Established 1911

COST BASIS REPORTING
GUIDELINES

VOLUME II

Revision 4.0

June 27, 2013

ACKNOWLEDGEMENT

The STA Cost Basis Sub-Committee has spent many hours, over two years, creating and reviewing the transfer scenarios in these Cost Basis Guidelines. The STA would like to thank the members of the Committee for their energy and support. Special thanks are in order for the following individuals who have stepped up and taken the lead on this project, enabling it to be a valuable reference for STA members.

Mary Rose Cascaes
Executive Vice President and Chief Operating Officer
Registrar & Transfer Company

Dawn Coleman
Vice President & Business Process Consultant
Wells Fargo Shareowner Services

Andrew Schwartz, CPA, CEP
Vice President
Computershare

Jennifer Sponzilli
Principal, KPMG

Joan M. DiBlasi
Sr. Manager, Shareholder Services
Aflac Worldwide Headquarters
(SSA Representative)

The STA would also like to recognize Bayshore's contribution to the completion of this document.

STA THE SECURITIES TRANSFER ASSOCIATION, INC. Established 1911

Cost Basis Reporting Guidelines – Volume II

This document contains three additional "new" scenarios along with minor revisions to existing Volume II Scenarios resulting from the STAI's review of the final IRS Cost Basis Regulations.

TABLE OF CONTENTS

	PAGE
Scenario 1 – Replacement of Lost Certificate	1
Scenario 2 – Transfer from Custodial Account	3
Scenario 3A – Partial Sale of Gifted Shares from DRP Account	5
Scenario 3B – Partial Sale of Gifted Shares – Via DTC Profile	9
Scenario 4 – Sale of Inherited Shares	11
Scenario 5 – Sale of Shares Received as a Gift that were Inherited	14
Scenario 6 – Partial Sale of Shares, Average Cost, FIFO Lot Depletion, Full & Fractional Shares	18
DISCUSSION OF AVERAGE COST Using Average Cost vs. Other Lot Methods on Sale Transactions	20
Scenario 7 – Wash Sale Adjustment – Trailing DRP Transaction	24
Scenario 8 – Transfer of Shares Due to Private Sale	26
EMPLOYER PLAN TRANSACTIONS	
Scenario 9 – Restricted Stock Vests & Delivered ***Updated***	27
Scenario 10 – Restricted Stock Vests & Delivered – 83(b) Election ***Updated***	28
Scenario 11 – Stock Settled Stock Appreciation Rights (SSARs) ***Updated***	30
Scenario 12 – Transfer of Specific Shares Held in Certificate Form by Executor	31
Scenario 13 – Sale of Gifted Shares Where Donor's Basis was Higher Than FMV and Seller Wants to Use Average Cost	33
Scenario 14 – Partial Sale of Shares from DRP Account (Covered Shares Transferred to a Qualifying DRP in 2011)	35
Scenario 15 – Non-Qualified Stock Options ***New***	38
Scenario 16 – Incentive (Qualified) Stock Options ***New***	39
Scenario 17 – Qualified §423 Employee Stock Purchase Plans ***New***	41
APPENDIX – Glossary of Terms	42

TRANSACTION CATEGORY: MISCELLANEOUS
SCENARIO 1: Replacement of Lost Certificate

DESCRIPTION:
Mary Smith has been working on her estate plan with her attorney and has discovered that she can not locate a certificate representing 450 shares of XYZ Corp. Mary has contacted the TA and has received and completed the appropriate paperwork to have the original certificate for 450 shares replaced and reissued.

DETERMINATION:
Upon receipt of the appropriate paperwork, the TA will place a "Stop" on Mary's original certificate and reissue Mary a new certificate representing the 450 shares of XYZ held in her account. This new certificate will carry forward all the cost basis information from the original certificate.

ACTIONS/RESULTS:

1. Mary's original certificate, D750, for 450 shares of XYZ was originally issued on April 30, 2014. The original certificate had four individual tax lots representing the 450 shares:

90 Shares	Acquisition Date 2/15/2010	Cost "uncovered"
100 Shares	Acquisition Date 2/20/2011	Cost $3,600.000
120 Shares	Acquisition Date 2/16/2012	Cost $3,487.500
140 Shares	Acquisition Date 2/15/2014	Cost $5,425.000

2. The TA will place a "Stop" and debit certificate D750 and reissue Mary a new certificate, J239 representing the 450 shares carrying forward all the basis information from the four lots (including the determination/indicator for "uncovered" shares):

90 Shares	Acquisition Date 2/15/2010	Cost "uncovered"
100 Shares	Acquisition Date 2/20/2011	Cost $3,600.000
120 Shares	Acquisition Date 2/16/2012	Cost $3,487.500
140 Shares	Acquisition Date 2/15/2014	Cost $5,425.000

SCENARIO 1: REPLACEMENT OF A LOST CERTIFICATE

Account Registration: Mary Smith

Transaction	No Shares	Acquisition Date	Price/Cost per Shr	Total Cost	Total Proceeds
Issue Certificate					
D750 for 450 Shares	90	2/15/2010		uncovered	
Issue Date:	100	2/20/2011	$36.000	$3,600.000	
4/30/2014	120	2/16/2012	$29.063	$3,487.500	
	140	2/15/2014	$38.750	$5,425.000	
Total	450			$12,512.500	
Stop Certificate D750	(450 Shares)				
2/16/2015					
Reissue Certificate					
J239 for 450 Shares	90	2/15/2010		uncovered	
2/16/2015	100	2/20/2011	$36.000	$3,600.000	
	120	2/16/2012	$29.063	$3,487.500	
	140	2/15/2014	$38.750	$5,425.000	
Total	450			$12,512.500	

TRANSACTION CATEGORY: ACCOUNT TRANSFERS – Single account transfer.

SCENARIO 2: Transfer from Custodial Account for a Minor who Has Come of Age.

DESCRIPTION:
Robin Davis' mother had established a Custodial Account for her daughter several years ago under the Uniform Gifts to Minors Act (UGMA) on Robin's 14th birthday. Under this form of registration, Robin is the "owner" of the account and her TIN (Social Security Number) is on the account – her mother is named as "custodian" and has fiduciary responsibility for her investments until Robin reaches the age of majority (in her state, 21 years). Robin has recently celebrated her 21st birthday (9/10/2015). She provided documentation of proof of age to the guarantor and then sent her transfer request to the Transfer Agent with a Medallion signature guarantee.

DETERMINATION:
The TA will establish a new single account in the name of Robin Davis and transfer all the shares from the UGMA account. Because this was a custodial account (UGMA) and all the shares were purchased in this account, the assets in the account always "belonged" to Robin. The TIN on the account is the same; therefore, all of the original cost basis information from the custodial account will carry forward to Robin's new individual account.

ACTIONS/RESULTS[1]:

1. Robin's Account has a total of 350 shares held in book form in four tax lots:

50 Shares	Acquisition Date	9/10/2008	Cost	"Noncovered"
100 Shares	Acquisition Date	9/10/2012	Cost	$1,750.00
100 Shares	Acquisition Date	9/10/2013	Cost	$1,837.50
100 Shares	Acquisition Date	9/10/2014	Cost	$1,898.34

2. The TA will process the transfer request. After the transfer, Robin's new account will contain 350 shares in book entry form, represented by four tax lots. The cost basis information will carry forward from the original custodial account. Below are Robin's lots after the transfer:

50 Shares	Acquisition Date	9/10/2008	Cost	"Noncovered"
100 Shares	Acquisition Date	9/10/2012	Cost	$1,750.00
100 Shares	Acquisition Date	9/10/2013	Cost	$1,837.50
100 Shares	Acquisition Date	9/10/2014	Cost	$1,898.34

[1] These results are correct only if the shares were ***purchased*** in the account or transferred from a brokerage account where they were purchased in the same form or registration. Otherwise, the shares deposited would be considered gifted (with all other fields required) and would retain their gifted status after the child attains majority.

SCENARIO 2: TRANSFER FROM CUSTODIAL ACCT MINOR COMES OF AGE					
Account Registration: Lorraine Davis Custodian for Robin Davis UGMA					
Transaction	No Shares	Date	Price/Cost per Shr	Total Cost	Total Proceeds
Buy	50.000	9/10/2008		uncovered	
Buy	100.000	9/10/2012	$17.50	$1,750.00	
Buy	100.000	9/10/2013	$18.38	$1,837.50	
Buy	100.000	9/10/2014	$18.98	$1,898.34	
Total	350.000			$5,485.84	
Transfer Out		Original			
9/30/2015		Acquisition Date			
	50.000	9/10/2008		uncovered	
	100.000	9/10/2012	$17.50	$1,750.00	
	100.000	9/10/2013	$18.38	$1,837.50	
	100.000	9/10/2014	$18.98	$1,898.34	
Total	0.000				

SCENARIO 2: TRANSFER FROM CUSTODIAL ACCT MINOR COMES OF AGE					
Account Registration: Robin Davis					
Transaction	No Shares	Date	Price/Cost per Shr	Total Cost	Total Proceeds
Transer In		Original			
9/30/2015		Acquisition Date			
	50.000	9/10/2008		uncovered	
	100.000	9/10/2012	$17.50	$1,750.00	
	100.000	9/10/2013	$18.38	$1,837.50	
	100.000	9/10/2014	$18.98	$1,898.34	
Total	350.000			$5,485.84	

TRANSACTION CATEGORY: SALE OF SHARES
SCENARIO 3A: Partial Sale of Gifted Shares from DRP Account

DESCRIPTION:
Part A: Sue Jones is transferring her 170 shares of ABC Corp to Ron Peters as a gift on January 15, 2016. Ron would like to establish a DRP account with these shares and has filled out the appropriate paperwork to open his new account.

Part B: On April 15, 2016, three months after establishing his account in ABC Corp, Ron sends in a request to sell half of his shares. The FMV of ABC Corp on April 15, 2016 is $14.50/shr.

DETERMINATION (Part A) – TRANSFER DUE TO GIFT:
The TA will establish a new DRP account for Ron Peters. The TA will then process the transfer request from Sue Jones applying GIFT rules based on guidelines supplied in IRS Rule 101896-09. The transfer will have a gifted date of January 15, 2016 with a FMV of $14.40/shr. After the transfer, Sue Jones' account will have a zero balance – all shares debited. Ron Peters will have 170 *gifted* shares in Plan form.

ACTIONS/RESULTS:

1. Sue Jones' has 170 shares in the following four tax lots:

30 Shrs	Acquisition Date	3/1/2009	Cost	"uncovered"	
40 Shrs	Acquisition Date	2/15/2014	Cost	$	380.000
75 Shrs	Acquisition Date	6/10/2014	Cost	$	750.000
25 Shrs	Acquisition Date	7/10/2014	Cost	$	243.750

2. The TA will transfer these shares to Ron Peter's new DRP account applying the GIFT rules. Therefore, the Donor's Original Acquisition Date and Cost Basis must carry forward to Ron's account along with the date of the gift and the FMV of the shares of ABC (Gifted as of 1/15/2016 with a FMV of $14.40/shr). Ron will have 170 shares in Plan form in four tax lots with the following cost basis and holding period information after the transfer:

Date of Gift	Shares	Donor's Acquisition Date	Donor's Cost Basis	Fair Market Value
1/15/2016	30 Shrs	3/1/2009	"uncovered"	"uncovered"
1/15/2016	40 Shrs	2/15/2014	$ 380.000	$ 576.000
1/15/2016	75 Shrs	6/10/2014	$ 750.000	$1,080.000
1/15/2016	25 Shrs	7/10/2014	$ 243.750	$ 360.000

   The gifted/inherited indicator *will be flagged as* ***"gifted".***

3. After the transfer, all shares will have been debited from Sue Jones' account.

   The next page illustrates the implications of selling gifted shares. Determining gain or loss for securities that were received as a gift, under the IRS gift tax rules, is complex. To simplify this example, we have not included reinvested dividend shares in the DRP account.

TRANSACTION CATEGORY: SALE OF SHARES
SCENARIO 3A (Cont'd.): Partial Sale of Gifted Shares from DRP Account

DETERMINATION (Part B) – PARTIAL SALE OF GIFTED SHARES
On April 15, 2016, three months after establishing his account in ABC Corp, Ron sends in a request to sell half of his shares. He has instructed the TA to sell shares on a First In First Out (FIFO) basis. The FMV of ABC Corp on April 15, 2016 is $14.50/shr. The TA will sell the shares from his DRP account applying the IRS GIFT rules, forward Ron the proceeds and produce a 1099-B with the gain/loss information.

1. Ron has 170 shares in the following tax lots in his DRP account:

Date of Gift	Shares	Donor's Acquisition Date	Donor's Cost Basis	Fair Market Value
1/15/2016	30 Shrs	3/1/2009	"uncovered"	"uncovered"
1/15/2016	40 Shrs	2/15/2014	$ 380.000	$ 576.000
1/15/2016	75 Shrs	6/10/2014	$ 750.000	$1,080.000
1/15/2016	25 Shrs	7/10/2014	$ 243.750	$ 360.000

2. The TA will process the sale for 85 shares (half of his current balance of 170 shares) on a FIFO basis. Ron will receive $1,232.50 in proceeds for the sale (85 shrs @ $14.50/shr).
3. After the sale, Ron's account will have 85 Plan shares in the following lots:

Date of Gift	Shares	Donor's Acquisition Date	Donor's Cost Basis	Fair Market Value
1/15/2016	60 Shrs	6/10/2014	$ 600.000	$ 864.000
1/15/2016	25 Shrs	7/10/2014	$ 243.750	$ 360.000

GIFT RULES THAT APPLY[2]:

1. Basis – The basis of property (***in our case – shares***) acquired by gift is generally the same as the donor's basis (I.R.C. 1015(a)).
   a. There are other rules that may apply when the Fair Market Value (FMV) of the shares are less than the donor's basis on the date of the gift. The donee's basis depends on whether the shares were sold at a gain or at a loss.
   b. If the gift is sold for a price that is greater than the donor's basis, there is a gain for the excess. If the gift is sold for a price less than the Fair Market Value on the date of the gift, there is a loss for the difference. If, however, the gift is sold for a price that is less than the donor's basis, but greater than the Fair Market Value on the date of the gift, there is neither gain nor a loss.
2. Holding Period – In most cases, the holding period for a gift shares begins with the date the shares were acquired by the donor (I.R.C. 1223(2)). Since the taxpayer's basis is obtained by referring to the basis of the donor, the taxpayer is allowed to use the holding period of the donor to determine the character of the gain or loss. If, however, the Fair Market Value is used for the basis in computing a loss, the holding period would begin on the date of the gift.

[2] The guidance on the tax rules related to Gifting are a compilation of comments, references and opinions from multiple sources researched to prepare this document and are not intended as tax advice.

TRANSACTION CATEGORY: SALE OF SHARES
SCENARIO 3A (Cont'd.): Partial Sale of Gifted Shares from DRP Account

In our example, the shares were sold at a price that was greater than ($14.50/shr) the Fair Market Value of the shares on the date of the gift ($14.40/shr). Also the FMV on the date of the gift exceeded the basis of each individual lot. Therefore, there would be a gain on this transaction. Because we are not using the Fair Market Value in the computation of gain/(loss), the donor's acquisition date can be used as the basis of the holding period for the shares sold, resulting in a Long-Term gain.

A 1099-B will be generated for this sale with the following tax lot information:

Tax Lot	**Proceeds**	**Acquisition Date**	**Cost Basis**	**G/L/Type**
30 Shares	$ 435.00	3/1/2009	"uncovered"	N/A
40 Shares	$ 580.00	2/15/2014	$ 380.000	$200/LT
15 Shares	$ 217.50	6/10/2014	$ 150.000	$67.50/LT

SCENARIO 3: PARTIAL SALE OF GIFTED SHARES

Account Registration: Sue Jones

Transaction	No Shares	Date	Price/Cost per Shr	Total Cost	Total Proceeds
Buy	30	3/1/2009	uncovered	uncovered	
Buy	40	2/15/2014	$9.500	$380.000	
Buy	75	6/10/2014	$10.000	$750.000	
Buy	25	7/10/2014	$9.750	$243.750	
Total	170				
Transfer Out	170	1/15/2016	$14.500		
Total	0				
Account Registration: Ron Peters (DRP)					
Transfer In Gift*	Date of Gift	1/15/2016			
		Original Acquisition Date*		Donor's Cost Basis*	FMV on 1/15/2016 @ $14.40/shr
	30	3/1/2009	uncovered	uncovered	uncovered
	40	2/15/2014	$9.500	$380.000	$576.000
	75	6/10/2014	$10.000	$750.000	$1,080.000
	25	7/10/2014	$9.750	$243.750	$360.000
Total	170				
Sell FIFO	85	4/15/2016	$14.500		$1,232.50
Sale Transaction Detail		Original Acquisition Date		Cost Basis	
Sell	30	3/1/2009		uncovered	$435.000
Sell	40	2/15/2014		$380.000	$580.000
Sell	15	6/10/2014		$150.000	$217.500
					$1,232.500
Shrs Remaining					
	60	6/10/2014	$10.000	$600.000	
	25	7/10/2014	$9.750	$243.750	
Total	85			$843.750	

Gain/(Loss) for 1099-B Reporting

Tax Lot	Proceeds	Acquisition Date	Cost Basis	Gain/(Loss)	Type
30 Shares	$435.000	3/1/2009	uncovered	N/A	
40 Shares	$580.000	2/15/2014	$380.000	$200.000	Long
15 Shares	$217.500	6/10/2014	$150.000	$67.500	Long

TRANSACTION CATEGORY: SALE OF SHARES
SCENARIO 3B: Partial Sale of Gifted Shares – Via DTC Profile to a broker/dealer.

DESCRIPTION:
Part A: In this scenario, Sue Jones is transferring her 170 shares of ABC Corp to Ron Peters on January 15, 2016. There are no other instructions as to why the transfer is being made, so the TA will open a new account in the name of Ron Peters and record the 170 share "gift" in Book form.

Part B: On April 15, 2016, three months after establishing his account in ABC Corp, Ron's broker sends in a request to transfer 85 shares from Ron's account via DTC Profile so that the broker can sell the shares as per Ron's request.

DETERMINATION (Part A) – TRANSFER DUE TO GIFT:
The TA will establish a new account for Ron Peters. The TA will then process the transfer request from Sue Jones applying GIFT rules based on guidelines supplied in IRS Rule 101896-09. The transfer will have a gifted date of January 15, 2016 with a FMV of $14.40/shr. After the transfer, Sue Jones' account will have a zero balance – all shares debited. Ron Peters will have 170 *gifted* shares in Book form.

ACTIONS/RESULTS:
1. Sue Jones' has 170 shares in the following four tax lots:

30 Shrs	Acquisition Date	3/1/2009	Cost	"uncovered"
40 Shrs	Acquisition Date	2/15/2014	Cost	$ 380.000
75 Shrs	Acquisition Date	6/10/2014	Cost	$ 750.000
25 Shrs	Acquisition Date	7/10/2014	Cost	$ 243.750

2. The TA will transfer these shares to Ron Peter's new account applying the GIFT rules. Therefore, the Donor's Original Acquisition Date and Cost Basis must carry forward to Ron's account along with the date of the gift and the FMV of the shares of ABC (Gifted as of 1/15/2016 with a FMV of $14.40/shr). Ron will have 170 shares in Book form in four tax lots with the following cost basis and holding period information after the transfer:

Date of Gift	Shares	Donor's Acquisition Date	Donor's Cost Basis	Fair Market Value
1/15/2016	30 Shrs	3/1/2009	"uncovered"	"uncovered"
1/15/2016	40 Shrs	2/15/2014	$ 380.000	$ 576.000
1/15/2016	75 Shrs	6/10/2014	$ 750.000	$1,080.000
1/15/2016	25 Shrs	7/10/2014	$ 243.750	$ 360.000

   The gifted/inherited indicator *will be flagged as* ***"gifted".***

3. After the transfer, all shares will have been debited from Sue Jones' account.

TRANSACTION CATEGORY: SALE OF SHARES
SCENARIO 3B: Partial Sale of Gifted Shares – Via DTC Profile to a broker/dealer.

DETERMINATION (Part B) – PROFILE MOVE VIA DTC – PARTIAL SALE BY BROKER/DEALER

On April 15, 2016, three months after establishing his account in ABC Corp, Ron asks his broker to sell half of his shares in ABC that he acquired as a gift. The broker has submitted a request to the TA to move 85 shares of ABC via the DRS Profile system. The TA will deliver 85 shares via DTC to the broker/dealer through the DRS Profile system. All available cost basis and holding period information related to the gifted shares delivered via DRS Profile must be delivered to the receiving broker on a "Transfer Statement" within 15 days of the DRS Profile Move.

1. Ron has 170 shares in the following tax lots in his account:

Date of Gift	Shares	Donor's Acquisition Date	Donor's Cost Basis	Fair Market Value
1/15/2016	30 Shrs	3/1/2009	"uncovered"	"uncovered"
1/15/2016	40 Shrs	2/15/2014	$ 380.000	$ 576.000
1/15/2016	75 Shrs	6/10/2014	$ 750.000	$1,080.000
1/15/2016	25 Shrs	7/10/2014	$ 243.750	$ 360.000

2. The TA will deliver out 85 shares (half of his current balance of 170 shares) of ABC Corp from Ron's account via the DRS Profile system. The TA will provide the receiving broker/dealer a Transfer Statement within 15 days of the DRS Profile Move with detailed information on the shares delivered. After the sale, Ron's account will have 85 Plan shares in the following lots:

Date of Gift	Shares	Donor's Acquisition Date	Donor's Cost Basis	Fair Market Value
1/15/2016	60 Shrs	6/10/2014	$ 600.000	$ 864.000
1/15/2016	25 Shrs	7/10/2014	$ 243.750	$ 360.000

3. In this case, the computation and characterization of any gain/(loss) resulting from the sale of Ron's shares cannot be made until the sale is executed by the broker/dealer. Therefore, the TA must send all of the applicable cost basis and holding period information, along with the ***"gifted share indicator"*** on a Transfer Statement.

   <u>Transfer Statement Required Information</u>:

Date of Gift	Shares	Donor's Acquisition Date	Donor's Cost Basis	Fair Market Value
1/15/2016	30 Shrs	Not required	"uncovered"	"uncovered"
1/15/2016	40 Shrs	2/15/2014	$ 380.000	$ 576.000
1/15/2016	15 Shrs	6/10/2014	$ 150.000	$ 216.000

   For Agents using the CBRS system the CBRS Gifted/Inherited indicator = 01.

TRANSACTION CATEGORY: SELL ALL – INHERITED SHARES
SCENARIO 4: Sale of Inherited Shares

DESCRIPTION:
Marie Flynn's estate representative had notified the TA that Marie died on 8/1/2014 and that her shares in NewCo were to be transferred to an Estate Account on Marie's behalf. Marie's estate was subsequently settled and her niece, Peggy Murphy, will inherit the NewCo shares previously owned by Marie. Peggy has indicated that she would like to sell the shares shortly after they have been transferred to her.

DETERMINATION:
When Marie died, the estate representative provided the TA with specific information as to the valuation of her shares – her NewCo shares would be valued on the estate valuation date, 1/15/2015, at a Fair Market Value (FMV) of $30/shr. In addition, the estate representative provided instructions to transfer Marie's shares to a new account in the name of her niece, Peggy Murphy. The TA will adjust the cost basis (step up) of Marie's shares to reflect the valuation provided by the estate representative and then transfer the shares to Peggy Murphy's account.

On 3/15/2015, Peggy provides instructions to the TA to sell all the NewCo shares she just inherited from her aunt.

ACTIONS/RESULTS:

1. Marie had 180 shares of NewCo in Book form in the following individual lots at the time of her death:

50 Shares	Acquisition Date 9/1/2010	Cost "uncovered"
45 Shares	Acquisition Date 4/1/2011	Cost $1,125.000
40 Shares	Acquisition Date 9/2/2011	Cost $1,030.000
30 Shares	Acquisition Date 4/1/2012	Cost $ 787.500
15 Shares	Acquisition Date 4/10/2013	Cost $ 390.000
180 Shares		

2. When the TA received instructions to transfer the shares into an Estate Account on 9/30/2014, the estate representative provided the valuation date of 1/15/2015 and a Fair Market Value (FMV) of $30/shr. The TA processed the transfer on 9/30/2014 in two tax lots held in book form with a cost basis of $3,900.000

50 Shares	Acquisition Date 8/1/2014	Cost "uncovered"
130 Shares	Acquisition Date 8/1/2014	Cost $3,900.000

*The gifted/inherited indicator in the tax lots with the acquisition date of 8/1/2014 is flagged as *"inherited"*.

TRANSACTION CATEGORY: SELL ALL – INHERITED SHARES
SCENARIO 4 (Cont'd.): Sale of Inherited Shares

3. The TA then opened a new account for Peggy Murphy and transferred the NewCo shares from the Estate Account in two tax lots in book form:

50 Shares	Acquisition Date	8/1/2014	Cost	"uncovered"
130 Shares	Acquisition Date	8/1/2014	Cost	$3,900.000

*The gifted/inherited indicator in the tax lot with the acquisition date of 8/1/2014 is flagged as *"inherited"*.

4. On 3/15/2015, the TA received instructions from Peggy to sell all her NewCo shares. The TA processes the sale at a price of $32.75/shr on 3/15/2015. After the sale, all lots will have been debited from Peggy's account.
5. A 1099-B will be generated for this sale with the following tax lot information:

Tax Lot	**Sale Date**	**Acquisition Date**	**Proceeds**	**Cost Basis**	**Gain/Loss Type**
50.0 Shrs	3/15/2015	8/1/2014	$1,637.50	"uncovered"	**N/A**
130.0 Shrs	3/15/2015	8/1/2014	$4,257.50	$3,900.00	$357.50/**LT**

Based on Final IRS Regulations, because these shares were ***inherited***, any gain/loss is treated as **Long-Term**. Each Agent should review with their Tax Advisor when final IRS Rules are published for any related changes.

SCENARIO 4: SALE OF INHERITED SHARES

Account Registration: Marie Flynn					
Transaction	No Shares	Date	Price/Cost per Shr	Total Cost	Total Proceeds
Buy	50.000	9/1/2010		uncovered	
Buy	45.000	4/1/2011	$25.000	$1,125.000	
Buy	40.000	9/2/2011	$25.750	$1,030.000	
Buy	30.000	4/1/2012	$26.250	$787.500	
Buy	15.000	4/10/2013	$26.000	$390.000	
Total	180.000				
Transfer Out to Estate Account	180.000	9/30/2014	Date of Death: 8/1/2014	uncovered	
Inherited Share Flag "ON"					
Account Registration: Estate of Marie Flynn					
Transfer In	180.000	8/1/2014		uncovered	
Inherited Share Flag "ON"					
Cost Basis Letter to Agent 9/30/2014					
Adjustment to Basis 1/15/2015	50.000	8/1/2014	uncovered	N/A	
	130.000	8/1/2014	$30.000	$3,900.000	
Transfer Out	50.000	8/1/2014	uncovered	N/A	
	130.000	8/1/2014	$30.000	$3,900.000	
Inherited Share Flag "ON"					
Account Registration: Peggy Murphy					
Transfer In	50.000	8/1/2014		uncovered	
	130.000	8/1/2014	$30.000	$3,900.000	
Inherited Share Flag "ON"					
Sell	50.000	3/15/2015	$32.750	N/A	$1,637.500
	130.000	3/15/2015	$32.750	$3,900.000	$4,257.500

Gain/(Loss) for 1099-B Reporting					
Tax Lot	Proceeds	Acquisition Date	Cost Basis	Gain/(Loss)	Type
50 Shares	$1,637.500	8/1/2014	uncovered	N/A	-
130 Shares	$4,257.500	8/1/2014	$3,900.000	$357.500	**Long**

TRANSACTION CATEGORY: SALE OF SHARES
SCENARIO 5: Sale of Shares Received as a Gift that were Inherited by the Donor of the Gift.

DESCRIPTION:
Part A: Jean Jones inherited 200 shares of NewCo from her sister, Mary who died on 8/1/2014. On 10/30/2014, Mary's estate was valued and the Fair Market Value of the New Co shares provided by the Estate Representative was ($20/shr).

Part B: Subsequent to inheriting the shares, Jean gifted 100 shares of the NewCo to her niece, Penelope, as a Christmas gift on 12/15/2014.

Part C: On April 1, 2015, Penelope sends in a request to sell 50 shares from her account to cover her taxes for 2014.

DETERMINATION (Part A) – TRANSFER DUE TO INHERITANCE:
Mary had acquired shares of NewCo over the years in a DRP account. When Mary's estate is settled, the 200 shares she left to her sister are transferred from her estate account to a new DRP account in Jean's name. Jean's cost basis in the NewCo shares reflects the FMV ($20.00/share) provided by the Estate Representative and her holding period begins on her sister's date of death (8/1/2014). The TA will flag Jean's shares as *inherited* for future tax reporting purposes.

ACTIONS/RESULTS:
1. The TA will open a new account in Jean's name and transfer the 200 shares from Mary's estate account into Jean's DRP account in the following tax lot with the holding period beginning on Mary's date of death and the cost basis recorded at the FMV as of the estate valuation (200 shares * $20/shr):

   200.00 Shares Acquisition Date 8/1/2014 Cost $4,000.000

   The gifted/inherited indicator *will be flagged as* ***"inherited".***

DETERMINATION (Part B) – GIFTING OF INHERITED SHARES
Jean sends a request to the TA to transfer 100 shares from her DRP account in NewCo to her niece, Penelope. The date of the gift is 12/15/2014 and the Fair Market Value of the shares are $30/shr. Penelope has filled out the paperwork to establish a new DRP account in her name. The TA will process the transfer request applying the GIFT rules based on guidelines supplied in IRS Rule 101896-09.

1. Jean has 200 shares of NewCo in the following tax lot:
   200.00 Shares Acquisition Date 8/1/2014 Cost $4,000.000*

   *The gifted/inherited indicator *will be flagged as* ***"inherited".***

TRANSACTION CATEGORY: SALE OF SHARES
SCENARIO 5 (Cont'd.): Sale of Shares Received as a Gift that were Inherited by the Donor of the Gift.

2. The TA will open a new DRP account in Penelope's name and transfer 100 shares from her aunt's account to Penelope's new account.

Date of Gift	Shares	Donor's Acquisition Date	Donor's Cost Basis	Fair Market Value
12/15/2014	100 Shrs	8/1/2014	$2,000.000	$3,000.000

*The gifted/inherited indicator in each tax lot *will be flagged as* ***"inherited then gifted".***

Because the shares were a 'gift', the TA needs to keep track of **BOTH** the donor's acquisition date and cost basis as well as the date of the gift and the FMV on the date of the gift. Therefore, the Donor's Original Acquisition Date and Cost Basis must carry forward to Penelope's account along with the date of the gift and the FMV of the shares (Gifted as of 12/15/2014 with a FMV of $30.00/shr).

The next section illustrates the implications of selling inherited then gifted shares. When selling shares that were inherited then gifted, the holding period is assumed to be long-term in all cases (see I.R.C. 1223(9)).

DETERMINATION (Part C) – PARTIAL SALE OF GIFTED SHARES
On April 1, 2015, four months after receiving the gift of NewCo shares, Penelope sends in a request to sell 50 shares. The FMV of NewCo on 4/1/2015 is $35/shr. The TA will sell the shares from Penelope's DRP account applying the IRS GIFT rules – making sure to characterize any gain or loss on the sale as Long-Term according to the guidance on inherited then gifted shares. Penelope will receive $1,750.00 in proceeds from the sale and a 1099-B with the gain/loss information will be produced.

1. Penelope has 100 shares in the following tax lot in her DRP account:

Date of Gift	Shares	Donor's Acquisition Date	Donor's Cost Basis	Fair Market Value
12/15/2014	100 Shrs	8/1/2014	$2,000.000	$3,000.000

2. The TA will process the sale for 50 shares. Penelope will receive $1,750.00 from the sale (50 shrs @ $35/shr).
3. After the sale, Penelope's account will have 50 shares remaining, as shown below.

Date of Gift	Shares	Donor's Acquisition Date	Donor's Cost Basis	Fair Market Value
12/15/2014	50 Shrs	8/1/2014	$1,000.000	$1,500.000

TRANSACTION CATEGORY: SALE OF SHARES
SCENARIO 5 (Cont'd.): Sale of Shares Received as a Gift that were Inherited by the Donor of the Gift.

GIFT RULES THAT APPLY[3]:

1. Basis – The basis of property (***in our case – shares***) acquired by gift is generally the same as the donor's basis (I.R.C. 1015(a)).
    a. There are other rules that may apply when the Fair Market Value (FMV) of the shares are less than the donor's basis on the date of the gift. The donee's basis depends on whether the shares were sold at a gain or at a loss.
    b. In most situations, if the gift is sold for a price that is greater than the donor's basis, there is a gain for the excess. If the gift is sold for a price less than the Fair Market Value on the date of the gift, there is a loss for the difference. If, however, the gift is sold for a price that is less than the donor's basis, but greater than the Fair Market Value on the date of the gift, there is neither gain nor a loss.
3. Holding Period – In most cases, the holding period for a gift shares begins with the date the shares were acquired by the donor (I.R.C. 1223(2)). Since the taxpayer's basis is obtained by referring to the basis of the donor, the taxpayer is allowed to use the holding period of the donor to determine the character of the gain or loss. If, however, the Fair Market Value is used for the basis in computing a loss, the holding period would begin on the date of the gift.

In our example, the shares were sold at a price that was greater ($35.00/shr) than both the original basis and the Fair Market Value of the shares on the date of the gift ($30.00/shr). Therefore, there would be a gain on this transaction. Because these shares were originally ***inherited,*** the resulting gain would be characterized as Long-Term.

A 1099-B will be generated for this sale with the following tax lot information:

Tax Lot	**Sale Date**	**Acquisition Date**	**Proceeds**	**Cost Basis**	**Gain/Loss Type**
50.0 Shares	4/01/2015	8/1/2014	$1,750.00	$1,000.00	$750.00 LT

[3] The guidance on the tax rules related to Gifting are a compilation of comments, references and opinions from multiple sources researched to prepare this document and are not intended as tax advice.

SCENARIO 5: SALE OF SHARES ORIGINALLY INHERTIED THEN GIFTED

Account Registration: Jean Jones

Transaction	No Shares	Date	Price/Cost per Shr	Total Cost	Total Proceeds
		Original Acquisition Date			
Transfer In Inherited Shares*	200.00	8/1/2014	$20.000	$4,000.000	
Total	200.00			$4,000.000	
Transfer Out Gift	100	12/15/2014	$30.000		
Shrs Remaining	100.00	8/1/2014	$20.000	$2,000.000	

Account Registration: Penelope Jeffries

Transaction	No Shares	Date	Price/Cost per Shr	Total Cost	Total Proceeds
Transfer In Gift*		12/15/2014			
		Original Acquisition Date		Donor's Cost Basis	
	100.00	8/1/2014	$20.000	$2,000.000	
Fair Market Value on Date of Gift					$3,000.000
Sell	50.00	4/1/2015	$35.000		$1,750.000
Shrs Remaining	50.00				

Gain/(Loss) for 1099-B Reporting

Tax Lot	Proceeds	Acquisition Date	Cost Basis	Gain/(Loss)	Type
50 Shares	$1,750.000	8/1/2014	$1,000.000	$750.000	Long

TRANSACTION CATEGORY: PARTIAL SALE OF SHARES
SCENARIO 6: Partial Sale of Shares, using Average Cost with FIFO Lot Depletion of Full & Fractional Shares

DESCRIPTION:
Fred Kelly has set up a DRP account and now has 407.284 shares. Fred just had an unexpected expense and needs to sell 250 shares to help cover this item.

DETERMINATION:
Fred has notified his Transfer Agent that he wishes to use Average Cost as his basis. The TA will process his request using Average Cost with a FIFO lot depletion method. The transaction will generate a 1099-B for tax purposes that will contain information on the individual tax lots sold including the proceeds, cost basis, gain or loss, and short-term/long-term indicator. The sale occurs on September 1, 2013 at $9.75/shr.

ACTIONS/RESULTS:

1. Fred's current plan account has 407.284 shares held in the following five tax lots:

a.	100 Shares	Acquisition Date	1/1/2013	Cost	$1,000.000
b.	2.778 Shares	Acquisition Date	3/31/2013	Cost	$ 25.000
c.	100 Shares	Acquisition Date	5/1/2013	Cost	$ 915.000
d.	4.506 Shares	Acquisition Date	6/30/2013	Cost	$ 40.556
e.	<u>200 Shares</u>	Acquisition Date	7/15/2013	Cost	$<u>1,850.000</u>
	407.284 Shares				$3,830.556

2. The TA will process the sale request and Fred will receive $2,437.50 in proceeds (250 shrs x $9.75/shr). After the sale, Fred will have 157.284 shares remaining in the following lot:

   a. 157.284 Acquisition Date 7/15/2013 Cost $1,479.256*

   **Please Note – the cost basis for the shares remaining is the average cost of $9.405/shr (Total Cost remaining divided by the shares remaining) is used for calculating Gain/Loss on the sale transaction. If and when Fred acquires more shares, either through a purchase or a dividend reinvestment, his average cost per share will change to reflect the cost paid for all shares. Once Average Cost has been used as the basis for a sale, the account must use Average Cost going forward.*

3. In this example, the TA depleted Fred's shares on a FIFO basis – The TA sold all of lots a, b, c and d above (207.284 shares) as well as another 42.716 shares from lot e (207.284 + 42.716 = 250 shares). Fred's average cost for his 407.284 shares is computed to be $9.405/shr (Total Cost divided by Total Shares - $3,830.556/407.284 shrs).

4. A 1099-B will be generated for this sale with the following tax lot information:

Tax Lot	Sale Date	Acquisition Date	Proceeds	Cost Basis	Gain/Loss Type
100 Shrs	9/1/2013	1/1/2013	$ 975.00	$ 940.50	$34.50/ST
2.778 Shrs	9/1/2013	3/31/2013	$ 27.09	$ 26.127	$ 0.96/ST
100 Shrs	9/1/2013	5/1/2013	$ 975.00	$ 940.50	$34.50/ST
4.506 Shrs	9/1/2013	6/30/2013	$ 43.93	$ 42.379	$ 1.55/ST
42.716 Shr	9/1/2013	7/15/2013	$ 416.48	$ 401.744	$14.74/ST

SCENARIO 6: PARTIAL SALE OF SHARES USING AVERAGE COST FIFO LOT DEPLETION

Account Registration: Fred Kelly (DRP)

Transaction	No Shares	Date	Price/Cost per Shr	Total Cost	Total Proceeds
Plan Shares	100.000	1/1/2013	$10.000	$1,000.000	
	2.778	3/31/2013	$8.999	$25.000	
	100.000	5/1/2013	$9.150	$915.000	
	4.506	6/30/2013	$9.000	$40.556	
	200.000	7/15/2013	$9.250	$1,850.000	
Total	407.284			$3,830.556	
Sell Shares					
AC/FIFO	250.00	9/1/2013	$9.750		$2,437.500
Average Cost = ($3,830.556/407.284)			$9.405		
Sell	100.000	1/1/2013	$9.750		$975.000
Sell	2.778	3/31/2013	$9.750		$27.086
Sell	100.000	5/1/2013	$9.750		$975.000
Sell	4.506	6/30/2013	$9.750		$43.934
Sell	42.716	7/15/2013	$9.750		$416.481
					$2,437.500
Shrs Remaining	157.284	7/15/2013	$9.405	$1,479.256	

Gain/(Loss) for 1099-B Reporting

Tax Lot	Proceeds	Acquisition Date	Cost Basis	Gain/(Loss)	Type
100 Shares	$975.000	1/1/2013	$940.500	$34.500	Short
2.778 Shares	$27.086	3/31/2013	$26.127	$0.959	Short
100 Shares	$975.000	5/1/2013	$940.500	$34.500	Short
4.506 Shares	$43.934	6/30/2013	$42.379	$1.555	Short
42.716 Shares	$416.481	7/15/2013	$401.744	$14.737	Short

TRANSACTION CATEGORY: SALES

USING AVERAGE COST vs. OTHER LOT METHODS ON SALE TRANSACTIONS

The IRS has allowed taxpayers to elect to use Average Cost Basis when computing Gains/(Losses) on sale transactions for shares held in DRP accounts and for Registered Investment Company (RIC) shares. To understand how Average Cost is calculated and how its use can impact the computation of Gains/(Losses), we have provided several examples below:

- Calculation of Average Cost – To calculate Average Cost, you need individual share lot cost information:
  - Number of Shares
  - Cost of Shares

  Let's take a simple example:

  John Smith has been making monthly purchases into his DRP account. Due to current economic conditions, ABC Corporation has suspended its monthly dividend. So, at the current time, John has the following lots in his DRP account that he purchased:

50 Shares	Acquisition Date	1/2/2014	Cost	$ 500.000
25 Shares	Acquisition Date	2/1/2014	Cost	$ 252.500
50 Shares	Acquisition Date	3/1/2014	Cost	$ 492.500
25 Shares	Acquisition Date	4/1/2014	Cost	$ 250.750
150 Shrs			Cost	$1,495.750

  John has a total of 150 shares with a total cost of $1,495.75 as of his last purchase on 4/1/2014. John's average cost/share is $9.97 ($1,495.75/150 shrs = $9.97/shr). If John does another purchase on 5/1/2014 for another 50 shares at $10.15/shr, his average cost would change:

  He would now have 200 shares with a total cost of $2,003.25 and his average cost would be $10.016/shr.

  ACB Corporation resumes paying monthly dividends on 5/30/2014. John is eligible for the $0.05/shr dividend on his 200 shares (he reinvests the $10 in additional shares at a price of $9.95/shr and receives 1.005 additional shares). John now has 201.005 shares with a total cost of $2,013.25 or an average price of $10.016/shr.

  Please Note: Certain transactions that change the total number of shares in the account, e.g., purchase, dividend reinvestment, etc., can have an impact on the average cost of the shares. Average Cost is computed at the time of a transaction and is not *static* – it can and will change along with activity in the account.

TRANSACTION CATEGORY: SALES

USING AVERAGE COST vs. OTHER LOT METHODS ON SALE TRANSACTIONS

- If John now wants to sell 100 of his shares, he can elect to sell them at an average cost – depleting his lots on a FIFO basis. Let's say John wants to sell 100 shares on 8/1/2015 (we will assume no further transaction activity for illustrative purposes) at a price of $10.38/shr.

  John's Average Cost for this sale would be $10.016/shr – or the average cost as computed as of the last transaction activity. John's total proceeds would be $1,038.00 and he would have the remaining lots in his account:

25 Shares	Acquisition Date	3/1/2014	Cost	$250.400
25 Shares	Acquisition Date	4/1/2014	Cost	$250.400
50 Shares	Acquisition Date	5/1/2014	Cost	$500.800
1.005 Shrs	Acquisition Date	5/30/2014	Cost	$ 10.066
101.005 Shrs				$1,011.666

  John's Gain/(Loss) for tax reporting purposes on his 1099-B would be:

Total Proceeds	Average Cost	Gain/(Loss)
$1,038.00	$1,001.60	$ 36.40/LT

- Now let's say John holds a Certificate representing the 150 shares he bought up until 4/1/2014 and would like to sell 100 shares. We will sell the shares on the same date, 8/1/2015 with the same price $10.38/shr. Because John presents his certificate, the TA will process the sale using "specific lots"*. Let's see if the Gain/(Loss) on the sale would differ using this method:
  **The presentation of a certificate, by default, represents specific lot identification for the sale.*
  John's Certificate Shares:

50 Shares	Acquisition Date	1/2/2014	Cost	$ 500.000
25 Shares	Acquisition Date	2/1/2014	Cost	$ 252.500
50 Shares	Acquisition Date	3/1/2014	Cost	$ 492.500
25 Shares	Acquisition Date	4/1/2014	Cost	$ 250.750
150 Shrs			Cost	$1,495.750

  John would still receive $1,038.00 in proceeds from this sale. He would have the following lots remaining after the sale:

25 Shares	Acquisition Date	3/1/2014	Cost	$246.250
25 Shares	Acquisition Date	4/1/2014	Cost	$250.750

TRANSACTION CATEGORY: SALES

USING AVERAGE COST vs. OTHER LOT METHODS ON SALE TRANSACTIONS

His Gain/(Loss) for 1099-B reporting would be calculated as follows:

Tax Lot	Sale Date	Acquisition Date	Proceeds	Cost Basis	Gain/Loss Type
50 Shares	8/1/2015	1/2/2014	$ 519.00	$ 500.000	$ 19.00/LT
25 Shares	8/1/2015	2/1/2014	$ 259.50	$ 252.500	$ 7.00/LT
25 Shares	8/1/2015	3/1/2014	$ 259.50	$ 246.250	$ 13.25/LT

Total LT Gain was $39.25 in this situation (where we used Specific Lot ID) as opposed to $36.40 in the prior example using average cost.

EXAMPLES OF USING AVERAGE COST vs OTHER LOT METHODS

EXAMPLE I					
Transaction	No Shares	Date	Price	Total Cost	Total Proceeds
Buy	50	1/2/2014	$10.000	$500.000	
Buy	25	2/1/2014	$10.100	$252.500	
Buy	50	3/1/2014	$9.850	$492.500	
Buy	25	4/1/2014	$10.030	$250.750	
Total	150			$1,495.750	
Average Cost/Shr			$9.972	a/o 4/1/2014	
Buy	50	5/1/2014	10.15	$507.500	
Div Reinv	1.005	5/30/2014	$9.950	$10.000	
Total	201.005			$2,013.250	
Average Cost/Shr			$10.016	a/o 5/30/2014	
Sell	100	8/1/2015	$10.380		$1,038.000
Gain/Loss Using Avg Cost/FIFO Depletion				$1,001.600	$36.400
Remaining Lots	50	3/1/2014	$10.016	$500.800	
	25	4/1/2014	$10.016	$250.400	
	50	5/1/2014	$10.016	$500.800	
	1.005	5/30/2014	$10.016	$10.066	
Total	126.005			$1,262.066	
Average Cost/Shr			$10.016	a/o 8/1/2015	
EXAMPLE II					
Transaction	No Shares	Date	Price	Total Cost	Total Proceeds
Sell	100	8/1/2015	$10.380		$1,038.00
Sell is for Specific Lots					
Buy	50	1/2/2014	$10.000	$500.000	
Buy	25	2/1/2014	$10.100	$252.500	
Buy	50	3/1/2014	$9.850	$492.500	Partial Lot
Buy	25	4/1/2014	$10.030	$250.750	
Sold 8/1/2015	50	1/2/2014		$500.00	$519.00
	25	2/1/2014		$252.50	$259.50
	25	3/1/2014		$246.25	$259.50
			Total	$998.75	$1,038.00
Gain/Loss Specific Lots					$39.25

TRANSACTION CATEGORY: SALES – Wash Sale
SCENARIO 7: – Wash Sale Adjustment – Trailing DRP Transaction

DESCRIPTION:
Bob Andrews has a DRP account with the following transactions:

Date	Transaction	No Shares	Price/Shr	Total Cost	Proceeds
2/1/2014	Buy	100.000	$50.000	$5,000.000	
3/01/2014	X-Rec Div				
3/31/2014	Sell	100.000	$45.000		$4,500.000
4/03/2014	Div Reinv	3.000	$47.000	$ 141.000	

Wash sale rules are fairly complex and are designed to prevent investors from artificially creating capital losses by selling and subsequently buying back identical securities within a 30-day period. Whenever a DRP transaction is executed, the Transfer Agent will have to review the transactions that occurred within 30 days of this event to determine if a wash sale adjustment must be made.

Current wash sales rules prohibit a tax-payer from deducting losses from sales or trades of stock in a sale, if they occur within 30 days of a purchase of shares of the same stock.

If a loss is disallowed because of the wash sale rules, the disallowed loss must be added to the cost of the new shares. The result is the basis in the new shares. This adjustment postpones the loss deduction until the disposition of the new shares. The holding period for the new shares must also be adjusted by adding on the number of days in the holding period of the shares that were sold.

In the account above, the sale of 100 shares on 3/31/2014 generated a loss of $500.00 (Total Cost $5000.00 – Total Proceeds $4500.00) or $5.00 per share. The sale occurred after a record date and the shareholder was enrolled in a DRP. As a result, a subsequent dividend reinvestment occurs on 4/3/2014 that resulted in a buy of three additional shares at $47/shr for a total cost of $141.

The DRP purchase at $47/shr, after selling shares at a loss four days earlier for $45/shr, triggers the wash sale rule for the three (3) shares. The loss of $500.00 must be reduced and the cost basis and holding period of the three (3) shares must be adjusted. The adjustments required are outlined on the next page.

TRANSACTION CATEGORY: SALES – Wash Sale
SCENARIO 7 (Cont'd.): – Wash Sale Adjustment – Trailing DRP Transaction

1. You must reduce the loss on the 1099B for the sale, from $500 to $485 (3 Shrs * $5/shr or the difference between the two prices $50/shr and $45/shr).
2. You must add this loss of $15 to the cost basis of the three (3) DRP shares bought on 4/3/2014. The cost basis becomes $156 (the original cost of $141 plus the $15 disallowed loss).
3. You must back date the holding period on the DRP buy for cost basis accounting by 58 days (the period between 2/1/2014 and 3/31/2014) from 4/3/2014 to 2/4/2014.

The record would then show that you had a three (3) share purchase "as of" 4/3/2014 with a Purchase Effective date for cost basis purposes of 2/4/2014 at a total cost of $156. The transfer agent must also store both the original basis and date of the DRP purchase for record date purposes, as well as the adjusted basis and adjusted holding period.

*Please Note:
For more information on Wash Sales and their impact on Cost Basis Reporting, see the STA Newsletter – July 2010 issue.

TRANSACTION CATEGORY: TRANSFER
SCENARIO 8: – Transfer of Shares Due to Private Sale

DESCRIPTION:
Patty Howard has in her possession a Certificate for 500 shares of ABC Corp. representing five lots she purchased several years ago. Patty did keep track of the purchases – they were all 100 share lots and what she paid for them. Patty had mentioned to her business associate, Tom Gallagher, she was thinking of selling her ACB holdings. Tom was interested in acquiring some more of ABC Corp. and he and Patty decided to do a private sale for the 500 shares she currently had in certificate form.

DETERMINATION:
Patty went back through her records and prepared a spreadsheet with the cost basis information for the five lots of ABC that were represented by Certificate A675. Patty endorsed her certificate over to Tom on May 3, 2015, obtained a Medallion Signature Guarantee, and received from Tom a check for $17,500 or $35/shr. Tom then sent the endorsed certificate, along with the cost basis information Patty supplied, into the Transfer Agent to be transferred into his existing account in ABC Corp.

ACTIONS/RESULTS:
1. Upon receipt of the Certificate in good form, the Transfer Agent will process the transfer from Patty's account into Tom's along with the cost basis information supplied. After the transfer, with an effective date of 5/3/2015, Patty's account will have been debited for the 500 shares and the Transfer Out identified with a reason of "*private sale*".

100 Shares	Acquisition Date 3/30/2011	Cost	$3,245.500
100 Shares	Acquisition Date 6/30/2011	Cost	$3,375.000
100 Shares	Acquisition Date 3/30/2013	Cost	$3,215.000
100 Shares	Acquisition Date 6/30/2013	Cost	$3,597.500
100 Shares	Acquisition Date 3/30/2014	Cost	$3,463.000

2. Tom's account will be credited with one tax lot of 500 shares as of 5/3/2015 with a cost basis of $35/Shr along with an indicator "*shareholder provided basis*":

500 Shares	Acquisition Date 5/3/2015	Cost	$17,500.000

TRANSACTION CATEGORY: EMPLOYEE AWARDS
SCENARIO 9: – Restricted Stock Vests and Delivers

DESCRIPTION:
Sean Flynn was awarded 2,700 "restricted" shares of XYZ Corp as part of his benefits package on 2/25/2012. The shares will vest over the next three years in equal installments, on the anniversary of the award. Therefore, Sean will acquire the shares on the following dates:

2/25/2013	900 shares
2/25/2014	900 shares
2/25/2015	900 shares
	2,700 shares

At the time of the award, XYZ Corp. had a FMV of $37/shr.

DETERMINATION:
On 2/25/2013, one-third of Sean's restricted stock award vests (is now *acquired by the employee*). Those 900 shares of XYZ Corp. have the restricted status removed. The FMV of XYZ stock on vesting date is $42. Sean will recognize $37,800 of compensation ($42 x 900 shares), reportable on Form W-2 by XYZ Corp. Sean's cost basis for each of the 900 shares is $42, the FMV of XYZ Corp on the vesting date of 2/25/2013.

Under the final cost basis regulations, compensatory awards that are received without any cash payment, such as restricted stock which vests over time, are considered noncovered. **Transfer agents are required to record cost basis as zero for this security and mark it noncovered.** Awardees are required to adjust their cost basis to equal the FMV on Form 8949 when they sell their shares and file their Form 1040 tax return.

The above rules apply whether the award is of restricted stock or restricted stock units (RSUs).

TRANSACTION CATEGORY: EMPLOYEE AWARDS
SCENARIO 10: – Restricted Stock Vests and Delivers – 83(b) election

DESCRIPTION:
Sean Flynn was awarded 2,700 "restricted" shares of XYZ Corp as part of his compensation on 2/25/2012. The shares will vest over the next three years in equal installments, on the anniversary of the award. Therefore, Sean will acquire the shares on the following dates:

2/25/2013	900 shares
2/25/2014	900 shares
2/25/2015	900 shares
	2,700 shares

At the time of the award, XYZ Corp. had a FMV of $37/shr. Sean makes a valid IRC §83(b) election on all 2,700 shares within 30 days from the grant date of 2/25/2012. As a result, Sean will recognize $99,900 in compensation income in 2012 (2,700 shares x $37/sh). Sean pays cash to XYZ for any payroll taxes due as a result of the 83(b) election.

DETERMINATION:
Under a section 83(b) election, Sean is treated as the owner of the shares from the date of grant, which also becomes the acquisition date of the shares. On 2/25/2013, one-third of Sean's restricted stock award vests. Those 900 shares of XYZ Corp. have the restricted status removed. Sean's cost basis is the FMV of XYZ Corp. **as of the grant date of 2/25/2012 or $37/shr.**

However, under the final cost basis regulations, compensatory awards that are received without any cash payment, such as restricted stock which vests over time, are considered noncovered. **Transfer agents are required to record cost basis as zero for this security and mark it noncovered.** Awardees who file a valid 83(b) election are required to adjust their cost basis to be the FMV as of grant date on Form 8949 when they sell their shares and file their Form 1040 tax return.

Notes for above two scenarios:

1. 83(b) elections are only permitted for restricted stock awards, not restricted stock units.
2. No tax refund is available for shares subject to an 83(b) election that are subsequently forfeited, or whose FMV at vesting date is lower than the FMV on grant date.
3. Many stock plan administrators consider the vesting and delivery event to be the same when calculating taxable income and cost basis for both restricted stock and restricted stock units (RSUs). Some administrators consider the date of delivery of the shares underlying RSUs to be the acquisition date for cost basis purposes, as well as the date that the FMV should be determined.

4. Some RSU plans provide for "deferred delivery," meaning that the actual delivery is deferred beyond vesting date, along with the Federal taxable income and withholding. In this case, at vesting date, employment taxes such as Social Security and Medicare are due even though the amounts will not be included in Federal taxable income until later. Once this amount has been included in Social Security and Medicare earnings, any increase in value is not subject to additional Social Security and Medicare withholding tax at actual delivery of the shares.

5. Most issuers do not consider the withholding of shares on vesting date, in exchange for payroll withholding taxes due, a 1099-B reportable event. Therefore, there is no cost basis effect for shares withheld.

6. The few issuers that require payment of the par value of RSAs will record the par value as cost basis. As cash is paid for the shares it coverts their status to covered securities. The complete cost basis, equal to the FMV on grant date when an 83(b) election is made, will be adjusted and recorded by the taxpayer on Form 8949 once the shares are sold.

TRANSACTION CATEGORY: EMPLOYEE AWARDS
SCENARIO 11: – Stock Settled Stock Appreciation Rights (SSARs)

DESCRIPTION:
Sean Flynn was awarded 1,000 SSARs of XYZ Corp as part of his compensation on 2/25/2012. The SSARs will vest and become exercisable on 2/25/2013, and remain exercisable until 2/25/2015. The FMV at award date was $40.00. Withholding taxes are assumed to be 30%.

Once the SSARs vest on 2/25/2013, there is no taxable event. It is only when Sean decides to exercise his SSAR that there will be a taxable event.

DETERMINATION:
On 6/1/2014, Sean exercises his 1,000 SSARs when the FMV of XYZ is $80.00. The difference between the FMV at exercise and grant ($80 - $40) is $40.00 per share. XYZ records this amount as compensation income. As a result, Sean is taxed on $40,000 and will receive the value of the gain less payroll withholding paid in shares.

1. Sean will receive 500 shares
   [($40 gain per SSAR * 1000 SSARs)/$80 FMV].
2. Taxes at a 30% rate will be paid by withholding 150 shares of the 500 received
   [($40,000 gain * 30% tax rate)/$80 FMV per share]
3. Sean will be issued 350 shares with a cost basis equal to the FMV at exercise of $80/share.
4. Total cost basis is $28,000. The acquisition date is 6/1/2014.

Under the final regulations, stock that is received for no cash payment, such as through the exercise of stock-settled stock appreciation rights, is considered noncovered. **Transfer agents are required to record cost basis as zero for this security and mark it noncovered.** Awardees are required to adjust their cost basis to equal the FMV on Form 8949 when they sell their shares and file their Form 1040 tax return.

Some brokers/administrators offer simultaneous sales of SSARs. In this case, the FMV for determining taxable income, and cost basis, will differ slightly from the sales price, because the gain and withholding taxes must be determined before the net shares can be sold.

TRANSACTION CATEGORY: TRANSFER ON DEATH
SCENARIO 12: Transfer of Specific Shares Held in Certificate by Executor

DESCRIPTION:
Mary Foley had used the firm of Jones & Smith to do her estate planning and act as trustee and administrator for her plan. Mary recently died (DoD February 15, 2015) and Jones & Smith are now acting as Executor for Mary's estate. As part of Mary's estate plan, she had left 400 shares of her ABC Corp holdings to her niece, Susan Garvey.

DETERMINATION:
Jones & Smith, in their capacity as Mary's trustee and administrator, have maintained "custody" of Mary's assets for the past 15 years. Mary had a total of 1,000 shares of ABC Corp held in certificate form in her estate account at Jones & Smith. Jones & Smith have specifically identified, in writing to the TA, the oldest lots representing 400 shares of ABC Corp are to be transferred to Susan Garvey (Mary's niece). They have sent in certificate A315 (representing 400 shares), the FMV of those shares as of the DoD (2/15/2015) of $13.10/shr, and other requisite paperwork to effect the transfer. It is important to note that Certificate A315 ***does not*** represent the oldest lots that have been specifically identified for transfer.

ACTIONS/RESULTS:

1. The TA receives the instructions from Jones & Smith and opens a new account on their books in the name of Susan Garvey.
2. The TA then reviews Mary's account and finds that she had held 1,000 shares of ABC Corp (issued in three certificates) with the following lots and cost basis:

Certificate A123				
100 Shares	Acquisition Date	3/31/2011	Cost:	$1,200.00
100 Shares	Acquisition Date	6/30/2011	Cost:	$1,225.00
200 Shares	Acquisition Date	9/30/2011	Cost:	$1,215.00
Certificate A250				
200 Shares	Acquisition Date	12/31/2012	Cost:	$2,440.00
Certificate A315				
100 Shares	Acquisition Date	3/31/2013	Cost:	$1,250.00
100 Shares	Acquisition Date	6/30/2013	Cost:	$1,260.00
100 Shares	Acquisition Date	9/30/2013	Cost:	$1,275.00
100 Shares	Acquisition Date	12/31/2013	Cost:	$1,285.00

Upon reviewing Mary's positions, the TA realizes that Certificate A315 for 400 shares that was sent in with the transfer request does not represent the oldest share lots. However, because the Executor provided specific identification of the shares, in writing, to be transferred, and the FINAL IRS Cost Basis Regulations (Treasury Regulation Section 1.1012-1(c)(4)(ii)) allow for this, the TA will process the request as instructed.*

TRANSACTION CATEGORY: TRANSFER ON DEATH
SCENARIO 12 (Cont'd.): Transfer of Specific Shares Held in Certificate by Executor

*The FINAL IRS Cost Basis Regulations state:

> "The stock the trust or estate identifies under paragraph (c)(4)(i) of this section is the stock treated as sold, transferred, or distributed, even if the trustee, executor, or administrator delivers stock certificates from a different lot."

The following **ACTIONS** are "illustrative" and may or may not reflect actual Transfer Agent processing. Due to the nature of this type of request, individual Agent processing requirements may differ due to internal procedures and/or systems' requirements. The STA recommends that each Agent confer with their own Accounting and Tax advisors to determine the best method to record and report this type of activity to ensure compliance with the rules.

ACTIONS/RESULTS (Cont'd.):

1. The TA will cancel Certificate A315 representing 400 shares of ABC Corp.
2. The TA will then transfer 400 Shares of ABC Corp to Susan Garvey's new account – depleting the oldest shares from Mary's account.
3. Susan's account will have 400 shares in one lot with the following "stepped up" cost basis after the transfer:

   400 Shares   Acquisition Date: 2/15/2015   Cost: $5,240.00

   The gifted/inherited indicator in each lot will be flagged as ***"inherited".***
4. Mary's account will have 600 shares of ABC Corp remaining after the transfer in the following lots*:

200 Shares	Acquisition Date	12/31/2012	Cost:	$2,440.00
100 Shares	Acquisition Date	3/31/2013	Cost:	$1,250.00
100 Shares	Acquisition Date	6/30/2013	Cost:	$1,260.00
100 Shares	Acquisition Date	9/30/2013	Cost:	$1,275.00
100 Shares	Acquisition Date	12/31/2013	Cost:	$1,285.00

*Certificate A250 still reflects the 200 Share Lot acquired on 12/31/2012. However, Certificate A315 has been "cancelled" and the lots associated with Certificate A123 transferred. The TA could "reassign" the lots represented by the cancelled certificate to the outstanding "live" certificate or may provide some notation in the account history to indicate that lots were depleted according to "authorized instructions" based on a different certificate.

Again, the STA recommends that each Agent check with their Accountants and Tax Advisors to ensure that they have adequate controls surrounding this type of transaction to ensure a proper audit trail can be maintained along with the cost basis information required under the Regulations.

TRANSACTION CATEGORY: SALE OF GIFTED SHARES
SCENARIO 13: Sale of Gifted Shares where Donor's Basis was Higher than FMV and Seller Wants to Use Average Cost

DESCRIPTION:
Brian Murphy has been gifting shares of XYZ Corp to his nephew, Stephen Murphy, on his birthday for the past several years. Stephen is now in the process of selling 100 shares of XYZ Corp for college expenses.

DETERMINATION:

Stephen learned that in order to use Average Cost that there were some special "tax" rules that applied to selling gifted shares. When consulting with his tax advisor, they determined that the "donor's cost basis" (Brian's) was higher than the Fair Market Value (FMV) of the shares on each of the dates of the gifts of shares to Stephen. His tax advisor informed him that the IRS Cost Basis Rules (Treasury Regulation Section 1.1012-1(e)(8)) "Limitations on Use of Average Basis for Certain Gift Shares" stipulate that if a seller would like to use Average Cost as the basis when selling shares, they would need to provide, in writing, to their agent instructions to use the Fair Market Value (FMV) of their shares at the time each lot was acquired by gift instead of the donor's basis. Stephen was finally ready to sell his shares.

ACTION/RESULTS:

1. Stephen prepared written instructions for his agent to use the Fair Market Value of his gifted shares at the time each lot was acquired by gift along with the Average Cost method and to deplete his lots FIFO. The agent received Stephen's request to sell his shares on August 15, 2015. The Fair Market Value (FMV) of XYZ Corp was $20.02/shr on August 15, 2015.

2. Stephen's account has 225 shares of XYZ Corp held in three tax lots with the following cost basis. All shares have the ***"gifted"*** share indicator flagged:

Lot	Gift Date	No. Shares	FMV on Gift Date	Donor's Acquisition Date	Donor's Cost Basis	Basis/Shr
1	6/12/2012	50	$19.75	1/31/2011 (50 Shr)	$1,000.00	$ 20.00
2	6/12/2013	75	$19.60	1/31/2011 (50 Shr)	$1,000.00	$ 20.00
				2/28/2011 (25 Shr)	$ 501.25	$ 20.05
3	6/12/2014	100	$19.80	2/28/2011 (75 Shr)	$1,503.75	$ 20.05
				3/31/2011 (25 Shr)	$ 498.75	$ 19.95

TRANSACTION CATEGORY: SALE OF GIFTED SHARES
SCENARIO 13 (Cont'd.): Sale of Gifted Shares where Donor's Basis was Higher than FMV and Seller Wants to Use Average Cost

ACTION/RESULTS (Cont'd.):

3. The agent verified that the donor's cost basis on the share lots Stephen was selling was higher than the FMV on the date of the individual gifts. The agent then processed the sell request using the FMV as the cost when computing Average Cost as the basis for selling the shares. The agent depleted the lots on a FIFO basis.
   a. The agent first calculated the Average Cost of Stephen's shares based on the FMV share price on the date of each gift:

50 Shrs	$19.75/Shr	Total Cost:	$ 987.50
75 Shrs	$19.60/Shr	Total Cost:	$1,470.00
100 Shrs	$19.80/Shr	Total Cost:	$1,980.00
225 Shrs			$4,437.50

   Average Cost = Total Cost/Shrs
   Average Cost = $4,437.50/225
   Average Cost/Shr = $19.722

   b. The agent processes the sale for 100 shares on August 15, 2015 at $20.02/shr yielding $2,002.00 in proceeds.
   c. The Cost Basis for tax reporting (1099-B) purposes is $1,972.20 (100 shrs * $19.722)
   d. The Gain/(Loss) reportable on this transaction is $29.80.

4. Here Stephen has elected Average Cost and sold, so that the average cost is locked in for those previously gifted shares. This is true for these shares even if the Average Basis election is revoked. The Gain or Loss is no longer dependent upon the Donor's Basis. The TA would, however, be required to maintain the Donor's Acquisition Date and Basis in case of a transfer described in Treasury Regulation Section 1.6045A-1(b)(6)(ii).
   When the sale is completed, Stephen will have two tax lots with the following cost basis information remaining:

Lot	Gift Date	No. Shares	FMV on Gift Date	Donor's Acquisition Date	Donor's Cost Basis	Stephen's Avg Basis
2	6/12/2013	25	$19.60	2/28/2011 (25 Shr)	$ 501.25	$ 493.05
3	6/12/2014	100	$19.80	2/28/2011 (75 Shr)	$1,503.75	$1,479.15
				3/31/2011 (25 Shr)	$ 498.75	$ 493.05

***Note: If Stephen had not submitted a written request to his agent instructing them to use the Fair Market Value (FMV) of his shares, he would not have been able to use Average Cost as his basis for this transaction.**

TRANSACTION CATEGORY: SALE OF SHARES
SCENARIO 14: Partial Sale of Shares from DRP Account (Covered Shares Transferred to a Qualifying DRP in 2011)

DESCRIPTION:
Bill Smith currently has 200 shares of East McKeesport Power & Light (EMP&L). Bill recently learned that EMP&L sponsors a Dividend Reinvestment Plan (DRP) and has decided to open a DRP account. Bill would like to transfer his 200 shares of EMP&L into this new DRP account.

On April 30, 2012, Bill sends instructions to the TA to sell 50 shares of EMP&L from his DRP account.

ACTIONS/RESULTS:

1. Bill has 200 shares of EMP&L held in two lots in Book Form with the following cost basis:

100 Shares	Acquisition Date 2/15/2011	Cost: $2,500.000
100 Shares	Acquisition Date 3/15/2011	Cost: $2,575.000

   *Bill's shares were purchased after the effective date of the new IRS Cost Basis Regulations – his Transfer Agent is maintaining Cost Basis information for these lots.

2. On June 15, 2011, Bill submits the necessary paperwork to the Transfer Agent to establish a DRP account along with a request to transfer his 200 shares held in Book Form to his new account.

   Because the EMP&L DRP plan meets the requirements of a DRP under Treasury Regulation Section 1.1012-1(e)(6)(i) IRS Regulations [Section 1012(d)(4)(A)], shares held in a DRP account in the taxable year 2011 are deemed to be "non-covered", i.e., no cost basis information maintained, under Treasury Regulation Section 1.6045-1(a)(15)(iv)(A). For this reason, when the Transfer Agent transfers Bill's shares from Book Form to the DRP account, the cost basis information ***will not*** carry forward.

TRANSACTION CATEGORY: SALE OF SHARES
SCENARIO 14 (Cont'd.): Partial Sale of Shares from DRP Account (Covered Shares Transferred to a Qualifying DRP in 2011)

ACTION/RESULTS (Cont'd.):

3. Bill will have 200 shares of EMP&L held in one lot in his DRP account after the transfer:
   200 Shares Acquisition Date 6/15/2011 Cost: "non-covered"

4. On April 30, 2012, Bill sends instructions to the TA to sell 50 shares of EMP&L from his DRP account.

5. On April 30, 2012, the TA receives Bill's request to sell 50 shares from his DRP account that has the following lot:

   200 Shares Acquisition Date 6/15/2011 Cost: "non-covered"

6. The TA will sell the shares from the 200 Share lot – no cost basis information or Gain/Loss will be reported on this sale of "non-covered" shares. Bill will have 150 shares remaining in the following lot after the sale:

   150 Shares Acquisition Date 6/15/2011 Cost: "non-covered"

   The next page illustrates what would happen if Bill had transferred his shares into a "Non-Qualifying" DRP Account.

TRANSACTION CATEGORY: SALE OF SHARES
SCENARIO 14 (Cont'd.): Partial Sale of Shares from DRP Account (Non-Qualifying DRP)

ALTERNATE SCENARIO – SHARES HELD IN "NON-QUALIFYING" DRP PLAN

If Bill had transferred his shares into a **"Non-Qualifying"** (under the definition in the FINAL IRS Regulations in Treasury Regulation Section 1.1012-1(e)(6)) DRP account in 2011, the shares would have all remain "covered" shares. The TA would have had to maintain and report the cost basis information for the shares sold along with providing a 1099-B with the Gain/(Loss) resulting from the sale.

1. The Transfer Agent would have transferred the 200 Book shares carrying forward all the cost basis information to his "Non-Qualifying" DRP Account. Bill would have two lots with the following cost basis in his "Non-Qualifying" DRP account:

100 Shares	Acquisition Date 2/15/2011	Cost: $2,500.000
100 Shares	Acquisition Date 3/15/2011	Cost: $2,575.000

2. On April 30, 2012, the TA receives Bill's request to sell 50 shares from his "Non-Qualifying" DRP account. Because this is a "Non-Qualified" DRP, the shares are deemed to be "covered" in 2011 and Bill cannot use Average Cost when selling his shares. The TA will use their default FIFO method to deplete the lots in this request unless Bill provides the specific shares to be sold prior to the settlement date or the time for settlement under SEC guidelines. The Fair Market Value (FMV) on 4/30/12 is $26.85/shr. The 1099-B will be generated for this sale with the following tax lot information:

Tax Lot	Acquisition Date	Proceeds	Cost Basis	Gain/(Loss)/Type
50 Shrs	2/15/2011	$1,342.50	$1,250.00	$ 92.50 **LT**

3. After the sale, Bill would have 150 shares remaining with the following cost basis:

50 Shares	Acquisition Date 2/15/2011	Cost: $1,250.000
100 Shares	Acquisition Date 3/15/2011	Cost: $2,575.000

TRANSACTION CATEGORY: EMPLOYEE AWARDS
SCENARIO 15: – Non-Qualified Stock Options

DESCRIPTION:
Sean Flynn was awarded 1,000 non-qualified stock options of XYZ Corp as part of his compensation on 2/25/2012 with a grant price of $40. The stock options will vest and become exercisable on 2/25/2013, and remain exercisable until 2/25/2015. Withholding taxes are assumed to be 30%.

Once the stock options vest on 2/25/2013, there is no taxable event. It is only when Sean decides to exercise his stock options that there will be a taxable event.

DETERMINATION:
On 6/1/2014, Sean exercises his 1,000 stock options when the FMV of XYZ is $70.00. The difference between the FMV at exercise and grant is $30.00 per share ($70.00 - $40.00). XYZ records this amount as compensation income. As a result, Sean is taxed on $30,000 of compensation.

Sean chooses to pay cash for the option cost ($40,000) and withholding taxes ($9,000 = 30% x $30,000). Sean will be issued 1000 shares and their cost basis is equal to the FMV at exercise of $70/share.

Stock options that are exercised by paying cash are considered covered securities. **However, under the final regulations relating to compensatory awards, transfer agents are required to record only the option cost as cost basis for this security.** In this case that is equal to $40/share. Awardees are required to adjust their cost basis to equal the FMV on Form 8949 when they sell their shares and file their Form 1040 tax return.

For covered compensatory awards, only the option cost is recorded as cost basis.
The types of stock option exercises that would result in the issuance of **covered** securities are:
Cash (Buy and Hold): Exercise all options and pay option cost and taxes in cash
Cashless-for-cash: Exercise all options and sell all resulting shares, pay off option costs, taxes and fees, and receive the net proceeds in cash
Cashless-hold (Sell to cover): Exercise all options and sell enough shares to cover option cost and taxes. Issue the net shares to the employee.

For noncovered compensatory awards, no cost basis is recorded.
The types of stock option exercises that would result in issuance of **noncovered** securities are:
Stock Swap: Exercise options and pay option cost by exchanging already-owned shares of the same company. Issue the net shares to the employee.
Net-settled (Immaculate exercise): Pay option cost by withholding the equivalent FMV in shares that would otherwise have been issued. Issue the net shares to the employee.

TRANSACTION CATEGORY: EMPLOYEE AWARDS
SCENARIO 16: – Incentive (Qualified) Stock Options (ISOs)

DESCRIPTION:
Sean Flynn was awarded 1,000 incentive stock options of XYZ Corp as part of his compensation on 2/25/2012 with a grant price of $40. The stock options will vest and become exercisable on 2/25/2013, and remain exercisable until 2/25/2015.

Under the special rules for incentive stock options, no compensation income is recognized upon the exercise of an ISO option. If the underlying shares are sold within either 1) one year from exercise date, or 2) two years from grant, then compensation income may be recorded on the employee's Form W-2. This compensation income is added to the employee's reportable cost basis on the security. These calculations are beyond the scope of this overview.

Once the stock options vest on 2/25/2013, there is no cost basis event. It is only when Sean decides to exercise his stock options that there will be a cost basis event.

DETERMINATION:
On 6/1/2014, Sean exercises his 1,000 incentive stock options when the FMV of XYZ is $70.00. He purchases the shares by exercising the ISOs in a cash exercise. As these are tax-qualified options, no Federal or employment tax withholding occurs at exercise.

Sean chooses to pay cash for the option cost ($40,000). Sean will be issued 1000 shares and their cost basis will be recorded as the option cost of $40/share.

Stock options that are exercised by paying cash are considered covered securities. **However, under the final regulations relating to compensatory awards, transfer agents are required to record only the option cost as cost basis for this security.** In this case that is equal to $40/share. Awardees may be required to adjust their cost basis on shares received from the exercise of ISOs on Form 8949 when they sell their shares and file their Form 1040 tax return.

For covered compensatory awards, only the option cost is recorded as cost basis. The types of stock option exercises that would result in the issuance of **covered** securities are:
Cash (Buy and Hold): Exercise all options and pay option cost and taxes in cash
Cashless-for-cash: Exercise all options and sell all resulting shares, pay off option costs, taxes and fees, and receive the net proceeds in cash
Cashless-hold (Sell to cover): Exercise all options and sell enough shares to cover option cost and taxes. Issue the net shares to the employee.

For noncovered compensatory awards, no cost basis is recorded.
The types of stock option exercises that would result in issuance of **noncovered** securities are:

TRANSACTION CATEGORY: EMPLOYEE AWARDS
SCENARIO 16 (Cont'd.): – Incentive (Qualified) Stock Options (ISOs)

Stock Swap: Exercise options and pay option cost by exchanging already owned shares of the same company. Issue the net shares to the employee.
Net-settled (Immaculate exercise): Pay option cost by withholding the equivalent value in shares to be issued. Issue the net shares to the employee.

TRANSACTION CATEGORY: EMPLOYEE AWARDS
SCENARIO 17: Qualified §423 Employee Stock Purchase Plans (ESPPs)

DESCRIPTION:
XYZ Corp establishes a qualified employee stock purchase plan under IRC§423. The plan establishes three-month offering periods, and offers a 15% discount from the lower of the stock price at the beginning or end of the offering period.

The offering period runs from January 1, 2014 - March 31, 2014. The price on January 1 was $40/share and the price on March 31 was $45/share. Employee purchases 100 shares on June 30 and pays $34/share ($40 less 15% discount).

Under the special rules for qualified ESPPs, no compensation income is recognized upon purchase of shares in the ESPP. When the underlying shares are sold or transferred, compensation income may be recorded on the employee's Form W-2. This compensation income should be added to the employee's reportable cost basis on the security. The calculations are beyond the scope of this overview.

DETERMINATION:
Employee will be issued 100 shares and their cost basis will be recorded as the purchase price of $34/share.

ESPP shares purchased by paying cash are considered covered securities. **However, under the final regulations relating to compensatory awards, transfer agents are required to record only the purchase price as cost basis for this security.** In this case that is equal to $34/share.

Upon sale of the ESPP share, compensatory income may be recognized. The employee will add this amount to the purchase price to determine the total cost basis, and record this adjusted amount on Form 8949 when filing their income tax return.

Appendix: Glossary of Terms

Term	Description
Acquisition Date	The date shares were purchased or acquired, e.g., Trade Date.
Adjusted Cost Basis	Represents the dollar cost of a share lot acquired, adjusted as necessary for fees, corporate actions, return of capital payments, reinvested dividends, wash sales and other processing with impact to cost basis.
Adjusted Holding Period	Used in wash sale situations. Refers to the adjustment of the original purchase date by adding on the number of days in the holding period of the shares sold.
Applicable Person	Brokers, professional custodians of securities, issuers of securities and their transfer agents.
Average Cost	Cost basis calculation method where the adjusted cost basis of all share lots is totalled and divided by the number of identical CUSIP shares in an account to determine the average cost per share. Only available for mutual funds (RICs), and dividend reinvestment plans effective 1/1/2012. .
BRANCH Deposit	One of the types of SCL's (Shipment Control List) used by brokers to facilitate certificate deposits through DTC for credit to CEDE & CO account. Also referred to as a BDS deposit.
CBRS	Cost Basis Reporting System – a DTC system used to pass cost basis information between agents, also referred to as SEA BREEZE.
Closing Price	Market value at end of trading day.
Constructive Receipt	Under IRC §451, the taxability of a transaction is deemed to occur when the funds or shares are made available without restriction to an investor, regardless of when the investor actually presents documentation necessary to be paid the funds or shares.
Corporate Action	Any action a corporation undertakes that directly impacts the capital structure, equity ownership, or cost basis of the company. Typical examples are – forward or reverse stock splits, tender offers, mergers, exchanges, spin-offs, etc.

Term	Description
Corporate Action Number	This number, required by the IRS under Section 6045(b), is assigned by an issuer for each corporate action it declares. It consists of 7 digits – the first four are the year of the corporate action and the last three represent the sequential number of the action within the calendar year. The last corporate action number affecting the tax lot must be recorded so that the receiver of the basis will be able to identify whether the tax lot has been adjusted to reflect all applicable corporate actions.
Corrected Transfer Statement	Must be issued when an agent (applicable person) receives information that would cause the cost basis of a tax lot of either a non-covered or covered security to change. Some examples would include a correction to previously reported basis, basis provided by estate for inherited shares; updated transfer instructions on shares previously assumed to be gifted because no reason for transfer had been provided, etc.
Cost Basis	The cost for tax purposes of shares acquired. Used to determine capital gains/(losses) at the time of a sale.
Cost-Basis Pending Lot	Shares received from broker – pending cost basis data. Broker has 15 days to provide cost basis. If basis not received in 15 days, agent must request it from the broker at least once.
Covered Securities	Investments for which mandatory basis reporting is required under the legislation
Covered Shares	Equity share purchases effected after January 1, 2011 covered under cost basis regulations.
DAMP Deposits	One of the types of SCL's (Shipment Control List) used by brokers to facilitate certificate deposits through DTC for credit to CEDE & CO account. Also referred to by DTC as DAM or DAMP deposits.
DRS	Direct Registration System
DTCC	The Depository Trust & Clearing Corporation
DWAC	Deposit/Withdrawal At Custodian
ESPP	Employee Stock Purchase Plan
FIFO	First In First Out - Cost basis calculation method where the first shares purchased in an account are the first shares sold from that account. This is the IRS default method.

Term	Description
FMV	Fair Market Value. This term has different meanings depending on how and where it is used – FMV in investments usually means, absent a quoted price, the best estimate of the value of the security based on market conditions, interest in the asset, and recent activity. For more information on FMV, please refer to IRS Publication 561.
HIFO	Highest price First Out - Cost basis calculation method where the shares with highest price purchased in an account are the first shares sold from that account. This is a type of specific ID under IRS rules.
Holding Period	The amount of time elapsed between the acquisition of shares and the disposal (i.e. sale) of the same shares. The holding period may be adjusted to reflect wash sales – see Adjusted Holding Period above.
ISO	Incentive Stock Options
LIFO	Last In First Out - Cost basis calculation method where the last shares purchased in an account are the first shares sold from that account. This is a type of specific ID under IRS rules.
Long Term Gain/Loss	Any gain or loss resulting from shares held for more than one year.
Lot (also Share Lot or Tax Lot)	A group of shares associated with a single purchase/reinvest or transfer transaction. Shares in a lot share key data elements such as acquisition date and share price, including basis adjustments.
Lot Depletion Method	The method chosen by the shareowner (taxpayer) or their agent for identifying specific tax lots when selling shares. Some examples are FIFO, LIFO, Specific Lot, etc. The taxpayer's gain or loss can be impacted by the lots chosen. The IRS has specified FIFO as the default disposition method, absent shareholder instructions.
LOWFO	Lowest price First Out - Cost basis calculation method where the shares with the lowest price purchased in an account are the first shares sold from that account. This is a type of specific ID under IRS rules.
Non-Constructive Receipt	Pertains to reorganizations; Transaction is reportable in the tax year that the shareholder exchanges their shares and receives an actual payment.

Term	Description
Non-covered shares	Shares obtained prior to cost basis timeframe for that class, shares in an account exempt from 1099-B reporting, or shares that would normally be covered but for which no cost basis has been received. .
Opening Price	Market value at start of trading day.
Rights	An entitlement to purchase shares at a fixed price for a limited period of time. Often publicly traded as a separate security.
ROC	Return Of Capital – a type of corporate action where a prior dividend distribution is reclassified as return of capital. Return of Capital reclassification may be announced by issuer months after distribution.
RSA	Restricted Stock Awards
SCL	DTC Shipment Control List that accompanies certificate deposits.
Short Term Gain/loss	Any gain or loss resulting from shares held less than or equal to one year.
SOP	Stock Option Plan
Specific Lot ID	Cost basis calculation method where the shareholder selects which share lots to sell or transfer when initiating a transaction and such selection is confirmed by the broker/agent to the shareholder in writing. For transfers or sales where a certificate is presented, specific lot identification is assumed.
STA	Securities Transfer Association
Stepped-Up Basis	Type of adjustment for inherited shares, where the cost basis is "stepped-up" to reflect the Fair Market Value (FMV) of those shares on the valuation date of the estate (usually date of death).
Transfer Statement	A "written" statement provided to a receiving broker or agent that will allow them to satisfy the cost basis reporting requirements of Section 6045A(c) of the rule. This statement can be transmitted in electronic or paper form – but must accompany all transfers of shares between applicable parties for both "covered and uncovered" securities beginning on the effective date of the Rule.
Vesting/ Delivery	Date that an RSA is acquired by the employee and Cost Basis is established

Term	Description
Wash Sale	For tax purposes, any loss resulting from a sale of a security will be disallowed if there is a purchase of the "identical" security in the same account within 30 days prior to the sale or 30 days after the sale. Wash sales may result in an adjustment to both the cost basis of the purchased security in question as well as the holding period for that asset.