

## **Cost Basis Q&A**

This document reflects the questions and answers from our recent STA Webinar on cost basis. The format does not lend itself to slides for our website, so we are using this Q&A format.

**Disclaimer: The information provided in this document represents the current understanding of the Securities Transfer Association and our recent webinar panelists. It is subject to change. In no way should this information be construed or relied upon as legal, tax or operational advice. You should consult with your own legal counsel, tax professional and/or other subject matter experts.**

**Q:** As a transfer agent, I am still unsure who should receive or pass along the cost basis information when receiving a transfer from a broker or from Cede and Co. Please clarify this?

**A:** For a Withdrawal by Transfer, (WT) with shares moving from Cede to the shareholder, the broker sends basis to the agent. For a certificate deposit with shares moving from a shareholder to Cede, the agent sends basis to the broker. For stock options, the stock option administrator should send basis to the broker, possibly through the agent. For a DRS transaction, with shares moving to the broker, the agent sends basis to the broker. In general, the basis moves the same way the shares move. For movements from street name to street name, for example Merrill Lynch to Pershing, no basis is required to move.

**Q:** Please give a general overview of CBRS including overall process, CBRS user information, unique ID numbers and where to find them and file availability on CBRS

**A:** CBRS is a DTCC system that allows the electronic passing of cost basis information between brokers and agents (and mutual funds). Users can view a Master File that lists all participants in CBRS and gives their user number. Users can send basis, request basis and reject basis that they are unable to apply. This is all accomplished with the use of a unique ID number that links the basis transaction with the prior share movement.

Regarding unique ID numbers:

- For DRS transactions:
  - Customer Account Number
  - DRSP function
  - Position 65 DRSPRO file
- For All Deposits
  - Reference ID, ARF #, & Control ID # on deposit ticket
  - Soon: CBRS “TCN”
  - Unique ID field on CBRS Daily Deposit File & CBRS Daily Reorg Deposit File
- For WT transactions:
  - Unique ID #
  - RSATFX File, position 36
  - TACF, upper right-hand corner, 30 characters

- For Rush WT transactions:
  - Unique ID #
  - TACF, upper right-hand corner, 30 characters
- For DWAC transactions
  - Reference ID field on CDWC

CBRS has the following File Availability:

- On WebDirect for four days
- Accessible for 25 days:
  - Thru the Cost Basis Inquiry screen
  - Download to an Excel spreadsheet
- After the 25 business day window has passed, DTCC will not be able to provide CBRS data to users

Q: What CBRS Training is available?

A: DTC offers a training webcast that can be accessed by the following link.

- [http://www.dtcc.com/downloads/legal/imp\\_notices/2012/dtccsolutions/CBRS007.12.pdf](http://www.dtcc.com/downloads/legal/imp_notices/2012/dtccsolutions/CBRS007.12.pdf). Also, the CBRS User Guide has a chapter that focuses on using the system via the internet: the chapter includes step-by-step instructions and screenshots. The User Guide can be found at this link: <http://www.dtcc.com/products/documentation/cs/cbrs.php>
- In addition, the STA has updated a slide presentation on using CBRS through WebDirect. It can be found on the STA website under presentations, in the Members Only section.

Q: If shares are transferred from single name to an estate registration, is it automatically an inherited transfer? If the inherited shares are then transferred to beneficiaries, is this treated as a gift or inheritance? Are covered shares acquired after DOD (i.e.; DRIP shares) transferred as inherited with a step-up value or with the original acquisition purchase price and date?

A: Regarding transfers from an individual to an estate and then to beneficiaries, panelists are using two methods to accomplish this. 1). Move the original basis to the estate account and then when it moves to the beneficiaries, follow the inheritance rules, stepping up the basis as required. 2). Step up the basis when the shares move to the estate account; then when shares move to the beneficiaries, it is already stepped up. The outcome is the same. When an estate is involved it is definitely an inheritance situation, not a gift. Shares acquired after DOD are transferred with original basis. You can only step up basis for shares the decedent owned on the DOD.

Q: STA Cost Basis Reporting Guidelines refers to shares going to the survivor where relationship and percentage of ownership is unknown. All covered shares become uncovered with a new acquisition date of DOD. Why do the shares acquired after DOD in the debit account become uncovered in the credit account?

A: The STA Guidelines consider shares as uncovered in this example precisely because the percentage of ownership of each party in this example is unknown.

Q: Please discuss inheritance situations and give examples. Also, what does “Step up” mean?

A: “Step up” refers to the readjustment of the value of an appreciated asset for tax purposes upon inheritance. With a step-up in basis, the value of the asset is determined to be the higher market value of the asset at the time of inheritance, not the value at which the original party purchased the asset. There follow some examples:

- Step-up to DOD/FMV or 6 Month Valuation
  - Community Property States – 100% step-up

- JTWRs – if, spouse, 50% step up in basis, other half to the joint owner with the original cost basis; if not spouse, need the breakdown from Personal Representative of the deceased. (i.e. Administrator, Executor, etc.)
- TEN ENT – 50% step up – is always the spouse, balance original cost basis.
- Ten Com – half of the shares goes to the deceased estate, stepped up – other half to the joint owner with the original basis.

Q: There are times I come upon a DTCC Participant that is not using CBRS. What can I do with this information?

A: With DTCC participants not yet using CBRS, agents can reach out to the Client Account Representative Team at (212) 855-4270. Lydia Midwood will work with this team and the DTCC Relationship Managers to get out to them. In the interim, it is difficult to know how to get basis to them. Our best suggestion is to look the company up on Google and address the basis to the attention of the Cost Basis Department!

Q: What is the best practice for the allocation of service fees for sales involving multiple lots?

A: Regarding service fees and sales with multiple lots, the best practice is to combine all fees, commissions etc. into one number and then allocate it across all the multiple lots.

Q: Please discuss trust account processing.

A: From trust account to trust account with a different tax id, consider it a gift, absent other information.  
 From trust account to trust account with the same tax id, move the basis.  
 From an individual account to a trust account with the same tax id or SSN, move the basis  
 From an individual account to a trust account with different tax id or SSN, consider it a gift absent other information.

Q: Are there cost basis best practices for private sales?

A: With private sales, it is up to the transfer agent to decide whether or not to accept basis from a buyer or seller. Generally, the regulations say that the agent can rely on information it is given.

Q: If you have a forward or reverse split and the original issuance is uncovered due to the purchase date, how is the cost basis calculated and maintained if you don't have the original cost basis?

A: Generally speaking uncovered shares remain uncovered. An exception would be the instance where a taxable event (corporate action) occurred and the basis for the new shares would be derived from that taxable event. The agent should get this basis from the issuer, who is required under IRS regulations to provide it.

Q: If the shareholder is not indicating that a private transfer of non-restricted shares is a sale or a gift, our default is to mark the transfer as a gift. However, some transfer agents are going back to the shareholder, requesting the shareholder to specify what type of transaction it is. What is the best practice in this situation?

A: It is not common practice in the industry to go back to the shareholder to find out details of a transaction if the agent is not notified at the time of the transaction.

Q: Please discuss routine transfers from shareholders to street name, i.e.; non-restricted transfers submitted by brokers to be issued in street name. Our dilemma: do we mark the transfer as a gift or not covered? Please clarify.

A: When the shares are going from shareholder name to street name through either DRS or a deposit to Cede, the agent must send the basis to the broker. It is not a gift. Whatever is on the agent's records for basis should move to the broker.

Q: If a beneficiary inherits a retirement account and he/she cannot provide the original cost on purchases, what is the default for cost basis?

A: Retirement accounts are considered under IRS rules to be exempt accounts. Therefore, shares in retirement accounts are not covered shares

Q: What do we do when a broker requests cost basis for a covered security and we do not have it?

A: If it is a covered security, you should have it. However, there is the possibility that it is pending and in the process of coming to you from another broker or from the issuer; otherwise you should have it. Or if the shares came from another broker but they never sent the basis, even after the agent makes the one required request, you would mark them uncovered. If the shares were newly issued as a result of some kind of corporate action, the issuer would provide the basis.

Q: Do you use one 1099B form for multiple tax lots, or separate forms for each tax lot?

A: Our panelists used substitute 1099 B forms, as allowed by the IRS. Multiple lots can be displayed on one form.

Q: Who is responsible for providing cost basis for an estate transfer?

A: The Executor, Administrator or other Representative of the estate is responsible for providing this information. If the agent does not receive any instructions, use the FMV on DOD.

Q: For DRS rejects, can the broker provide the TCN in a DRS transaction to eliminate agents' time to research and edit?

A: For DRS, the TCN is the customer account # at the agent with a few digits added to make it unique.

Q: We are seeing a trend of CBRS rejects from some specific brokers. We have not been able to discern what the cause might be. What is the best way to follow through to correct the underlying problem?

A: Pick up the phone and call the broker. SIFMA members have a list of contacts that might be utilized. Also DTCC is working on creating contact information for CBRS users which may be ready early next year.

Q: For a trustee account, a change in trustee would just be considered a re-registration. Is this accurate?

A: One panelist opined that the owner of the account, the trust, is not changing. This panelist would change the trustee but leave the original basis. Others might do a transfer but the basis is not changing.

Q: If a trust is dissolving and the trustee provides a date of death (DOD), would you ignore the provided DOD and use the date of transfer for the gift date?

A: You should use the date of transfer for the gift date because a trust doesn't die; it is dissolved.

Q: If we have a joint account of non-married individuals, and one of the holders dies, who can provide cost basis adjustment information?

A: The estate representative.

Q: What is the correct date to use for cost basis when the shares are inherited?

A: If estate representative provides a date, use it. If not use FMV on DOD unless you have instructions to the contrary.

Q: Please provide any feedback about the occurrences of corrections the industry has had to process for transfer statements, issuer statements (8937), and 1099-B's this year. In your experience, what feedback are the transfer agents hearing from the registered shareholders and industry (brokers, issuers, etc.) regarding the new cost basis information being produced on tax forms and transfer statements?

A: Brokers are seeing many corrections and questions, frequently as a result of the reclassification of dividends and capital gains, as well as wash sales adjustments. It appears that many investors are unfamiliar with wash sales. Agents are reporting fewer inquiries. There are no actual statistics available that the STA is aware of.

Q: Are Canadian brokers using CBRS? And what are the tax form obligations of Canadian TAs?

A: At present, there are no Canadian brokers using CBRS, but they might in the future. DTCC has plans to reach out to entities in Canada and explore CBRS use. Canadian agents are, in fact, required to send U.S. tax forms to U.S. citizens.

Q: What is considered a covered or uncovered asset in an estate situation?

A: Generally, shares acquired by the decedent in 2011 or later would be considered covered shares. As such, cost basis inheritance rules would apply to these shares.

Q: What effect has cost basis had on workload? Have you hired additional help? How have you handled it?

A: This varies depending on the organization. Generally, the STA has not heard of many agents needing to hire additional staff just for cost basis. However the brokers report that while some firms were able to redistribute work and have not had to hire additional help, other firms have seen a large increase in staffing.

Q: On CBRS WebDirect, will the EOD Download /file contain any cost basis information sent to a user by a broker or can this only be looked up by inquiry?

A: The end-of-day (EOD) download file is produced every evening. As mentioned above, each file is available for four days. Separately, the records are available for twenty-five days using the inquiry function. Once the twenty-five day time period has passed, the records are no longer available from DTCC.

Q: I have only received requests from brokers for information in this file but have yet to receive cost basis information from brokers in the EOD download file.

A: All records you sent the day before as well as possible broker requests for cost basis are in the EOD download file. If you have only received requests in a particular day's file, it is because a broker sent only request records to you on that day and you did not send any basis the day before. The majority of transactions are agent to broker, resulting from the cancellation of certificates or book shares moving; therefore the majority of records received by an agent might be requests. However, if shares are moving from CEDE to shareholder name on the agent's records, you should be getting basis. If you are not, you might contact DTCC to see if there is an issue.

Q: Are Canadian transfer agents required to send 1099B forms to U.S. residents, and do they need to report cost basis information to the IRS?

A: YES, if they service U.S. citizens as holders.

Q: What are U.S. agents' obligations in terms of sending tax forms to shareholders:

A: As IRS law provides! Forms 1099, 1099B, 1099R, 1042S etc. as applicable.

Q: When the issuer is requesting common shares and warrants to be issued and were purchased by the subscriber as a "unit" how is cost basis posted on the common stock and then on the warrants?

A: Warrants are not covered under the IRS regulations until 2014. The issuer must provide the transfer agent with the cost basis of the common stock as required by the IRS.

Q: Please provide clarification of the example of a transfer involving a decedent that makes a distinction between the trade date and settlement date. In the example, the shares were purchased on May 3, settled on May 7, and the DOD was May 7.

A: The IRS looks at trade date, not settlement date. (Example: if someone sells shares on December 30 2011, it will settle in January 2012). According to the IRS, you would need to send a 1099B in 2012 for 2011. So, in the previous example, we would step up the shares purchased on May 3.