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Enrolled Agents – The Tax Professionals

Reporting Securities Sales on Your Tax Return



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WHAT IS A CAPITAL ASSET?

Generally, property owned and used by an individual for personal or investment purposes is a capital asset. Some examples are houses, furniture, cars, securities, and bonds. Sales of most capital assets must be reported to the Internal Revenue Service (IRS) on your tax return. Losses on the sale of an item owned for personal use, such as a car, furniture, or personal residence, are not deductible.

WHERE DO I REPORT MY GAIN OR LOSS?

Securities sales and other capital transactions are reported on Schedule D (Form 1040), Capital Gains and Losses. It is important to separate your transactions by holding periods: short-term or long-term.

WHAT IS A WASH SALE?

A wash sale occurs when you sell particular securities and, within 30 days before or after the sale, you purchase substantially identical securities. Losses from wash sales are not deductible, but are used to figure the basis of the new securities.

WHAT IS A "HOLDING PERIOD?"

Gains and losses on sales of securities are categorized as having either long-term or short-term holding periods depending upon the length of time you owned the securities. The date of disposition, called the trade date, is the date of the actual sale. For tax purposes, gain or loss is recognized on the trade date.

To determine how many months you have held the securities, begin counting on the day after the purchase date. The same day of each succeeding month begins a new month. The date of disposition is considered the last day of the holding period.

WHAT IS MEANT BY SHORT-TERM GAIN AND LONG-TERM GAIN?

Capital gains are either short-term (held 1 year or less) or long-term (held more than 1 year). Short-term gains are taxed as ordinary income (the rates could be as high as 35%) while long-term capital gains are taxed at a maximum of 15%. There are some exceptions such as collectible art or coins, which do not qualify for the special treatment.

WHAT IS THE BASIS OF MY SECURITIES?

The cost of your securities is usually the basis. Certain costs of purchase, such as commissions and recording or transfer fees should also be included. The basis of an inherited securities is its fair market value (FMV) at the date of the decedent's death (unless a federal estate tax return was filed and an alternate valuation date chosen). To determine the basis of the securities you receive as a gift, you must know its adjusted basis to the donor just before it was given to you, its FMV at the time it was given to you, and the amount of gift tax, if any, paid on it.

IS IT IMPORTANT TO SAVE THE PURCHASE CONFIRMATIONS WHEN I BUY SECURITIES?

Yes! Without confirmations showing the purchase date, price, and expenses, it will be next to impossible to determine your basis and possibly your holding period. If you own mutual funds, you should also keep accurate records. It is important to keep the last statement of the year for each fund in which you own shares. Typically, these statements will show all transactions for the entire year.

WHAT AMOUNT DO I REPORT AS MY SALES PRICE?

If you sold your securities through a broker, you should receive Form 1099B, Statement for Recipients of Proceeds from Broker and Barter Exchange Transactions. Unless special circumstances apply, the sales price you list on your tax return will be the amount reported to you on Form 1099B as gross proceeds. Gross proceeds usually consist of the total proceeds

of the sale, less any commissions or fees incurred in the sale. If the amount reported as gross proceeds does not take into account any commissions or fees paid, you should add these selling expenses to the basis of the securities sold.

HOW IMPORTANT IS FORM 1099B?

Because the amount reported on Form 1099B is reported to the IRS and "matched" against the amount reported on your tax return, Form 1099B is very important. If for some reason the amount you list on your tax return as the sales price does not equal the amount reported on Form 1099B, you should attach an explanation to your return explaining the difference. Otherwise, the IRS will detect that a different amount was reported on your return and you will receive a letter proposing an adjustment to your return.

IS THERE A LIMIT ON THE AMOUNT OF CAPITAL LOSS I CAN DEDUCT?

Yes. If after combining all your capital gains and losses for the year you end up with a net capital loss, the maximum loss you may deduct is limited to \$3,000 per year (\$1,500 if you are married and file a separate return). Net losses in excess of \$3,000 can be carried forward to the following years until they are used up.

I FREQUENTLY SWITCH FROM ONE MUTUAL FUND TO ANOTHER. DO I HAVE TO REPORT THESE TRANSACTIONS ON MY TAX RETURN?

Yes! If you sell or exchange shares of a mutual fund with a fluctuating share price, the IRS considers the transaction a taxable event. You must calculate a capital gain or loss for each sale or exchange — whether made by telephone, wire, mail, or check. You should receive a Form 1099B for each transaction.

The tax rules affecting capital gains become more complex every year. If you need assistance in this area, consult your Enrolled Agent for help.