

## *IRS Cost Basis Reporting — Wash Sales*

### **What is a Wash Sale?**

When you sell stocks at a loss, the IRS lets you deduct the loss from your taxable income or other capital gains you might have. The exception to this is a "wash sale." If you buy the same stock 30 days before or after the sale, the IRS will disallow the deduction. This prevents you from selling the stock, taking the deduction and then buying it back immediately to capture any future gains.

If the wash sale prohibits deducting the losses from that year's taxes, you're entitled to potential deductions at a future date. The loss in the current year is added to the cost basis of the new security purchased within the wash sale window. When you sell that stock the price is adjusted with the previous loss. The date of the new purchase also changes to the date of the previous wash sale.

### **Wash Sale Reporting Requirements**

Financial institutions are required to monitor and report wash sales for identical security transactions that occur in the same account. They will not be required to track replacement shares purchased at another institution, or even purchased in another account at the same institution. Clients are required to monitor wash sales across all accounts—including across institutions or among spousal accounts (when filing jointly) and comply with the requirements to compute wash sales under IRS regulations.

### **IRS Wash Sale Rules**

Per IRS regulations, a taxpayer may not deduct losses from the sales or trades of stocks or securities in a wash sale. A wash sale occurs when a taxpayer sells or trades a stock or security at a loss and within 30 days before or after the sale:

1. Buys substantially identical stock or securities.
2. Acquires substantially identical stock or securities in a fully taxable trade.
3. Acquire a contract of option to buy substantially identical stock or securities
4. Acquire substantially identical stock for their individual retirement account (IRA) or ROTH IRA

If a wash sale occurs, any loss on the sale will be disallowed. The disallowed loss will be added to the cost of the new position, pro-rata, and the gain/loss of the disposed of position will be adjusted down based on the disallowed loss amount.

### **Treatment of Same Day Purchases**

Please review the following example.

#### **August 15<sup>th</sup>**

- You purchase 100 shares of XYZ for \$37 per share at 10AM.
- At 11:30AM, based on the stock's rise, you purchase an additional 100 shares of XYZ at \$39 per share.

#### **September 6<sup>th</sup>**

- You sell 100 shares of XYZ at \$35 per share.

This **would** result in a wash sale because you purchased the identical security in **two separate purchase transactions** on August 15<sup>th</sup> and sold a portion of those shares within

30 days at a loss. The shares purchased at 11:30AM (using FIFO unless specifically identified otherwise) would have a new basis of \$41 (\$39 paid plus \$2 loss).

If the purchase on August 15<sup>th</sup> was one order for 200 shares that required two trades to fill the order, the sale would not be a wash sale since there was no separate second purchase within the 30 day period.

**Questions?**

Please contact your financial professional for more information on wash sales and the new IRS cost basis reporting requirements.

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