

How to Read Your Form 1099-B

Internal Revenue Service (IRS) Form 1099-B contains information about your mutual fund sales that you will need in preparing your 2014 federal income-tax return. Your 2014 IRS Form 1099-B incorporates the mandatory cost basis reporting rules that took effect after January 1, 2012.

Under the mandatory cost basis rules, the IRS requires that we provide you with your cost basis for certain mutual fund shares that you sold during 2014. If you sold shares that were purchased in 2012 – 2014, the new rules may make it easier to determine and report your gains and/or losses when preparing your 2014 income tax return(s). We hope that this pamphlet helps you to better understand these cost basis reporting rules and how they affect your 2014 Form 1099-B.

Mandatory Cost Basis Reporting Rules in Effect for Mutual Funds

One of the biggest obstacles investors face at tax time is figuring the cost basis of the mutual fund investments they sold during the year. IRS mandatory cost basis reporting rules should help make the computation easier.

What is cost basis?

For investments such as stocks, bonds, and mutual funds, cost basis is generally the dollar amount you paid for the investment shares plus added expenses, such as commissions.

Example: Chris bought 50 shares of a mutual fund for \$10 a share, including expenses. Chris's cost basis is \$500 (i.e., 50 x \$10).

Why is knowing my cost basis important?

You need to know your cost basis so you can determine whether you had a gain or loss on a sale. In general, you subtract the investment's cost basis from the proceeds you received on your sale or redemption. This will determine whether you have a taxable capital gain or a potentially deductible capital loss. (You may be able to use capital losses to offset capital gains. This is discussed in detail in IRS Publication 550, which can be located at www.irs.gov.)

Example: Suppose Chris in the above example later redeems the mutual fund shares for \$15 a share, including expenses. Chris's capital gain is computed as follows: \$750 redemption proceeds less \$500 cost basis equals \$250 gain.¹

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¹Mutual funds are subject to market risks and there is no assurance or guarantee that the objectives of the funds will be achieved. As with any investment in securities, the NAV of mutual fund shares can go up or down depending on the factors and forces affecting the capital markets. Past performance of a mutual fund is not indicative of the future performance of the fund.

Many taxpayers find it difficult to determine an investment's cost basis. With mutual funds in particular, it is often hard to track multiple purchases made at different times, especially through a dividend reinvestment plan or other periodic investment program. This is a problem for both investors and the IRS, since inaccurate cost basis information could result in significant tax overpayments or underpayments.

When did the IRS rules go into effect?

The IRS's mandatory cost basis rules, which went into effect for stocks in 2011, applied to mutual fund investments for the first time in 2012. The mandatory cost basis reporting rules apply to certain mutual fund sales/redemptions reported to you on your 2014 Form 1099-B.

What do the IRS cost basis reporting rules require?

To make cost basis information more readily available, the IRS rules require mutual fund companies, brokers, and other investment managers to include cost basis information on IRS Form 1099-B, which is distributed to investors (and the IRS) each year. Prior to the mandatory cost basis rules, these entities only had to report the sale amount.

Do the new rules apply to all sales?

The mandatory cost basis rules apply to sales/redemptions of mutual fund shares acquired (purchased) on or after January 1, 2012 (i.e., "covered" securities). For purposes of your 2014 Form 1099-B, cost basis information needs to be reported only for those mutual fund shares acquired and sold after January 1, 2012.

Example: To continue our example, suppose Chris bought the mutual fund shares in early 2012 and redeemed them at the end of 2014. The new cost basis rules apply to Chris's redemption.

Note that the mandatory cost basis reporting rules generally won't have an impact on money market funds and investments held in tax-deferred accounts, such as individual retirement accounts and other retirement plans.

What if I sold/redeemed mutual fund shares I had acquired before 2012?

The IRS rules don't require the reporting of cost basis for fund shares acquired before 2012 (i.e., "noncovered" securities). So, if you sold mutual fund shares in 2014 and there is no cost basis (gain or loss) information on Form 1099-B for that sale, it is because the shares you sold were most likely acquired before 2012. (In some cases, shares acquired on or after January 1, 2012, may not have cost basis; this is uncommon.)

Example: Suppose Chris bought the mutual fund shares in 2011, rather than 2012. Then, Chris's redemption would not be covered by the cost basis reporting rules.

But what if I made a single redemption of mutual fund shares in 2014 that included shares I bought before and after January 1, 2012?

In that case, your redemption would be broken out into separate reporting lines on Form 1099-B. Each line states whether the cost basis is being reported to the IRS. The section below (*Specific Line-by-Line Information About Your 2014 IRS Form 1099-B*) discusses this sale reporting breakdown in more detail.

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What if my single redemption included shares I held long term and shares I held short term?

For 2014, any mutual fund share sales/redemptions for which cost basis reporting is required could result in either a short-term capital gain or loss or a long-term capital gain or loss. Under IRS rules, short-term capital gains are gains realized on sales of shares held one year or less; long-term capital gains are gains realized on sales of shares held more than one year.

For purposes of Form 1099-B, your redemptions of mutual fund shares are categorized as short or long term and further divided into sales of covered securities for which cost basis must be reported and sales of noncovered securities for which the reporting of cost basis is not required.

How will the reported cost basis be determined?

There are several methods for determining the cost basis of mutual fund shares.

Method	Description
First in, first out (FIFO)	Shares acquired first are sold first
Last in, first out (LIFO)	Shares acquired last are sold first
Lowest cost, first out (LOFO)	Lowest cost shares are sold first
Highest in, first out (HIFO)	Highest cost shares are sold first
Loss/gain utilization (LGUT)	Shares sold are evaluated to maximize losses and minimize gains, based on holding period
Specific lot identification (SLID)	Specific shares are selected to sell at time of sale
Average cost (ACST)	Acquisition prices of shares are averaged to determine the cost per share

You were given the opportunity to select the method for determining the cost basis of the shares in your mutual fund account. You can make a change for future purchases and sales. If you did not select a cost basis method for your account, then the default method of Average Cost was chosen. The method used is shown on your 2014 Form 1099-B.

Specific Line-by-Line Information About Your 2014 IRS Form 1099-B

The back of your 2014 Form 1099-B contains general instructions provided by the IRS for recipients. Here is additional helpful information you can use to better understand your Form 1099-B.

See Example Sections Below:

Note that your Form 1099-B may be broken up into as many as five different sections. It will only display the sections applicable to you. A single sales transaction may be split among multiple sections if applicable. The sections are:

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Short-term transactions for which basis is REPORTED to the IRS
Short-term transactions for which basis is NOT REPORTED to the IRS
Long-term transactions for which basis is REPORTED to the IRS
Long-term transactions for which basis is NOT REPORTED to the IRS
Transactions for which basis is NOT REPORTED to the IRS and for which short- or long-term determination is unknown

Box 1a. Shows a brief description of the security for which amounts are being reported, and the price per share at sale.

Box 1b. Date when the fund shares were acquired. Box may be blank if the sale is not subject to the cost basis reporting rule or if the securities sold were acquired on a variety of dates.

Box 1c. Shows the trade date of the sale.

Box 1d. For mutual funds, generally, the dollar proceeds from the sale of shares.

Box 1e. Shows the cost or other basis of securities sold. If box 5 is marked YES, box 1e may be blank.

Box 1f/1g. Shows the amount of nondeductible loss in a wash sale transaction (very generally, a wash sale occurs when a taxpayer sells a security at a loss and, within 30 days before or after the sale, the taxpayer repurchases a substantially identical security). Only reports wash sale amounts for covered shares sold. Shareholders are responsible for wash sale reporting when noncovered shares are sold. For further details on wash sales, see Schedule D (Form 1040) instructions and Pub. 550.

Box 4. Shows federal income tax withheld from the sales proceeds. Withholding generally occurs only if the tax payer is subject to backup withholding, most commonly due to an incorrect or missing taxpayer identification number. See Form W-9 for information on backup withholding.

Box 5. If marked YES, the shares sold were noncovered and therefore not subject to cost basis reporting by the mutual fund. Boxes 1b and 1e may be blank. It's important to note that investors will still be solely responsible for calculating and reporting gains and losses realized on the sale of noncovered shares.

Box 14-16. Shows state(s)/local income tax information, if required.

The final two columns on your Form 1099-B contain information that may be useful to you in preparing your 2014 income-tax return but will not be reported to the IRS: The first column displays the method used to compute the cost basis of the shares sold. The second column contains the amount of your capital gain or loss.

Short-term transactions for which basis is reported to the IRS; report on Form 8949, Part I with Box A checked.

(1 a) Description of Property			(1b) Date Acquired	(1c) Date sold or disposed	(1d) Net proceeds	(1e) Cost or Other Basis	(1f/1g) Wash sale adjustments	(4) Federal income tax withheld	(5) Non- covered security	(14) State name	(15) State Identification no.	(16) State tax withheld	Cost basis method**	Gain/ (Loss)**
Transaction	Share Price**	Quantity Sold**												
Fund: ABC Mutual Fund			Fund-Acct. no.: 123456789			PAYER'S Fed. ID no.: 987654321			CUSIP no.: ABC7654321098					
SHARES REDEEMED	15.00	50.00	1/4/2014	12/5/2014	750.00	500.00	0	0.00		NY	567890123	0.00	ACST	250.00

** This information is not being reported to the IRS.

Long-term transactions for which basis is NOT reported to the IRS; report on Form 8949, Part I with Box E checked.

(1 a) Description of Property			(1b) Date Acquired	(1c) Date sold or disposed	(1d) Net proceeds	(1e) Cost or Other Basis	(1f/1g) Wash sale adjustments	(4) Federal income tax withheld	(5) Non- covered security	(14) State name	(15) State Identification no.	(16) State tax withheld	Cost basis method**	Gain/ (Loss)**
Transaction	Share Price**	Quantity Sold**												
Fund: ABC Mutual Fund			Fund-Acct. no.: 123456789			PAYER'S Fed. ID no.: 987654321			CUSIP no.: ABC7654321098					
SHARES REDEEMED	15.00	50.00		12/5/2014	750.00			0.00	Yes	NY	567890123	0.00		

** This information is not being reported to the IRS.

Contact us at the phone number on your Form 1099-B for questions about the information provided on your Form. You should consult with your personal tax advisor for questions regarding the tax treatment or tax-return filing requirements for your mutual fund shares sales/redemptions.