

2011 Cost Basis Rule Frequently Asked Questions

What are the latest cost basis reporting requirements?

Congress passed the Emergency Economic stabilization Act on October 3, 2008, which requires broker dealers to report adjusted cost basis for taxable accounts to the IRS via Form 1099-B beginning in 2011 (received in 2012). Today, People's Securities Inc. only reports gross proceeds on sales for taxable accounts.

When are the various phases and what is covered?

Covered securities under the legislation, on or after these dates:

- Equities: January 1, 2011
- Mutual funds, DRIPs: January 1, 2012
- Other securities: January 1, 2013

What is cost basis vs. adjusted cost basis?

Cost basis is the original purchase price you paid for an investment, plus commissions and any fees. Adjusted cost basis is the original cost basis and any adjustments due to wash sales, amortization, accretion, and corporate actions.

When can my cost basis method be changed for a trade?

If you wish to choose a cost basis method for a particular trade (one that differs from the default cost basis method), you may do so at the time of the trade. Cost basis methods for a specific trade cannot be changed after the trade settles.

What are the different methods available for trades?

- **FIFO (First In First Out)** Shares you acquired first are sold first. This is People's Securities Inc.'s default method for all securities except mutual funds.
- **Specified Lot** Allows you to assign specific lots to be sold at the time of trade. Specified Lot is not a default cost basis method—when you want to use it for a trade, simply contact People's Securities at (800)392-3009 on the trade date.

What is lot?

A lot consists of the date, number of shares, and cost basis for each purchase you make in your portfolio. You may have more than one lot for each purchase you place, depending on when orders are filled.

Example:

You buy 100 shares of a stock on May 5, 2005 at \$15

You buy 100 shares of a stock on November 1, 2007 at \$19

You buy 100 shares of stock on June 20, 2010 at \$20.

You have three lots of the stock, since they were filled at three different times.

How can my cost basis method be changed?

To change your cost basis method on a trade, call People's Securities at (800) 392-3009 on the date the trade was placed.

Which cost basis method is best for my situation?

Because the cost basis method you choose can affect the amount of your taxable gains, it's best to consult with a tax advisor as you consider your choices.

What's the difference between long-term and short-term gains?

The sale of a security is long-term if it has been held for more than one year. Tax rates for long-term gains are subject to capital gains tax rates, which, for many taxpayers, are lower.

How will People's Securities calculate gains and losses?

People's Securities Inc. calculates gains and losses by subtracting adjusted cost basis (original purchase price plus commissions, fees, and other adjustments due to wash sales, amortization, accretion, and corporate actions) from net proceeds from the sale (after selling costs such as commissions).

We calculate cost basis using data that you have provided to us or that we have obtained from market data supplied by third-party sources. We may also display cost basis data that we have not calculated but that has been supplied by you, your prior custodian, or another third-party source.

Because the accuracy of cost basis data depends upon these third-party inputs, we are not able to guarantee the availability, accuracy, or completeness of such cost basis data.