

# Cost Basis Reporting Customer Service Challenges

The cost basis reporting law, Section 403 of H.R. 1424 of the Emergency Economic Stabilization Act of 2008, enacted in response to the financial market crisis, (the "Act," Pub. L. No. 110-343), requires brokers to provide detailed information regarding the cost basis of stock and securities to the IRS and to taxpayers, beginning with stock acquired on or after January 1, 2011. This massive reporting change poses numerous customer communication and service challenges that brokers must prepare to address immediately.

### How Will You Manage The Anticipated Spike In Customer Service Costs?

Recently, TowerGroup conducted an industry survey in which 85% of the financial services institutions polled believed that they would spend less than \$1 million (USD) on cost basis customer service annually<sup>1</sup>. In another outreach, Securities Industry News noted that more than 27% of the firms that they polled anticipate 10 or more full-time employees dedicated to basis reporting customer service calls<sup>2</sup>. However, given the complexities of explaining these challenges, these estimates are likely low.

### Educating Customers About Cost Basis Reporting

Clients have never seen cost basis reported on their 1099 forms before, so the novelty alone will provoke inquiries. The new law also calls for greater reporting flexibility (such as tracking all allowable tax lot relief method) never before offered to or viewed by customers. Further, inconsistencies between the reporting law and the tax laws are likely to cause confusion. Finally, 1099s with no basis for uncovered securities and basis for covered securities will further fuel customer questions and concerns.

Financial services institutions must develop solid communication plans in 2010 to educate clients fully in 2011 on cost basis reporting changes to minimize customer confusion and contain associated customer support costs.

### Explaining The Cost Basis Of Noncovered Securities

A critical facet of effective client communications around the cost basis reporting law is the challenge of explaining why basis is shown for some holdings, (covered securities) but not for others, (noncovered securities). As an alternative to increasing customer service calls and costs to explain this, brokers could simply provide basis for noncovered securities. This is a value add feature for customers that can ultimately reduce support cost increases.

### Cover Noncovered Securities, Increase Customer Satisfaction

- GainsKeeper BasisPro allows you to quickly and accurately calculate basis for noncovered securities. By listing basis for both covered and noncovered holdings on customer 1099s, you can minimize or even eliminate related customer confusion and significantly reduce associated support costs.
- GainsKeeper BasisPro automates historical cost basis calculations for all U.S. equities and mutual funds. This cost basis calculator accesses historic prices as far back as 1972 and tracks corporate actions back to 1950.

## Your Cost Basis Reporting Compliance Partner

Wolters Kluwer Financial Services provides a unique, comprehensive suite of offerings facilitating compliance with the cost basis reporting law. Whether you need a cost basis reporting enterprise compliance solution, core modules such as batch wash sale calculations, a detailed understanding of the tax consequences of U.S. and international corporate actions or automated access to historic cost basis to serve as a batch data source for interim compliance, to cross-check your basis or to minimize customer confusion on noncovered securities, you can count on Wolters Kluwer Financial Services for unparalleled tax and technology expertise to help you accurately and efficiently comply with the new cost basis reporting rules.

### Our Professional Team

Each year, we further infuse our solutions with additional, sophisticated, tax-accurate functionality and expertise to keep up with the changing regulatory and market landscapes.

Wolters Kluwer Financial Services Securities Tax Solutions professionals include:

- A dedicated Tax Director and tax team, with close to 25 years of financial products tax experience;
- A committed team of global corporate actions and data experts, with 75+ combined years of corporate actions and/or tax experience; and
- A sophisticated tax-centric technology team with close to a century of tax lot accounting experience.

<sup>1</sup> Hidden Cost of Cost Basis Reporting: (1099s x Confused Clients) + Phone calls = \$\$\$, Tower Group January 11th, 2010

<sup>2</sup> Y2K Plus 10? Cost Basis Rules Producing Technical Jitters, John Hintze, Securities Industries News, March 8, 2010

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Wolters Kluwer Financial Services  
130 Turner Street  
Building 3, 4th Floor  
Waltham, MA 02453  
800.472.1009 option 2

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### Explaining the cost basis of historical, noncovered securities holdings.

Brokers who additionally provide basis for noncovered securities offer a value add feature to their customers that reduces both confusion and related support costs.



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To learn more about the cost basis reporting law, visit [www.costbasisreporting.com](http://www.costbasisreporting.com).

To learn more about GainsKeeper, visit [www.WoltersKluwerFS.com](http://www.WoltersKluwerFS.com).