

As a part of the Emergency Economic Stabilization Act of 2008, changes in tax reporting may impact you in a few key ways, including the new look and feel of the composite 1099 tax statement. This guide should begin to familiarize you with the changes.

- **Scottrade will be responsible for tracking and reporting cost basis information on covered positions for the IRS.** This will give you a more complete and accurate picture of your cost basis, and it will help simplify your year-end tax preparation. For details about when Scottrade will start reporting your gains and losses on other investments, see When Coverage Starts.
- **You can select the method Scottrade uses for calculating your gains and losses for the account as a whole or on a trade-by-trade basis.** Unless you specify otherwise, Scottrade will default to the First In, First Out (FIFO) strategy, meaning the first shares you acquire of a particular security are the first shares closed. Other strategies you are able to utilize include Last In, First Out (LIFO), Highest In, First Out (HIFO), Minimum Tax, Maximum Gain, Average Cost and Versus Purchase. Learn more about the tax strategies available by visiting [www.scottrade.com/costbasis](http://www.scottrade.com/costbasis) and clicking the 'Tax Strategies' link. If you decide to continue using Scottrade's FIFO default strategy, you do not need to take any action.
- **You cannot make changes to the tax strategy used after a transaction settles.** It's important to consider the tax implications at the time of your trade so you can select the appropriate strategy used to calculate your gains and losses. Due to IRS regulations, you will only be able to make changes up to and including settlement date of the closing transaction.

**Why Method Matters.** The tax strategy used to determine your gains or losses on an individual transaction can impact the taxes you are responsible for paying. For example, short-term gains are generally taxed at a higher rate than long-term gains, and capital losses can offset capital gains for tax purposes.

## Covered vs. Non-Covered Positions

**Covered** positions are those for which Scottrade is responsible for tracking and reporting cost basis information to the IRS. Scottrade is required to report cost or other basis, acquisition dates, wash sale adjustments, holding period, and proceeds.

**Non-covered** positions are those for which Scottrade will not be responsible for reporting cost basis to the IRS. This includes any position established prior to Jan. 1, 2011. Options, fixed income and other securities will continue to be non-covered through 2012.

### When Coverage Starts

Equities (stocks, ADRs, REITs)	Jan. 1, 2011*
Mutual funds & most ETFs*	Jan. 1, 2012*
Options, fixed income & others	Jan. 1, 2013*

\*Securities are covered when the position is established on or after the date listed.  
\*More information about ETFs is available in the Knowledge Center ([www.scottrade.com/costbasis](http://www.scottrade.com/costbasis)).

## What's New Beginning Jan. 1, 2012

- Mutual funds and most ETFs\* will be considered covered securities.
- Scottrade will track the cost basis of funds separately for covered and non-covered tax lots.
- S-corporations: Scottrade will track the cost basis of covered tax lots for reporting purposes.

## Changes to Tax Reporting in 2011

- The IRS granted brokerage firms until Feb. 15, 2012 to issue composite tax statements.
- Brokerage firms are now required to transfer cost basis information for covered securities, and are provided 15 days to do so. Additionally, Scottrade will be sending and receiving cost basis for non-covered securities when available.

## New 2011 Tax Statements

- For covered tax lots closed in 2011, cost basis and sales proceeds are reported to the IRS.
- For non-covered tax lots closed during 2011, cost basis is being listed (when available) on the composite tax statement but is not being reported to the IRS. These closing transactions will only have sales proceeds reported to the IRS.
- Option transactions will not be IRS reportable, but are included on the tax statement to assist you when filing your taxes.
- To better align your tax statement to the new IRS forms, closing transactions are partitioned by holding period (short-term, long-term or undetermined). Each holding period will then be separated by IRS coverage of the security (covered, non-covered and non-reportable).
- To distinguish between information sent to the IRS and supplemental information, column headings will be shaded. The information provided in the shaded columns will not be submitted to the IRS, but is provided to assist you when filing your taxes.

**Cost basis** is the value of an asset used to calculate capital gain or loss for tax purposes. For most positions, cost basis is purchase price plus commissions, adjusted for wash sales, corporate actions and/or return of capital during the time you hold it.

## Resources to Learn More

- **Tax Statements.** Scottrade will provide you a composite tax statement with IRS reportables and supplemental information to assist you when filing your taxes.
- **Gain/Loss & Tax Center.** A free tool within your Scottrade account to assist you in tracking your cost basis and calculating your gains and losses.
- **Knowledge Center.** Visit [www.scottrade.com/costbasis](http://www.scottrade.com/costbasis) to find more information about the new regulations, a tax guide and aids for using the Gain/Loss & Tax Center.

**Questions?** Call us at 1-800-619-SAVE or use the Contact Us link in your account.