

COST BASIS LEGISLATION AND TAX REPORTING

A communications toolkit for advisors and their clients

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SAMPLE COMMUNICATION

Discussing the Revised 1099 Composite with Your Clients

You may wish to adapt this sample communication as a letter or email for your clients to make them aware of changes they will see on Schwab's revised Form 1099 Composite, which has been updated to accommodate new IRS requirements.

Dear [Client Name],

I'm writing to let you know about some new IRS tax reporting requirements and to explain how the changes might affect you.

The goal of the Emergency Economic Stabilization Act of 2008 is to make sure that investors accurately report gains and losses of securities in their annual tax filings. This year will be the first time that custodians like Schwab will report cost basis information to the IRS, as well as to you, the taxpayer.

For tax year 2011, Schwab will report cost basis for equities acquired on or after January 1, 2011. Next year Schwab will report cost basis on mutual funds, ETFs, and dividend reinvestment plan (DRIP) shares acquired on or after January 1, 2012.

To help facilitate the reporting process and make your tax preparation easier, Schwab has redesigned its Form 1099 Composite to include cost basis and gain/loss information. Now the Year-End Summary, Form 1099-B, and other 1099 forms you might receive will be consolidated into one report, which will indicate cost basis information for both covered and uncovered securities. Please note that cost basis will be reported to the IRS only for covered securities, but Schwab is providing cost basis on uncovered securities as well, as a courtesy, because you are still required to report this information to the IRS.

The Form 1099 Composite has a new layout to allow for additional data fields. The data in the Year-End Summary (formerly Account Summary) is now grouped by Form 1040 schedules. The summary includes a table of contents to help you locate information you need.

New Information on Form 1099-B

- Cost basis
- Date the security was acquired
- Holding periods—assets are grouped by short-term and long-term to make it easier to identify holding periods
- Wash sale information
- An indication if the cost basis provided is not covered by the legislation

New Information in Year-End Summary

- Realized gain/loss calculations
- Amortization and accretion information for fixed income assets
- Summary of fees

With all of your tax information sent in one report, you'll no longer receive a separate Year-End Gain/Loss Report from Schwab.

Additional Resources

The attached guide provides more in-depth information on how to read the revised Form 1099 Composite. View an online demo that will walk you through the revised Form 1099 Composite.

If you have any questions, or would like to schedule time to review the new form and discuss the changes, please don't hesitate to call to set up a time to talk.

Sincerely,

[Advisor Name]

A GUIDE TO COST BASIS TAX REPORTING CHANGES AND HOW THEY AFFECT YOU

An introduction to the legislation and new forms

THE NEW COST BASIS LEGISLATION

The federal government put new tax reporting requirements into place as part of the Emergency Economic Stabilization Act of 2008. The purpose of the legislation was to make sure that investors accurately report gains and losses on securities when they file their taxes.

Ultimately, the changes are expected to simplify tax preparation for investors. As the legislation rolls out in phases from 2011 through 2013, Schwab has been working with your investment advisor to prepare.

This guide is designed to answer your questions about what these changes mean for you.

What does the legislation require?

The regulations require Schwab and other broker-dealers to report the adjusted cost basis for taxable accounts to you and to the IRS.

The new reporting requirements apply to all covered securities and will be phased in over three years according to the schedule at right.

What this means for you

If you buy a security in a taxable account, on or after the applicable dates at right, it is considered a “covered” security and Schwab will report cost basis to you and to the IRS when sold.

Although the IRS requires that Schwab report cost basis only for covered securities, we’ve heard from advisors and clients like you that it would be helpful to receive gain/loss information for uncovered securities as well, because you still have to report this information to the IRS. Therefore, for “uncovered” securities—that is, any security acquired before the effective dates—Schwab will report the cost basis to you but not to the IRS.

Starting in late January 2012, Schwab will provide you with updated year-end tax reporting for 2011 via our revised Form 1099 Composite. The composite includes your Form 1099-B information (and information for any other 1099 forms applicable to you), as well as a new Year-End Summary section with year-end gain/loss data to make accurate tax reporting easier for you.

Implementation Phase	Covered Securities	Uncovered Securities
Equities*	Acquired on or after Jan. 1, 2011	Acquired prior to Jan. 1, 2011
Mutual funds, ETFs, DRIPs**	Acquired on or after Jan. 1, 2012	Acquired prior to Jan. 1, 2012
Fixed income, options, other securities***	Acquired on or after Jan. 1, 2013	Acquired prior to Jan. 1, 2013

Broker vs. taxpayer responsibility:

Covered securities: Brokers will report cost basis to the IRS and taxpayers on Form 1099-B. Taxpayers will use Form 1099-B data in preparing their tax return filings for 2011 and following years.

Uncovered securities: Broker may supply cost basis information to the taxpayer. Taxpayer will report cost basis to the IRS.

* Equities include corporate stock (other than stock in a regulated investment company [RIC] or stock acquired in connection with a dividend reinvestment plan [DRIP]). Internal Revenue Code section 6045(g)(3)(C)(i) provides that the applicable date is January 1, 2011.

** For stock in a RIC (RIC stock) or stock acquired in connections with a DRIP (DRIP stock), section 6045(g)(3)(C)(ii) provides that the applicable date is January 1, 2012.

*** For any other specified securities, section 6045(g)(3)(C)(iii) provides that the applicable date is January 1, 2013, or a later date to be determined in the future. The reporting rules for options transactions apply only to options granted or acquired on or after January 1, 2013, as provided in section 6045(h)(3).

COST BASIS DEFINED

Adjusted cost basis is used to determine the capital gains or losses of an investment for tax purposes. This is the new information you will see on your Form 1099-B and Year-End Summary.

Cost basis is the original purchase price you paid for a security, plus commissions and any other fees. The longer a stock or other asset is held, the more likely it is that the original purchase price will need to be adjusted to reflect changes over time.

Adjusted cost basis, then, is the original cost basis plus any adjustments due to wash sales, amortization and accretion, or corporate actions, such as capital returns, stock splits, and dividend payments.

Here's an example of an adjusted cost basis calculation and the impact it can have on your portfolio:

You buy 100 shares of a stock for \$1,000. The first year you own the stock, the company pays \$100 in dividends, which you reinvest. The next year, you receive \$200 in dividends and capital-gains distributions, which you again reinvest. Because tax law considers these reinvested earnings as paid to you even though you didn't actually have the cash in hand, your adjusted cost basis when the stock is sold should be recorded at \$1,300 instead of the original purchase price of \$1,000.

Then you sell the stock for \$1,500. Your taxable gain is based on that adjusted cost basis, so it amounts to only \$200 (\$1,500-\$1,300). If you record the cost basis as \$1,000 and calculate the cost basis as \$500, you'll pay more taxes than you have to.¹

COST BASIS METHODS

Calculating cost basis is complex and, as you can see from the above example, you want to make sure that your cost basis is calculated accurately so that you don't pay more taxes than you should.

You may want to talk to your advisor about choosing the right cost basis method that meets the needs of your unique situation.

When you or your advisor sells any of your holdings in a security, Schwab uses a default cost basis method to determine which shares to sell. Schwab's default method for all non-mutual fund securities (e.g., equities) is called FIFO, or First In First Out. For mutual funds Schwab's default method is average cost.

At right is a list of the various cost basis methods available at Schwab.

When your advisor sells securities for you, he or she may see a potential tax advantage by indicating specific lots to sell. This is an option for all shares sold, and you can identify these transactions on your trade confirmation.

Cost Basis Method	Definition
FIFO (First In First Out)	Shares acquired first are sold first.
LIFO (Last In First Out)	Shares acquired last are sold first.
High Cost	Shares with the highest cost are sold first.
Low Cost	Shares with the lowest cost are sold first.
Tax Lot Optimizer™	Lots are sold with the objective of taking losses first (short-term, then long-term) and gains last (long-term, then short-term).
Average Cost	Computed by dividing the total dollar amount invested in a fund position by the number of shares held. Shares are sold in FIFO order.

1. www.investopedia.com/terms/c/costbasis.asp, s.v. "cost basis," accessed August 8, 2011.

REPORTING YOUR COST BASIS

We've redesigned the Form 1099 Composite, which includes Form 1099-B and a Year-End Summary, to make tax preparation easier. Now all tax information is contained in one report—delivered at one time.

Revised Form 1099-B

The revised Form 1099-B will now provide cost basis information for both covered and uncovered securities.

The form includes five new areas:

- **Acquisition date** of any securities sold.
- **Adjusted cost basis** shows the original price paid for the securities sold and any adjustments due to wash sales, amortization, accretion, and corporate actions.
- **Disallowed wash sale losses** shows the amount of loss that has been disallowed when a wash sale transaction occurs.
- **Covered and uncovered securities** indicates whether the securities sold were not covered by the new legislation.
- **Holding period** indicates holding period of the securities as either short- or long-term.

<i>charles</i> SCHWAB		Schwab One® Account of DANA JONES		Account Number 1111-9999		TAX YEAR 2011 FORM 1099 COMPOSITE	
Recipient's Name and Address				Payer's Name and Address		Date Prepared: January 11, 2012	
DANA JONES JOHN JONES C/O SAMPLE GLOBAL ENTERPRISE 3RD FLOOR, SUITE 1800 1234 MAIN STREET ANYTOWN, US 12345 Taxpayer ID Number: ***-**-0000 Account Number: 1111-9999				CHARLES SCHWAB & CO., INC. 211 MAIN STREET SAN FRANCISCO, CA 94105 Telephone No: (800) 435-4000 Federal ID Number: 94-1737782			
Proceeds From Broker Transactions—2011						Form 1099-B	
Department of the Treasury—Internal Revenue Service Copy B for Recipient (OMB No. 1545-0715)							
COST BASIS METHOD: Mutual Funds: Average; All Other Investments: First In First Out (FIFO)							
8-Type of gain or loss: Short-term							
1b-Date of acquisition							
2-Sales price of stocks, bonds, etc. (less commissions and options premiums)							
3-Cost or other basis							
6-If this box is checked, boxes 1b, 3, 5 and 8 may be blank							
5-Wash sale loss disallowed							
4-Federal income tax withheld							
9-Description	CUSIP Number	Quantity **	1a-Date of sale or exchange				
123 CORPORATION	00108XXXX	S	01/12/11	\$ 6,172.55	\$ 5,172.55	\$ 500.00*	\$ 0.00
		100.00	04/26/11				
123 CORPORATION	00108XXXX	S	08/22/11	\$ 24,690.20	\$ 14,690.20	\$ 0.00	\$ 6,000.00
		400.00	12/26/11				
Security Subtotal				\$ 30,862.75	\$ 19,862.75	\$ 0.00	\$ 6,000.00
MORTGAGE BACKED SECURITY	90000XXXX	R	01/02/11	\$ 1,215.67	\$ 215.67	X \$ 0.00	\$ 0.00
		40,000.00	03/25/11				
Security Subtotal				\$ 1,215.67	\$ 215.67	\$ 0.00	\$ 0.00
Total Short-Term Sales Price from Broker Transaction				\$ 30,078.42	\$ 20,079.42		

FORMS INCLUDED IN THE 1099 COMPOSITE

Your 1099 Composite could include several tax forms to report various information about your gains and losses.

Form 1099-DIV: Dividends and Distributions	Reports any dividend amounts earned on stocks and mutual funds in your Schwab account(s), including capital gains distributions.
Form 1099-INT: Interest Income	Reports any interest paid to your Schwab account(s).
Form 1099-MISC: Miscellaneous Income	Reports any royalty and substitute payments in lieu of dividends and interest paid to your Schwab account(s). You could also receive a separate Form 1099-MISC that reports "Other Income."
Form 1099-OID: Original Issue Discount	Reports any Original Issue Discounts (OIDs) accrued for the current year. The amount is based on the excess of the stated redemption price (at maturity) and the original issue (not purchase) price of the debt instrument, including bonds or notes that have a term of more than one year. This form also reports taxable income earned on securities with income taxable on accrual basis.
Form 1099-B: Gross Proceeds from Broker and Barter Exchange Transactions	Reports any proceeds from the sale of assets in your Schwab account(s), including tenders, redemptions, and taxable corporate reorganizations. Commissions have been deducted, and the reported proceeds reflect the trade date and net amount paid. NEW for 2011: includes acquisition date, wash sale disallowed loss, covered and uncovered status, and holding period.
Year-End Summary (Realized Gain, Summary of Fees and Expenses, Amortization, and Accretion for Fixed Income) NEW for 2011	Provides concise investment activity information that may be useful as you complete your tax return.
Realized Gain/Loss Summary	Incorporates Information from the Year-End Gain/Loss Report into the Realized Gain/Loss section of the Year-End Summary and provides a consolidated view of gains and losses, cost basis, and wash sale data for easier tax preparation.
Summary of Fees & Expenses	Reports advisor or advice fees that are debited from a client's account and details margin interest paid.
Amortization and Accretion Information	Provides a year-to-date amortization or accretion for certain fixed income securities, which may help to adjust income on Schedule B.

GLOSSARY

In addition to the terms explained in this guide, you may find the following definitions helpful in understanding cost basis.

Accretion—The difference between the price of a bond bought at a discount (below par) and its par value. When an investor buys a security in the secondary market at a discount (if the security was issued at or near 100), the purchase price is adjusted upward to 100 over the remaining life of the security until it reaches par on its maturity date.

Adjusted cost basis—The original price of a security plus commissions, fees, and any adjustments associated with wash sales and resulting from corporate actions. Cost basis is used to determine capital gains and capital losses of an investment for tax purposes.

Average cost basis—An IRS-approved method to determine the cost of mutual fund shares at time of sale; it may be selected for ETFs and DRIPs as well. Schwab uses the Single Category Average Cost method as the default method for mutual funds. This method divides the total dollar amount invested in a particular fund position by the number of shares held before the trade date. Reinvested dividends are actual fund purchases and are included in your cost basis. Based on this cost, you can determine whether a sell represents a gain or loss for tax purposes.

Covered securities—Securities acquired on or after the applicable dates outlined by the legislation. For example, if you purchased stock on or after January 1, 2011, those shares are considered to be covered securities.

Gifted securities—The new requirements dictate that, starting in 2011, any transfer between different owners must have cost basis reported in the new account and the asset has to be “flagged” as a gift, potentially impacting short-term versus long-term gain/loss reporting. If, at the time of the gift, the shares have an unrealized loss, special gift accounting rules must be considered when the gift recipient ultimately disposes of the shares, limiting the loss that may be claimed.

Holding period—The holding period is the number of days that a security is held, from the date of acquisition to the current or sale date.

The sale of a security is long-term if it has been held for more than one year and is taxed at capital gains rates. It is short-term if the security is held for one year or less and is taxed at your personal tax rate.

To compute the holding period of an asset, begin counting on the day after the asset was purchased, and stop counting on the trade date of the sale.

Long-term: If a shareholder holds the position for more than one year, a long-term gain or loss is realized. For example, if a shareholder purchased a security on April 1, 2010, and sold it on April 2, 2012, this is a long-term gain or loss.

Short-term: If a shareholder holds the position for one year or less, a short-term gain or loss is realized. For example, if a shareholder purchased a security on April 1, 2010, and sold it on April 1, 2011, this is a short-term gain or loss.

Inheritance—The new requirements indicate that, starting in 2011, any inherited covered security must have basis reported in the new account and the asset has to be “flagged” as inherited. If shares are acquired through an inheritance, Schwab will step up the basis to the fair market value on the date of death unless we are notified by the executor that the alternate date of death should be used. Inherited shares are always treated as long-term holdings.

Lot (or tax lot)—A position of any share quantity acquired on a specific date at a specific cost per share. One or more lots make up the position held in a security in the account. For example, if a client purchases 200 shares of XYZ in a single purchase, then the position is treated as a single lot for purposes of calculating gains and losses. If the client purchased 100 shares on two different occasions at different prices, the position is treated as two separate lots for calculating gains and losses.

Option exercise or assignment—Schwab adjusts the proceeds on the sale of an underlying equity if an option is exercised or assigned. (This is not required by legislation until 2013, but we are permitted to do it now.)

Realized gain/loss (RGL)—Actual gain or loss resulting from a closing transaction (sale or other reportable event), based upon the proceeds of the sale of securities.

Settlement date —The date an executed securities transaction must be settled (or completed) by purchasing or delivering a sold asset usually three business days after the trade was executed (T+3) or one day for mutual funds, options, and government securities.

Short sales—When selling a security before you actually own it, the new legislation requires that these short sales now be reported in the year they are covered, not in the year they are opened.

Short-term versus long-term gains—Tax rates for short-term gain (securities held for one year or less) are the same as your personal income tax rate. Long-term gain (securities held for more than one year) is subject to capital gains tax rates, which for many taxpayers are lower.

Tax loss harvesting —Selling securities at a loss to offset a capital gains tax liability. Tax gain/loss harvesting is typically used to limit the recognition of short-term capital gains, which are normally taxed at higher federal income tax rates than long-term capital gains.

For many investors, tax gain/loss harvesting is the single most important tool for reducing taxes now and in the future. If properly applied, it can reduce clients' taxes and help them diversify their portfolios in ways they may not have considered. Although it can't restore losses, it can certainly minimize the taxable liability. For example, a loss in the value of Security A could be sold to offset the increase in value of Security B, thus eliminating the capital gain tax liability of Security B.

Transfer—Movement of a security or securities from one custodian to another.

Uncovered securities—Securities acquired before the applicable dates outlined by the legislation. For example, if you hold stock that you purchased before January 1, 2011, those shares are considered uncovered.

Unrealized gain/loss—Gain or loss that has not been sold or "realized." Refers to the potential gain or loss based upon current market prices.

Versus purchase—A method of identifying specific shares (open lots) of securities to be sold for gain/loss reporting purposes.

Wash sale rule —This rule prohibits a taxpayer from claiming a loss on the sale of an investment if that identical investment was purchased within 30 days before or after the sale date. The intent of the IRS is to prevent a taxpayer from deducting a loss on his or her tax return when that person's financial position remains the same after the loss. Although the shareholder is not allowed to claim the loss on a wash sale, the disallowed amount is added to the cost of the repurchased security, enabling the shareholder to recognize the loss when the security is finally sold.

This rule applies only to losses. Gains must be reported even if the same shares are purchased within 30 days of the sale.

A wash sale generates two adjustments:

- All or a portion of the loss must be deferred and added back to the basis.
- The holding period of the purchased shares must be changed to account for the deferral.

As a result of the legislation, Schwab will report wash sales with identical CUSIP numbers within the same account to the IRS, but clients and their tax advisors still need to monitor and compute wash sales that occur across multiple accounts or brokers or substantially similar securities.

INTRODUCING SCHWAB'S REVISED FORM 1099 COMPOSITE

As a result of new tax reporting requirements, in 2012 Schwab will provide you with updated year-end tax reporting forms. Our Form 1099 Composite (sent only to taxable accounts) will include an updated Form 1099-B and a new Year-End Summary, which will consolidate all of your tax information in one report to help make tax preparation easier.

Covered and Uncovered Securities

Although the IRS requires reporting only for covered securities, Schwab will provide cost basis to you for all securities—covered and uncovered—because you will need this information to file your taxes.

Snapshot of What's New

The revised Form 1099-B now displays five new data fields:

- Date of acquisition
- Adjusted cost basis
- Disallowed wash sale losses
- Covered and uncovered securities
- Holding period

The new Year-End Summary replaces the Account Summary in the previous Form 1099 Composite. The new summary contains a table of contents to

help you more easily find information and has been reorganized to group information by the various Form 1040 schedules you may need to complete. The summary will now include the following information:

- Realized gain/loss summary
- Summary of fees and expenses
- Amortization and accretion information

Now that the Year-End Summary will contain Realized Gain/Loss information, the Year-End Gain/Loss Report has been retired for taxable accounts.

FORM 1099-B

charles SCHWAB

Schwab One® Account of
DANA JONES

Account Number
1111-9999

**TAX YEAR 2011
FORM 1099 COMPOSITE**

Recipient's Name and Address

DANA JONES
JOHN JONES
C/O SAMPLE GLOBAL ENTERPRISE
3RD FLOOR, SUITE 1800
1234 MAIN STREET
ANYTOWN, US 12345
Taxpayer ID Number: ***-**-0000
Account Number: 1111-9999

Payer's Name and Address

CHARLES SCHWAB & CO., INC.
211 MAIN STREET
SAN FRANCISCO, CA 94105
Telephone No: (800) 435-4000
Federal ID Number: 94-1737782

Date Prepared: January 11, 2012

Proceeds From Broker Transactions—2011

Form 1099-B

Department of the Treasury—Internal Revenue Service Copy B for Recipient (OMB No. 1545-0715)

COST BASIS METHOD: Mutual Funds: Average; All Other Investments: First In First Out (FIFO)

8 Type of gain or loss: Short-term

9—Description	CUSIP Number	Quantity **	1a—Date of sale or exchange	1b—Date of acquisition	2—Sales price of stocks, bonds, etc. (less commissions and options premiums)	3—Cost or other basis	6—If this box is checked, boxes 1b, 3, 5 and 8 may be blank	5—Wash sale loss disallowed	4—Federal income tax withheld
123 CORPORATION	00108XXXX	S	01/12/11	04/26/11	\$ 6,172.55	\$ 5,172.55		\$ 500.00*	\$ 0.00
		100.00							
123 CORPORATION	00108XXXX	S	08/22/11	12/26/11	\$ 24,690.20	\$ 14,690.20		\$ 0.00	\$ 6,000.00
		400.00							
Security Subtotal					\$ 30,862.75	\$ 19,862.75		\$ 0.00	\$ 6,000.00
MORTGAGE BACKED SECURITY	90000XXXX	R	01/02/11	03/25/11	\$ 1,215.67	\$ 215.67	X	\$ 0.00	\$ 0.00
		40,000.00							
Security Subtotal					\$ 1,215.67	\$ 215.67		\$ 0.00	\$ 0.00
Total Short-Term Sales Price from Broker Transaction					\$ 30,078.42	\$ 20,079.42			

1a Date of sale or exchange—trade date of the transaction.

1b Date of acquisition—acquisition date of any securities sold.

2 Sales price of stocks, bonds, etc. (less commissions and options premiums)—formerly titled “Gross Proceeds,” this includes the total proceeds from the transaction including options premiums (new in 2011).

3 Cost or other basis—original price paid for the securities sold and any adjustments due to wash sales, amortization and accretion, and corporate actions.

4 Federal income tax withheld—shows backup withholding amount if applicable. Generally, payer must backup-withhold at a 28% rate if the client did not furnish their taxpayer ID to the payer.

5 Wash sale loss disallowed—shows the amount of loss that has been disallowed when a wash sale transaction occurs.

6 If this box is checked, boxes 1b, 3, 5, and 8 may be blank—if marked with an “X,” indicates the securities sold were uncovered by the new legislation.

8 Type of gain or loss—indicates holding period of the securities as either short-term or long-term.

9 Description—name of the security.

*New features are listed in blue

REVISED YEAR-END SUMMARY

Date Prepared: January 11, 2012

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Schwab One® Account of
DANA JONES

Account Number
1111-9999

TAX YEAR 2011
YEAR-END SUMMARY

REALIZED GAIN OR (LOSS)

The information in the following sections include all your realized gain or (loss) transactions during the tax year. They may be helpful for, but not limited to, Schedule D. Please consult with your tax advisor or financial advisor regarding specific questions.

Short-Term Realized Gain or (Loss)

COST BASIS METHOD: Mutual Funds: Average: All Other In

Description	CUSIP Number	Quantity/Par	Date of Acquisition	Date of Sale	Total Proceeds	Cost Basis	Realized Gain or (Loss)
123 CORPORATION	00108XXXX	100.00	01/21/11	04/26/11	\$ 6,172.55	\$ 5,172.55	\$ 1,000.00
123 CORPORATION	00108XXXX	400.00	08/22/11	12/26/11	\$ 24,690.20	\$ 14,690.20	\$ 10,000.00
Security Subtotal					\$ 30,862.75	\$ 19,862.75	\$ 11,000.00
CALL ANY OLD CORP	XXXXXXXXXA	10.00	02/21/11	03/21/11	\$ 0.00	\$ 1,030.50	\$ (1,030.50)
Security Subtotal					\$ 0.00	\$ 1,030.50	\$ (1,030.50)
MORTGAGE BACKED SECURITY	90000XXXX	4000.00	01/02/11	03/25/11	\$ 1,215.67	\$ 215.67	\$ 1,000.00
Security Subtotal					\$ 1,215.67	\$ 215.67	\$ 1,000.00
Total Short-Term					\$ 32,078.42	\$ 21,108.92	\$ 10,969.50

First In First Out (FIFO)

Long-Term Realized Gain or (Loss)

COST BASIS METHOD: Mutual Funds: Average: All Other In

Description	CUSIP Number	Quantity/Par	Date of Acquisition	Date of Sale	Total Proceeds	Cost Basis Adjusted	Realized Gain or (Loss)
ANY MORTGAGE	12345XXXX	240000.00	11/30/07	11/07/11	\$ 21,500.00	\$ 22,000.00	\$ (500.00)
					\$	\$ 23,000.00	\$ 1,000.00
Security Subtotal					\$ 21,500.00	\$ 22,000.00	\$ (500.00)
					\$	\$ 23,000.00	\$ 1,000.00
SAMPLE COMPANY	65332XXXX	400.00	--	08/17/11	\$ 338.52	Cost Basis is no	
Security Subtotal					\$ 338.52	--	\$ 338.52
SAMPLE NATIONAL	58064XXXX	50.00	06/30/08	06/09/11	\$ (0.03)	\$ 2,250.00	\$ (2,249.97)
Security Subtotal					\$ (0.03)	\$ 2,250.00	\$ (2,249.97)

Please see the "Endnotes for Your Realized Gain or (Loss)" for an explanation of the codes and symbols in this Realized Gain or (Loss) section.
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- Organized by IRS 1040 schedules**—information grouped by the various Form 1040 schedules (e.g., Schedules D, A, and B) for easier reference.
- Table of Contents**—to quickly locate relevant information.
- Realized Gain/Loss Summary**—incorporates information from the Year-End Gain/Loss Report into the Realized Gain/Loss section of the Year-End Summary and provides consolidated view of gains and losses, cost basis, and wash sale data for easier tax preparation.

- Summary of fees and expenses**—reports advisor or advice fees that are debited from a client's account and details margin interest paid.
- Amortization and accretion information**—provides a year-to-date amortization or accretion amount for certain fixed income securities, which may help to adjust income on Schedule B.

*New features are listed in blue

UPDATES TO FORM 1099-B

An Online Demo

The Proceeds from Broker's Transactions section of your Form 1099 Composite supplies essential information to help you accurately calculate realized gains or losses for the year, which can have a direct impact on your taxes. In compliance with new reporting rules, Schwab will now provide more detailed cost basis information on this form for securities covered by the new rules and those that aren't. Also, Schwab will now report this information directly to the IRS.

[Tour the Changes](#)

FAQs FOR SCHWAB'S 1099 COMPOSITE

Cost Basis Legislation

Beginning with the 2011 tax reporting year, your clients will see cost basis and other information for each tax lot sold on their revised Form 1099 Composite and Year-End Summary for the first time. Schwab's Form 1099 Composite has been revised to include new IRS required information and new enhancements to make tax preparation easier for clients.

FORM 1099 COMPOSITE AND YEAR-END SUMMARY

Why is the Form 1099 Composite/Form 1099-B changing?

The Emergency Economic Stabilization Act of 2008 requires Schwab and other brokers to report cost basis on certain security transactions to clients and the IRS.

The revised 1099-B will now include cost basis information for both covered (reported to the IRS) and uncovered (not reported to the IRS but reported to clients as a service). Cost basis information includes cost basis, date of acquisition, wash sale disallowed loss amount, covered status, and holding period information.

Schwab enhanced the 1099 Composite in order to make tax preparation easier for clients. It includes a reorganized and revised Year-End Summary section so that your clients will receive both forms at the same time. The Year-End Summary now includes a Realized Gain/Loss section (formerly the Year-End Gain/Loss Report (YEGLR)), amortization and accretion information, and a summary of fees.

What is different about the content in the revised Form 1099 Composite/Form 1099-B?

The Form 1099-B previously reported only gross proceeds from closing transactions (e.g., sales). Starting with tax year 2011, it will be expanded to include cost basis information for both covered and uncovered securities sold or exchanged during 2011. This information includes:

- The date the security was acquired
- The holding period of the security: long-term (held more than one year) or short-term (held one year or less)
- If the transaction was a wash sale, any disallowed loss amount
- If shares are covered or uncovered by the legislation effective dates

Although Schwab won't report it to the IRS, cost basis for uncovered securities will be provided on the 1099-B if we have it.

How is the revised form organized?

We've redesigned the Form 1099 Composite to make your clients' tax preparation easier. The revised Form 1099 Composite format now matches the look of your clients' Trade Confirms and Schwab's Premium Statement.

We've organized the information in the new Year-End Summary section (formerly known as the Account Summary) so that the information is grouped by the various Form 1040 schedules (e.g., Schedules D, A, and B). And we've added a table of contents to help your clients find their information more easily.

Why are there transactions in the Realized Gain/Loss (RGL) section that don't appear on clients' Form 1099-B?

Clients' 1099-B shows only transactions and proceeds that Schwab is required to report to the IRS. There are

other transactions clients are required to report on their tax forms but that we are not (e.g., cash in lieu under \$20 and proceeds from sales of options). We're providing these transactions to your clients in the RGL section so they may include them on the appropriate tax forms when they file their taxes.

What benefits does the updated form provide to clients?

Schwab's revised Form 1099 Composite and Year-End Summary brings most of your clients' tax data on their accounts at Schwab together in one report.

Our Year-End Summary data is grouped by schedules to make tax preparation easier.

1099-B SPECIFIC

What does realized gain/loss (RGL) mean?

RGL is the actual gain or loss resulting from the sale of a security.

What does holding period mean?

Holding period refers to the length of time clients held their security and is used to determine how the capital gain or loss should be taxed. Short-term gain (securities held for less than one year) is taxed at the same rate as your clients' personal income. Long-term gain (securities held for more than one year) is taxed at the capital gains tax rate, which for many taxpayers is lower.

What do the new column titles in the revised 1099-B mean in plain English?

The revised Form 1099-B contains the following columns of information (or "boxes," as the IRS terms them), including five new ones:

1a. Date of sale or exchange: Shows the trade date of the transaction.

1b. NEW Date of acquisition: Acquisition date of any securities sold.

2. Sales price of stocks, bonds, etc. (less commissions and options premiums): Shows the total proceeds from the transactions. Note that the impact of option premiums on proceeds is included in the Sales Price box.

3. NEW Cost or other basis: The original price paid for the securities sold and any adjustments due to wash sales, amortization and accretion, and corporate actions.

4. Federal income tax withheld: Shows backup withholding amount, if applicable. Generally, a payer must backup-withhold at a 28% rate if your clients did not furnish their taxpayer identification number to the payer.

5. NEW Wash sale loss disallowed: Shows the amount of loss that has been disallowed when a wash sale transaction occurs.

6. NEW If this box is checked, boxes 1b, 3, 5, 7, and 8 may be blank: An "X" in this column indicates the securities sold were uncovered by the new legislation.

8. NEW Type of gain or loss: Indicates whether the holding period of the securities is short-term or long-term.

9. Description: Name of the security.

What does covered and uncovered mean?

Covered securities are those securities acquired on or after the effective dates of the regulations (effective dates are over a three-year period). All other securities are defined as uncovered.

Learn more at schwab.com/costbasis.

What is a wash sale and disallowed loss?

A wash sale occurs when an investor sells a security at a loss and repurchase a substantially similar security within 30 days (before or after) of the sale. When this happens, the loss is disallowed and is added to the cost of the new shares. Additionally, the holding period is adjusted by the number of days the security that was sold was held.

Schwab is required to track wash sales that occur on the same security within the same account.

Can clients receive their Form 1099 electronically rather than in the mail?

Yes. We plan to launch the ability for clients to receive their Form 1099 electronically. They will need to consent to receiving it this way even if they are already receiving other products electronically. We will notify your clients later this year when the functionality is available.

Will the revised 1099 work with clients' current tax software?

Tax software providers are reviewing the new 2011 IRS requirements and looking at how to enhance their systems and release updates. Updates will vary by provider, so clients should check with their tax software provider.

YEAR-END SUMMARY

What information is contained in the amortization and accretion section of the Year-End Summary?

This new section provides clients with a year-to-date amortization or accretion amount for certain fixed income securities, which may help them to adjust their income on Schedule B.

Why does the cost basis for some securities say "Missing" or why is the cost basis not provided?

There are some instances when cost basis information may not be available. Most likely it is because the security was transferred from another financial institution to Schwab without cost basis information. Other reasons could be that the security was:

- Purchased at Schwab more than 10 years ago
- Impacted by a corporate action since its original purchase

How do clients fill out their Schedule D if their 1099-B shows "Missing" for cost basis?

If cost basis is missing, it means that either it was not included with a transfer from another broker, or it was unavailable at the time.

Schwab recommends that clients try to provide the missing cost basis for all their positions by checking their past statements and trade confirmations for the original purchase dates and prices. They can also contact the custodian who transferred their securities to Schwab or search online services like NetBasis to obtain the data.

If they are unable to determine the cost basis for a sale transaction, the IRS requires them to use a cost basis of zero, so their sales proceeds will be taxable gain.

Will clients still receive a Year-End Gain/Loss Report (YEGLR)?

Clients will not get a report for accounts that receive a Form 1099 Composite. Schwab has combined the information from the YEGLR with the revised 1099 so the YEGLR is no longer needed for taxable accounts.

The YEGLR will continue to be available for non-taxable accounts.

Why is Schwab now reporting trades at the lot level rather than the fill level?

As clients sell securities that were acquired at different times, it's possible that they may sell some shares that

were covered and some that were uncovered. Additionally, the shares could have different holding periods with some covered and some uncovered. As a result, we've decided to provide lot-level reporting on clients' Form 1099-B so that they have all of the details they need to accurately report the information on their taxes.

Why is the Form 1099 Composite/Form 1099-B longer than the previous form?

In order to make tax preparation easier for your clients, Schwab has combined two reports into one: The revised Form 1099 Composite and Year-End Summary includes both the Form 1099 and the Year-End Gain/Loss Report. As a result, your clients' reports may be longer. Additionally, we're now reporting lot-level information

on clients' 1099-B in order to provide them with the required data to accurately report on their tax forms.

How do clients fill out Schedule D from the information on the new form?

The IRS has released drafts of a revised 2011 Schedule D and a new form called 8949 that will be used to report your clients' sales proceeds. We will update this information as soon as the IRS finalizes the forms and releases instructions.

As always, clients should consult with their tax advisor or the IRS for specific instructions on how to complete their forms.

For informational purposes only. The information is not intended to provide specific financial, tax, compliance, or legal advice. You should consult professionals in these fields to address your specific circumstance.

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