charles SCHWAB

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.

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