

determine adjusted basis for a debt instrument acquired at a premium or discount.

Initial basis. If a customer paid cash for a security, the initial basis is:

1. The total cash paid by the customer or credited against the customer's account for the security, plus
2. The commissions and transfer taxes to buy the security.

You may, but do not have to:

- Take option premiums into account to determine the initial basis of securities acquired by exercising an option granted or acquired before 2014, or
- Increase initial basis for income recognized upon the exercise of a compensatory option or the vesting or exercise of other equity-based compensation arrangements granted or acquired before 2014.

You cannot increase initial basis for income recognized upon the exercise of a compensatory option or the vesting or exercise of other equity-based compensation arrangements granted or acquired after 2013. For rules related to options granted or acquired after 2013, see Regulations section 1.6045-1(m).

You must report the basis of identical stock by averaging the basis of each share if:

- The stock was purchased at separate times on the same calendar day in executing a single trade order, and
- The broker executing the trade provides a single confirmation to the customer that reports an aggregate total price or an average price per share.

However, do not average the basis if the customer timely notifies you in writing of an intent to determine basis by the actual cost per share.

The initial basis of a security transferred to an account is generally the basis reported on the transfer statement. If a transfer statement indicates that the security is acquired as a gift, you must apply the relevant basis rules for property acquired by gift in determining the initial basis, except you do not have to adjust the basis for gift tax. Treat the initial basis as equal to the gross proceeds from the sale if:

- Neither gain nor loss is recognized because of the basis rules for gift property, or
- The initial basis depends on FMV as of the date of the gift and you neither know nor can readily ascertain this value.

Short sales. In the case of a short sale, report the adjusted basis of the security delivered to close the short sale.

Wash sales. If a customer acquired securities that caused a loss from a sale of other securities to be both nondeductible under section 1091 and the loss was reported as a wash sale adjustment on a Form 1099-B for the sale at a loss, increase the adjusted basis of the acquired securities by the amount of the disallowed loss.

Corporate mergers. Report only the net reduction in basis between stock exchanged and stock received when reporting the payment of cash paid as part of a corporate merger, reorganization, or similar event that is taxable only to the extent that cash or property other than stock or

securities ("boot") is received and for which no loss can be recognized. Enter only the amount of the reduction attributable to the amount reported in box 1d. Enter the amount as a positive number. However, do not apply this rule, and instead report adjusted basis as described earlier, for any stock considered to have been redeemed or sold, for example, fractional shares of stock resulting from the merger that are only paid in cash.

Example. Your customer Adrian buys 100 shares of covered stock in MNO Corporation for \$5,000 in February 2021. MNO Corporation merges with PQR Corporation in December 2021. The merger is taxable only to the extent that boot is received. Adrian receives 100 shares of PQR stock with a value of \$4,700 and \$800 cash boot in exchange for his MNO stock. Adrian's resulting basis in the PQR stock is \$4,700. Report the \$800 cash boot in box 1d, and report \$300 in box 1e to reflect the net reduction in basis from \$5,000 (for the MNO stock) to \$4,700 (for the PQR stock).

Box 1f. Accrued Market Discount

Enter the amount of accrued market discount in box 1f.

Box 1g. Wash Sale Loss Disallowed

Wash sales. Report wash sale loss amount disallowed. You must report any loss disallowed under section 1091 if both the sale and purchase transactions occur in the same account with respect to covered securities with the same CUSIP number. You are permitted, but are not required, to report in box 1g all loss disallowed under section 1091. For example, you may report a disallowed loss even though a security is sold in one account and repurchased in a different account. Increase the adjusted basis of the acquired securities by the amount of the disallowed loss reported in box 1g.

You also do not have to apply the wash sale rules if:

- The purchased security is transferred to another account before the wash sale,
- The purchased security was purchased in another account and later transferred into the account from which securities were sold,
- The securities are treated as held in separate accounts, or
- The customer has notified you in writing (including in an electronic format) that he or she has made a valid and timely mark-to-market election under section 475 and identifies the account from which the securities were sold as containing only securities subject to the election.

For more details, see Regulations section 1.6045-1(d)(6)(iii).

Example. Your customer Alex buys 100 shares for \$1,000 in September 2021. In October 2021, he sells them for \$600. Within 30 days of the sale, he buys 75 shares with the same CUSIP number in the same account. Since his loss is \$400 (\$1,000 minus \$600) but the loss on 75 shares is disallowed, his disallowed loss is \$300. Report the \$600 gross proceeds from the sale in box 1d, \$1,000 basis in box 1e, and \$300 wash sale loss disallowed in box 1g. The \$300 in disallowed loss is added to his basis in the newly purchased 75 shares.