

This is a train wreck waiting to happen. As a retired CPA I believe that I have some expertise in this matter. I can say with a high degree of confidence that 90% of those taxpayers who know what they are doing and trade stocks frequently know the basis on their trades. Most of the brokers haven't got a clue about the correct basis due to a number of factors. These are (1) instruments held for many years or purchased or acquired through a different firm, (2) instruments that have complex adjustments to their basis due to mergers or dividend reinvestments, (3) trades where the correct basis is determined by the reporting or handling on prior year tax returns. These are but a few of the impediments to relying on broker information for gain or loss determination. In the event the IRS sends out the normal CP 2000 on a small fraction of the returns which report a different basis from that read by the IRS from the 1099, the storm of protest that will engulf the IRS and the Congress will exceed anything seen in years. Most people who trade stocks and other investment instruments through brokers use professionals to prepare their returns and probably most IRS notices will be fought by the taxpayer and their representatives. My experience has been that the average IRS notice on one of these type of alleged deficiencies takes 12 to 18 months to resolve and generally results in the taxpayer not owing a significant amount of additional tax. The ill will generated toward the government by the process is enormous, and creates additional non compliance by everyone who hears the taxpayer relate his or her experience.

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