

## MEMORANDUM

To: Reporters and Editors  
From: Erin Shields for Senate Finance Committee Chairman Max Baucus (D-Mont)  
Jill Gerber for Senate Finance Committee Ranking Republican Chuck Grassley (R-Iowa)  
Re: staff proposal on basis reporting of securities transactions

Senate Finance Committee staff today released a bipartisan staff proposal on basis reporting of securities transactions, for the purpose of public discussion.

The staff discussion draft deals with information reporting by brokers of customer basis in securities transactions. Taxpayers are to determine their capital gain or loss on an asset for tax purposes by subtracting the basis amount, generally the cost of an asset, from the gross proceeds when selling the asset. A substantial number of securities transactions are reported incorrectly to the IRS because the basis amounts in the securities either are understated or overstated. The Internal Revenue Service estimates that in 2001 the tax gap associated with all capital gains was about \$11 billion. The staff discussion draft targets the portion of the capital gains tax gap that relates to publicly traded securities. The Government Accountability Office testified before this Committee in 2006 that as many as 7 million individual taxpayers, or 36 percent, who sold securities in 2001 may have misreported capital gains or losses, and around half of those taxpayers did so because they misreported their basis. In addition, the GAO found that, of those who misreported their capital gains or losses from securities transactions, about 64 percent underreported their income, and 33 percent overreported their income.

The staff discussion draft intends to address concerns regarding the extent of capital gains and losses that are misreported, and to reduce the incidence of misreporting. It requires brokers to report to their customers the basis amount of the securities that are sold, as they already are required to report the gross sales proceeds. The information also would be reported to the Internal Revenue Service. Basis reporting has been recommended by the Administration, the Government Accountability Office, the Joint Committee on Taxation and others as a way to reduce taxpayer burden and to improve the rate of voluntary tax compliance. The draft proposal was developed on a bipartisan basis taking into consideration comments from government and private stakeholders interested in the proposal.

In addition to the draft proposal, staff also released a technical explanation prepared by the Joint Committee on Taxation. Finance Committee Chairman Max Baucus (D-Mont.) and Ranking Republican Member Chuck Grassley (R-Iowa) issued a statement regarding the proposal:

*--more--*

**“Getting this policy right is important for tax fairness,” the Senators said. “We look forward to receiving comments on this staff proposal and continuing an even-handed review of this issue.”**

Copies of the draft proposal and the technical explanation will be available in 219 Dirksen Senate Office Building and on the Finance Committee website ([click here](#)). Comments should be submitted no later than June 30, 2007. Public comment can be submitted by email to [basisreporting\\_comments@finance-dem.senate.gov](mailto:basisreporting_comments@finance-dem.senate.gov) or in writing to Russ Sullivan, Democratic Staff Director, and Kolan L. Davis, Republican Staff Director, at the Senate Finance Committee, 219 Dirksen Senate Office Building, Washington, DC 20510.

###