

## **Questions and Answers Regarding Form 1099-B and Cost Basis Reporting**

**Cost basis information and this Q and A made available to clients are not intended to be, and should not be construed as, legal or tax advice. We urge clients to consult with a qualified tax advisor for assistance. Representatives are not permitted to give tax advice.**

### **Introduction:**

Beginning in 2012, the Internal Revenue Service (IRS) implemented new cost basis reporting rules that require mutual fund companies to calculate and report cost basis information to both the shareholder and the IRS on IRS Form 1099-B when certain shares are sold. Historically, mutual fund companies were not required to report the cost basis of shares to the IRS or to shareholders.

Generally, cost basis is the total dollar amount paid for shares (including shares purchased via direct purchase or exchange purchase, as well as shares purchased via reinvested dividend and capital gain distributions) including sales charges.

Starting with the 2012 tax year, whenever covered shares (generally, shares acquired in a non-retirement account, other than a money market or Education Savings Account, on or after January 1, 2012) are sold, mutual fund companies must report the adjusted cost basis of such shares to both the IRS and the shareholder on Form 1099-B. When noncovered shares (generally, shares acquired prior to January 1, 2012, and any shares for which a mutual fund company does not have accurate basis information) are sold, mutual fund companies are required to report the sale of such shares to both the IRS and the shareholder on Form 1099-B but are not required to report the basis of such shares to either the IRS or to the shareholder. In addition, starting with the 2012 tax year, when covered shares are sold, mutual fund companies are also responsible to report the holding period (long-term (more than one year) or short-term (one year or less)) on Form 1099-B.

To assist you in understanding certain aspects of cost basis reporting and the 1099-B format, we have developed a list of Questions and Answers. Additional information can be found in IRS Publication 550 "Investment Income and Expenses". This helpful source of information may be obtained free of charge by contacting the IRS at 800-829-3676 or visiting the IRS website at [www.irs.gov](http://www.irs.gov).

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**1. Why were cost basis reporting requirements changed?**

The requirements for reporting cost basis information to the IRS were changed by the IRS in an effort to reduce the underpayment of capital gains taxes. The misplacement of records for long-held investments, as well as incomplete records regarding shares received as a gift or inheritance, can lead to incorrect reporting of a shareholder's cost basis. The requirements are intended by the IRS to alleviate such errors for purchases made after the effective date.

**2. Is the calculation of cost basis a new requirement for shareholders?**

No. Shareholders have historically been required to calculate their cost basis and report capital gains or losses on Schedule D of their Federal Form 1040. In addition, shareholders have been required to report whether shares sold were held long-term or short-term.

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**3. What types of accounts are subject to Form 1099-B/cost basis reporting?**

Generally, most non-retirement accounts, excluding money market and Education Savings Accounts, are subject to Form 1099-B/cost basis reporting.

**4. Where do I report cost basis information on my tax form?**

Cost basis information is generally reported on IRS Form 8949 and/or Schedule D of IRS Form 1040. Your qualified tax advisor can offer assistance in this regard.

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**5. What are covered shares?**

Covered shares are generally shares acquired in a non-retirement account, other than a money market or Education Savings Account, on or after January 1, 2012, for which a mutual fund company has accurate basis information.

**6. What are noncovered shares?**

Noncovered shares are generally shares acquired prior to January 1, 2012 and any shares for which a mutual fund company does not have accurate basis information.

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**7. Why do I own both covered and noncovered shares and, if average cost applies, why do they have a different average cost per share?**

As of 2012, IRS regulations treat mutual fund shares that are noncovered as being held in a separate account from shares that are covered. Because shares are averaged on an account-by-account basis as of 2012, the basis of shares that are covered is the average basis of only the covered shares and the basis of the shares that are noncovered is the average basis of only the noncovered shares.

**8. Can I choose to have all of the shares in an account treated as covered shares?**

No, you cannot make an election to have First Investors Funds treat all shares in an account as covered shares.

**9. What is adjusted basis?**

Adjusted basis is the basis of shares after taking into account any adjustments to the original cost basis as required by federal law. Adjusted basis is used to calculate the gain or loss when shares are sold or exchanged. The original cost basis may be adjusted for fund mergers, wash sales, load charge deferral ("Load Basis Deferral Rule") and other transactions as applicable. In certain cases, mutual funds are not required to, or may not have the information necessary to, properly adjust the basis of shares. In these instances you may need to make adjustments to the basis amount reported on Form 1099-B.

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## 10. What is a wash sale?

A wash sale occurs when shares are sold at a loss and all or a portion of shares in the same fund are purchased within a 61-day period (including shares purchased as the result of dividend reinvestment), beginning 30 days before and ending 30 days after the date of the redemption. Pursuant to IRS regulations, the losses from wash sales cannot be deducted. Instead, the loss is added to the cost of the purchased shares that triggered the wash sale. This adjustment postpones the loss deduction until the purchased shares that triggered the wash sale are sold. The holding period for the purchased shares that triggered the wash sale is adjusted to include the holding period of the shares sold. The amount of the loss that cannot be deducted is referred to as a "disallowed loss" and is reported in box 1g of Form 1099-B.

## 11. What is the format of the 1099-B?

To accommodate reporting requirements, starting with 1099-Bs issued in 2013 for the 2012 tax year, 1099-B information is broken out into 5 separate categories:

Long-term transactions for which basis is not reported to the IRS

Short-term transactions for which basis is not reported to the IRS

Long-term transactions for which basis is reported to the IRS

Short-term transactions for which basis is reported to the IRS

Transactions for which basis is not reported to the IRS and for which Short- or Long-Term basis is unknown to Broker

Depending on shares sold, you may receive basis information which falls into one or more of the above categories. The information reflected on Form 1099-B may not take into consideration additional basis adjustments clients are required to make, such as wash sale adjustments between accounts.

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## 12. What do the five categories on the 1099-B mean?

Long-term transactions for which basis is not reported to the IRS:

This category is used in cases where noncovered shares are sold or exchanged and we are able to determine that such shares have been held for more than 1 year. This determination is made without consideration for any adjustments to holding period the client may be required to make for transactions such as wash sales. The cost basis information shown in this category is derived using the average cost of shares sold. The cost basis amount shown in this category is not reported to the IRS.

Short-term transactions for which basis is not reported to the IRS:

This category is used in cases where noncovered shares are sold or exchanged and we are able to determine that such shares have been held 1 year or less. This determination is made without consideration for any adjustments to holding period you may be required to make for transactions such as wash sales. The cost basis information shown in this category is derived using the average cost of shares sold. The cost basis information shown in this category is not reported to the IRS.

Long-term transactions for which basis is reported to the IRS:

This category is used in cases where covered shares are sold or exchanged and we are able to determine that such shares have been held for more than 1 year. The cost basis information shown in this category is derived using the average cost of covered shares sold, unless you previously notified us to use a method other than average cost; in such case, the actual cost of covered shares sold is reflected. The cost basis information shown in this category is reported to the IRS.

Short-term transactions for which basis is reported to the IRS:

This category is used in cases where covered shares are sold or exchanged and we are able to determine that such shares have been held 1 year or less. The cost basis information shown in this category is derived using the average cost of covered shares sold, unless you previously notified us to use a method other than average cost; in such case, the actual cost of covered shares sold is reflected. The cost basis information shown in this category is reported to the IRS.

Transactions for which basis is not reported to the IRS and for which Short- or Long-Term basis is unknown to Broker:

This category is used in cases where noncovered shares are sold or exchanged and we are unable to determine whether the shares were held long or short term. This category is also be used if we do not have accurate basis information for noncovered shares, such as noncovered shares acquired via a transfer. There is no cost basis information shown or reported to the IRS for this category of shares.

Note: Regardless of which of the above category(ies) is(are) used, you are ultimately responsible for making any necessary basis adjustments and for accurately reporting cost basis information to the IRS.

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### 13. What cost basis methods do First Investors Funds offer?

First Investors Funds offers the following methods for sales of covered mutual fund shares:

- **Average Cost**- Using this method, the average cost of each share sold is determined by dividing total purchases by the total shares purchased. The average cost of noncovered shares is calculated separately from the average cost of covered shares. All shares in the account that are noncovered are sold first followed by the oldest covered shares.
- **First In First Out (FIFO)** – Using this method, all shares in the account that are noncovered are sold first followed by the oldest covered shares.
- **Highest In First Out (HIFO)** – Using this method, all shares in the account that are noncovered are sold first followed by the covered shares for which the highest price was paid.
- **Last In First Out (LIFO)** – Using this method, all shares in the account that are noncovered are sold first followed by the covered shares that were acquired most recently.
- **Specific Share Identification** - Using this method, the client must specifically identify which shares are to be sold for each redemption in the account. If the shares we are instructed to sell have already been sold, we will sell noncovered shares first followed by the oldest covered shares. If a sale of shares is processed in the account for which shares are not specifically identified, (i.e., shares sold as a result of a systematic withdrawal or to pay certain account fees), we will sell noncovered shares first followed by the oldest covered shares.

### 14. What is First Investors' Funds default cost basis method?

First Investors Funds uses average cost as its default cost basis method. Average cost calculates gains or losses on shares sold based on the average price paid for shares acquired in a mutual fund account. Average cost is calculated separately for covered and noncovered shares.

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### 15. How can I elect a cost basis method other than average cost?

You can elect a cost basis method other than average cost by providing us with a [First Investors Funds Cost Basis Method Election Form](#), which must be signed by the all shareholders. This form may also be used to change the cost basis method on an account forward in time. Shares that were sold using one method cannot be switched to another method after the sale. Additionally, if the election is to a method other than average cost and covered shares were sold while the average cost method was in place, the change will apply only to covered shares acquired following the date of the change.

### 16. Will my cost basis election be coded at the fund, customer or master level?

Your cost basis method, either the First Investors Funds default method of Average Cost or the method selected via the First Investors Funds Cost Basis Method Election Form, will be coded at the customer level.

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### 17. Who should I contact for assistance in determining which cost basis method to use?

You should contact a qualified tax advisor for advice regarding cost basis. Neither First Investors Funds nor any of its affiliates are tax advisors and therefore cannot give advice regarding any tax matter including cost basis.

### 18. Can First Investors Funds determine which cost basis method will reduce my taxes?

No. A qualified tax advisor is the best source of information for you to determine the cost basis method best suited for your individual needs.

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### 19. What method was used to sell my shares?

Unless you specified otherwise at or prior to the time of redemption, shares were sold using the First Investors Funds default method of average cost.

### 20. If I have multiple accounts with different customer numbers, such as Individual accounts and UGMA accounts, will I be able to elect different cost basis methods for the different customer numbers? Are multiple election forms needed?

Yes. While you may not elect multiple cost basis methods *within* a Customer Number, you may elect different methods for various Customer Numbers. A separate First Investors Funds Cost Basis Method Election Form is required for each Customer Number you wish to update.

### 21. How is the holding period determined for shares that are sold at an average cost?

The holding period is determined on a first in, first out method. This means that the oldest shares held in an account are deemed to be sold first. Shares held for 1 year or less are considered to be held short-term. Shares held more than 1 year are considered to be held long-term.

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**22. How is the average cost calculated for an account that contains covered and noncovered shares?**

The average cost of noncovered shares is calculated separately from the average cost of covered shares. For sales of noncovered shares, the average cost per share is generally determined as of December 31, 2011 and will change only if additional noncovered shares were acquired after December 31, 2011 (e.g., via a transfer of noncovered shares from another account). For sales of covered shares, the average cost per share sold is determined by dividing the total basis of covered shares by the total covered shares purchased. For covered shares, the basis may be adjusted for wash sales or load basis deferral ("Load Basis Deferral Rule") within the same account.

**23. Why would First Investors Funds have shares for which they are unable to determine accurate cost basis information?**

For shares acquired on December 31, 2011, and prior, First Investors Funds may not be able to provide basis information, such as in cases where shares in the account were acquired prior to 1983, via a transfer from another account, via a Plan Termination, or because of some unusual or special circumstance. For shares acquired January 1, 2012, or thereafter, First Investors Funds may not be able to provide basis information in cases where shares in the account were acquired via a transfer from certain other accounts or because of some unusual or special circumstance.

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**24. Can I change the cost basis method for shares remaining in an account after covered shares have been sold?**

Yes. You can switch to another method by providing us with a First Investors Funds Cost Basis Method Election Form. However, if you change your cost basis method from average cost to another method after covered shares have been sold, the cost basis method applies only to covered shares acquired after the date that the change request is processed.

**25. Can I change my cost basis method for past sales of covered shares?**

No. Once covered shares are sold, you cannot make an election to change the method that was used for that transaction.

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**26. I received Form 1099-B and my accountant advised that he/she would have been better off selling shares using a method other than average cost. Can you send me a corrected Form 1099-B reflecting different cost basis information?**

No. The cost basis method applied to the account was determined when the shares were sold. First Investors Funds default method is average cost. If you would like to select a different method on a prospective basis, you may complete and return a First Investors Funds Cost Basis Election Form.

**27. I redeemed some of the covered shares in my account using the average cost method and want to choose a different cost basis method for the remaining shares in the account. Can I do this?**

No. Changes to the cost basis method will affect only future shares purchased. For example, if covered shares were sold using the average cost method, all shares purchased prior to the change from average cost will continue to be valued at the average cost of those shares; shares purchased after the change from the average cost method will be valued at their actual cost.

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**28. How will this affect my Systematic Withdrawals?**

Cost basis information for automated redemptions will be reported based upon the cost basis method chosen by the client (or Average Cost, if no alternate method has been chosen).

**29. I redeemed from two different First Investors Fund accounts. I received my 1099-B for one account but did not receive a 1099-B for the other. When will I receive the other 1099-B?**

First Investors Funds issues a consolidated Form 1099-B for all fund accounts subject to 1099-B reporting that are owned within the same Master Account Number. If both fund accounts are owned within the same Master Account Number, please check the 1099-B you received to confirm that both fund accounts are listed. If you are missing a 1099-B for an account owned under another Master Account Number, you may obtain a duplicate through our website, [forestersfinancial.com](http://forestersfinancial.com), or by calling our Shareholder Services Department toll free at 800-423-4026.

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**30. My Form 1099-B indicates that noncovered shares were sold. Can I rely on the cost basis information provided by First Investors Funds?**

First Investors Funds will make every attempt to provide accurate basis information using the average cost basis method. However, the amount shown is not adjusted for wash sales, load charge deferral, or any other reason. You may need to adjust the basis amount in certain cases and must report basis correctly on Federal Form 1040.

**31. I sold noncovered shares using a method other than average cost. Form 1099-B indicates the cost of the shares using the average cost. Can you correct the 1099 to reflect the shares being sold using a different method?**

No. We will not report the cost basis information for noncovered shares to the IRS. It is your responsibility to report accurate basis information to the IRS.

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**32. I disagree with the basis amount shown on Form 1099-B; what should I do?**

Any basis amount reported on Form 1099-B for sales of noncovered shares will not be reported to the IRS by First Investors Funds. Cost basis for noncovered shares is provided as a service to you. First Investors Funds believes that the basis amount for noncovered shares is correct, but does not guarantee the accuracy or completeness of this information. You should compare this information with your records and provide the IRS with complete and accurate information. Any basis amount reported on Form 1099-B for sales of covered shares will be reported to the IRS by First Investors Funds. If you are in disagreement with the amount shown, it may be due to a basis adjustment that mutual funds are not required to consider in calculating basis. You should consult their tax advisor for assistance.

**33. Are adjustments to the cost basis figures reported on Form 1099-B ever necessary?**

Yes. The cost basis regulations do not require mutual fund companies or brokers to account for all possible basis adjustments that may occur. For example, basis adjustments may be required for wash sales occurring across different fund accounts and for any gift tax paid on gifted shares. Therefore, it is important that you maintain accurate account records and consult with a tax advisor to determine if basis adjustments may be necessary. In addition, if a cost basis amount is shown for noncovered shares, this has not been adjusted for wash sales.

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**34. Why is First Investors Funds reporting wash sales?**

Beginning in 2012, new rules required mutual fund companies to report wash sales for covered shares within the same account. Previously, mutual fund companies were not required to report wash sales. However, wash sale reporting is not new; shareholders have historically been responsible for accounting for wash sales.

**35. I have not reported any wash sales in previous years. What should I do?**

Neither First Investors Funds nor its affiliates are tax advisors. We urge you to consult with a qualified tax advisor for guidance.

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**36. I received Form 1099-B and my accountant advised he/she needs to adjust basis for a wash sale in another account. Can you send a corrected Form 1099-B reflecting different cost basis information?**

No. You may need to make basis adjustments on IRS Form 8949 to account for discrepancies in the cost basis information reported on Form 1099-B.

**37. Are reinvested dividends and capital gains considered purchases for cost basis?**

Yes, shares acquired through the reinvestment of dividend and capital gains distributions are considered purchases and are included in cost basis calculations.

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**38. How is cost basis calculated in cases when shares are acquired via a transfer from an account registered UTMA/UGMA to the minor once the minor reaches the age that custodianship terminates?**

In this case, the shares were owned by the minor all along, and are simply held by the custodian. When processing a transfer, the cost basis information associated with the source account is transferred to the receiving account. No adjustments are made.

**39. How are accounts registered to S Corporations impacted?**

As of January 1, 2012, Form 1099-B reporting is required for sales of covered shares from accounts registered to S Corporations.

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**40. How does a corporate entity determine if it is a C or S corporation?**

First Investors Funds cannot assist a corporation in determining its tax classification. The entity should consult with a qualified tax advisor for assistance.

**41. I paid a CDSC from a sale of shares. How does this affect the gain/loss calculation for the sale?**

The amount of gross proceeds reported in box 1d of Form 1099-B is reduced by the amount of the CDSC paid on the sale.

**42. Where can I obtain additional information regarding cost basis reporting?**

A qualified tax advisor should be consulted for information regarding cost basis reporting. Information regarding cost basis reporting can also be found in IRS Publication 550 <http://www.irs.gov/pub/irs-pdf/p550.pdf>.

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**DISCLAIMER:** This Q and A is not intended to be, and should not be construed as, tax advice. First Investors Funds and its affiliates are not tax advisors and do not provide tax advice. You are ultimately responsible for complying with the IRS rules regarding cost basis information in all cases. Cost basis reporting is complex and we urge you to consult with a qualified tax advisor for assistance.

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