



Clarification on Schedule D Attachments

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The IRS has gotten a lot of comments on the revision to the Schedule D instructions from a number of sources. This week, the following email was posted by Norm Solomon on the California Society of CPAs discussion groups. While clearly not yet official, if it does appear in a more official form (which appears likely) then we may have a resolution to this problem.

That may speed up, since this story is beginning to get coverage in the press. There was one story referred to on the Taxprofessionals discussion group on Yahoo, and I noticed another this morning as the lead story in the *Arizona Republic's* Money section.

IRS Email

In an effort to be responsive to your questions, we've worked 'round the clock to put together a document that hopefully answers many of your concerns. This document is for information only and not meant to be the "official" response for those of you who've submitted formal letters to Commissioner Everson or other IRS executives. Those letters will be handled in the professional manner we handle all official correspondence.

On behalf of NPL please accept my apologies for not providing a more expeditious communiqué regarding the Schedule D clarification. I am always available to answer any additional questions you might have.

Regards,
Cindy Vanderpool
Chief, Stakeholder Relations
National Public Liaison

IRS KEY POINTS REGARDING SCHEDULE D INSTRUCTIONS

The IRS has received some inquiries about a revised paragraph in the 2005 Schedule D Instructions. We regret any confusion related to this revision. However, investors and traders always have had the same reporting requirements, and they still do. The following Q&As may be helpful.

Is there a new reporting requirement in Schedule D Instructions?

No, there is a clarification. Taxpayers always have been required to provide information related to sales and exchanges on lines 1 and 8 on Schedule D. However, some taxpayers provided only summaries of these sales and exchanges or attachments that did not contain all the transaction details required by Schedule D.

Which paragraph has been revised in 2005 Schedule D Instructions?

On page D-6 of the Instructions, related to lines 1 and 8 of Schedule D, the instructions state: "You must enter the details of each transaction on a separate line. If you have more than five transactions to report on line 1 or line 8, report the additional transactions on Schedule D-1. Use as many Schedules D-1 as you need.

Enter on Schedule D, lines 2 and 9, the combined totals from all your Schedules D-1. Do not enter "see attached" or summary totals from an attachment in lieu of reporting the details of each transaction directly on Schedule D or D-1."

Why was the paragraph revised?

There is not a change in policy; it was intended to remind investors that they must include ALL transaction information as required on Schedule D. Some investors were submitting copies of brokerage statements that did not include all the required transaction information, were attaching summaries or were writing "details available upon request."

Is there further guidance from the IRS in addition to the revised instruction?

Yes. Taxpayers may submit attachments in lieu of completing lines 1 and 8 on Schedule D or D-1 as long as the attachments contain all the required information and are in a similar format. This means investors may follow the same format required of traders.

What are the reporting rules for traders?

On page D-3 of the 2005 Schedule D Instructions, under "Traders in Securities" the item

states: “Like an investor, a trader must report each sale of securities (taking into account commissions and any other costs of acquiring or disposing of securities) on Schedule D or D-1 or on an attached statement containing all the same information for each sale in a similar format.”

Will investors face penalties if they fail to comply?

Many factors, such as the facts and circumstances of the case, determine when the IRS applies a penalty. Generally, a tax return that is accurately and timely filed, with the correct amount of tax paid, is not penalized. However, investors must comply with long-standing reporting requirements about each transaction. Again, investors may submit attachments – other than Schedule D or D-1 – as long as the attachments contain the required information and are in a similar format.

What about previously filed tax returns?

A taxpayer may amend a tax return for the three previous tax years. The IRS assumes taxpayers submit accurate, timely filed tax returns. Again, a tax return that is accurately and timely filed with the correct amount of tax paid generally is not penalized.

Is this revision to Schedule D Instructions part of a new compliance initiative?

No. Taxpayers always have been required to file the transaction information. The revision was a reminder to taxpayers about existing requirements.

Doesn't the 1099-B information return cover this information?

No. Form 1099-B does not provide the date acquired or the basis of the securities sold. These transaction details are required to determine the accuracy of capital gains and losses claims by the taxpayer.