



TAX MESSAGE

January 2014

Standing instructions to use the “Specific Share Identification” method

The Emergency Economic Stabilization Act of 2008 required financial services firms, including Trust Company of Oklahoma (TCO), to begin tracking and reporting to the Internal Revenue Service (IRS) an investor’s adjusted cost basis for certain securities purchased after specific dates. This reporting will use a revised IRS Form 1099-B. The information included here provides additional details on these changes.

Changes?

Before January 1, 2011, the gross proceeds from the sale of a security were reported to you and to the IRS on Form 1099-B. The “cost basis” of the security was not reported. The “cost basis” is, for federal income tax purposes, the purchase price of a security, plus fees and commissions. After the initial purchase, an investor’s cost basis can be adjusted for several reasons (such as stock splits, spinoffs, or certain dividends).

In accordance with federal income tax legislation, changes have been made in the way that cost basis is reported for sales of securities, including the holding period, the long-term or short-term gain/loss information of “covered securities,” and whether the sold security was covered or non-covered. A “covered security” is defined as covered if it is acquired after the IRS effective date of that type of investment, as specified in the phases below.

As Phase III of the legislation became effective on January 1, 2014 we would like to clarify the components.

- **Phase I- applied to sales of shares of corporate stock (became effective January 1, 2011)**
- **Phase II- applied to assets acquired in a Regulated Investment Company (mutual funds) or a qualified Dividend Reinvestment Plan (DRP) that were purchased on or after January 1, 2012.**
- **Phase III, part 1- will apply to less complex debt instruments and options, stock rights and warrants that are acquired on or after January 1, 2014. These include bonds that pay a fixed rate of interest and have a fixed maturity and payment schedule, even if callable by the issuer.**
- **Phase III, part 2 - will apply to more complex debt instruments that are acquired on or after January 1, 2016. These securities include, among other types, variable rate bonds, convertible bonds and inflation-indexed bonds.**



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Action Required?

In order for financial firms to report the adjusted cost basis of a covered security, a cost basis method must be selected and used and, based on these recent changes, this selection must be made no later than on the settlement date of the transaction. The IRS recognizes three different methods for calculating cost basis:

- **Specific Share Identification.** Under this method, the account owner, or the account owner's agent, identifies which shares are sold first.
- **First-In, First-Out (FIFO).** Under this method, shares of the security are sold in the order in which they were acquired.
- **Average Cost.** Under this method, the total cost of all shares in the account is divided by the total number of shares in the account.

The legislation provides that if you do not select a cost basis method at the time of the transaction, sales of covered securities that are included in Phase II must be disposed using the FIFO cost basis method (meaning the shares that were acquired first are sold first). However, the current standing instructions that we have from you direct us to use the Specific Share Identification method. As noted above, using this method, as your agent TCO will first sell those tax lots that have been held at least one year (long term) that have the highest cost basis. Once we have sold all long-term tax lots, we will then sell those tax lots that have been held less than one year (short-term), beginning with the highest cost basis lots first. **If we do not hear from you, we will assume that we have your consent to continue to use this method.**

These standing instructions do not have to be revisited each time a security is sold, but apply to all trade activity, unless otherwise requested.

If you wish to change this method, please contact your Financial Advisor at TCO. Any change in method will apply for future transactions only. Because any change may have an impact on your gain/loss calculation and reporting, we recommend that you consult with your tax advisors on how any changes would affect you.

Questions?

If you have any questions or require further information about the information stated in this section, please contact your Investment Advisor. We value our relationship and appreciate your continued support.