**The Worst Tax Form**

Form 1099-B, in which brokers report a taxpayer’s investment income, can cause delays and revisions. Here's how to minimize the damage

By **LAURA SAUNDERS**

Feb. 19, 2016 5:30 a.m. ET

In the battle for worst tax form, it appears we have a winner.

That dubious distinction goes to Form 1099-B, according to an informal survey of tax preparers. It is used by brokerage firms to report a taxpayer’s investment transactions to both the taxpayer and the Internal Revenue Service. Later the agency compares the broker’s filings to individual returns, looking for discrepancies that may signal unreported income.

It also frequently keeps taxpayers from filing their returns early.

“Unquestionably, the 1099-B is my least favorite form,” says Jeffrey Porter, a CPA who practices in Huntington, W.Va. “They’re maddening when I’m trying to be efficient,” he adds, because they are often late, incomplete or subject to revision.

Tax preparers say the 1099-B is worse than other vexing forms, such as those for partnership income and foreign income, because far more people have brokerage accounts.

Brokers are supposed to send these forms to taxpayers by Feb. 15 and to the IRS by March 31 in most cases. But the firms sometimes get extensions of the deadline, or issue one or more revisions to the forms.

Mr. Porter says that in both 2013 and 2014, the local office of a national firm called him on April 10 to warn him that a batch of corrected 1099-Bs would soon be out. He knew that panicked clients would be calling him on April 13 or 14, so he hurried to obtain six-month filing extensions.

Payson Peabody, tax counsel for Sifma, a securities industry group, says one reason for the revisions is that brokers must pass on information from outside investment vehicles. So if a mutual fund held in a brokerage account issues a correction, the broker must incorporate the change on a new 1099-B for any client who has invested in the fund.

In addition, Mr. Peabody says, brokerage firms must contend with IRS guidance on several thorny topics, such as reporting for complex debt, that is unclear in some areas. These and other new compliance issues “impose a heavy burden on us, but we are advocating for changes to streamline the tax-filing process,” Mr. Peabody says.

There is good news here—but for next year’s filing season. For 2016 brokers won’t have to issue corrected forms for 2016 if an error involves less than $100 of income. “That should help reduce delays,” says Melissa Labant, a tax specialist with the American Institute of CPAs.

Fewer delays could also help in the fight against tax ID theft, which has been a major challenge for the IRS in recent years. The later a taxpayer files his return, the greater the opportunity for a fraudster to claim a fake refund in the taxpayer’s name.

Meanwhile, experts caution taxpayers—both those using preparers and those who do their own returns—to sidestep pitfalls involving 1099-B forms. Here are moves to make.

**Avoid amending a return.** Don’t send in your return until all information is complete—even if it means filing IRS Form 4868 to get an automatic six-month extension.

The reason: Taxpayers who need to change an already-filed return must send the IRS an amendment on Form 1040-X. It is a paper form that often receives more IRS scrutiny than an electronic filing. Refunds are also typically delayed.

How does one tell if corrected 1099-Bs are on the way? It isn’t always possible. Mr. Peabody advises reading inserts included with the form, as some flag securities with a history of revisions, or contacting the broker. In general, he says, partnerships, real-estate investment trusts, real-estate mortgage investment conduits, and interests in widely held fixed-investment trusts may report revisions after the Feb. 15 deadline.

**Beware of cost-basis issues.** “Cost basis” is the starting point for measuring the taxable capital gain on an investment. In simplest terms, if an investor buys a share of XYZ Inc. for $10 and sells it for $40, the cost basis is $10 and the capital gain is $30.

Until a few years ago, taxpayers were on their honor to report correct cost basis on investments they sold. Now, rules are being phased in that require investment firms to track and report it to the IRS when the asset is sold. Investments subject to this reporting are called “covered” securities on the 1099-B.

Experts say it is important to check the cost basis reported to the IRS. Errors can crop up, especially for assets that are inherited, received as a gift, or transferred from another account.

Stevie Conlon, a financial tax specialist with Wolters Kluwer, says people should be especially vigilant if they have exercised employee stock options. Part of the cost basis of these options may not appear on Form 1099-B, and the taxpayer could overpay Uncle Sam if it is omitted on Schedule D.

**Double-check “wash” sales.** If an investor sells a security at a loss and purchases a “substantially identical” position within 30 days on either side of the sale, the transaction is known as a wash sale, and the capital loss is deferred. That means it can’t be used right away to reduce a capital gain.

For example, this rule bars the taxpayer who sells one broker’s version of an S&P 500 fund and soon buys another firm’s version of the same fund from creating tax losses.

Robert Green, of Green TraderTax in Ridgefield, Conn., warns that there’s a gap between what brokers are required to report to the IRS as wash sales and what taxpayers are. For example, if an investor trades Apple stock options within 30 days of selling Apple shares at a loss, this move counts as a wash sale for the taxpayer. But brokers aren’t required to report it on the 1099-B.

Taxpayers will be on the hook, however, if an IRS auditor comes calling. So Mr. Green advises investors to check for wash sales, especially if they trade frequently.

**Correct errors carefully.** Check 1099-B forms when they arrive. If there is an error, try to have the issuer correct it before information is sent to the IRS.

If that isn’t possible, an IRS spokesman says that often the best course is to include the reported number on the tax return and then enter an adjustment per the instructions on Form 8949. A spokeswoman for TurboTax says it guides users through this adjustment.

If the taxpayer merely reports the correct number, says Mr. Porter, the IRS’s computer may flag a discrepancy and generate a letter about it. He adds, “Nobody wants to correspond with an IRS computer.”