



## TRUST MANAGEMENT NETWORK

### Wash Sales

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One of the topics discussed at our 2015 TMN Client Conference was wash sales. Under IRS rules, you cannot deduct losses from the sale of a security in a wash sale. A wash sale occurs when you sell or trade a security at a loss and within 30 days before or after the sale, you buy the substantially identical security.

SunGard provides you a monthly report that identifies *Potential Wash Sales*. This report should be reviewed carefully as the report will include all potential wash sales including those for non-taxable accounts. Once you review this report and identify a true wash sale your CSA can help you with the steps needed to code the sale and purchase correctly.

The holding period for the security purchased should include the period that you held the old stock.

First step – Adjusting the tax lot(s) of the purchased shares (Transaction code 047)

If you purchased more shares than the sale transaction, the lot will need to be split into two lots. The first lot would be for the shares sold and would use the same acquisition date as the shares sold. The cost basis of that lot would be increased by the amount of the loss. The second lot would be for the remaining shares and would maintain its “real” acquisition date.

If you purchased less shares than the sale transaction, then the cost basis of the purchased lot would be adjusted by a pro-rated amount of the loss and the acquisition date changed to the original acquisition

date of the shares sold

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If you purchased the same amount of shares as the sale transactions, then the cost basis of that purchased lot would be adjusted by the amount of the loss and the acquisition date changed to the original acquisition date of the shares sold.

**Example.** You buy 100 shares of X stock for \$1,000. You sell these shares for \$750, and within 30 days from the sale you buy 100 shares of the same stock for \$800. Because you bought substantially identical stock, you cannot deduct your loss of \$250 on the sale. However, you add the disallowed loss of \$250 to the cost of the new stock, \$800, to obtain your basis in the new stock, which is \$1,050.

When there are multiple tax lots with multiple trades the adjustments can get much more complex.

Second Step – Coding the sale transaction as a wash sale and with the disallowed wash sale loss

A transaction code 007/05 will need to be posted to designate the sale transaction as a wash sale, and the amount of the disallowed loss will need to be entered as well.

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