

Overview of Cost Basis

Cost basis is a tax concept that allows the IRS to determine the capital gain or loss of an asset when it is sold. The cost basis of a security is generally the price at which you purchased it. If you purchase shares of the same security on different dates, you have different "lots" of that security, and each lot normally retains its own discrete cost basis. However, for some securities, the IRS will allow for the cost basis of the different lots to be averaged so that each lot will have the same cost basis. You may choose to apply this means of determining cost basis (average cost method) to the assets designated by the IRS, by written instruction to us via the form provided.

When selling a portion of the security, for tax purposes, a disposition (sales) methodology (for example, FIFO or High Cost) must be used to determine which lots will be sold so that the capital gain or loss can be determined. You may choose which disposition methodology to use by written instruction to us via the form provided. However, the IRS requires the FIFO disposition methodology be applied to any securities for which you have selected the average cost method of figuring cost basis, so any disposition methodology you choose (other than FIFO) will not apply to securities for which you have selected the average cost method.

Implementation of Cost Basis Changes for Securities

Federal income tax legislation impacting the reporting requirements for sales of stock became effective January 1, 2011. As a result, for clients with Form 1099-B tax reporting, J.P. Morgan is required to maintain cost basis and calculate and report gain/loss information on sales of stock to the IRS.

The cost basis legislation introduced the concept of "covered" and "non-covered" securities. A security is considered covered if it was acquired after the IRS effective date for that type of investment, as explained above. Acquisitions before the effective date are considered non-covered.

Previously, only the gross proceeds from the sale of a security were reported to the IRS on Form 1099-B. Beginning with the 2011 tax year, for sales of covered stock, in addition to gross proceeds, J.P. Morgan must report the cost basis and holding period on IRS Form 1099-B. The additional cost basis information will not be included on sales of non-covered securities.

If you have any questions or require further information about the reporting changes on Form 1099-B, please contact a member of your J.P. Morgan team. Thank you for your trust and confidence in J.P. Morgan.

IRS Circular 230 Disclosure: JPMorgan Chase & Co. and its affiliates do not provide tax advice. Accordingly, any discussion of U.S. tax matters contained herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone unaffiliated with JPMorgan Chase & Co. of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

Bank products and services are offered through JPMorgan Chase Bank, N.A. and its affiliates. Securities are offered by J.P. Morgan Securities LLC, member FINRA, NYSE and SIPC.

Investment products: Not FDIC insured • No bank guarantee • May lose value

0711-046-IN-ETL