

Frequently Asked Questions (FAQs) on Wash Sale Losses.

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Wash sale losses are a major source of confusion for taxpayers and brokers to deal with come tax time, so we feature several FAQs on wash sales.

What's the best solution for reporting wash sale losses correctly?

A trader tax accounting software that downloads all purchase and sale transaction history and calculates wash sale losses correctly according to taxpayer rules recapped below. In most cases, taxpayers can't rely on 1099Bs or broker profit and loss reports for correctly reporting wash sales. GreenTraderTax and Barron's recommend [Tradelog](#) software to calculate wash sales across all your accounts and for generating a correct Form 8949. You need to reconcile Form 8949 to 1099Bs and explain the differences as best you can. [Click here](#) to learn about GreenTraderTax's accounting service for securities traders.

What are wash sale losses?

Per IRS Pub. 550, "A wash sale occurs when you sell or trade stock or securities at a loss and within 30 days before or after the sale you: buy substantially identical stock or securities; acquire substantially identical stock or securities in a fully taxable trade; acquire a contract or option to buy substantially identical stock or securities, or acquire substantially identical stock for your individual retirement account (IRA) or Roth IRA."

The IRS wash sale loss rules (Section 1091) are written to protect the U.S. Treasury against taxpayers taking "tax losses" at year-end to lower tax bills while they get right back into the same positions. The IRS views that as a tax loss but not an economic loss and much of the tax code prevents that from happening.

Wash sale loss adjustments *defer* losses to the subsequent tax year, where a taxpayer hopefully can utilize that loss. However, if you trigger a wash sale loss with an IRA, you permanently lose the wash sale loss.

Do I have to account for wash sale losses?

Yes, if you trade securities including equities, equity options, ETFs, narrow-based indices (made up of 9 or fewer securities), and bonds. [Click here](#) to learn more about securities.

What's exempt from wash sale losses?

Wash sales do not apply to Section 1256 contracts including futures, broad-based indices and options on futures since they are marked-to-market (MTM). That's economic reporting and there's no way to defer wash sale losses. [Click here](#) to learn more about Section 1256 contracts.

Business traders with a timely Section 475 MTM election are exempt from wash sale loss reporting on their business trading positions. Consider a timely 2015 Section 475 election to convert 2014 wash sale loss deferrals on business positions into ordinary losses on January 1, 2015. [Click here](#) to learn more about Section 475.

Where do I report wash sale loss adjustments?

Report wash sale loss adjustments on [Form 8949 \(instructions\)](#), along with other cost-basis reporting. Learn more about [cost-basis reporting](#) in the [GreenTraderTax Trader Tax Center](#).

Do brokers report wash sale loss adjustments on Form 1099B?

Yes, but in compliance with IRS rules for brokers which contrast with IRS rules for taxpayers. In most cases, taxpayers need to do additional work on wash sale loss reporting.

How do broker and taxpayer rules differ on wash sales?

Brokers calculate wash sales based on identical positions (an exact symbol only) per separate brokerage account. Section 1091 requires taxpayers to calculate wash sales based on substantially identical positions (between stocks and options and options at different exercise dates) across all their accounts including IRAs — even Roth IRAs.

What is a substantially-identical position?

Apple stock and Apple options are substantially identical, but Apple stock and Google stock are not substantially identical.

Are options subject to cost-basis reporting and wash sale loss adjustments?

Yes, IRS cost-basis reporting rules phased-in options purchased on or after January 1, 2014. Brokers won't report a wash sale loss between a stock and an option, but taxpayers must do so. Options at different expiration dates have different symbols: they are substantially-identical but not identical positions.

Can I rely on my 1099-B for reporting wash sale loss adjustments?

Only if you have one brokerage account trading equities only. If you trade stocks and stock options, or just stock options and or have multiple brokerage accounts, you can't rely on brokerage firm Form 1099-Bs for reporting wash sale losses correctly because there will be differences in application of taxpayer rules on substantially-identical positions.

Are brokerage firm profit and loss reports similar to 1099Bs?

Yes, brokers use the same accounting for the 1099B and their profit and loss reports. When brokers suggest downloading a 1099B into TurboTax, they really mean downloading their profit and loss report. Those P&L reports account for wash sales based on broker rules, not taxpayer rules.

Do I have to worry about my IRA accounts in my wash sale loss calculations?

Yes, as recapped in IRS Pub. 550 above, Section 1091 includes all IRAs, including Roth IRAs. It's a catastrophic mistake to trigger a wash sale loss in your IRA since you will never get that tax loss benefit as it won't reduce distributions in retirement for a traditional IRA. It's wise to avoid trading substantially-identical positions between an IRA and your taxable accounts.

What accounts are included in the wash sale loss analysis?

It goes by taxpayer identification number, so consider an entity with a separate taxpayer ID for your active trading to divorce that trading from your IRA and individual taxable accounts for wash sale loss calculations. If you file married-filing-joint, make sure to include each spouse's separate, joint and IRA accounts.

Where can I learn more about wash sales?

Read the GreenTraderTax blog [How will you handle wash sale losses on securities this tax season?](#) and watch the related [Webinar recording](#).