

Complex Investment Transactions 2

Marketable securities often comprise the majority of assets tracked with Financial Navigator. Effectively using all the capabilities in this area can be critical for your meaningful use of Financial Navigator.

This document consists of 6 parts:

- Working with Investment Accounts
- Complex Investment Transactions 1
- Complex Investment Transactions 2 (this document)
- Gifts of Securities
- Bonds
- Foreign Investments
- Retirement Plans

Recording Wash Sales

A wash sale occurs upon the purchase and sale of a security either simultaneously or within a short period of time. Under current tax law, no loss deduction is allowed for a loss from any sale or other disposition of securities, if within a period beginning 30 days before and ending 30 days after the sale, the taxpayer acquires or enters into a contract to acquire substantially identical securities.

The tax basis for the new securities acquired in the wash sale is the cost of the new securities, plus the disallowed loss from the sale of the old securities. The holding period for the new securities is the basis of the old securities.

Often wash sales are done inadvertently. However, under certain circumstances, it may be desirable to create a wash sale because of the effect this has on the tax basis. It allows the investor to add the disallowed loss of the original security to the basis of the newly acquired security. Also, the holding period of the old security is added to the holding period of the new security.

For example, if a security was inadvertently sold at a loss to a related party, the disallowed loss can be added back to the replacement security.

Investment activity for wash sales can be reviewed using the Portfolio Activity Report for the current and prior year. Review wash sale activity by selecting the following report options:



Record transactions for the following information:

Action #1: Purchase
Company: Washboard Co
Number: 100 shares
Date purchased: December 20, 1993
Price: \$14 per share

Action #2: Purchase again
Date: September 25, 2000
Price: \$12 per share:

Action #3: Sell short
Date sold: October 16, 2000
Price: \$8 per share

Note: The traditional wash sale has Action #3 happening before Action #2. The order shown above is also allowed.

To record a wash sale:

1. In the Chart of Accounts, set up the following accounts and balances in the **Stocks - Utilities** category:

WASHBOARD 12-20-93/MLL	\$1,000
WASHBOARD 09-25-00/MLL	no balance

2. Go to Asset and Liability Info for the stock acquired in 1993 and enter the following information:

Price Per Share:	10
Valuation Date:	Dec 31 99
Date Acquired:	Dec 20 93
Cost Basis:	1,400
Tax Basis:	1,400
Number of Shares:	100

The screen appears as follows:

3. Enter the September purchase of the stock in the MERRILL LYNCH/MLL account as follows:

ID	Date	Payee / Payer	Account	Memo	Status	Debit	Credit	Balance
Cr	09/28/00	Merrill Lynch	**** Multiple Distribution		Clr		1,200.00	48,800.00

Date Acquired: Sep 25 00 Quantity Acquired: 100 Symbol, Desc: WBRD

	Account	Memo	Debit	Credit
1	WASHBOARD 09-25-00/MLL		1,200.00	
2				
3				
4				

Account Info
 ASSET: WASHBOARD 09-25-00/MLL (233) Sym: WBRD
 Activity: Sep 1,200.00 Bal: 1,200.00 Qty: 100 Acquired: Sep 25 00
 Tax Basis: 1,800.00 Sold:

Buttons: OK, Cancel, Help, Insert, Bal Net, Bal Dist, Balanced .00

4. Switch to the October Merrill Lynch journal and record the sale of the 1993 stock as follows:

ID	Date	Payee / Payer	Account	Memo	Status	Debit	Credit	Balance
Dr	10/19/00	Merrill Lynch	**** Multiple Distribution		Clr	800.00		58,600.00

Date Sold: Oct 19 00 Quantity Sold: 100 Tax Basis: Tax Basis 1,400.00

	Account	Memo	Debit	Credit
1	WASHBOARD 12-20-93/MLL			1,000.00
2	WASHBOARD 09-25-00/MLL		600.00	
3	UNREALIZED GAINS OR LOSSES			400.00
4				

Account Info
 ASSET: WASHBOARD 09-25-00/MLL (233) Sym: WBRD
 Activity: Oct 600.00 Bal: 1,800.00 Qty: 100 Acquired: Sep 25 00
 Tax Basis: 1,800.00 Sold:

Buttons: OK, Cancel, Help, Insert, Bal Net, Bal Dist, Balanced .00

Note: The loss has not been posted to capital losses but directly to the 2000 WASHBOARD account.

5. Go to the Asset and Liability Info screen for the 1993 WASHBOARD account. Change the Tax Basis to **\$800** so that the zero gain or loss will be shown on Schedule D, but proceeds will agree with the 1099-B.
6. Go to the Asset and Liability Info screen for the 2000 WASHBOARD account. Change the Tax Basis to **\$1,800** to reflect the increased basis and the original acquisition date.

Note: Although the tax basis has been changed, the cost basis has been left at \$1,200 to properly report the increase in the stock's value.

Transferring Securities

Transferring securities has no effect on the value of the portfolio, but it is important to leave an audit trail.

Financial Navigator's Account Qualifier function allows you to track the custodian of an investment. When a security is transferred to another custodian, it is necessary to change the account qualifier to record the transfer and ultimately the sale. In some cases the transfer and sale may be simultaneous. This occurs when a security is "traded away" from the custodian and another broker executes and reports the sale.

Record a transaction for the following information:

Stock:	IBM
Transferred from:	Merrill Lynch
Transfer to:	Swiss Bank
Date:	December 10, 2000

To record the transfer and leave an audit trail:

1. In the Chart of Accounts, change the account name from IBM 11-28-00/MLL to **IBM 11-28-00/SWB**
2. Make the following GENERAL JOURNAL entry for December.

3. Review the **Transactions by Account** report for IBM 11-28-00/SWB to see the audit trail left by this procedure.

How to Reach Us

Information and Sales: 800 468-FNFN (3636)
Fax: 650 962-0730
Web site: www.finnav.com
E-mail: customerservice@finnav.com
Technical Support: 650 962-8510
Hours: Monday - Friday 7:30 a.m. - 4:30 p.m. PT
Business Address: 254 Polaris Ave
..... Mountain View, CA 94043
Telephone: 650 962-0300

Trademark Acknowledgments

Financial Navigator, Navigator, Advanced Reports, CheckForm Navigator, Navigator Access, Navigator DataBridge, Navigator Impressions, and Navigator StockWeb are trademarks or registered trademarks of Financial Navigator Int'l.

Windows is a registered trademark of Microsoft Corporation. Other product names mentioned in this reference material may be trademarks or registered trademarks of their respective companies and are hereby acknowledged.