

The Aftermath of Economic Stability: Raising Revenue Without Raising Taxes?

To most, the recent federal bailout of the U.S. economy and the passage of the Emergency Economic Stability Act does little more than represent an added \$700 billion in additional national debt. But to those willing to dig deeper into the depths of Congressional rabble, one may not help but notice provisions that ultimately affect many taxpayers. In fact, if a taxpayer is adventurous enough to get through the first 223 pages of the Act, he will be apprised of the fact that, beginning in 2011, prices paid for stocks, mutual funds, and other securities will be independently reported to the IRS. The question is, what does this mean and how does it work?

Employers report W-2's to the IRS. The result is that the IRS has the ability to check what taxpayers report on their tax returns with the information provided to them by the taxpayer's employer to ensure that taxpayers are not trying to "cheat" the system by reporting false amounts. Similarly for investors, sales of stock are reported to the IRS, generally by brokers. However, under the current system, the securities holder's *basis* (often computed as the initial price the investor paid for the stock) is *not* reported. The result is that taxpayers may often understate gains and overstate losses from the sale of securities to avoid tax liability. Because the IRS has virtually no way of knowing what an investor *paid* for the securities (the investor's basis), similarly it has no way of knowing how much gain or loss the taxpayer recognized on sales of securities. Under the provisions of the Economic Stability Act, investors' basis will be reported in hopes of deterring such fraudulent reporting and minimizing revenue "lost" in this fashion.

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