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Your Money

Morgan Stanley Goofed on Tax Information. But Not to Worry.

Your Money Adviser

By [ANN CARRNS](#) MARCH 3, 2017

Some [Morgan Stanley](#) wealth management customers are getting news in the mail this week: They underpaid — or in some cases, overpaid — their taxes for several years because of incorrect information the firm provided to them about their investments.

Morgan Stanley disclosed in a regulatory filing this week that it had provided a “significant number” of retail brokerage clients, as well as the [Internal Revenue Service](#), with inaccurate information on the cost basis of their investments. The basis is used to calculate the gain or loss when a security is sold, which determines how much tax is owed.

Morgan Stanley said in its filing that the errors were caused by “operational issues” and affected tax years 2011 through 2016. In the tax year 2011, the I.R.S. began requiring brokers to report more detailed cost-basis information. The information typically is reported to investors on Form 1099-B.

The firm said it was in “advanced discussions” with the I.R.S. to resolve the issue for customers who underpaid as a result of the error “at no expense to our clients.”

“We are committed to making this right for our clients with minimal inconvenience to them,” the firm said in a statement.

Morgan Stanley declined to say how many of its approximately 3.5 million wealth management clients were affected. But it said it had set aside \$70 million to cover the costs, including paying taxes owed to the I.R.S. by clients who underpaid and directly reimbursing clients who had overpaid.

In most cases, the over- or underpayments were relatively small, said Bruce Dunbar, a Morgan Stanley spokesman. Ninety percent involved amounts under \$300, and more than half were under \$20, he said.

The I.R.S. didn’t immediately respond to an inquiry about the talks with Morgan Stanley.

Donald Zidik, a certified public accountant with the accounting firm Marcum in Boston, said he had not yet received any calls from clients about the Morgan Stanley error. In general, he said, those affected should contact Morgan Stanley with any questions, and should save related documents they receive with their tax records.

Here are some questions and answers about Morgan Stanley's tax reporting error:

When will I be notified if I am affected by the calculation error?

Morgan Stanley mailed letters through the United States Postal Service to affected clients on Wednesday, Mr. Dunbar said. Also, digital versions of the letter will be made available to clients through their online accounts, he said.

The letters will include a dedicated telephone number for affected clients, if they have questions. Clients may also contact their broker if they wish.

Will I have to amend or refile my tax returns?

No, Mr. Dunbar said. For those clients who underpaid taxes, the firm expects to pay the taxes owed, as well as any interest and penalties, directly to the I.R.S., absolving clients from any responsibility to resubmit returns or make further payments.

Mr. Dunbar noted, however, that the firm always advised clients to discuss their specific situation with their tax adviser.

What if I haven't filed my 2016 tax return yet?

While it isn't it unusual for investors to receive corrected versions of certain forms later in the tax season, Morgan Stanley said it was addressing its error situation "pre-emptively" with the I.R.S. and would not be issuing revised forms for 2016, Mr. Dunbar said. Clients should file their 2016 taxes using the information on the 1099-B they already have, he said, even though there may be inaccuracies in the forms. "They should file with what they received," he said.

This year, the federal tax filing deadline is April 18.