



# Taxable Gains Caused by The "Flash Crash"



By Dan Burzynski



In the afternoon of May 6, 2010, stock markets in the United States experienced a brief (but severe) drop in prices in which the market dropped over 600 points in a matter of minutes. The "flash crash" is believed to have been caused by a trader mistakenly inputting a multi-billion dollar transaction. While the market recovered later in the day, many investors had holdings that were automatically sold that day because of stop-loss orders.

A stop-loss order is an order to buy or sell a stock when it reaches a certain price, and most such orders are now computer-automated. Investors who had automated stop-loss orders in place may have realized gains as stocks were sold during the sudden dip in prices. Investors who had stocks sold for a loss may have hesitated to purchase replacement stock for fear of invoking wash sale rules that would disallow or limit the losses if the stocks were repurchased within 30 days.

Many taxpayers and brokers have complained that investors affected by the "flash crash" should be excused from recognizing gain, be allowed to reinvest in the stock sold without tax consequence, and/or be able to apply the cost basis of the original stock to any replacement stock.

The IRS has [recently determined](#) that it does not have the authority to provide for non-recognition of gain or make other exceptions due to any stop-loss orders that were executed on May 6th. The IRS explained that stock sales actually occurred, however unintended they may have been. Current tax regulations require you to report the proceeds from any sale of stocks, and the IRS does not believe it has the power to offer any exceptions in this case. Any relief for investors would have to come from Congress, which is not anticipated during Congress' lame duck session after the elections. Without any action from Congress, any gains from sales of stock on May 6th will have to be recognized.

