https://www.unionleader.com/news/business/money_sense/marc-a-hebert-s-money-ense-tax-basis-of-gifted/article_69468a86-6501-5577-83f0-a1a6e5b4c06d.html

Marc A. Hebert's 'Money $ense': Tax basis of gifted or inherited property important to consider

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THE TAX BASIS of an asset can be important when reviewing your finances. The tax basis is usually the amount you purchased an asset for. But why does this figure matter? The tax basis will determine your gain or loss when you sell your property and, as a result, the amount of tax you will have to pay. Generally, the difference between your tax basis and the selling price is the gain or loss.

Tax basis can be determined differently depending on how you acquired the property. We will focus on the difference between acquiring property by gift or by inheritance.

Let’s look at the first case, when the property has been received as a gift. Generally, the recipient takes the donor’s basis in the property as his or her own. Sometimes, you will hear that the basis has been “carried over” or “transferred.” You might see that the tax basis has increased if the donor paid gift tax on the transfer. The donor should be able to give you the specifics on the basis.

If you sell the gifted property for a loss, another rule comes into play. The transferred basis cannot be greater than the fair market value at the time of the gift. Here are a few examples of how this rule works.

Your mother is very generous and just gave you $10,000 worth of stocks. You really need the cash, so you decide to sell one-half of it. Mom purchased the stock for $5,000. If you were to sell one-half of it, your tax basis becomes $2,500 ($5,000/2). Because the stock will be sold at a gain, you will use your mother’s basis to determine the realized gain on the sale. Your gain will be $2,500 ($5,000-$2,500).

In the next example, assume the stock is only worth $2,000 at the time your mother gave it to you. Her basis is still $5,000. This is the amount used to determine the gain on a sale. Because the stock is worth less than the tax basis, to determine the loss you will use the fair market value at the time of the gift, which is $2,000. If you sold all of the stock for $2,000, there will be no gain or loss, and you will have no tax due. In this instance, it could have made more sense for your mother to sell the stock for $2,000 and give you the cash. She would have been able to use the loss of $3,000 on her tax return.

Another way you could have obtained the stock is by inheritance. The basis in the property may have received what is termed a “step-up” in basis. This is the value at the date of death or an alternative valuation date. It should be noted that the asset could also have taken a “step-down” in basis. The executor of the estate should be able to give you the tax basis of your inherited asset.

If you receive stock from your mother’s estate with a value of $10,000 at her death, your tax basis is $10,000. Your mother could have purchased the stock for $5,000, but, as this is an inheritance, your tax basis is the $10,000.

If the stock had been worth only $2,000 at her death, your tax basis would be $2,000. If you sell the stock someday for $5,000, you will have a $3,000 gain to pay tax on.

Gifting or inheriting property has implications for both the giver and the receiver. It affects income and estate taxes. As situations can be complicated, we recommend discussing your situation with a certified financial planner or an accountant before making your giving decisions.

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