

A Game of Hide and Seek

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As year-end approaches, asset portfolio reviews and tax planning are two exercises that usually lead to better fitness. And, like all exercises, the pain must be worth the gain or enthusiasm will wane. In this edition of *Fiscal Fitness*, we address the process of determining cost basis on securities received other than by direct purchase (where basis=cost).

The need for this information emanates from a broad spectrum of situations. Investors scramble to determine their *realized* gain/loss for the year. They may also be interested in gifting stock to favorite charities or to a well-behaved child or grandchild. Possibly, you may have inherited some stock and would like to know the capital gain or loss upon sale.

Let's run through a couple of examples:

- **Stock received by Inheritance** – Perhaps you are fortunate enough to be remembered in the will of your Grandmother and you receive 1000 shares of GE. The tax basis of a stock received as an inheritance is generally adjusted to fair market value at the date of death. Contact a representative for the estate for this figure or take the average high/low prices on the date of death. Also, the holding period is carried over from the decedent so you may be eligible for favorable tax rates if grandmother held the shares > 1 year. Caution: This may just be a starting point; subsequent splits and takeovers, if applicable, must still be considered.
- **Stock received by Gift** – Suppose Aunt Jenerus (still living) decides that she would like to gift you some shares of stock. In this case, your tax basis is the lower of her basis or the stock's *value* on the date of the gift. For example: she gives you 1000 shares of GE and her basis is \$10/share while the current market price is \$26/share. Your basis is now \$10/share. As you can see, you also transfer the unrealized gain or loss associated with the security.

But what if Aunt Jenerus doesn't know her cost basis? Or, maybe there were stock splits, mergers, spin offs or return of capital involved. Either way, finding basis will be more difficult. For do-it-your-selves, we recommend the local library's microfilm department as a good starting point. Value Line and S&P are also solid references. Or, you could try calling the Company's Transfer Agent for capital changes. If this doesn't sound appealing, we recommend contacting your CPA or Investment Advisor for assistance and ongoing maintenance.

Some final thoughts:

If all else fails, take an educated guess on basis, depending on the dollar size involved.

Despite best efforts, it can come down to this. Repeat: After all else fails.

- Don't keep stock certificates at home. Make life easy for yourself and deposit them in a brokerage account. You will benefit from knowing your securities are safe, insured, and transferred more readily. Plus, future transactions with the shares will be automatically reflected in your account.
- If you own worthless securities, they can either be sold (what's left) or they can be deemed worthless and the loss realized (non-retirement accounts only).
- Determining mutual fund basis represents one of investor's biggest challenges. If you hold them in a non-retirement account, confirm that the mutual fund family (ie, Vanguard, Fidelity, etc.) will track basis for you, especially if you reinvest income.
- Higher basis equates to lower gain (or higher loss). It's worth the effort to avoid overpaying taxes.

Next month we'll return with our annual resolutions for 2003. For now, we are ever grateful for your patronage and wish you and your family peace this Holiday season and improving fiscal fitness in the New Year.