Doron F. Eghbali Tax Law

How Should You Report Taxes for Stocks Received by Gift?

Saturday, August 14, 2010 by Doron F. Eghbali

We might have received stocks as gifts. The question that arises is how such gifts affect our taxes. Let us analyze this rather complicated subject in a relatively simple way.

A) KNOW YOUR COST BASIS

Cost basis is key to calculating taxes. Cost basis is how much it cost you to acquire the stocks with some adjustments. We might say nothing, since we received the stocks as gift. However, for the IRS, it is not as simple. The IRS looks at whether you sell for profit or loss to calculate your cost basis.

1. If You Sell Your Stocks for Profit

If you sell your stocks for profit, then you take over the cost the donor incurred for such stocks in the first place. For capital gains purposes, the holding period also applies to you and date the donor acquired the stocks is the day you use for calculation. However, it is very much possible, the donor does not recall the date of acquisition, then it is incumbent upon you to ascertain the date. **2. If You Sell Your Stocks for Loss**

If you sell your stocks acquired through gift for loss, then your basis is the ***LOWER*** of:

- The Donor's basis, i.e. how much the Donor paid for the stocks. Or,
- The Fair Market Value of the stocks the date you received them as gift.

If the Fair Market Value rule applies in calculating your basis, then the holding period for capital loss purposes would be the date you acquired the stocks through gift.

B) CAUTION: IF YOU SELL YOUR STOCKS BETWEEN DONOR'S BASIS AND FAIR MARKET VALUE

Note, if you sell for a price between the Fair Market Value and the Donor's basis, then you neither have loss nor profit. It is a wash, as far as the IRS is concerned.

EXAMPLE

Let us assume you received shares worth $100 at the date of the gift. The Donor's cost basis was $120.

1. SOLD FOR GAIN

If you sell such stocks for $130, then your gain would be $10. This is the difference between the Donor's $120 cost basis and the sale price of $130.

2. SOLD FOR LOSS

If you sell such stocks for $90, then your loss would be the lower of Donor's $120 cost basis or fair market value of $100. Since, the fair market value is lower than $120, your cost basis would be $100. Accordingly, your loss would be $100-$90=$10.

c) SOLD FOR NEITHER GAIN NOR LOSS

If you sell the stocks acquired through gift for a price between $100 and $120, then you have a wash. You do not have any loss or gain.

DORON EGHBALI *is a Partner at the Beverly Hills Offices of Law Advocate Group, LLP. He Primarily Practices Business, Real Estate and Entertainment Law. Doron Can Be Reached at: 310-651-3065. For More Information, Please, Visit: www.LawAdvocateGroup.com.*