

Determining the Basis of Nonspousal Gifts

Presented by Weller Financial Group

The rules for stock received as a gift depend on whether the stock appreciated or depreciated while in the donor's hands. If, on the date of the gift, the fair market value (FMV) is greater than the donor's basis, the donee's basis is the same as the donor's. If the FMV is lower than the donor's adjusted basis on the date of the gift, however, the stock has a dual basis and three scenarios may apply:

1. If the stock is sold for **more** than the donor's basis, the basis is the donor's basis.
2. If the stock is sold for **less than** the FMV, the basis is the FMV on the date of the gift.
3. If the stock is sold for a **price between** the FMV and the donor's basis, there is no gain or loss.

Consider this example: John has a serious illness and is getting his estate in order. He purchased ABC shares for \$50, and the current FMV of the shares is \$25. His advisor warned him that unused losses cannot be carried forward after his death, so he is considering gifting the securities to his daughter. He wants to know if she will be able to take advantage of the loss this year. The answer depends on the value at which she later sells the shares:

- She later sells the shares of ABC for \$60. To determine gain, she uses her father's original adjusted basis of \$50. She has a \$10 gain.
- She later sells the shares of ABC for \$20. Her basis is equal to the FMV of ABC on the date of the gift, which was \$25. She has a \$5 loss.
- She later sells the shares of ABC for \$40. There is no gain because the basis for determining gain would be \$50. There is no loss because the basis for determining loss is \$25. She has neither a gain nor a loss.

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