



Income Tax Basis

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Income Tax Basis

Basis is a value used to determine the amount of gain or loss on the sale of an asset and will vary, depending upon how it was acquired:

Cost Basis	=	The amount paid for an asset
Adjusted Basis	=	Cost basis plus improvements less depreciation
Capital Gain	=	Sales price is higher than adjusted basis
Capital Loss	=	Sales price is less than adjusted basis
FMV	=	Fair market value

Basic Rules as They Apply to Various Transfers

Assume owner paid \$5,000 for a lot (his cost basis).

Method of Transfer	Basis in Hands of New Owner	Assume at Time of Transfer Lot Had		
		Declined in Value to \$3,000	Retained Same Value of \$5,000	Increased in Value to \$8,000
Sale	Purchaser receives a new basis (the amount he pays for the asset).	\$3,000	\$5,000	\$8,000
Lifetime gift	For computing gain: Donee takes donor's basis.	–	\$5,000	\$5,000 ¹
	For computing loss: Donee's basis is FMV at time of gift, or the donor's basis, whichever is lower.	\$3,000	–	–
Transfer at death	Beneficiary's basis is equal to value at decedent's death or six months thereafter. ²	\$3,000	\$5,000	\$8,000
Like kind exchange IRC Sec. 1031	Basis in newly acquired property will be the same as basis in the transferred property, plus any recognized gain and less any cash received.	\$5,000	\$5,000	\$5,000

Note: Transfers of appreciated property to a spouse or former spouse who is a non-resident alien will trigger tax on the gain. See IRC Sec. 1041(d).

¹ This amount plus gift tax paid, if any, at time of gift attributable to the appreciation.

² IRC 1014(b), unless the beneficiary or his or her spouse had transferred the specific piece of property to the decedent within one year prior to his demise, in which case the beneficiary must carry over the decedent's basis. See IRC Sec. 1014(e).

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