Publication 550

Investment Income and Expenses

(Including Capital Gains and Losses)

For use in preparing

2022 Returns

Volume 5 of 9

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Transfer by inheritance. The transfer of property of a decedent to the executor or administrator of the estate, or to the heirs or beneficiaries, is not a sale or other disposition. No taxable gain or deductible loss results from the transfer.

Termination of certain rights and obligations. The cancellation, lapse, expiration, or other termination of a right or obligation (other than a securities futures contract) with respect to property that is a capital asset (or that would be a capital asset if you acquired it) is treated as a sale. Any gain or loss is treated as a capital gain or loss.

This rule does not apply to the retirement of a debt instrument. See *Redemption or retirement of bonds*, earlier.

Worthless Securities

Stocks, stock rights, and bonds (other than those held for sale by a securities dealer) that became completely worthless during the tax year are treated as though they were sold on the last day of the tax year. This affects whether your capital loss is long term or short term. See *Holding Period*, later.

Worthless securities also include securities that you abandon after March 12, 2008. To abandon a security, you must permanently surrender and relinquish all rights in the security and receive no consideration in exchange for it. All the facts and circumstances determine whether the transaction is properly characterized as an abandonment or other type of transaction, such as an actual sale or exchange, contribution to capital, dividend, or gift.

If you are a cash basis taxpayer and make payments on a negotiable promissory note that you issued for stock that became worthless, you can deduct these payments as losses in the years you actually make the payments. Do not deduct them in the year the stock became worthless.

How to report loss. Report worthless securities on Form 8949, Part I or Part II, whichever applies.

Report your worthless securities transactions on Form 8949 with the correct box checked for these transactions. See Form 8949 and the Instructions for Form 8949.

Filing a claim for refund. If you do not claim a loss for a worthless security on your original return for the year it becomes worthless, you can file a claim for a credit or refund due to the loss. You must use Form 1040-X, Amended U.S. Individual Income Tax Return, to amend your return for the year the security became worthless. You must file it within 7 years from the date your original return for that year had to be filed, or 2 years from the date you paid the tax, whichever is later. (Claims not due to worthless securities or bad debts must generally be filed within 3 years from the date a return is filed, or 2 years from the date the tax is paid, whichever is later.) For more information about filing a claim, see Pub. 556.

Constructive Sales of Appreciated Financial Positions

You are treated as having made a constructive sale when you enter into certain transactions involving an appreciated financial position (defined later) in stock, a partnership interest, or certain debt instruments. You must recognize gain as if the position were disposed of at its fair market value on the date of the constructive sale. This gives you a new holding period for the position that begins on the date of the constructive sale.

Then, when you close the transaction, you reduce your gain (or increase your loss) by the gain recognized on the constructive sale.

Constructive sale. You are treated as having made a constructive sale of an appreciated financial position if you:

- Enter into a short sale of the same or substantially identical property,
- Enter into an offsetting notional principal contract relating to the same or substantially identical property,
- Enter into a futures or forward contract to deliver the same or substantially identical property (including a forward contract that provides for cash settlement), or
- Acquire the same or substantially identical property (if the appreciated financial position is a short sale, an offsetting notional principal contract, or a futures or forward contract).

You are also treated as having made a constructive sale of an appreciated financial position if a person related to you enters into a transaction described above with a view toward avoiding the constructive sale treatment. For this purpose, a related person is any related party described under *Related Party Transactions*, later in this chapter.

Exception for nonmarketable securities. You are not treated as having made a constructive sale solely because you entered into a contract for sale of any stock, debt instrument, or partnership interest that is not a marketable security if it settles within 1 year of the date you enter into it.

Exception for certain closed transactions. Do not treat a transaction as a constructive sale if all of the following are true.

1. You closed the transaction on or before the 30th day after the end of your tax year.

2. You held the appreciated financial position throughout the 60-day period beginning on the date you closed the transaction.
3. Your risk of loss was not reduced at any time during that 60-day period by holding certain other positions.

If a closed transaction is reestablished in a substantially similar position during the 60-day period beginning on the date the first transaction was closed, this exception still applies if the reestablished position is closed before the 30th day after the end of your tax year in which the first transaction was closed and, after that closing, (2) and (3) above are true.

This exception also applies to successive short sales of an entire appreciated financial position. For more information, see Revenue Ruling 2003-1 in Internal Revenue Bulletin 2003-3. This bulletin is available at *IRS.gov/pub/irs-irbs/irb03-03.pdf*.

Appreciated financial position. This is any interest in stock, a partnership interest, or a debt instrument (including a futures or forward contract, a short sale, or an option) if disposing of the interest would result in a gain.

Exceptions. An appreciated financial position does not include the following.

1. Any position from which all of the appreciation is accounted for under marked-to-market rules, including section 1256 contracts (described later under *Section 1256 Contracts Marked to Market*).
2. Any position in a debt instrument if:
   a. The position unconditionally entitles the holder to receive a specified principal amount;
   b. The interest payments (or other similar amounts) with respect to the position are payable at a fixed rate or a variable rate

described in Regulations section 1.860G-1(a)(3); and

c. The position is not convertible, either directly or indirectly, into stock of the issuer (or any related person).

3. Any hedge with respect to a position described in (2).

Certain trust instruments treated as stock. For the constructive sale rules, an interest in an actively traded trust is treated as stock unless substantially all of the value of the property held by the trust is debt that qualifies for the exception to the definition of an appreciated financial position (explained in (2) above).

Sale of appreciated financial position. A transaction treated as a constructive sale of an appreciated financial position is not treated as a constructive sale of any other appreciated financial position, as long as you continue to hold the original position.

However, if you hold another appreciated financial position and dispose of the original position before closing the transaction that resulted in the constructive sale, you are treated as if, at the same time, you constructively sold the other appreciated financial position.

Section 1256 Contracts Marked to Market

If you hold a section 1256 contract at the end of the tax year, you must generally treat it as sold at its fair market value on the last business day of the tax year.

Section 1256 Contract

A section 1256 contract is any:

- Regulated futures contract,
- Foreign currency contract,
- Nonequity option,
- Dealer equity option, or

- Dealer securities futures contract.

Exceptions. A section 1256 contract does not include:

- Interest rate swaps,
- Currency swaps,
- Basis swaps,
- Interest rate caps,
- Interest rate floors,
- Commodity swaps,
- Equity swaps,
- Equity index swaps,
- Credit default swaps, or
- Similar agreements.

For more details, including definitions of these terms, see section 1256.

Regulated futures contract. This is a contract that:

- Provides that amounts which must be deposited to, or can be withdrawn from, your margin account depend on daily market conditions (a system of marking to market); and
- Is traded on, or subject to the rules of, a qualified board of exchange. A qualified board of exchange is a domestic board of trade designated as a contract market by the Commodity Futures Trading Commission, any board of trade or exchange approved by the Secretary of the Treasury, or a national securities exchange registered with the Securities and Exchange Commission (SEC).

Foreign currency contract. This is a contract that:

- Requires delivery of a foreign currency that has positions traded through regulated futures contracts (or settlement of which depends on the value of that type of foreign currency),
- Is traded in the interbank market, and
- Is entered into at arm's length at a price determined by reference to the price in the interbank market.

Bank forward contracts with maturity dates longer than the maturities ordinarily available for regulated futures contracts are considered to meet the definition of a foreign currency contract if the above three conditions are satisfied.

Special rules apply to certain foreign currency transactions. These transactions may result in ordinary gain or loss treatment. For details, see Internal Revenue Code section 988 and

Regulations sections 1.988-1(a)(7) and 1.988-3.

Nonequity option. This is any listed option (defined later) that is not an equity option. Nonequity options include debt options, commodity futures options, currency options, and broad-based stock index options. A broad-based stock index is based on the value of a group of diversified stocks or securities (such as the Standard and Poor's 500 index).

Warrants based on a stock index that are economically substantially identical in all material respects to options based on a stock index are treated as options based on a stock index.

Cash-settled options. Cash-settled options based on a stock index and either traded on or subject to the rules of a qualified board of exchange are nonequity options if the SEC determines that the stock index is broad based.

This rule does not apply to options established before the SEC determines that the stock index is broad based.

Listed option. This is any option traded on, or subject to the rules of, a qualified board or exchange (as discussed earlier under *Regulated futures contract*). A listed option, however, does not include an option that is a right to acquire stock from the issuer.

Dealer equity option. This is any listed option that, for an options dealer:

- Is an equity option,
- Is bought or granted by that dealer in the normal course of the dealer's business activity of dealing in options, and
- Is listed on the qualified board of exchange where that dealer is registered.

An “options dealer” is any person registered with an appropriate national securities exchange as a market maker or specialist in listed options. **Equity option.** This is any option:

- To buy or sell stock, or
- That is valued directly or indirectly by reference to any stock or narrow-based security index.

Equity options include options on a group of stocks only if the group is a narrow-based stock index.

Dealer securities futures contract. For any dealer in securities futures contracts or options on those contracts, this is a securities futures contract (or option on such a contract) that:

- Is entered into by the dealer (or, in the case of an option, is purchased or granted by the dealer) in the normal course of the dealer's activity of dealing in this type of contract (or option); and

- Is traded on a qualified board or exchange (as defined under *Regulated futures contract*, earlier).

A securities futures contract that is not a dealer securities futures contract is treated as described later under *Securities Futures Contracts*.

Marked-to-Market Rules

A section 1256 contract that you hold at the end of the tax year will generally be treated as sold at its fair market value on the last business day of the tax year, and you must recognize any gain or loss that results. That gain or loss is taken into account in figuring your gain or loss when you later dispose of the contract, as shown in the *Example* under *60/40 rule* below.

Hedging exception. The marked-to-market rules do not apply to hedging transactions. See *Hedging Transactions*, later.

60/40 rule. Under the marked-to-market system, 60% of your capital gain or loss will be treated as a long-term capital gain or loss, and 40% will be treated as a short-term capital gain or loss. This is true regardless of how long you actually held the property.

Example. On June 1, 2021, you bought a regulated futures contract for $50,000. On December 31, 2021 (the last business day of your tax year), the fair market value of the contract was $57,000. You recognized a $7,000 gain on your 2021 tax return. You treated 60% of the gain as long-term capital gain and 40% as short-term capital gain.

On February 1, 2022, you sold the contract for $56,000. Because you recognized a $7,000 gain on your 2021 return, you recognize a $1,000 loss ($57,000 − $56,000) on your 2022 tax return, treated as 60% long-term and 40% short-term capital loss.

Limited partners or entrepreneurs. The 60/40 rule does not apply to dealer equity options or dealer securities futures contracts that result in capital gain or loss allocable to limited partners or limited entrepreneurs (defined later under *Hedging Transactions*). Instead, these gains or losses are treated as short term.

Terminations and transfers. The marked-to-market rules also apply if your obligation or rights under section 1256 contracts are terminated or transferred during the tax year. In this case, use the fair market value of each section 1256 contract at the time of termination or transfer to determine the gain or loss. Terminations or transfers may result from any offsetting, delivery, exercise, assignment, or lapse of your obligation or rights under section 1256 contracts.

Loss carryback election. An individual having a net section 1256 contracts loss (defined later) can generally elect to carry this loss back 3 years instead of carrying it over to the next year. See *How To Report*, later, for information about reporting this election on your return.

The loss carried back to any year under this election cannot be more than the net section 1256 contracts gain in that year. In addition, the amount of loss carried back to an earlier tax year cannot increase or produce a net operating loss for that year.

The loss is carried to the earliest carryback year first, and any unabsorbed loss amount can then be carried to each of the next 2 tax years. In each carryback year, treat 60% of the carryback amount as a long-term capital loss and 40% as a short-term capital loss from section 1256 contracts.

If only a portion of the net section 1256 contracts loss is absorbed by carrying the loss back, the unabsorbed portion can be carried forward, under the capital loss carryover rules, to the year following the loss. For more information, see *Capital Losses*, later. Figure your capital loss carryover as if, for the loss year, you had an additional short-term capital gain of 40% of the amount of net section 1256 contracts loss absorbed in the carryback years and an additional long-term capital gain of 60% of the absorbed loss. In the carryover year, treat any capital loss carryover from losses on section 1256 contracts as if it were a loss from section 1256 contracts for that year.

Net section 1256 contracts loss. This loss is the lesser of:

- The net capital loss for your tax year determined by taking into account only the gains and losses from section 1256 contracts, or

- The capital loss carryover to the next tax year determined without this election.

Net section 1256 contracts gain. This gain is the lesser of:

- The capital gain net income for the carryback year determined by taking into account only gains and losses from section 1256 contracts, or
- The capital gain net income for that year.

Figure your net section 1256 contracts gain for any carryback year without regard to the net section 1256 contracts loss for the loss year or any later tax year.

Traders in section 1256 contracts. Gain or loss from the trading of section 1256 contracts is capital gain or loss subject to the marked-to-market rules. However, this does not apply to contracts held for purposes of hedging property if any loss from the property would be an ordinary loss.

Treatment of underlying property. The determination of whether an individual's gain or loss from any property is ordinary or capital gain or loss is made without regard to the fact that the individual is actively engaged in dealing in or trading section 1256 contracts related to that property.

Deferral of net gain from section 1256 contracts due to investment in Qualified Opportunity Fund. For special rules relating to the deferral of net gain from section 1256 contracts, see section 1400Z-2. See the Form 8949 instructions for how to report.

How To Report

If you disposed of regulated futures or foreign currency contracts in 2022 (or had unrealized profit or loss on these contracts that were open at the end of 2021 or 2022), you should receive Form 1099-B from your broker.

Form 6781. Use Part I of Form 6781 to report your gains and losses from all section 1256 contracts that are open at the end of the year or that were closed out during the year. This includes the amount shown in box 11 of Form 1099-B. Then enter the net amount of these gains and losses on Schedule D (Form 1040), line 4 or line 11, as appropriate. Include a copy of Form 6781 with your income tax return.

If the Form 1099-B you receive includes a straddle or hedging transaction, defined later, it may be necessary to show certain adjustments on Form 6781. Follow the Form 6781 instructions for completing Part I.

Loss carryback election. To carry back your loss under the election procedures described earlier, file Form 1040-X or Form 1045, Application for Tentative Refund, for the year to which you are carrying the loss with an amended Form 6781 and an amended Schedule D (Form 1040) attached. Follow the instructions for completing Form 6781 for the loss year to make this election.

Hedging Transactions

The marked-to-market rules, described earlier, do not apply to hedging transactions. A transaction is a hedging transaction if both of the following conditions are met.

1. You entered into the transaction in the normal course of your trade or business primarily to manage the risk of:
   a. Price changes or currency fluctua-tions on ordinary property you hold (or will hold); or
   b. Interest rate or price changes, or currency fluctuations, on your current or future borrowings or ordinary obligations.

2. You clearly identified the transaction as being a hedging transaction before the close of the day on which you entered into it.

This hedging transaction exception does not apply to transactions entered into by or for any syndicate. A syndicate is a partnership, S corporation, or other entity (other than a regular corporation) that allocates more than 35% of its losses to limited partners or limited entrepreneurs. A limited entrepreneur is a person who has an interest in an enterprise (but not as a limited partner) and who does not actively participate in its management. However, an interest is not considered held by a limited partner or entrepreneur if the interest holder actively participates (or did so for at least 5 full years) in the management of the entity, or is the spouse, child (including a legally adopted child), grandchild, or parent of an individual who actively participates in the management of the entity.

Hedging loss limit. If you are a limited partner or entrepreneur in a syndicate, the amount of a hedging loss you can claim is limited. A “hedging loss” is the amount by which the allowable deductions in a tax year that resulted from a hedging transaction (determined without regard to the limit) are more than the income received or accrued during the tax year from this transaction.

Any hedging loss allocated to you for the tax year is limited to your taxable income for that year from the trade or business in which the hedging transaction occurred. Ignore any hedging transaction items in determining this taxable income. If you have a hedging loss that is disallowed because of this limit, you can carry it over to the next tax year as a deduction resulting from a hedging transaction.

If the hedging transaction relates to property other than stock or securities, the limit on hedging losses applies if the limited partner or entrepreneur is an individual.

The limit on hedging losses does not apply to any hedging loss to the extent that it is more than all your unrecognized gains from hedging transactions at the end of the tax year that are from the trade or business in which the hedging transaction occurred. The term “unrecognized gain” has the same meaning as defined under *Loss Deferral Rules*, later.

Sale of property used in a hedge. Once you identify personal property as being part of a hedging transaction, you must treat gain from its sale or exchange as ordinary income, not capital gain.

Self-Employment Income

Gains and losses derived in the ordinary course of a commodity or option dealer's trading in section 1256 contracts and property related to these contracts are included in net earnings from self-employment. See the Instructions for Schedule SE (Form 1040). In addition, the rules relating to contributions to self-employment retirement plans apply. For information on retirement plan contributions, see Pub. 560 and Pub. 590-A.

Basis of Investment Property

Terms you may need to know (see Glossary):

Basis

Fair market value

Original issue discount (OID)

Basis is a way of measuring your investment in property for tax purposes. You must know the basis of your property to determine whether you have a gain or loss on its sale or other disposition.

Investment property you buy normally has an original basis equal to its cost. If you get property in some way other than buying it, such as by gift or inheritance, its fair market value may be important in figuring the basis.

Cost Basis

The basis of property you buy is usually its cost. The cost is the amount you pay in cash, debt obligations, or other property or services.

Unstated interest. If you buy property on a time-payment plan that charges little or no interest, the basis of your property is your stated purchase price, minus the amount considered to be unstated interest. You generally have unstated interest if your interest rate is less than the applicable federal rate. For more information, see *Unstated Interest and Original Issue Discount (OID)* in Pub. 537.

Basis Other Than Cost

There are times when you must use a basis other than cost. In these cases, you may need to know the property's fair market value or the adjusted basis of the previous owner.

Fair market value. This is the price at which the property would change hands between a buyer and a seller, neither being forced to buy or sell and both having reasonable knowledge of all the relevant facts. Sales of similar property, around the same date, may be helpful in figuring fair market value.

Property Received for Services

If you receive investment property for services, you must include the property's fair market value in income. The amount you include in income then becomes your basis in the property. If the services were performed for a price that was agreed to beforehand, this price will be accepted as the fair market value of the property if there is no evidence to the contrary.

Restricted property. If you receive, as payment for services, property that is subject to certain restrictions, your basis in the property is generally its fair market value when it becomes substantially vested. Property becomes substantially vested when it is transferable or is no longer subject to substantial risk of forfeiture, whichever happens first. See *Restricted Property* in Pub. 525 for more information.

Bargain purchases. If you buy investment property at less than fair market value, as payment for services, you must include the difference in income. Your basis in the property is the price you pay plus the amount you include in income.

Property Received in Taxable Trades

If you received investment property in trade for other property, the basis of the new property is its fair market value at the time of the trade unless you received the property in a nontaxable trade.

Example. You trade A Company stock for B Company stock having a fair market value of $1,200. If the adjusted basis of the A Company stock is less than $1,200, you have a taxable gain on the trade. If the adjusted basis of the A Company stock is more than $1,200, you have a deductible loss on the trade. The basis of your B Company stock is $1,200. If you later sell the B Company stock for $1,300, you will have a gain of $100.

Property Received in Nontaxable Trades

If you have a nontaxable trade, you do not recognize gain or loss until you dispose of the real property you received in the trade. See *Nontaxable Trades*, later.

The basis of property you received in a nontaxable or partly nontaxable trade is generally the same as the adjusted basis of the property you gave up. Increase this amount by any cash you paid, additional costs you had, and any gain recognized. Reduce this amount by any cash or unlike property you received, any loss recognized, and any liability of yours that was assumed or treated as assumed.

Property Received From Your Spouse

If property is transferred to you from your spouse (or former spouse, if the transfer is incident to your divorce), your basis is the same as your spouse's or former spouse's adjusted basis just before the transfer. See *Transfers Between Spouses*, later.

Recordkeeping. The transferor must give you the records necessary to determine the adjusted basis and holding period of the property as of the date of the transfer.

Property Received as a Gift

To figure your basis in property that you received as a gift, you must know its adjusted basis to the donor just before it was given to you, its fair market value at the time it was given to you, the amount of any gift tax paid on it, and the date it was given to you.

Fair market value less than donor's adjusted basis. If the fair market value of the property at the time of the gift was less than the donor's adjusted basis just before the gift, your basis for gain on its sale or other disposition is the same as the donor's adjusted basis plus or minus any required adjustments to basis during the period you hold the property. Your basis for loss is its fair market value at the time of the gift plus or minus any required adjustments to basis during the period you hold the property.

No gain or loss. If you use the basis for figuring a gain and the result is a loss, and then use the basis for figuring a loss and the result is a gain, you will have neither a gain nor a loss.

Example. You receive a gift of investment property having an adjusted basis of $10,000 at the time of the gift. The fair market value at the time of the gift is $9,000. You later sell the property for $9,500. Your basis for figuring gain is $10,000, and $9,500 minus $10,000 results in a $500 loss. Your basis for figuring loss is $9,000, and $9,500 minus $9,000 results in a $500 gain. You have neither gain nor loss.

Fair market value equal to or more than donor's adjusted basis. If the fair market value of the property at the time of the gift was equal to or more than the donor's adjusted basis just before the gift, your basis for gain or loss on its sale or other disposition is the donor's adjusted basis plus or minus any required adjustments to basis during the period you hold the property. Also, you may be allowed to add to the donor's adjusted basis all or part of any gift tax paid, depending on the date of the gift.

Gift received after 1976. If you received property as a gift after 1976, your basis is the donor's adjusted basis increased by the part of the gift tax paid that was for the net increase in value of the gift. You figure this part by multiplying the gift tax paid on the gift by a fraction. The numerator (top part) is the net increase in value of the gift and the denominator (bottom part) is the amount of the gift.

The net increase in value of the gift is the fair market value of the gift minus the donor's adjusted basis. The amount of the gift is its value for gift tax purposes after reduction by any annual exclusion and marital or charitable deduction that applies to the gift.

Example. In 2022, you received a gift of property from your mother. At the time of the gift, the property had a fair market value of $101,000 and an adjusted basis to her of $40,000. The amount of the gift for gift tax purposes was $85,000 ($101,000 minus the $16,000 annual exclusion), and your mother paid a gift tax of $19,600. You figure your basis in the following way:

Fair market value	$101,000
Minus: Adjusted basis	40,000
Net increase in value of gift	$ 61,000
Gift tax paid	$ 19,600
Multiplied by 0.718 ($61,000 ÷ $85,000)	0.718
Gift tax due to net increase in value	$ 14,073

Plus: Adjusted basis of property to your mother	40,000
Your basis in the property	$ 54,073

Part sale, part gift. If you get property in a transfer that is partly a sale and partly a gift, your basis is the larger of the amount you paid for the property or the transferor's adjusted basis in the property at the time of the transfer. Add to that amount the amount of any gift tax paid on the gift, as described in the preceding discussion. For figuring loss, your basis is limited to the property's fair market value at the time of the transfer.

Gift tax information. For information on gift tax, see Pub. 559. For information on figuring the amount of gift tax to add to your basis, see *Property Received as a Gift* in Pub. 551.

Property Received as Inheritance

Before or after 2010. If you inherited property from a decedent who died before or after 2010, or who died in 2010 and the executor of the decedent's estate elected not to file Form 8939, Allocation of Increase in Basis for Property Acquired From a Decedent, your basis in that property is generally its fair market value (its appraised value on Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return) on:

- The date of the decedent's death; or
- The later alternate valuation date if the estate qualifies for, and elects to use, alternate valuation.

In certain circumstances, the executor of an estate (or other person) required to file Form 706 after July 15, 2015, will be required to provide a Schedule A (Form 8971) to you as a beneficiary who receives or is to receive property from the estate. If you receive

Schedule A (Form 8971), use the final estate tax value of the property reported on the Schedule A to determine your basis in the property.

If no Form 706 was filed, or the executor was not required to provide you Schedule A (Form 8971), use the appraised value on the date of death for state inheritance or transmission taxes. For stocks and bonds, if no Form 706 was filed and there are no state inheritance or transmission taxes, see the Form 706 instructions for figuring the fair market value of the stocks and bonds on the date of the decedent's death.

Appreciated property you gave the decedent. Your basis in certain appreciated property that you inherited is the decedent's adjusted basis in the property immediately before death rather than its fair market value. This applies to appreciated property that you or your spouse gave the decedent as a gift during the 1-year period ending on the date of death. Appreciated property is any property whose fair market value on the day you gave it to the decedent was more than its adjusted basis.

More information. See Pub. 551 for more information on the basis of inherited property, including community property, property held by a surviving tenant in a joint tenancy or tenancy by the entirety, a qualified joint interest, and a farm or closely held business.

Inherited in 2010 and executor elected to file Form 8939. If you inherited property from a decedent who died in 2010 and the executor made the election to file Form 8939, see Pub. 4895 to figure your basis. Pub. 4895 is available at *IRS.gov/Pub4895*.

Adjusted Basis

Before you can figure any gain or loss on a sale, exchange, or other disposition of property or figure allowable depreciation, depletion, or amortization, you must usually make certain adjustments (increases and decreases) to the basis of the property. The result of these adjustments to the basis is the adjusted basis.

Adjustments to the basis of stocks and bonds are explained in the following discussion.

For information about other adjustments to basis, see Pub. 551.

Stocks and Bonds

The basis of stocks or bonds you own is generally the purchase price plus the costs of purchase, such as commissions and recording or transfer fees. If you acquired stock or bonds other than by purchase, your basis is usually determined by fair market value or the previous owner's adjusted basis as discussed earlier under *Basis Other Than Cost*.

The basis of stock must be adjusted for certain events that occur after purchase. For example, if you receive more stock from nontaxable stock dividends or stock splits, you must reduce the basis of your original stock. You must also reduce your basis when you receive nondividend distributions (discussed in chapter 1). These distributions, up to the amount of your basis, are a nontaxable return of capital.

TIP *The IRS partners with companies that offer Form 8949 and Schedule D (Form 1040) software that can import trades from many brokerage firms and accounting software to help you keep track of your adjusted basis in securities. To find out more, go to IRS.gov/Filing/Filing-Options.*

Identifying stock or bonds sold. If you can adequately identify the shares of stock or the bonds you sold, their basis is the cost or other basis of the particular shares of stock or bonds.

Adequate identification. You will make an adequate identification if you show that certificates representing shares of stock from a lot that you bought on a certain date or for a certain price were delivered to your broker or other agent.

Broker holds stock. If you have left the stock certificates with your broker or other agent, you will make an adequate identification if you:

- Tell your broker or other agent the particular stock to be sold or transferred at the time of the sale or transfer, and
- Receive a written confirmation of this from your broker or other agent within a reasonable time.

Stock identified this way is the stock sold or transferred even if stock certificates from a different lot are delivered to the broker or other agent.

Single stock certificate. If you bought stock in different lots at different times and you hold a single stock certificate for this stock, you will make an adequate identification if you:

- Tell your broker or other agent the particular stock to be sold or transferred when you deliver the certificate to your broker or other agent, and
- Receive a written confirmation of this from your broker or other agent within a reasonable time.

If you sell part of the stock represented by a single certificate directly to the buyer instead of through a broker, you will make an adequate identification if you keep a written record of the particular stock that you intend to sell.

Bonds. These methods of identification also apply to bonds sold or transferred.

Identification not possible. If you buy and sell securities at various times in varying quantities and you cannot adequately identify the shares you sell, the basis of the securities you sell is the basis of the securities you acquired first. Except for certain mutual fund shares, discussed later, you cannot use the average price per share to figure gain or loss on the sale of the shares.

Example. You bought 100 shares of stock of XYZ Corporation in 2007 for $10 per share. In January 2008, you bought another 200 shares for $11 per share. In July 2008, you gave your son 50 shares. In December 2010, you bought 100 shares for $9 per share. In April 2022, you sold 130 shares. You cannot identify the shares you disposed of, so you must use the stock you acquired first to figure the basis. The shares of stock you gave your son had a basis of $500 (50 × $10). You figure the basis of the 130 shares of stock you sold in April 2022 as follows:

50 shares (50 × $10) balance of stock bought in 2007	$ 500
80 shares (80 × $11) stock bought in January 2008	880
Total basis of stock sold in 2022	$1,380

Shares in a mutual fund or real estate investment trust (REIT). The basis of shares in a mutual fund (or other regulated investment company) or a REIT is generally figured in the same way as the basis of other stock and usually includes any commissions or load charges paid for the purchase.

Example. You bought 100 shares of Fund A for $10 per share. You paid a $50 commission to the broker for the purchase. Your cost basis for each share is $10.50 ($1,050 ÷ 100).

Table 4-1. **Mutual Fund Record**

Mutual Fund	Acquired [1]			Adjustment to Basis per Share					Adjusted [2] Basis per Share	Sold or Redeemed	
	Date	Number of Shares	Cost per Share							Date	Number of Shares

[1] Include share received from reinvestment of distributions.

[2] Cost plus or minus adjustments.

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Commissions and load charges. The fees and charges you pay to acquire or redeem shares of a mutual fund are not deductible. You can usually add acquisition fees and charges to your cost of the shares and thereby increase your basis. A fee paid to redeem the shares is usually a reduction in the redemption price (sales price).

You cannot add your entire acquisition fee or load charge to the cost of the mutual fund shares acquired if all of the following conditions apply.

1. You get a reinvestment right because of the purchase of the shares or the payment of the fee or charge.
2. You dispose of the shares within 90 days of the purchase date.
3. You acquire new shares in the same mutual fund or another mutual fund, for which the fee or charge is reduced or waived because of the reinvestment

right you got when you acquired the original shares.

The amount of the original fee or charge in excess of the reduction in (3) is added to the cost of the original shares. The rest of the original fee or charge is added to the cost basis of the new shares (unless all three conditions above also apply to the purchase of the new shares).

Choosing average basis for mutual fund shares. You can choose to use the average basis of mutual fund shares if you acquired the identical shares at various times and prices, or you acquired the shares after 2011 in connection with a dividend reinvestment plan (DRP), and left them on deposit in an account kept by a custodian or agent. The methods you can use to figure average basis are explained later.

Undistributed capital gains. If you had to include in your income any undistributed capital gains of the mutual fund or REIT, increase your basis in the stock by the difference between the amount you included and the amount of tax paid for you by the fund or REIT. See *Undistributed capital gains of mutual funds and REITs* in chapter 1.

Reinvestment right. This is the right to acquire mutual fund shares in the same or another mutual fund without paying a fee or load charge, or by paying a reduced fee or load charge.

The original cost basis of mutual fund shares you acquire by reinvesting your distributions is the amount of the distributions used to purchase each full or fractional share. This rule applies even if the distribution is an exempt-interest dividend that you do not report as income.

RECORDS

Table 4-1. This is a worksheet you can use to keep track of the adjusted basis of your mutual fund shares. Enter the cost per share when you acquire new shares and any adjustments to their basis when the adjustment occurs. This worksheet will help you figure the adjusted basis when you sell or redeem shares.

Automatic investment service. If you participate in an automatic investment service, your basis for each share of stock, including fractional shares, bought by the bank or other agent is the purchase price plus a share of the broker's commission.

DRPs. If you participate in a DRP and receive stock from the corporation at a discount, your basis is the full fair market value of the stock on the dividend payment date. You must include the amount of the discount in your income.

Public utilities. If, before 1986, you excluded from income the value of stock you had received under a qualified public utility reinvestment plan, your basis in that stock is zero.

Stock dividends. Stock dividends are distributions made by a corporation of its own stock. Generally, stock dividends are not taxable to you. However, see *Distributions of Stock and* *Stock Rights* in chapter 1 for some exceptions. If the stock dividends are not taxable, you must divide your basis for the old stock between the old and new stock.

New and old stock identical. If the new stock you received as a nontaxable dividend is identical to the old stock on which the dividend was declared, divide the adjusted basis of the old stock by the number of shares of old and new stock. The result is your basis for each share of stock.

Example 1. You owned one share of common stock that you bought for $45. The corporation distributed two new shares of common stock for each share held. You then had three shares of common stock. Your basis in each share is $15 ($45 ÷ 3).

Example 2. You owned two shares of common stock. You bought one for $30 and the other for $45. The corporation distributed two new shares of common stock for each share held. You had six shares after the distribution—three with a basis of $10 each ($30 ÷ 3) and three with a basis of $15 each ($45 ÷ 3).

New and old stock not identical. If the new stock you received as a nontaxable dividend is not identical to the old stock on which it was declared, the basis of the new stock is figured differently. Divide the adjusted basis of the old stock between the old and the new stock in the ratio of the fair market value of each lot of stock to the total fair market value of both lots on the date of distribution of the new stock.

Example. You bought a share of common stock for $100. Later, the corporation distributed a share of preferred stock for each share of common stock held. At the date of distribution, your common stock had a fair market value of $150 and the preferred stock had a fair market value of $50. You figure the basis of the old and new stock by dividing your $100 basis between them. The basis of your common stock is $75 (($150 ÷ $200) × $100), and the basis of the new preferred stock is $25 (($50 ÷ $200) × $100).

Stock bought at various times. Figure the basis of stock dividends received on stock you bought at various times and at different prices by allocating to each lot of stock the share of the stock dividends due to it.

Taxable stock dividends. If your stock dividend is taxable when you receive it, the basis of your new stock is its fair market value on the date of distribution. The basis of your old stock does not change.

Stock splits. Figure the basis of stock splits in the same way as stock dividends if identical stock is distributed on the stock held.

Stock rights. A stock right is a right to acquire a corporation's stock. It may be exercised, it may be sold if it has a market value, or it may expire. Stock rights are rarely taxable when you receive them. See *Distributions of Stock and Stock Rights* in chapter 1.

Taxable stock rights. If you receive stock rights that are taxable, the basis of the rights is their fair market value at the time of distribution. The basis of the old stock does not change.

Nontaxable stock rights. If you receive nontaxable stock rights and allow them to expire, they have no basis.

If you exercise or sell the nontaxable stock rights and if, at the time of distribution, the stock rights had a fair market value of 15% or more of the fair market value of the old stock, you must divide the adjusted basis of the old stock between the old stock and the stock rights. Use a ratio of the fair market value of each to the total fair market value of both at the time of distribution.

If the fair market value of the stock rights was less than 15%, their basis is zero. However, you can choose to divide the basis of the old stock between the old stock and the stock rights. To make the choice, attach a statement to your return for the year in which you received the rights, stating that you choose to divide the basis of the stock.

Basis of new stock. If you exercise the stock rights, the basis of the new stock is its cost plus the basis of the stock rights exercised.

Example. You own 100 shares of ABC Company stock, which cost you $22 per share. The ABC Company gave you 10 nontaxable stock rights that would allow you to buy 10 more shares at $26 per share. At the time the stock rights were distributed, the stock had a market value of $30, not including the stock rights. Each stock right had a market value of $3. The market value of the stock rights was less than 15% of the market value of the stock, but you chose to divide the basis of your stock between the stock and the rights. You figure the basis of the rights and the basis of the old stock as follows:

100 shares × $22 = $2,200, basis of old stock

100 shares × $30 = $3,000, market value of old stock

10 rights × $3 = $30, market value of rights

($3,000 ÷ $3,030) × $2,200 = $2,178.22, new basis of old stock

($30 ÷ $3,030) × $2,200 = $21.78, basis of rights

If you sell the rights, the basis for figuring gain or loss is $2.18 ($21.78 ÷ 10) per right. If you exercise the rights, the basis of the stock you acquire is the price you pay ($26) plus the basis of the right exercised ($2.18), or $28.18 per share. The remaining basis of the old stock is $21.78 per share.

Investment property received in liquidation. In general, if you receive investment property as a distribution in partial or complete liquidation of a corporation and if you recognize gain or loss when you acquire the property, your basis in the property is its fair market value at the time of the distribution.

S corporation stock. You must increase your basis in stock of an S corporation by your pro rata share of the following items.

- All income items of the S corporation, including tax-exempt income, that are separately stated and passed through to you as a shareholder.
- The nonseparately stated income of the S corporation.

- The amount of the deduction for depletion (other than oil and gas depletion) that is more than the basis of the property being depleted.

You must decrease your basis in stock of an S corporation by your pro rata share of the following items.

- Distributions by the S corporation that were not included in your income.
- All loss and deduction items of the S corporation that are separately stated and passed through to you.
- Any nonseparately stated loss of the S corporation.
- Any expense of the S corporation that is not deductible in figuring its taxable income and not properly chargeable to a capital account.
- The amount of your deduction for depletion of oil and gas wells to the

extent the deduction is not more than your share of the adjusted basis of the wells.

However, your basis in the stock cannot be reduced below zero.

Qualified small business stock. If you bought this stock as replacement property for other qualified small business stock you sold at a gain, you must reduce the basis of this replacement stock by the amount of any postponed gain on the earlier sale. See *Gains on Qualified Small Business Stock*, later.

Short sales. If you cannot deduct payments you make to a lender in lieu of dividends on stock used in a short sale, the amount you pay to the lender is a capital expense, and you must add it to the basis of the stock used to close the short sale.

See *Payments in lieu of dividends*, later, for information about deducting payments in lieu of dividends.

Premiums on bonds. If you buy a bond at a premium, the premium is treated as part of your basis in the bond. If you choose to amortize the premium paid on a taxable bond, you must reduce the basis of the bond by the amortized part of the premium each year over the life of the bond.

For a taxable bond acquired at a premium that is a covered security, unless you instruct your broker that you do not want to amortize premium, your broker will report income on the bond and your basis in the bond by amortizing premium. Your broker may report the amount of premium amortization for a tax year separately from the amount of gross interest income in boxes 11 and 12 of Form 1099-INT or box 10 of Form 1099-OID, or may report net interest in boxes 1 and 3 of Form 1099-INT or box 2 of Form 1099-OID.

Although you cannot deduct the premium on a tax-exempt bond, you must amortize it to determine your adjusted basis in the bond.

You must reduce the basis of the bond by the premium you amortized for the period you held the bond. For a tax-exempt covered security acquired at a premium, box 13 of Form 1099-INT or box 10 of Form 1099-OID shows the amount of bond premium amortization allocable to the interest paid during the tax year. If a net amount of interest appears in box 8 or 9 of Form 1099-INT, whichever is applicable, box 13 of Form 1099-INT should be blank. If a net amount of interest appears in box 2 of Form 1099-OID, box 10 of Form 1099-OID should be blank.

See *Bond Premium Amortization* in chapter 3 for more information.

Market discount on bonds. If you include market discount on a bond in income currently, increase the basis of your bond by the amount of market discount you include in your income. See *Market Discount Bonds* in chapter 1 for more information.

Bonds purchased at par value. A bond purchased at par value (face amount) has no premium or discount. When you sell or otherwise dispose of the bond, you figure the gain or loss by comparing the bond proceeds to the purchase price of the bond.

Example. You purchased a bond several years ago for its par value of $10,000. You sold the bond this year for $10,100. You have a gain of $100. However, if you had sold the bond for $9,900, you would have a loss of $100.

Acquisition discount on short-term obligations. If you include acquisition discount on a short-term obligation in your income currently, increase the basis of the obligation by the amount of acquisition discount you include in your income. See *Discount on Short-Term Obligations* in chapter 1 for more information.

Original issue discount (OID) on debt instruments. Increase the basis of a debt instrument by the OID you include in your income. See Original Issue Discount (OID) in chapter 1.

If your debt instrument is a covered security, your broker will report a basis amount that is adjusted for OID included in income.

Discounted tax-exempt obligations. OID on tax-exempt obligations is generally not taxable. However, when you dispose of a tax-exempt obligation issued after September 3, 1982, that you acquired after March 1, 1984, you must accrue OID on the obligation to determine its adjusted basis. The accrued OID is added to the basis of the obligation to determine your gain or loss. If your tax-exempt obligation is a covered security, your broker will report a basis amount that is adjusted for tax-exempt OID.

For information on determining OID on a long-term obligation, see *Debt Instruments Issued After July 1, 1982, and Before 1985* or *Debt Instruments Issued After 1984*, whichever applies, in Pub. 1212 under *Figuring OID on Long-Term Debt Instruments*.

If the tax-exempt obligation has a maturity of 1 year or less, accrue OID under the rules for acquisition discount on short-term obligations. See *Discount on Short-Term Obligations* in chapter 1.

Stripped tax-exempt obligation. If you acquired a stripped tax-exempt bond or coupon after October 22, 1986, you must accrue OID on it to determine its adjusted basis when you dispose of it. For stripped tax-exempt bonds or coupons acquired after June 10, 1987, part of this OID may be taxable. You accrue the OID on these obligations in the manner described in chapter 1 under *Stripped Bonds and Coupons*.

Increase your basis in the stripped tax-exempt bond or coupon by the taxable and nontaxable accrued OID. Also increase your basis by the interest that accrued (but was not paid and was not previously reflected in your basis) before the date you sold the bond or coupon. In addition, for bonds acquired after June 10, 1987, add to your basis any accrued market discount not previously reflected in basis.

How To Figure Gain or Loss

You figure gain or loss on a sale or trade of property by subtracting the adjusted basis of the property from the amount you realize on the sale or trade.

Gain. If the amount you realize from a sale or trade is more than the adjusted basis of the property you transfer, the difference is a gain.

Loss. If the adjusted basis of the property you transfer is more than the amount you realize, the difference is a loss.

Amount realized. The amount you realize from a sale or trade of property is everything you receive for the property minus your expenses related to the sale (such as redemption fees, sales commissions, sales charges, or exit fees). Amount realized includes the money you receive plus the fair market value of any property or services you receive.

If you finance the buyer's purchase of your property and the debt instrument does not provide for adequate stated interest, the unstated interest that you must report as ordinary income will reduce the amount realized from the sale. For more information, see Pub. 537.

If a buyer of property issues a debt instrument to the seller of the property, the amount realized is determined by reference to the issue price of the debt instrument, which may or may not be the fair market value of the debt instrument. See Regulations section 1.1001-1(g). However, if the debt instrument was previously issued by a third party (one not part of the sale transaction), the fair market value of the debt instrument is used to determine the amount realized.

Fair market value. Fair market value is the price at which property would change hands between a buyer and a seller, neither being forced to buy or sell and both having reasonable knowledge of all the relevant facts.

Example. You trade A Company stock with an adjusted basis of $7,000 for B Company stock with a fair market value of $10,000, which is your amount realized. Your gain is $3,000 ($10,000 – $7,000). If you also receive a note for $6,000 that has an issue price of $6,000, your gain is $9,000 ($10,000 + $6,000 – $7,000).

Debt paid off. A debt against the property, or against you, that is paid off as a part of the transaction or that is assumed by the buyer must be included in the amount realized. This is true even if neither you nor the buyer is personally liable for the debt. For example, if you sell or trade property that is subject to a nonrecourse loan, the amount you realize generally includes the full amount of the note assumed by the buyer even if the amount of the note is more than the fair market value of the property.

Example. You sell stock that you had pledged as security for a bank loan of $8,000. Your basis in the stock is $6,000. The buyer pays off your bank loan and pays you $20,000 in cash. The amount realized is $28,000 ($20,000 + $8,000). Your gain is $22,000 ($28,000 – $6,000).

Payment of cash. If you trade property and cash for other property, the amount you realize is the fair market value of the property you receive. Determine your gain or loss by subtracting the cash you pay and the adjusted basis of the property you trade in from the amount you realize. If the result is a positive number, it is a gain. If the result is a negative number, it is a loss.

No gain or loss. You may have to use a basis for figuring gain that is different from the basis used for figuring loss. In this case, you may have neither a gain nor a loss. See *No gain or loss* in the discussion on the basis of property you received as a gift under *Basis Other Than Cost*, earlier.

Special Rules for Mutual Funds

To figure your gain or loss when you dispose of mutual fund shares, you need to determine which shares were sold and the basis of those shares. If your shares in a mutual fund were acquired all on the same day and for the same price, figuring their basis is not difficult. However, shares are generally acquired at various times, in various quantities, and at various prices. Therefore, figuring your basis can be more difficult. You can choose to use either a cost basis or an average basis to figure your gain or loss.

Cost Basis

You can figure your gain or loss using a cost basis only if you did not previously use an average basis for a sale, exchange, or redemption of other shares in the same mutual fund.

To figure cost basis, you can choose one of the following methods.

- Specific share identification.
- First-in first-out (FIFO).

Specific share identification. If you adequately identify the shares you sold, you can use the adjusted basis of those particular shares to figure your gain or loss.

You will adequately identify your mutual fund shares, even if you bought the shares in different lots at various prices and times, if you:

1. Specify to your broker or other agent the particular shares to be sold or transferred at the time of the sale or transfer, and
2. Receive confirmation in writing from your broker or other agent within a reasonable time of your specification of the particular shares sold or transferred.

You continue to have the burden of proving your basis in the specified shares at the time of sale or transfer.

FIFO. If your shares were acquired at different times or at different prices and you cannot identify which shares you sold, use the basis of the shares you acquired first as the basis of the shares sold. In other words, the oldest shares you own are considered sold first. You should keep a separate record of each purchase and any dispositions of the shares until all shares purchased at the same time have been disposed of completely.

Table 4-2 illustrates the use of the FIFO method to figure the cost basis of shares sold, compared with the use of the average basis method (discussed next).

Average Basis

You can use the average basis method to determine the basis of shares of stock if the shares are identical to each other, you acquired them at different times and different prices and left them in an account with a custodian or agent, and either:

- They are shares in a mutual fund (or other regulated investment company);
- They are shares you hold in connection with a DRP, and all the shares you hold in connection with the DRP are

treated as covered securities (defined later); or

- You acquired them after 2011 in connection with a DRP.

Average basis is determined by averaging the basis of all shares of identical stock in an account regardless of how long you have held the stock. However, shares of stock in a DRP are not identical to shares of stock with the same CUSIP number that are not in a DRP. The basis of each share of identical stock in the account is the aggregate basis of all shares of that stock in the account divided by the aggregate number of shares.

Transition rule from double-category method. You may no longer use the double-category method for figuring your average basis. If you were using the double-category method for stock you acquired before April 1, 2011, and you sell, exchange, or otherwise dispose of that stock on or after April 1, 2011, you must figure the average basis of this stock by averaging together all identical shares of stock in the account on April 1, 2011, regardless of the holding period.

Election of average basis method for covered securities. To make the election to use the average basis method for your covered securities, you must send written notice to the custodian or agent who keeps the account. The written notice can be made electronically. You must also notify your broker that you have made the election. Generally, a covered security is a security you acquired after 2010, with certain exceptions explained in the Instructions for Form 8949.

You can make the election to use the average basis method at any time. The election will be effective for sales or other dispositions of stocks that occur after you notify the custodian or agent of your election. Your election must identify each account with that custodian or agent and each stock in that account to which the election applies. The election can also indicate that it applies to all accounts with a custodian or agent, including accounts you later establish with the custodian or agent.

Election of average basis method for noncovered securities. For noncovered securities, you elect to use the average basis method on your income tax return for the first tax year that the election applies. You make the election by showing on your return that you used the average basis method in reporting gain or loss on the sale or other disposition.

Revoking the average basis method election. You can revoke an election to use the average basis method for your covered securities by sending written notice to the custodian or agent holding the stock for which you want to revoke the election. The election must generally be revoked by the earlier of 1 year after you make the election or the date of the first sale, transfer, or disposition of the stock following the election. The revocation applies to all the stock you hold in an account that is identical to the shares of stock for which you are revoking the election. After revoking your election, your basis in the shares of stock to which the revocation applies is the basis before averaging.

You may be able to find the average basis of your shares from information provided by the fund.

Average basis method illustrated. Table 4-2 illustrates the average basis method of shares sold, compared with the use of the FIFO method to figure cost basis (discussed earlier).

Even though you include all unsold shares of identical stock in an account to figure average basis, you may have both short-term and long-term gains or losses when you sell these shares. To determine your holding period, the shares disposed of are considered to be those acquired first.

Example. You bought 400 identical shares in the LJO Mutual Fund: 200 shares on May 11, 2021, and 200 shares on May 16, 2022. On November 16, 2022, you sold 300 shares. The basis of all 300 shares sold is the same, but you held 200 shares for more than 1 year, so your gain or loss on those shares is long term. You held 100 shares for 1 year or less, so your gain or loss on those shares is short term.

How to figure the basis of shares sold. To figure the basis of shares you sell, use the steps in the following worksheet.

1. Enter the total adjusted basis of all the shares you owned in the fund just before the sale. (If you made an earlier sale of shares in this fund, add the adjusted basis of any shares you still owned after the last sale and the adjusted basis of $ ________

any shares you acquired after that sale.) . . . .

2. Enter the total number of shares you owned in the fund just before the sale . . . . ______

3. Divide the amount on line 1 by the amount on line 2. This is your ***average basis per share*** . . . . $ ______

4. Enter the number of shares you sold . . . ______

5. Multiply the amount on line 3 by the amount on line 4. This is the ***basis of the shares you sold*** . . . . $ ______

Example 1. You bought 300 identical shares in the LJP Mutual Fund: 100 shares in 2018 for $1,000 ($10 per share); 100 shares in 2019 for $1,200 ($12 per share); and 100 shares in 2020 for $2,600 ($26 per share). Thus, the total cost of your shares was $4,800 ($1,000 + $1,200 + $2,600). On May 6, 2022, you sold 150 shares. The basis of the shares you sold is $2,400 ($16 per share), figured as follows.

1. Enter the total adjusted basis of all the shares you owned in the fund just before the sale. (If you made an earlier sale of shares in this fund, add the adjusted basis of any shares you still owned after the last sale and the adjusted basis of any shares you acquired after that sale.) $4,800

2. Enter the total number of shares you owned in the fund just before the sale 300

3. Divide the amount on line 1 by the amount on line 2. This is your ***average basis per share*** . . . . . $ 16

4. Enter the number of shares you sold 150

5. Multiply the amount on line 3 by the amount on line 4. This is the ***basis of the shares you sold*** . . $2,400

Remaining shares. The average basis of the shares you still hold after a sale of some of your shares is the same as the average basis of the shares sold. The next time you make a sale, your average basis will still be the same, unless you have acquired additional shares (or have made a subsequent adjustment to basis).

Example 2. The facts are the same as in *Example 1*, except that you sold an additional 50 shares on December 9, 2022. You do not need to refigure the average basis of the 150 shares you owned at that time because you acquired or sold no shares, and had no other adjustments to basis, since the last sale. Your basis is the $16 per share figured earlier.

Example 3. The facts are the same as in *Example 1*, except that you bought an additional 150 identical shares at $14 per share on September 9, 2022, and then sold 50 shares on December 9, 2022. The total adjusted basis of all the shares you owned just before the sale is $4,500, figured as follows.

1. Basis of remaining shares ($16 x 150) $2,400
2. Cost of shares acquired on 9/9/2022 ($14 x 150) $2,100

3. Total adjusted basis of all shares owned ($2,400 + $2,100) $4,500

The basis of the shares sold is $750 ($15 per share), figured as follows.

1. Enter the total adjusted basis of all the shares you owned in the fund just before the sale. (If you made an earlier sale of shares in this fund, add the adjusted basis of any shares you still owned after the last sale and the adjusted basis of any shares you acquired after that sale.) $4,500

2. Enter the total number of shares you owned in the fund just before the sale 300

3. Divide the amount on line 1 by the amount on line 2. This is your ***average basis per share*** . . . . . $ 15

4. Enter the number of shares you sold 50

5. Multiply the amount on line 3 by the amount on line 4. This is the ***basis of the shares you sold*** . . $ 750

Shares received as gift. If your account includes shares that you received by gift, and the fair market value of the shares at the time of the gift was not more than the donor's basis, special rules apply. You cannot choose to use the average basis for the account unless you state in writing that you will treat the basis of the gift shares as the fair market value at the time you acquire the shares. You must provide this written statement when you make the election to use the average basis method, as described under *Election of average basis method for covered securities* and *Election for average basis method for noncovered securities,* earlier, or when you transfer the gift shares to an account for which you have made the average basis method election, whichever is later. The statement must be effective for any gift shares identical to the gift shares to which the average basis method election applies that you acquire at any time and must remain in effect as long as the election remains in effect.

When there is a sale, exchange, or redemption of your shares in a fund, keep the confirmation statement you receive. The statement shows the price you received for the shares and other information you need to report gain or loss on your return.