



OFFICE OF
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The Honorable Adam Schiff
Member, U.S. House of Representatives
87 North Raymond Avenue, Suite 800
Pasadena, CA 91103

Attention:

Dear Congressman Schiff:

I am responding to your letter dated December 8, 2008, on behalf of your constituent, _____, invested in Federal Home Loan Mortgage Company (Freddie Mac) days before the stock price dropped and asks about the consequences of her declining investment.

In general, there are two alternative tax consequences to _____ investment depending on whether she holds onto the stock or sells it. First, so long as an investor continues to hold onto an investment, fluctuation in the value of the stock, even if extensive, does not give rise to a loss deduction. This is because there has been no taxable event, such as a sale of the stock. Therefore, if _____ continues to hold her investment and it retains value, she will have no tax consequences to report on her federal tax return.

Second, if _____ sells her stock at a price lower than the cost at which she bought it, she may be able to claim a loss deduction on her tax return. The information necessary in order for her to determine both the amount of her loss and the effect of the loss on her taxes for the year she sells the investment is contained in the Instructions for Form 1040 and the accompanying Schedule D for that form. Further clarification is contained in Publication 550, *Investment Income and Expenses*. All of the above documents are available at our website, www.irs.gov.

I hope this information is helpful. If you have any questions, please contact me at
() or or at .

Sincerely,

George J. Blaine
Associate Chief Counsel
(Income Tax & Accounting)