



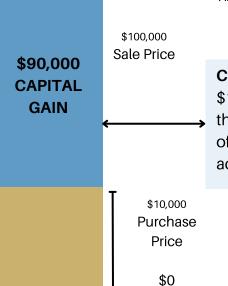


Capital Gains 101:

Understanding the basics of Capital Gains, Capital Loss, Stepped-up Basis, and Carry-over Basis

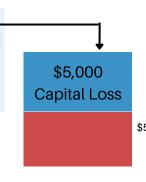
CAPITAL ASSET.

Almost anything you own and use for personal or investment purposes, e.g., real estate, buildings, jewelry, antiques, household furnishings, cars, business equipment, stock, and bonds.



CAPITAL GAIN. You purchased one acre of unimproved land in 1990 for \$10,000 and still own it. Generally speaking, this land's basis is \$10,000, the amount you paid for it. You decide to sell the land, and a neighbor offers you \$100,000, a reasonable offer and fair market value, which you accept. Your profit (or gain) on your investment is \$90,000.

CAPITAL LOSS. Now assume that times are tough and you decide to sell your land. A friend offers you \$5,000, a reasonable price in light of declining values in the area. You accept the offer, which results in a loss of \$5,000.



\$5,000 Sale Price \$0

\$10,000

of gift

\$0

\$100,000 NO Date of death **CAPITAL GAIN** value (Stepped-**OR LOSS** up basis) and sale price

CARRY-OVER BASIS. Suppose you gift an asset to your child before you die. The basis of that property in your child's hands remains the same as it was when you owned it (\$10,000). If your child decides to sell it the following day for the fair market value of \$100,000, they will still have your basis in the property, resulting in a gain of \$90,000

