**8550. What is the “holding period” for long-term and short-term capital gain; and how is the holding period calculated?**

Whether a capital gain or loss is long-term or short-term is determined by how long the taxpayer owned the property in question. Generally, a capital gain or loss is long-term if the property giving rise to the gain or loss was owned *for more than one year* and short-term if the property was owned for *one year or less*.[[1]](#footnote-1)

To determine how long a taxpayer has owned property (i.e., the “holding period”), the taxpayer must begin counting on the day *after* the property is acquired. For these purposes, the same date in each successive month is considered to be the first day of a new month. The date on which the property is disposed of is included (i.e., counted) in the holding period.[[2]](#footnote-2)

If property is acquired on the last day of the month, the holding period begins on the first day of the following month. Therefore, if it is sold prior to the first day of the 13th month following the acquisition, the gain or loss will be short-term.[[3]](#footnote-3) According to IRS Publication 544 (published in November 1982), if property is acquired *near* the end of the month and the holding period begins on a date that does not occur in every month (e.g., the 29th, 30th, or 31st), the last day of each month that lacks that date is considered to begin a new month (however, later editions of Pub. 544 have omitted this statement).

*Example 1.* Mrs. Murphy bought a capital asset on January 1, 2014. She would begin counting on January 2, 2014. The 2nd day of each successive month would begin a new month. If Mrs. Murphy sold the asset on January 1, 2015, her holding period would not be more than one year. To have a long-term capital gain or loss she would have to sell the asset on or after January 2, 2015.

*Example 2.* Mrs. Tate bought a capital asset on January 30, 2014. She would begin counting on January 31, 2014. Since February does not have 31 days, Mrs. Tate will start a new month on February 28. In months that have only 30 days, the 30th will begin a new month.

In some cases, such as when property is received as a gift or in a like-kind exchange, the IRC allows for the “tacking” of a holding period meaning that the holding period of a previous owner of the property carries over to the new owner or the holding period of an asset exchanged for another carries over to the exchanged property.[[4]](#footnote-4)

*Example.* Abe buys 500 shares of XYZ Corp. stock for $7,500, on December 4, 2013. On September 20, 2014, Abe transfers the stock to his daughter, Diana, as a gift. On December 20, 2014, Diana sells the stock for $9,000. Even though Diana actually owned the stock for for more than a year, by application of the "tacking" rule, the holding period begins on December 4, 2013, the date the stock was purchased by Abe. Additionally, Diana assumes Abe’s $7,500 basis in the stock. So upon the sale, Diana has a $1,500 long-term capital gain ($9,000 minus $7,500).

1. . IRC Sec. 1222. [↑](#footnote-ref-1)
2. . Rev. Rul. 70-598, 1970-2 CB 168. [↑](#footnote-ref-2)
3. . Rev. Rul. 66-7, 1966-1 CB 188. [↑](#footnote-ref-3)
4. . IRC Sec. 1223.. [↑](#footnote-ref-4)