**8782. What special considerations apply in determining a stockholder’s basis in securities, such as corporate stock?**

If an individual’s holdings in a particular security were all acquired on the same day and at the same price, there is little difficulty in establishing the tax basis and holding period of the securities subject to the sale or exchange. When an individual sells or otherwise transfers securities from holdings that were purchased or acquired on different dates or at different prices (or at different tax bases), the process becomes more difficult. See Q 8548 for a discussion of the general rules applicable in determining a taxpayer’s basis in an asset.

In the context of corporate securities, the individual must generally be able to identify the lot from which the transferred security originated in order to determine tax basis and holding period. Unless the individual can “adequately identify” the lot from which the securities being sold originated, the securities sold will be deemed to have come from the earliest of such lots purchased or acquired, by a “ first-in, first-out” (FIFO) method.[[1]](#footnote-1) However, in cases involving mutual fund shares, the selling shareholder may be permitted to use an “average basis” method to determine tax basis and holding period in the securities transferred.

Generally, identification is determined by the certificate delivered to the buyer or other transferee. The security represented by the certificate is deemed to be the security sold or transferred. This is true even if the taxpayer intended to sell securities from another lot or instructed a broker to sell securities from another lot.[[2]](#footnote-2)

The following are exceptions to the general rule of adequate identification:

(1) The securities are left in the custody of a broker or other agent. If the seller specifies to the broker which securities to sell or transfer, and if the broker or agent sends a written confirmation of the specified securities within a reasonable time, then the specified securities are the securities sold or transferred, even though different certificates are delivered to the buyer or other transferee;[[3]](#footnote-3)

(2) The taxpayer holds a single certificate representing securities from different lots. If the taxpayer sells part of the securities represented by the certificate through a broker, adequate identification is made if the taxpayer specifies to the broker which securities to sell, and if the broker sends a written confirmation of the specified securities within a reasonable time. If the taxpayer sells the securities, then there is adequate identification if there is a written record identifying the particular securities intended for sale;[[4]](#footnote-4)

(3) The securities are held by a trustee, or by an executor or administrator of an estate. An adequate identification is made if the trustee, executor, or administrator specifies in writing in the books or records of the trust or estate the securities to be sold, transferred, or distributed. In the case of a distribution, the trustee, executor, or administrator must give the distributee a written document specifying the particular securities distributed. Here, the specified securities are the securities sold, transferred, or distributed, even if certificates from a different lot were delivered to the purchaser, transferee, or distributee.[[5]](#footnote-5)

In the case of stock which is inherited, the basis is equal to the value of the stock on the date of the decedent’s death (and subject to certain exceptions, including the election to apply the alternate valuation date). [[6]](#footnote-6) Since the new basis is generally equal to the date of death value of the stock, this adjustment can result in either a step up or a step down in basis. Therefore, unrealized gains and losses disappear at the time of death.

1. . Treas. Reg. §1.1012-1(c)(1). [↑](#footnote-ref-1)
2. . Treas.Reg. §1.1012-1(c)(2). [↑](#footnote-ref-2)
3. . Treas.Reg. §1.1012-1(c)(3)(i). [↑](#footnote-ref-3)
4. . Treas.Reg. §1.1012-1(c)(3)(ii). [↑](#footnote-ref-4)
5. . Treas.Reg. §1.1012-1(c)(4). [↑](#footnote-ref-5)
6. . IRC Sec. 1014, 2032 [↑](#footnote-ref-6)