Determining Cost or Basis of Securities

Mutual Funds That You Purchased

The cost of a mutual fund you purchased is generally determined by one of three methods:

1) **Average Cost -** Once selected, this method must be used in all future years for this particular mutual fund; your mutual fund company will generally provide average cost information with your year-end statement.
2) **Specific Identification of Shares Sold –** This method gives you the greatest control over when to recognize capital gains and losses. In order to utilize this method, you generally must tell your broker exactly which shares you intend to sell before the transaction occurs.
3) **First-in, First-out –** With this method, the cost of shares you sold are based on the oldest price you paid. When share prices are appreciating, this method generally results in the largest capital gains. When share prices are falling, this method generally minimizes capital gains or maximizes capital losses.

For example, assume you purchased 10 shares of a mutual fund once per month for 3 months, paying \$20/share the 1st month, \$19/share the 2nd month, and \$24/share the 3rd month. In total, you purchased 30 shares for \$630. If you then sold 10 shares, your cost would be:

1) **Average Cost** = \$210
2) **Specifically Identified Cost** = \$200, \$190, or \$240
3) **First In, First Out Cost** = \$200

Securities Other Than Mutual Funds That You Purchased

The cost of securities other than mutual funds should generally be determined using either the Specific Identification method or the First In, First Out method (i.e., **if it's not a mutual fund, do not use Average Cost**).

Dividend Reinvestments

If you automatically reinvest dividends to purchase additional shares, the dividends should generally be included in your cost. Obtain a statement from your broker that reflects all dividend reinvestments.

Broker Fees & Commissions

Broker fees & commissions should generally be included in your cost.

Securities Acquired by Gift or Inheritance

If you received securities as a gift, your basis is generally the donor's adjusted basis. If you received securities by inheritance, you are generally required to use the estate's valuation as your basis.