

IRC Section 1012

Election to Use Average Basis Method of Determining Property Basis

Overview

IRC §1012 provides that the basis of property will generally be its cost. For the sale of stock acquired at different dates or at different prices, Reg. §1.1012-1(c) provides that a FIFO approach is used to determine the basis of the transferred shares when such shares cannot be adequately identified.

Reg. §1.1012-1(e) allows a taxpayer to elect to use an average basis to determine the gain or loss on the sale of certain regulated investment company (mutual funds) stock in lieu of the FIFO rules generally applied to stock sales. The taxpayer must have acquired the stock at different bases and the stock must be held in an account maintained by an agent. Either the single-category method or the double-category method can be used to determine the basis and the election must state which method is being applied. Generally, this election cannot be made if any of the shares were obtained by gift and the basis of such gift shares was greater than the fair market value of such shares on the gift date. However, the election can still be made if an additional statement is attached stating that the basis of the gift shares shall be the fair market value at the time of the gift and that such basis will be used to determine the average basis of the shares.

Once an election is made, it applies to all shares of the specified mutual fund owned by the taxpayer and the election may not be revoked without the prior written permission of the Commissioner. The taxpayer must maintain records necessary to substantiate the average basis calculations used on the return.

When to File

The election is made by attaching a statement to the taxpayer's income tax return for the year in which the taxpayer desires the election to apply. The election must be made no later than the due date, including extensions, of the taxpayer's return for such year. An election can also be filed with an amended return providing it is filed within the time provided by law.

Where to File

The election is made by attaching a statement to the taxpayer's timely-filed income tax return, or amended return, which is mailed to the designated Internal Revenue Service Center.

Index

1. Code Section: 1012
2. Topic: Gain/Loss; Trusts, Estates and Gifts
3. Return Type: 1040, 1065, 1120

Authorities

IRC §1012, Reg. §1.1012-1(e)