

## Figuring *Cost Basis* When Selling Shares of Stocks or Mutual Funds

When you sell stocks or mutual funds, you will need to enter your *cost basis* for the shares sold. If you do not have this amount, the entire amount for which you sold the stock will be considered as profit and will be taxed. Entering the *cost basis*, however, will ensure you only pay taxes on any profits you made. And if you sold the stock for a lower amount than what you paid for it, you can decrease your taxable income resulting in a lower tax liability.

To figure your *cost basis* you must know what you originally paid for those shares that were sold. When you purchase a mutual fund and/or stock you may have purchased the entire amount of shares at one time, through multiple purchases at different dates or over a period of time through some type of monthly investment plan. Lump purchases where the stock is purchased all at once make it easy to figure the *cost basis*. Determining the *cost basis* of stocks purchased at different dates or over a period of time will entail more work. Whenever a portion of stock is sold, the oldest shares are the first ones sold, (first in equals first out.) Therefore, when you compute your *cost basis* you must figure out the price you paid for the oldest stock in your portfolio.

You can figure out your *cost basis* as follows:

For a lump purchase:

If you sold your entire holdings of that particular stock, your *cost basis* will be the original price you paid.

If you sell only a portion of that particular stock, however, you need to divide *your cost* for the shares by the number of shares that were purchased to figure out your cost per share. Take the number of shares sold and multiply it by your cost per share to determine your *cost basis* for the shares sold.

### EXAMPLE 1

You sold 283 shares of ANZ on 6/15/2004 for \$2,353.60. You had originally purchased 349.77 shares on 7/23/2003 for \$3,050.

Your *cost basis* is computed by dividing the purchase price (\$3,050) by the number of shares purchased (349.77) to get your price per share and multiplying that result by the number of shares sold (283).

$$\$3,050 \div 349.77 = \$8.72 \quad \$8.72 \times 283 = \$2,467.76$$

Therefore your *cost basis* for the shares sold was \$2,467.76 showing a loss of \$114.16

### EXAMPLE 2

You sold 425 shares of ABC on 3/23/2003 for \$5,500. You had originally purchased the shares as follows:

200 shares on 2/1/2000 for \$1,500  
150 shares on 2/15/2000 for \$1,400  
250 shares on 4/15/2000 for \$2,300

Your *cost basis* would include the \$1,500 for the 200 shares purchased on 2/1/2000 because they were the first in. It would also include the \$1,400 for the 150 shares purchased on 2/15/2000. But seeing as how you only sold 425 shares, you would have only sold 75 of the 250 shares that were purchased on 4/15/2000. Divide the \$2,300 by the 250 shares to determine a cost per share of \$9.20 per share then multiply this by the 75 shares that were redeemed to come up with an amount of \$690.

Your *cost basis* for the stock sold would then include the \$1,500 from 2/1 plus the \$1,400 from 2/15 but you would only use \$690 from the \$2,300 from 4/15.

Your *cost basis* would be  $\$1,500 + \$1,400 + \$690 = \$3,590$ , showing a profit of \$1,910

EXAMPLE 3

You sold 312.467 shares of XYZ mutual fund on 9/23/2003 for \$3,000. The shares had been purchased using a monthly plan in which you invested a set amount each month to buy shares.

The following chart shows typical statements for the three years in which you purchased the shares.

	Date of Purchase	Amount this Transaction	Sales & Creation Charge	Custodian Fee	Net Amount Invested	Cost Per Share	Shares This Transaction
	11/1/1994	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 9.72	20.055
	12/1/1994	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 9.27	21.028
	12/15/1994	\$ 47.29	\$ 6.00		\$ 41.29	\$ 8.72	4.735
	12/15/1994	\$ 182.08			\$ 182.08	\$ 8.72	20.881
	12/31/1994					\$ 8.93	
YTD Total		\$ 629.37	\$ 13.14	\$ 3.00	\$ 613.23		66.6983999
Carried Forward							66.6984
	1/3/1995	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 8.81	22.126
	2/1/1995	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 8.85	22.026
	3/1/1995	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 9.29	20.983
	4/3/1995	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 9.70	20.096
	5/1/1995	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 9.90	19.690
	6/1/1995	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 10.34	18.852
	7/3/1995	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 11.05	17.641
	8/1/1995	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 11.79	16.534
	9/1/1995	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 12.02	16.217
	10/2/1995	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 12.25	15.913
	11/1/1995	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 12.18	16.004
	12/1/1995	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 12.28	15.874
	12/15/1995	\$ 190.22			\$ 190.22	\$ 10.88	17.483
	12/15/1995	\$ 18.73	\$ 6.00		\$ 12.73	\$ 10.88	1.170
	12/15/1995	\$ 421.50			\$ 421.50	\$ 10.88	38.741
	12/31/1995					\$ 11.17	
YTD Total		\$ 3,030.45	\$ 48.84	\$ 18.00	\$ 2,963.61		346.047
Carried Forward							346.047
	1/2/1996	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 11.22	17.373
	2/1/1996	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 11.44	17.039
	3/1/1996	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 11.68	16.689
	4/1/1996	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 11.95	16.312
	5/1/1996	\$ 200.00	\$ 3.57	\$ 1.50	\$ 194.93	\$ 12.45	15.657
YTD Total		\$ 1,000.00	\$ 17.85	\$ 7.50	\$ 974.65		429.118

**Cost basis** can be computed using **average basis** or actual **price per share**. If you compute your cost basis using the price per share, you will need to add the amounts from each transaction until you have accumulated the required number of shares. In this example, you would include the amounts from the start date of 11/1/94 through the transaction on 12/15/1995 to obtain the necessary shares. Notice, however, that you would have to take only a portion of the last transaction to come up with the correct number for the actual number of the shares that were redeemed. Of the last transaction on 12/15/1995, we would need only 5.161 shares of the 38.741 listed. As such we would then divide 5.161 by 38.741 to come up with 13.33 percent, which would be the portion of the \$421.50, or in other words, \$56.19.

If you were to sum up each amount, you would then obtain a cost basis of \$3,294.51

It is typically easier to do **average basis** in which you take the entire amount invested and divide it by the entire number of shares that were purchased giving you an average of your price per share.

In this example you would take a sum of each of the statements

<b>YTD Total of Amount this Transaction</b>	<b>Total Shares held</b>	<b>Average Basis</b>
\$ 629.37 (1994 total)		
+ \$3,030.45 (1995 total)		
+ \$1,000.00 (1996 total)		
\$4,659.82	÷ 429.118	= \$10.859

Multiply the number of shares redeemed (312.467) by your **Average Basis** to obtain a **cost basis** of \$3,393.08

As can see from the calculations above, using the **Average Basis** is easier to compute and in this case, has resulted in a higher **cost basis** thereby showing a lower profit and ultimately, less tax. You may use whichever method that benefits you the most when you begin to liquidate your assets. You do need to continue to use that method, however, until all portions of that asset have been completely sold.