

Capital Gains

Misreporting of capital gains carries a penalty of up to \$1,000 against a taxpayer, and if the investor fails to make a serious attempt at accurate figures, then “willful disregard” penalties up to \$5,000 could result. The IRS is serious about collecting the \$6-9 billion it estimated the government lost each year from underreporting of capital gains before the Bailout Bill.

Investors may consider themselves sophisticated enough to figure out the difference they paid for a stock and the price at which they sold, but what if there were stock splits, company spin-offs and corporate mergers? We’ve now gone from algebra to calculus. From what might have seemed to be a simple cost basis equation involving the number of shares purchased, multiplied by the price paid per share, actually may end up being a bewildering calculation for “adjusted cost basis” if complicating corporate events and other possible complex scenarios apply.

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