



How to Make the Most Out of Your Parents' Stocks

What should you do if you inherit a portfolio of stocks from your parents?

>>>>>Should you sell them?

To answer the question of whether you should sell the stocks, start by asking yourself whether you would buy these stocks if you had extra cash.

You have no moral or legal obligation to keep the positions just because your parents owned them. I've had people come into my office with stocks that their parents bought decades earlier, and they said, "My father said this was such a great company that I should never sell the stock." But how could anyone have known whether a company that was in business 10 or 20 years ago would still be a good investment today? Remember Pan Am, Blockbuster, or Enron? Even though your father's research many years ago suggested that a company would be a good buy, times have changed.

>>>>>What about the tax I'll have to pay?

Everyone is in a different tax situation, but people who live and die in the United States benefit from an IRS rule called the "cost-basis step-up."

That means that if your father invested \$1,000 in the stock and the value of that position grew to \$100,000 on the day of his death, if you sold it the following day for \$100,000, the IRS would not consider the transaction as if you had just profited by \$99,000. Instead, they reset the purchase price of the stock to the value at which you inherited it (\$100,000) so you would not have to pay capital gains tax. [This is an overly simplified example, and depending where you live, there could be other taxes associated. Be sure you get proper tax advice before making any trades.]

If you receive the stocks in a U.S. brokerage account or Individual Retirement Account (IRA), learn more about what you should do here: profile-financial.com/inheritance.

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