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Save on Taxes with the Right Cost Basis



[Susan Carr-Templeton](#) on 04.07.10 at 7:39 PM | [no comments](#) | [Like](#)

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If you haven't submitted your income taxes yet and you sold mutual fund shares in 2009, beware of paying too much tax because of reinvested dividends.

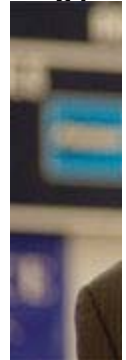
One common mistake: If you set up your mutual fund investment to reinvest dividends, then chances are the reinvested dividends were invested at a higher price than your original investment. So, when calculating your taxes, do not take your original investment as your cost basis against the proceeds from the sale. You are cheating yourself.

Aside: When you later sell your mutual fund you'll have to pay tax on the increase in your mutual fund's value. You or your accountant will determine how much tax you owe based on your cost basis. Each time you reinvest dividends you're buying new shares of the mutual funds at a different cost basis.

Because the government taxes short and long term gains differently, the amount of tax you pay will depend on how long you've held the mutual fund.



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An example: If you're in the highest tax bracket of 38 percent (35 percent federal and 3 percent Ill. state) for every \$1,000 you save in reported gains you could save an extra \$380. If your gain is a long-term gain, then for every \$1,000 less in reported gains you save \$150 to \$200 in taxes depending on your situation (long-term gains are generally taxed at 15 percent).

So do the math and see if it is worth your time to make a call the mutual fund company to ask for a history of your mutual fund to provide you your cost basis.

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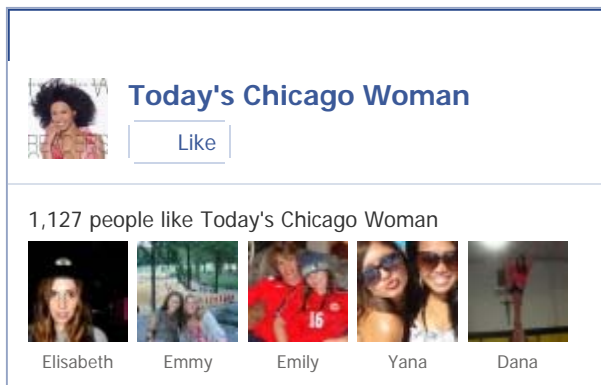


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