Everything Jersey

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Ask the Biz Brain

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I purchased shares in a mutual fund some years ago and I have not bought or sold any more shares. Over the years, the fund has declared long-term capital gains on which I have paid taxes. Now, if I sell all the shares, will my basis increase by the amount of the previously taxed capital gains, so I will not be taxed twice on that money?

-- Too taxedBefore we talk taxes, remember you're fortunate in that your investment has made money over the years!

Now, the tax part of things.

The tax basis should be increased by the amount of the previously taxed gains, so there should be no double taxation, says John Buechel, a certified financial planner and vice president for investments with Elsman/Buechel Financial Group of A.G. Edwards in Rockaway.

"These gains can sometimes be confusing to owners in that they can be front-paying taxes on gains they have yet to realize on their investment," Buechel says.

Cost basis can get tricky if you don't keep track of your investments. Marnie Aznar, a CFP with Aznar Financial Advisors in Morris Plains, says it's essential to keep records of your cost basis so you can calculate an accurate capital gain or loss upon ultimate disposition of those shares.

"Keep in mind that not all mutual funds companies and brokerage firms perform this service for their customers," she says.

Aznar says investors should also be aware there are four permitted accounting methods for calculating capital gains when selling mutual fund shares: specific identification; first-in, first-out; average cost basis (single-category method) and average cost basis (double-category method). So, your gain or loss may be dependent on which shares you sell and which method you choose to calculate your cost basis.

You can read more about the methods on these at the Internal Revenue Service website (irs.gov).

-- Karin Price Mueller