

# What is “Basis”?

Basis is the starting point for determining gain upon the disposition of any asset. In its simplest form, basis is an owner’s investment in the asset. For purchased property, starting basis is the *original* price paid. Basis can be *increased* (e.g., by making improvements to real property) or *decreased* (e.g., after a casualty loss reduces the value of an asset), and can change according to how it was acquired and the nature of the eventual disposition. For example, suppose you make a gift of some appreciated stock to your child. Your child will assume your original basis in the stock. On the other hand, let’s say your child receives the same appreciated stock as part of his or her inheritance. In this case, the basis is adjusted to the **fair market value (FMV)** of the stock at the time of your death. This is commonly referred to as a “**step-up**” in basis.

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