

STATE OF DELAWARE
 DEPARTMENT OF FINANCE
 DIVISION OF REVENUE
 601 DELAWARE AVENUE
 WILMINGTON, DELAWARE 19899

TAX NEWSGRAM 71-10

December 8, 1971

PERSONAL INCOME TAX

- Property acquired by inheritance

QUESTION: Is the basis of such property the same for federal and state purposes? Will the method of determining basis on property acquired by inheritance after 1/1/71 be the same as on the federal return.

Property acquired by inheritance may have a different basis for federal taxes than state taxes. For Delaware state purposes the property acquired is fair market value date of death. For federal tax purposes the estate may use an optional valuation date. If the optional valuation date is used the bases usually would be different on the state and federal return. Taxpayers should be required to explain all transactions which apply to property acquired by inheritance.

Example

Property was acquired by inheritance on 7/1/69. This was rental property which was included and accepted on the state tax return at \$100,000 fair market value at date of death. On the federal tax return taxpayer used optional valuation date and the fair market value then was accepted as \$90,000. These figures are fair market value of only the building. Assume the useful life of the building at date of acquisition was 25 years and the property was sold 7/1/71 for \$125,000. The transactions on the federal and state return should have been reported as follows:

	<u>Federal</u>		<u>State</u>	
Basis 7/1/69		\$90,000		7/1/69 \$100,000
Depreciation 1969	\$1,800		\$2,000	
Depreciation 1970	<u>3,600</u>	5,400	<u>4,000</u>	6,000
Adjusted Basis 7/1/71		<u>\$84,600</u>		<u>\$ 94,000</u>
Depreciation 6 months 1971		<u>1,800</u>		<u>2,000</u>
Adjusted Basis date of sale		\$82,800		\$ 92,000
Net Sales Price		<u>125,000</u>		<u>125,000</u>
Gain on		\$42,200		\$ 33,000

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For state tax purposes taxpayer will claim additional \$200 depreciation and would have an adjusted basis of \$92,000 and a gain of \$33,000 to be reported.

Taxable would report both the depreciation adjustment and the gain on the sale adjustment with a full explanation to be attached to the return.

EDITOR'S
NOTE:

Taxpayers will be required to substantiate basis of property acquired by inheritance. If excessive or incorrect depreciation has been claimed and/or allowed the adjusted basis of the property will be recomputed on the basis of allowed or allowable.



J. H. Kennedy
Director of Revenue

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