

Ask the Fool

Taxing Gifts Versus Inheritances

Q If I inherit stock when a relative dies, am I taxed on the gains? — *C.L., Monticello, Minn.*

A You're taxed on gains only when you sell. But to calculate your gain then, you'll need to know your "basis" in the stock. That's treated differently for gifts and inheritances (received from someone's estate).

With a gift of appreciated stock or property, your basis is the same one that the giver originally had. So you'll need to try to trace the cost all the way back to when the giver bought the asset. This can sometimes be hard.

With an inheritance, you get a "stepped-up" basis. Your basis is the fair-market value of the stock on the date of death of the donor. The estate's tax return should disclose the value of the stock at date of death.

Alternatively, if you know the date, you can get the stock price online at various sources (such as finance.yahoo.com), or even by calling your broker or the company's investor relations department and asking.

Once you determine the value, back up your findings on paper, in case the IRS wants to double-check (read: audit) your tax return one day. Learn more at tax.fool.com and irs.gov.

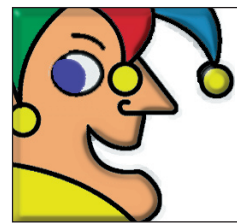
Q What's the "closing tick"? — *A.M., Batavia, N.Y.*

A It measures the buying vs. selling activity for the very last trades of the day.

To calculate it, take the number of stocks that ended on an uptick (i.e., their last trade occurred at a price higher than the previous one) and subtract the number that ended on a downtick.

A positive number suggests an overall upbeat day, while a large negative number would indicate a big sell-off in the market.

Got a question for the Fool? Send it in — see Write to Us



The Motley Fool®

To Educate, Amuse & Enrich

Fool's School

529 Plans for College

If you're socking money away in savings accounts and a Coverdell ESA for Junior's future college expenses, consider tapping the services of a 529 plan as well.

A 529 plan allows you to either prepay tuition for qualified in-state public colleges or save funds for higher education costs at most kinds of colleges. You can do this for any child in your life — your kid, your grandkid or the kid down the street. (If you're going back to school, you can even set up a 529 plan for yourself!) You don't necessarily have to live in the state of the plan that you choose, either. Live in Florida, but like Illinois' plan? No problem.

529 plans allow you to sock away huge sums of money — more than \$300,000 in some states — versus the maximum annual Coverdell ESA contribution of \$2,000. Most 529 plans have no age or income limitations, so higher-bracket taxpayers can participate. Another big advantage is that the person who

establishes the account decides when distributions may be taken.

There are no taxes on earnings in a 529 plan, so you can build a big war chest much faster than if you had to pay taxes on the investment gains and income every year. Though your contributions are not tax-deductible, when withdrawals (including earnings) are used to pay for qualified college expenses, they're free of federal taxes.


There are some drawbacks to 529 plans. If the student doesn't go to college, there may be a 10 percent penalty on the earnings, depending on the circumstances (though you can also change the beneficiary if that happens). Additionally, the funds in the 529 plan account are handled by plan administrators, not by you — which is actually a plus for many folks. Finally, once the money is in the plan, it must stay there or in another 529 plan.

Still, 529 plans are many people's best bets. Some are much better than others, though, with lower fees and better performances. Learn more about many college financing topics at savingforcollege.com, collegeboard.org, and fool.com/college.

My Smartest Investment


Shaving Off Profits

My almost-dumbest investment was many years ago, when my broker tried to convince me to sell some 14 percent zero-coupon bonds (remember those days?) and buy some fund he was pushing.

I dumped him and his firm instead and did my own research ever since.  My best investments over the years were a few stocks that tripled. In each case, as they ran up, I would sell amounts about equal to my original cost on each run-up. If they ultimately collapsed (some did), I would have at least captured some profit. If they did not, I would continue to hold a portion long-term.

My latest (and best!) investment has been Apple, which I sold in parts all the way up, making a nice profit and with still a nice holding for the long term. — *W.C., Syracuse, N.Y.*

The Fool Responds: That's a conservative, but not crazy, move, selling a portion of your big winners. Regarding your broker, some brokers do make solid recommendations, but it's always good to find out if they will receive a commission for products sold to you.

 Do you have an embarrassing lesson learned the hard way? Boil it down to 100 words (or less) and send it to [The Motley Fool](mailto:TheMotleyFool@fool.com) c/o *My Dumbest Investment*. Got one that worked? Submit to *My Smartest Investment*. If we print yours, you'll win a Fool's cap!

Motley Fool Goes Mobile!



Get investing advice and information on the go, now FREE on Android and iPhone.

The Motley Fool Take

Give Buffett a Look

Many know Warren Buffett only for his calls for higher taxes on the wealthy and for his campaign to get fellow billionaires to donate much of their wealth to charity. For many decades, though, he's helmed Berkshire Hathaway (NYSE: BRK-B). You might want to consider it for your portfolio.

Under Buffett's leadership, Berkshire has risen from about \$12 per share in 1965 to more than \$116,000 per share recently. (Those are the class-A shares; we small investors can grab class-B shares for roughly \$77 apiece.) The company's growth has slowed over time, but it's still attractive.

For starters, there's diversification. It owns dozens of companies, including a lot of insurers such as GEICO. There are also handfuls of furniture, jewelry, media, energy and housing-related companies, as well as such diverse businesses as Fruit of the Loom, Dairy Queen, See's Candies, Benjamin Moore, The Pampered Chef and Burlington Northern Santa Fe railroad. Through stock, Berkshire owns 5 percent of IBM, nearly 7 percent of Wells Fargo and more than 8 percent of Coca-Cola, among many other holdings.

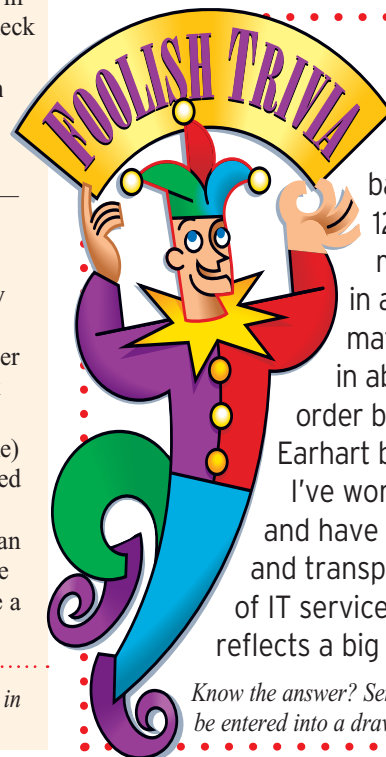
Berkshire Hathaway may not double overnight, but it can help you sleep well at night. Those who own the stock have Buffett and his deputies investing for them. (The Motley Fool owns shares of Berkshire Hathaway, IBM, Wells Fargo and Coca-Cola.)

Name That Company

I began in 1909, making airplanes from silk and bamboo. Today, based in Bethesda, Md., I employ some 126,000 people worldwide and am a major defense contractor, specializing in aeronautics, electronic systems, information systems and space systems. I rake in about \$46 billion annually and have an order backlog of \$78 billion. Lindbergh and Earhart both broke records in my planes.

I've worked on Skylab and the space shuttle, and have built missiles, rockets, fighter jets and transport planes. I'm the largest provider of IT services to the U.S. government. My name reflects a big 1995 merger. Who am I?

Know the answer? Send it to us with Foolish Trivia on the top and you'll be entered into a drawing for a nifty prize!



LAST WEEK'S TRIVIA ANSWER

I trace my roots back to the purchase of a New York curtain-rod maker in 1903. I have acquired many companies over several decades, and today, based in Atlanta, I'm a consumer and commercial product giant. A big 1999 merger doubled my size and gave me my current name. My Brands That Matter include Sharpie, Calphalon, Irwin, Lenox, Levolor, Rolodex, Dymo, Shur-Line, Graco, teutonia, Aprica, Paper Mate, Waterman, Parker, Pelouze, Solano and Goody. More than 90 percent of U.S. households use at least one of my products, and my global annual sales approach \$6 billion. Who am I? (Answer: Newell Rubbermaid)



Write to Us! Send questions for Ask the Fool, Dumbest (or Smartest) Investments (up to 100 words), and your Trivia entries to Fool@fool.com or via regular mail c/o this newspaper, attn: The Motley Fool. Sorry, we can't provide individual financial advice.