To: P&G Employees
From: John B. Cornetet, CPA, J.D., CFP 513-771-2444

Re: How to Calculate the Gain on Employer Stock Taken Out of the Plan

If you do a partial rollover and pull some P&G stock out of your retirement account, you are taxed at ordinary income tax rates on the Average Employers Cost. Below is how you calculate the tax consequences when you sell those shares in the future.

Assume, the Average Employer Cost is $12 and the stock has a fair market value of $90 on the day it is distributed to you. You sell 1 share in three months at $95 and 1 share in thirteen months at $95.

<u>Sales During Life</u>

The tax consequences on the first share sold is:

Selling price	$95	
Basis	($12)	
Total gain	$83	
Long term gain	$78	($90 - $12)
Short term gain	$ 5	($95 - $90)

The second share is all long term capital gain because the share was held for one year. The built in gain on the share (called NUA net unrealized appreciation) is always considered long term. The appreciation over the fair market value on the day it is distributed to you is short term gain if sold within the first year. The maximum ordinary income tax rate and the short term capital gain rate is 38.6%. The long term capital gain rate is 20%.

<u>Sales After Death</u>

If you die holding the shares, your family's basis in the stock is $17. There is a step up in basis as a result of death of $5 being the difference between the $90 distribution value and the $95 date of death value. This step up value is added to the $12 to calculate a basis to your family of $17. The built in gain of $78 is not stepped up. Your family will recognize this gain if and when they sell those shares.