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## Letter Ruling 87-18: Basis of Property Acquired From Decedent

December 15, 1987

You have asked for a ruling on the proper basis to report on a fiduciary income tax return (Massachusetts Form 2) for real property acquired from a decedent. The facts set out in your request are as follows.

### Facts

\_\_\_\_\_ died intestate in \_\_\_\_\_ Massachusetts on January 20, 1986, leaving as his heirs at law his widow, brother, two sisters, and five nieces and nephews (the issue of deceased brothers and sisters). On April 18, 1986, \_\_\_\_\_ was appointed administratrix. She filed Form M-706 on October 9, 1986, indicating a total Massachusetts gross estate of \$127,341.75, which included a parcel of real estate with an appraised fair market value of \$113,000. You have represented that the appraisal valued the property as of the date of death of the decedent. On December 26, 1986, the Department issued an estate tax closing letter indicating no Massachusetts estate tax was due. On March 18, 1987, the administratrix entered into an agreement to sell this real estate for a gross consideration of \$108,750 and, on May 11, 1987, sold it under a license issued by the Probate Court \_\_\_\_\_ dated April 29, 1987. The adjusted basis of this real estate in the hands of the decedent was approximately \$12,000.

### Discussion

Chapter 488 of the Acts of 1986 included new rules for determining the basis of property for Massachusetts income tax purposes. St. 1986, c. 488, § 34. This provision, codified as M.G.L. c. 62, § 6F, requires a taxpayer to calculate gain or loss on property using the taxpayer's "Massachusetts adjusted basis" in the property. The taxpayer determines the Massachusetts adjusted basis of property by first determining the "Massachusetts initial basis" of the property (under § 6F(b)) and then increasing or decreasing this initial basis for certain federal and Massachusetts provisions requiring adjustments to basis (under § 6F(c)).

Under § 6F(b), there are special rules for determining the Massachusetts initial basis of property acquired from a decedent (as Internal Revenue Code § 1014(b) uses that term) after December 31, 1970. For such property, how the taxpayer determines the Massachusetts initial basis depends upon the valuation date elected for Massachusetts estate tax purposes. If the date of death is the valuation date for estate tax purposes, then the Massachusetts initial basis is the basis determined under Code § 1014 (without any Code § 1014(d) adjustment for DISC stock). M.G.L. c. 62, § 6F(b)(2)(C). Generally, this will be the fair market value of the property at the date of the decedent's death (Code § 1014(a)). If the executor has elected an alternate valuation date under M.G.L. c. 65C, § 5, then the Massachusetts initial basis is the value on the alternate valuation date, which will be either the date of the sale or disposition of the property or six months after the date of death, whichever comes first (Code § 2032(a)). G.L. c. 62, § 6F(b)(2)(C).

Since the administratrix did not elect an alternate valuation date under G.L. c. 65C, § 5, the Massachusetts initial basis is the basis as determined under Code § 1014, the fair market value as of the date of the decedent's death. Because, under Code § 1014 and Treas. Reg. § 1.1014-3(a), the

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basis of the property for federal tax purposes is the appraised value set out on the Form M-706, that is also the Massachusetts initial basis.

Once a taxpayer has determined what the Massachusetts initial basis in property is, the taxpayer must determine the Massachusetts adjusted basis by going tax year by tax year since acquiring the property and adding to and subtracting from the Massachusetts initial basis certain basis-related adjustments. See M.G.L. c. 62, § 6F(c). The taxpayer must adjust the Massachusetts initial basis for all provisions (both Massachusetts and federal) requiring an adjustment to basis that applied in Massachusetts in a tax year in which the taxpayer held the property. The taxpayer does not adjust the Massachusetts initial basis to reflect federal provisions requiring an adjustment to basis for tax years in which the federal provision did not also apply for Massachusetts tax purposes.

To determine the gain or, as here, the loss on the April 29, 1987 sale of the property, the administratrix must adjust this Massachusetts initial basis to reflect any Massachusetts provisions requiring adjustments to basis that were in effect while the beneficiaries held the property. Finally, in reporting this loss on their Massachusetts income tax returns for the year, the beneficiaries must compare this Massachusetts adjusted basis with the federal adjusted basis of the property. If the Massachusetts adjusted basis is greater than the federal adjusted basis, then, in determining their Massachusetts gross income, they will be required to reduce federal gross income by the difference to reflect that there is more of a loss on the sale for Massachusetts purposes; if the Massachusetts adjusted basis is lower than the federal, for Massachusetts tax purposes, they will have to increase federal gross income by the difference to reflect that there is less of a loss for Massachusetts purposes. See G.L. c. 62, § 6F(a).

Very truly yours,  
Stephen W. Kidder  
Commissioner of Revenue  
December 15, 1987  
LR 87-18