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Enjoy These Tax-Free Events

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This is the time of year when we stress out about all the taxes we owe on our salaries, our dividends, our interest, our gains on great stock purchases, and seemingly zillions of other things. Contrary to what you might assume, though, not every financial event is taxable. Here are a few reasons to breathe easier while you're filing that 1040.

Splitting shares
Stock splits certainly make it *look* like something major has happened with your stock holdings. Here are some from the past few years:

Company	Recent Stock Split(s)
Green Mountain Coffee Roasters (Nasdaq: GMCR)	3-for-1 in 2007, 3-for-2 in 2009
Myriad Genetics (Nasdaq: MYGN)	2-for-1 in 2009
Activision Blizzard (Nasdaq: ATVI)	2-for-1 in 2008
Buckle (NYSE: BKE)	3-for-2 in 2008
Illumina (Nasdaq: ILMN)	2-for-1 in 2008
Ebix (Nasdaq: EBIX)	3-for-1 in 2010, 3-for-1 in 2008
Patriot Coal (NYSE: PCX)	2-for-1 in 2008

Data: Yahoo! Finance.

If you owned 100 shares of Green Mountain Coffee Roasters in early 2007, you'd have ended that year with 300 shares, and would have 450 shares now. More shares means more money, right? And more money means more taxes? Not quite.

There's no taxable event, because the value of your total holdings didn't really change. Suppose that you owned 100 shares of a stock trading at $40 per share. Your total stake, therefore, is $4,000. If it splits 2-for-1, you'll own twice as many shares, but they'll be worth $20 apiece -- so now your holding is worth 200 times $20, or... $4,000. The split doesn't change the total value of your stake in the company, just the number and price of your shares, so you haven't realized any taxable gain. Many growing companies will split their shares over time, but the splits themselves shouldn't be exciting.

Similarly, stock buybacks won't increase your tax bill, either. If a company buys some of its own shares and essentially retires them, it'll shrink the pool of existing shares. Therefore, your shares will represent a bigger piece of the overall pie, increasing the company's earnings per share. That small change in value ultimately ends up reflected in the stock price, but it'll only be taxed as a capital gain when you sell your shares.

More happenings
If you inherit stock or receive it as a gift, don't worry about the tax man -- at least, not at the time you receive it. If your Aunt Mary leaves you shares of **Scruffy's Chicken Shack** (Ticker: BUKBUK), your cost basis is their value on the day you received them, and you won't owe taxes until you sell them. If dear old Auntie bought them at $10 and left them to you when they were worth $50 each, your cost basis is $50, even though her basis was $10. If you sell at $70, your gain will be $20, not $60, per share.

With gifts of stock (as opposed to inheritances), the recipient's basis is the same as the giver's, but again, your tax is due only when you sell the shares and realize a capital gain.

Finally, you don't need to worry about any capital gains generated in your IRAs. If they occur when you sell stocks in your *Roth* IRA, you can just kiss those taxes goodbye. Play by the rules with a Roth, and you'll eventually withdraw all your contributions and gains tax-free. With traditional IRAs, your gains are tax-deferred, and any withdrawals are eventually taxed at your ordinary income tax rate. (Learn about the best stocks for IRAs.)

Given all the times the IRS does dip into your pocket, it's nice to know that Uncle Sam's hand isn't outstretched *every* time you experience a financial event.

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