

# Determining Cost Basis

Joe paid premiums of \$1000 per year for ten years. He had received dividends totaling \$2000. He cashed the policy in for \$15,000.

- Cost Basis = \$8000
- Gain = \$7000 (taxed as ordinary income)

The policy owner's cost basis is calculated by adding total premiums (\$10,000), less policy dividends (\$2000).

Also subtracted from the total cost would be premiums for waiver of premium, accidental death benefits, and any policy loans.