Reg. Section 1.1014-3
Other basis rules

(a) Fair market value. For purposes of this section and § 1.1014-1, the value of property as of the date of the decedent's death as appraised for the purpose of the Federal estate tax or the alternate value as appraised for such purpose, whichever is applicable, shall be deemed to be its fair market value. If no estate tax return is required to be filed under section 6018 (or under section 821 or 864 of the Internal Revenue Code of 1939), the value of the property appraised as of the date of the decedent's death for the purpose of State inheritance or transmission taxes shall be deemed to be its fair market value and no alternate valuation date shall be applicable.

(b) Property acquired from a decedent dying before March 1, 1913. If the decedent died before March 1, 1913, the fair market value on that date is taken in lieu of the fair market value on the date of death, but only to the same extent and for the same purposes as the fair market value on March 1, 1913, is taken under section 1053.

(c) Reinvestments by a fiduciary. The basis of property acquired after the death of the decedent by a fiduciary as an investment is the cost or other basis of such property to the fiduciary, and not the fair market value of such property at the death of the decedent. For example, the executor of an estate purchases stock of X company at a price of $100 per share with the proceeds of the sale of property acquired from a decedent. At the date of the decedent's death the fair market value of such stock was $98 per share. The basis of such stock to the executor or to a legatee, assuming the stock is distributed, is $100 per share.

(d) Reinvestments of property transferred during life. Where property is transferred by a decedent during life and the property is sold, exchanged, or otherwise disposed of before the decedent's death by the person who acquired the property from the decedent, the general rule stated in paragraph (a) of § 1.1014-1 shall not apply to such property. However, in such a case, the basis of any property acquired by such donee in exchange for the original property, or of any property acquired by the donee through reinvesting the proceeds of the sale of the original property, shall be the fair market value of the property thus acquired at the date of the decedent's death (or applicable alternate valuation date) if the property thus acquired is properly included in the decedent's gross estate for Federal estate tax purposes. These rules also apply to property acquired by the donee in any further exchanges or in further reinvestments. For example, on January 1, 1956, the decedent made a gift of real property to a trust for the benefit of his children, reserving to himself the power to revoke the trust at will. Prior to the decedent's death, the trustee sold the real property and invested the proceeds in stock of the Y company at $50 per share. At the time of the decedent's death, the value of such stock was $75 per share. The corpus of the trust was required to be included in the decedent's gross estate owing to his
reservation of the power of revocation. The basis of the Y company stock following the
decedent's death is $75 per share. Moreover, if the trustee sold the Y Company stock
before the decedent's death for $65 a share and reinvested the proceeds in Z company
stock which increased in value to $85 per share at the time of the decedent's death, the
basis of the Z company stock following the decedent's death would be $85 per share.

(e) Alternate valuation dates. Section 1014(a) provides a special rule applicable in
determining the basis of property described in § 1.1014-2 where—

(1) The property is includible in the gross estate of a decedent who died after October
21, 1942, and

(2) The executor elects for estate tax purposes under section 2032, or section 811(j)
of the Internal Revenue Code of 1939, to value the decedent's gross estate at the
alternate valuation date prescribed in such sections.

In those cases, the value applicable in determining the basis of the property is not
the value at the date of the decedent's death but (with certain limitations) the value
at the date one year after his death if not distributed, sold, exchanged, or
otherwise disposed of in the meantime. If such property was distributed, sold,
exchanged, or otherwise disposed of within one year after the date of the
decedent's death by the person who acquired it from the decedent, the value
applicable in determining the basis is its value as of the date of such distribution,
sale, exchange, or other disposition. For illustrations of the operation of this
paragraph, see the estate tax regulations under section 2032.