1985 Cost Basis

General Motors Corporation Tax Information for Recipients of General Motors Class H Common Stock Distribution

On November 4, 1985, the GM Board of Directors declared a dividend of one share of GM Class H commons stock for every 20 shares of General Motors $1-2/3 par value commons stock payable to stockholders of record November 14, 1985. The GMH common stock dividend was issued on 12/30/1985 and began trading on 12/31/1985. This notice is intended to provide you, as a GM shareholder, with general guidance regarding the Federal income tax consequences of the December 30, 1985, dividend of Class H common stock. While it is not the policy of GM to provide tax advice on an individual-shareholder basis, we hope the general examples set forth in the Attachment will be helpful to you in analyzing your particular tax situation. We strongly recommend, however, that you consult your tax advisor for further details.

Based upon the opinion of outside counsel, the receipt of the dividend of GM Class H common stock should not result in taxable income to you (except with respect to the receipt of cash in lieu of fractional shares, as explained in Examples 2 and 3 below). For tax purposes, the holding period of the Class H common stock received as a result of the dividend distribution should include the holding period for the GM common stock with respect to which the Class H common stock was distributed. If you received a Class H common stock dividend on more than one lot of GM common stock purchased at different times, this holding-period rule would be separately applicable to each such lot.

Federal tax law requires that a portion of the cost basis of your GM common stock on which this stock dividend was paid be allocated to the Class H common stock. This is done by allocating between the GM common stock and the Class H common stock your cost basis of the GM common stock which gave rise to the dividend. The allocation is made in proportion to the fair market values of GM common stock and Class H common stock on the date of the stock distribution. Accordingly, based upon the average high and low prices of GM common stock and Class H common stock as traded on the New York Stock Exchange on December 30, 1985 [$70.246875 ($72.1875 less the ex-dividend adjustment of $1.940625) per share for GM common stock* and $38.8125 per share for Class H common stock], 2.6883% of your cost basis in GM common stock on which the stock dividend was paid should be allocated to the Class H common stock.** If you received a dividend of Class H common stock on more than one lot of GM common stock purchased at different prices, this basis-allocation rule would be separately applicable to each such lot.

- * The average trading price of the GM common stock on December 30, 1985, was $72.1875; however, this value must be adjusted downward to $70.246875 to reflect the ex-dividend adjustment of $1.940625 (1/20 of $38.8125), since the GM common stock did not begin ex-dividend trading until December 31, 1985.
- ** For your information, this percentage was calculated in accordance with Federal income tax regulations which require that the portion of basis allocable to the stock dividend be determined by dividing the fair market value of one share of Class H common stock by the value of 20 shares of GM common stock plus one share of Class H common stock:

$38.8125 = 2.6883%

The following examples demonstrate the application of the basis-allocation rule.

1985 Example 1

Receipt of Class H common stock only.

Assume a shareholder owns 100 shares of GM common stock purchased for $50.00 per share. The shareholder would be entitled to receive five shares of Class H common stock as result of the December 30, 1985, stock dividend. The cost basis of the GM common stock is $5,000.00 (100 shares times $50.00 per share). As stated above, 2.6883% of this cost basis is allocated tot he Class H common stock, and the remaining 97.3117% is allocated to the GM common stock.

Class H Common Stock
Basis allocated to Class H common stock -
$5,000.00 x 0.026883 = $134.41

Basis per Class H common share -
$134.41 divided by 5 = $26.88

Common Stock
Basis allocated to GM common stock -
$5,000.00 x 0.973117 = $4,865.58

Basis per GM common share -
$4,865.58 divided by 100 = $48.65

1985 Example 2

Receipt of Class H common stock plus cash in lieu of a fractional share.

Assume a shareholder owns 110 shares of GM common stock purchased for $50.00 per share. The shareholder would be entitled to receive 5-1/2 shares of Class H common stock as a result of the December 30, 1985, stock distribution. The shareholder, however, would receive a cash payment in lieu of the fractional 1/2 share. GM has been advised by its outside counsel that the receipt of cash in lieu of a fractional share of Class H common stock should be treated for Federal income tax purposes as a sale of the fractional share.

The total cost basis of the GM common stock is $5,500.00 (110 shares at $50.00 per share). Thus, 2.6883% of this basis is allocated as the basis of the Class H common stock, including the fractional share deemed to be sold for the cash received in lieu of such fractional share. The remaining 97.3117% of this total cost basis is allocated to the GM common stock.

Class H Common Stock
Basis allocated to Class H common stock -
$5,500.00 x 0.026883 = $147.85

Basis per Class H common share -
$147.85 divided by 5-1/2 = $26.88

Common Stock
Basis allocated to GM common stock -
$5,500.00 x 0.973117 = $5,352.14

Basis per GM common share -
$5,352.14 divided by 110 = $48.65

The cash paid in lieu of fractional shares was based on the average closing market price of Class H common stock during the first five days of regular way trading. This average was $36.925. Consequently, in this example the shareholder would have received a $18.46 cash payment ($36.925 x 1/2 share). The shareholder's basis in this 1/2 share would be $13.44 ($26.88 per share allocated to the Class H common stock x 1/2 share). Therefore, the shareholder would report a taxable gain of $5.02 ($18.46 less $13.44) with respect to the cash paid in lieu of the fractional share. This gain will generally be capital in character and, depending upon the holding period of the GM common stock which gave rise to the fractional share, will be either short- or long-term.

1985 Example 3

Receipt of only cash in lieu of a fractional share.

Assume a shareholder owns ten shares of GM common stock purchased for $50.00 per share. The shareholder, who would otherwise be entitled to receive 1/2 share of Class H common stock as a result of the December 30, 1985, stock distribution, would receive cash in lieu of this fractional share. As was noted in Example 2 above, the receipt of cash in lieu of a fractional share should be treated for Federal income tax purposes as the sale of a fractional share.

The total cost basis of the GM common stock is $500.00 (ten shares at $50.00 per share). As was previously indicated in Example 2, 2.6883% of this basis is allocated as the basis of the fractional share deemed to be sold for the cash received in lieu of such fractional share. The remaining 97.3117% of this total cost basis is allocated to the GM common stock.

Cash Received in Lieu of Fractional Share
Basis allocated to fractional share of Class H common stock -
$500.00 x 0.026883 = $13.44

Taxable gain to be recognized as a result of receipt of cash in lieu of fractional share of Class H common stock. (Per Example 2, a shareholder otherwise eligible to receive 1/2 share of Class H common stock would receive $18.46 in lieu of this fractional share.) This gain will be either short- or long-term depending on the holding period of the ten shares of GM common stock which gave rise to this fractional share.

$18.46 less $13.44 = $5.02

Common Stock
Basis allocated to GM common stock -
$500.00 x 0.973117 = $486.56

Basis per GM common share -
$486.56 divided by 10 = $48.65