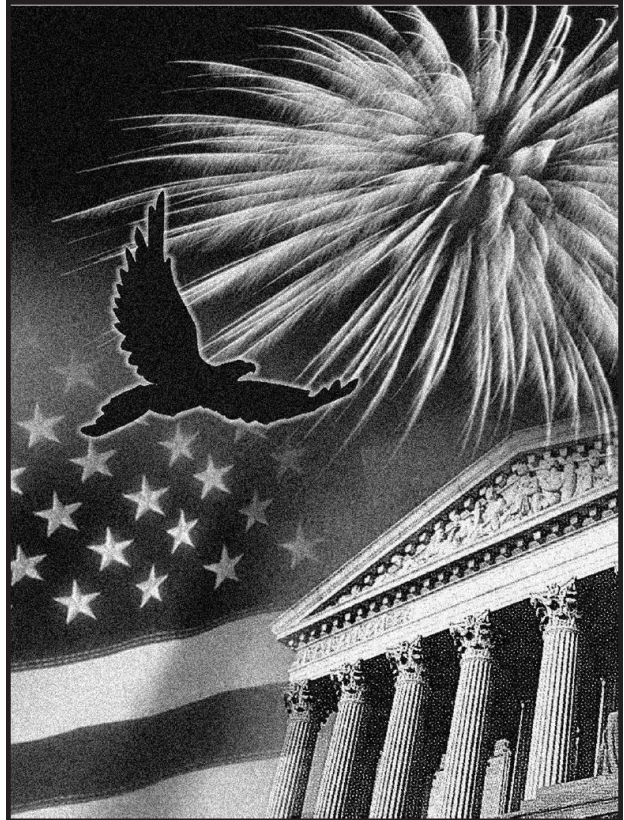


Publication 550

Investment Income and Expenses ((Including Capital Gains and Losses))

For use in preparing
2024 Returns

Volume 2 of 9



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Bonds Sold Between Interest Dates

If you sell a bond between interest payment dates, part of the sales price represents interest accrued to the date of sale. You must report that part of the sales price as interest income for the year of sale.

If you buy a bond between interest payment dates, part of the purchase price represents interest accrued before the date of purchase. When that interest is paid to you, treat it as a return of your capital investment, rather than interest income, by reducing your basis in the bond. See *Accrued interest on bonds*, later in this chapter, for information on reporting the payment.

Insurance

Life insurance proceeds paid to you as the beneficiary of the insured person usually are not taxable. But if you receive the proceeds in installments, you usually must report part of each installment payment as interest income.

For more information about insurance proceeds received in installments, see Pub. 525.

Interest option on insurance. If you leave life insurance proceeds on deposit with an insurance company under an agreement to pay interest only, the interest paid to you is taxable.

Annuity. If you buy an annuity with life insurance proceeds, the annuity payments you receive are taxed as pension and annuity income from a nonqualified plan, not as interest income. See Pub. 939.

State or Local Government Obligations

Interest you receive on an obligation issued by a state or local government generally is not taxable. The issuer should be able to tell you whether the interest is taxable. The issuer also should give you a periodic (or year-end) statement showing the tax treatment of the obligation.

If you invested in the obligation through a trust, a fund, or other organization, that organization should give you this information.



Even if interest on the obligation is not subject to income tax, you may have to report a capital gain or loss when you sell it. Estate, gift, or generation-skipping tax may apply to other dispositions of the obligation.

Tax-Exempt Interest

Interest on a bond used to finance government operations generally is not taxable if the bond is issued by a state, the District of Columbia, a U.S. territory, or any of their political subdivisions. Political subdivisions include:

- Port authorities,
- Toll road commissions,
- Utility services authorities,
- Community redevelopment agencies, and

- Qualified volunteer fire departments (for certain obligations issued after 1980).

There are other requirements for tax-exempt bonds. Contact the issuing state or local government agency or see sections 103 and 141 through 150 of the Internal Revenue Code and the related regulations.



Obligations that are not bonds.

Interest on a state or local government obligation may be tax exempt even if the obligation is not a bond. For example, interest on a debt evidenced only by an ordinary written agreement of purchase and sale may be tax exempt. Also, interest paid by an insurer on default by the state or political subdivision may be tax exempt.

Registration requirement. A bond issued after June 30, 1983, generally must be in registered form for the interest to be tax exempt.

Indian tribal government. Bonds issued after 1982 by an Indian tribal government (including tribal economic development bonds issued after February 17, 2009) are treated as issued by a state. Interest on these bonds generally is tax exempt if the bonds are part of an issue of which substantially all proceeds are to be used in the exercise of any essential government function. However, the proceeds of a tribal economic development bond issued after February 17, 2009, are not required to be used in the exercise of an essential government function in order for the bond to receive tax-exempt treatment. Interest on private activity bonds (other than certain bonds for tribal manufacturing facilities) is taxable.

Original issue discount. Original issue discount (OID) on tax-exempt state or local government bonds is treated as tax-exempt interest.

For information on the treatment of OID when you dispose of a tax-exempt bond, see *Tax-exempt state and local government bonds* in chapter 4.

Stripped bonds or coupons. For special rules that apply to stripped tax-exempt obligations, see *Stripped Bonds and Coupons*, later.

Information reporting requirement. If you must file a tax return, you are required to show any tax-exempt interest you received on your return. This is an information reporting requirement only. It does not change tax-exempt interest to taxable interest. See *Reporting tax-exempt interest*, later in this chapter.

Taxable Interest

Interest on some state or local obligations is taxable.

Federally guaranteed bonds. Interest on federally guaranteed state or local obligations issued after 1983 generally is taxable. This rule does not apply to interest on obligations guaranteed by the following U.S. government agencies.

- Bonneville Power Authority (if the guarantee was under the Northwest Power Act as in effect on July 18, 1984).
- Department of Veterans Affairs.
- Federal home loan banks. (The guarantee must be made after July 30, 2008, in connection with the original bond issue during the period beginning on July 30, 2008, and ending on December 31, 2010 (or a renewal or extension of a guarantee so made), and the bank must meet safety and soundness requirements.)
- Federal Home Loan Mortgage Corporation.
- Federal Housing Administration.
- Federal National Mortgage Association.

- Government National Mortgage Corporation.
- Resolution Funding Corporation.
- Student Loan Marketing Association.

Tax credit bonds. Use Form 8912, to claim the credit for the following tax credit bonds.

- Clean renewable energy bond (CREB).
- New clean renewable energy bond (NCREB).
- Qualified energy conservation bond (QECB).
- Qualified zone academy bond (QZAB).
- Qualified school construction bond (QSCB).
- Build America bond (BAB).

Generally, in lieu of, or in addition to, receiving periodic interest payments from the issuer, the holder of the bond is allowed an income tax credit.

The credit compensates the holder for lending money to the issuer and functions as interest paid on the bond.

See the Instructions for Form 8912 for details and instructions.

Mortgage revenue bonds. The proceeds of these bonds are used to finance mortgage loans for homebuyers. Generally, interest on state or local government home mortgage bonds issued after April 24, 1979, is taxable unless the bonds are qualified mortgage bonds or qualified veterans' mortgage bonds.

Arbitrage bonds. Interest on arbitrage bonds issued by state or local governments after October 9, 1969, is taxable. An arbitrage bond is a bond of which any portion of the proceeds is expected to be used to buy (or to replace funds used to buy) higher yielding investments. A bond is treated as an arbitrage bond if the issuer intentionally uses any part of the proceeds of the issue in this manner.

Private activity bonds. Interest on a private activity bond that is not a qualified bond (defined below) is taxable. Generally, a private activity bond is part of a state or local government bond issue that meets both the following requirements.

1. More than 10% of the proceeds of the issue is to be used for a private business use.
2. More than 10% of the payment of the principal or interest is:
 - a. Secured by an interest in property to be used for a private business use (or payments for this property), or
 - b. Derived from payments for property (or borrowed money) used for a private business use.

Also, a bond generally is considered a private activity bond if the proceeds to be used to

make or finance loans to persons other than government units is more than 5% of the proceeds or \$5 million (whichever is less).

Qualified bond. Interest on a private activity bond that is a qualified bond is tax exempt. A qualified bond is an exempt-facility bond (including an enterprise zone facility bond, a New York Liberty bond, a Midwestern disaster area bond, a Hurricane Ike disaster area bond, a Gulf Opportunity Zone bond treated as an exempt-facility bond, or any recovery zone facility bond), qualified student loan bond, qualified small issue bond (including a tribal manufacturing facility bond), qualified redevelopment bond, qualified mortgage bond (including a Gulf Opportunity Zone bond, a Midwestern disaster area bond, or a Hurricane Ike disaster area bond treated as a qualified mortgage bond), qualified veterans' mortgage bond, or qualified 501(c)(3) bond (a bond issued for the benefit of certain tax-exempt organizations).

Interest you receive on these tax-exempt bonds, if issued after August 7, 1986, generally is a “tax preference item” and may be subject to the AMT. See Form 6251 and its instructions for more information.

The interest on the following bonds is not a tax preference item and is not subject to the AMT.

- Qualified 501(c)(3) bonds.
- New York Liberty bonds.
- Gulf Opportunity Zone bonds.
- Midwestern disaster area bonds.
- Hurricane Ike disaster area bonds.
- Exempt facility bonds for qualified residential rental projects issued after July 30, 2008.
- Qualified mortgage bonds issued after July 30, 2008.

- Qualified veterans' mortgage bonds issued after July 30, 2008.

Qualified bonds issued in 2009 or 2010.

The interest on any qualified bond issued in 2009 or 2010 is not a tax preference item and is not subject to the AMT. For this purpose, a refunding bond (whether a current or advanced refunding) is treated as issued on the date the refunded bond was issued (or on the date the original bond was issued in the case of a series of refundings). However, this rule does not apply to any refunding bond issued to refund any qualified bond issued during 2004 through 2008 or after 2010.

Qualified bonds issued after December 31, 2010.

A portion of the interest on specified private activity bonds issued after December 31, 2010, may be a tax preference item subject to the AMT.

The tax preference status will apply to the portion of the interest that remains after reducing it by deductions that would be allowed if the interest were taxable.

Enterprise zone facility bonds. Interest on certain private activity bonds issued by a state or local government to finance a facility used in an empowerment zone or enterprise community is tax exempt.

New York Liberty bonds. New York Liberty bonds are bonds issued after March 9, 2002, to finance the construction and rehabilitation of real property in the designated “Liberty Zone” of New York City. Interest on these bonds is tax exempt.

Market discount. Market discount on a tax-exempt bond is not tax exempt. If you bought the bond after April 30, 1993, you can choose to accrue the market discount over the period you own the bond and include it in your income currently as taxable interest. See *Market Discount Bonds*, later.

If you do not make that choice, or if you bought the bond before May 1, 1993, any gain from market discount is taxable when you dispose of the bond.

For more information on the treatment of market discount when you dispose of a tax-exempt bond, see *Discounted Debt Instruments*, later.

Discount on Debt Instruments

Terms you may need to know (see Glossary):

- Market discount
- Market discount bond
- Original issue discount (OID)
- Premium

A debt instrument, such as a bond, note, debenture, or other evidence of indebtedness, that bears no interest or bears interest at a lower than current market rate usually will be

issued at less than its face amount. This discount is, in effect, additional interest income. The following are some types of discounted debt instruments.

- U.S. Treasury bonds.
- Corporate bonds.
- Municipal bonds.
- Certificates of deposit.
- Notes between individuals.
- Stripped bonds and coupons.
- Collateralized debt obligations (CDOs).

The discount on these instruments (except municipal bonds) is taxable in most instances. The discount on municipal bonds generally is not taxable (but see *State or Local Government Obligations*, earlier, for exceptions). See also *REMICs, FASITs, and Other CDOs*, later, for information about applying the rules discussed in this section to

the regular interest holder of a real estate mortgage investment conduit, a financial asset securitization investment trust, or other CDO.

Original Issue Discount (OID)

OID is a form of interest. You generally include OID in your income as it accrues over the term of the debt instrument, whether or not you receive any payments from the issuer.

A debt instrument generally has OID when the instrument is issued for a price that is less than its stated redemption price at maturity. OID is the difference between the stated redemption price at maturity and the issue price.

All debt instruments that pay no interest before maturity are presumed to be issued at a discount. Zero coupon bonds are one example of these instruments.

The OID accrual rules generally do not apply to short-term obligations (those with a fixed maturity date of 1 year or less from date of issue). See *Discount on Short-Term Obligations*, later.

For information about the sale of a debt instrument with OID, see *Original issue discount (OID) on debt instruments*, later.

De minimis OID. You can treat the discount as zero if it is less than one-fourth of 1% (0.0025) of the stated redemption price at maturity multiplied by the number of full years from the date of original issue to maturity. This small discount is known as “de minimis” OID. In the case of a debt instrument providing for more than one stated principal payment (an installment obligation), the “de minimis” formula described above is modified. See Regulations section 1.1273-1(d)(3).

Example 1. You bought a 10-year bond with a stated redemption price at maturity of \$1,000, issued at \$980 with OID of \$20. One-fourth of 1% of \$1,000 (stated redemption price) times 10 (the number of full years from the date of original issue to maturity) equals \$25. Because the \$20 discount is less than \$25, the OID is treated as zero. (If you hold the bond at maturity, you will recognize \$20 (\$1,000 – \$980) of capital gain.)

Example 2. The facts are the same as in Example 1, except that the bond was issued at \$950. The OID is \$50. Because the \$50 discount is more than the \$25 figured in *Example 1*, you must include the OID in income as it accrues over the term of the bond.

Debt instrument bought after original issue. If you buy a debt instrument with de minimis OID at a premium, the discount is not includible in income.

If you buy a debt instrument with de minimis OID at a discount, the discount is reported under the market discount rules. See Market Discount Bonds, later in this chapter.

Exceptions to reporting OID as current income.

The OID rules discussed here do not apply to the following debt instruments.

1. Tax-exempt obligations. (However, see Stripped tax-exempt obligations, later.)
2. U.S. savings bonds.
3. Short-term debt instruments (those with a fixed maturity date of not more than 1 year from the date of issue).
4. Loans between individuals, if all the following are true.
 - a. The loan is not made in the course of a trade or business of the lender.

- b. The amount of the loan, plus the amount of any outstanding prior loans between the same individuals, is \$10,000 or less.
 - c. Avoiding any federal tax isn't one of the principal purposes of the loan.
- 5. A debt instrument purchased at a premium.

Form 1099-OID

You may receive a Form 1099-OID for a debt instrument you own. If you receive a Form 1099-OID (Rev. 1-2024), box 1 will show any "Original issue discount for the year"; box 2 will show any "Other periodic interest"; and box 8 will show any "Original issue discount on U.S. Treasury obligations."

In most cases, you must report the entire amount in Form 1099-OID, boxes 1, 2, and 8 as interest income.

But see Refiguring OID shown on Form 1099-OID, later in this discussion, and also Original issue discount (OID) adjustment, later in this chapter, for more information.

Form 1099-OID not received. If you had OID for the year but did not receive a Form 1099-OID, you may have to figure the correct amount of OID to report on your return. See Pub. 1212 for details on how to figure the correct OID.

Nominee. If someone else is the record holder (the registered owner) of an OID instrument belonging to you and receives a Form 1099-OID on your behalf, that person must give you a Form 1099-OID.

If you receive a Form 1099-OID that includes amounts belonging to another person, see Nominee distributions, later.

Refiguring OID shown on Form 1099-OID. You may need to refigure the OID shown in Form 1099-OID, box 1 or box 8 if either of the following apply.

- You bought the debt instrument after its original issue and paid a premium or an acquisition premium.
- The debt instrument is a stripped bond or a stripped coupon (including certain zero coupon instruments). See *Figuring OID*, later in this chapter.

See *Original issue discount (OID) adjustment*, later in this chapter, for information about reporting the correct amount of OID.

Premium. You bought a debt instrument at a premium if its adjusted basis immediately after purchase was greater than the total of all amounts payable on the instrument after the purchase date, other than qualified stated interest.

If you bought an OID debt instrument at a premium, you generally do not have to report any OID as ordinary income.

Qualified stated interest. In general, this is stated interest unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a fixed rate.

Acquisition premium. You bought a debt instrument at an acquisition premium if both the following are true.

- You did not pay a premium.
- The instrument's adjusted basis immediately after purchase (including purchase at original issue) was greater than its adjusted issue price. This is the issue price plus the OID previously accrued, minus any payment previously made on the instrument other than qualified stated interest.

Acquisition premium reduces the amount of OID includible in your income. See Pub. 1212 for more information.

Refiguring periodic interest shown on Form 1099-OID. If you disposed of a debt instrument or acquired it from another holder during the year, see *Bonds Sold Between Interest Dates*, earlier, for information about the treatment of periodic interest that may be shown in Form 1099-OID, box 2 for that instrument.

Applying the OID Rules

The rules for reporting OID depend on the date the long-term debt instrument was issued.

Debt instruments issued after May 27, 1969 (after July 1, 1982, if a government instrument), and before 1985. If you hold these debt instruments as capital assets, you

must include a part of the discount in your gross income each year that you own the instruments.

Effect on basis. Your basis in the instrument is increased by the amount of OID you include in your gross income.

Debt instruments issued after 1984. For these debt instruments, you report the total OID that applies each year regardless of whether you hold that debt instrument as a capital asset.

Effect on basis. Your basis in the instrument is increased by the amount of OID you include in your gross income.

Certificates of Deposit (CDs)

A CD is a debt instrument.

If you buy a CD with a maturity of more than 1 year, you must include in income each year a part of the total interest due and report it in the same manner as other OID.

This also applies to similar deposit arrangements with banks, building and loan associations, etc., including:

- Time deposits,
- Bonus plans,
- Savings certificates,
- Deferred income certificates,
- Bonus savings certificates, and
- Growth savings certificates.

Bearer CDs. CDs issued after 1982 generally must be in registered form. Bearer CDs are CDs not in registered form. They are not issued in the depositor's name and are transferable from one individual to another.

Banks must provide the IRS and the person redeeming a bearer CD with a Form 1099-INT.

Time deposit open account arrangement.

This is an arrangement with a fixed maturity date in which you make deposits on a schedule arranged between you and your bank. But there is no actual or constructive receipt of interest until the fixed maturity date is reached. For instance, you and your bank enter into an arrangement under which you agree to deposit \$100 each month for a period of 5 years. Interest will be compounded twice a year at $7\frac{1}{2}\%$, but payable only at the end of the 5-year period. You must include a part of the interest in your income as OID each year. Each year the bank must give you a Form 1099-OID to show you the amount you must include in your income for the year.

Redemption before maturity. If, before the maturity date, you redeem a deferred interest account for less than its stated redemption price at maturity,

you can deduct OID that you previously included in income but did not receive.

Renewable certificates. If you renew a CD at maturity, it is treated as a redemption and a purchase of a new certificate. This is true regardless of the terms of renewal.

Face-Amount Certificates

These certificates are subject to the OID rules. They are a form of endowment contracts issued by insurance or investment companies for either a lump-sum payment or periodic payments, with the face amount becoming payable on the maturity date of the certificate.

In general, the difference between the face amount and the amount you paid for the contract is OID. You must include a part of the OID in your income over the term of the certificate.

The issuer must give you a statement on Form 1099-OID indicating the amount you must include in your income each year.

Inflation-Indexed Debt Instruments

If you hold an inflation-indexed debt instrument (other than a Series I U.S. savings bond), you must report as OID any increase in the inflation-adjusted principal amount of the instrument that occurs while you held the instrument during the year. In general, an inflation-indexed debt instrument is a debt instrument on which the payments are adjusted for inflation and deflation (such as Treasury Inflation-Protected Securities). You should receive Form 1099-OID from the payer showing the amount you must report as OID and any qualified stated interest paid to you during the year. For more information, see Pub. 1212.

Stripped Bonds and Coupons

If you strip one or more coupons from a bond and sell the bond or the coupons, the bond and coupons are treated as separate debt instruments issued with OID.

The holder of a stripped bond has the right to receive the principal (redemption price) payment. The holder of a stripped coupon has the right to receive interest on the bond.

Stripped bonds and stripped coupons include:

- Zero coupon instruments available through the Department of the Treasury's Separate Trading of Registered Interest and Principal of Securities (STRIPS) program and government-sponsored enterprises such as the Resolution Funding Corporation and the Financing Corporation; and
- Instruments backed by U.S. Treasury securities that represent ownership interests in those securities,

such as obligations backed by U.S. Treasury bonds offered primarily by brokerage firms.

Seller. If you strip coupons from a bond and sell the bond or coupons, include in income the interest that accrued while you held the bond before the date of sale, to the extent you did not previously include this interest in your income. For an obligation acquired after October 22, 1986, you also must include the market discount that accrued before the date of sale of the stripped bond (or coupon) to the extent you did not previously include this discount in your income.

Add the interest and market discount that you include in income to the basis of the bond and coupons. Allocate this adjusted basis between the items you keep and the items you sell, based on the fair market value of the items.

The difference between the sale price of the bond (or coupon) and the allocated basis of the bond (or coupon) is your gain or loss from the sale.

Treat any item you keep as an OID bond originally issued and bought by you on the sale date of the other items. If you keep the bond, treat the amount of the redemption price of the bond that is more than the basis of the bond as OID. If you keep the coupons, treat the amount payable on the coupons that is more than the basis of the coupons as OID.

Buyer. If you buy a stripped bond or stripped coupon, treat it as if it were originally issued on the date you buy it. If you buy a stripped bond, treat as OID any excess of the stated redemption price at maturity over your purchase price. If you buy a stripped coupon, treat as OID any excess of the amount payable on the due date of the coupon over your purchase price.

Figuring OID. The rules for figuring OID on stripped bonds and stripped coupons depend on the date the debt instruments were purchased, not the date issued.

You must refigure OID shown on the Form 1099-OID you receive for a stripped bond or coupon. See Pub. 1212 for information about figuring the correct amount of OID on these instruments. Owners of stripped bonds and coupons should not rely on the OID shown in Section II of the OID tables (available by going to [IRS.gov](https://www.irs.gov) and searching for “OID Tables”) because the amounts listed in Section II for stripped bonds or coupons are figured without reference to the date or price at which you acquired them.

Stripped inflation-indexed debt instruments. OID on stripped inflation-indexed debt instruments is figured under the discount bond method. This method is described in Regulations section 1.1275-7(e).

Stripped tax-exempt obligations. You do not have to pay tax on OID on any stripped tax-exempt bond or coupon you bought before June 11, 1987. However, if you acquired it after October 22, 1986, you must accrue OID on it to determine its basis when you dispose of it. See Original issue discount (OID) on debt instruments, later.

You may have to pay tax on part of the OID on stripped tax-exempt bonds or coupons that you bought after June 10, 1987. See Pub. 1212 for information on figuring the taxable part.

Market Discount Bonds

A market discount bond is any bond having market discount except:

- Short-term obligations (those with fixed maturity dates of up to 1 year from the date of issue),
- Tax-exempt obligations you bought before May 1, 1993,

- U.S. savings bonds, and
- Certain installment obligations.

Market discount arises when the value of a debt obligation decreases after its issue date. Generally, this is due to an increase in interest rates. If you buy a bond on the secondary market, it may have market discount.

When you buy a market discount bond, you can choose to accrue the market discount over the period you own the bond and include it in your income currently as interest income. If you do not make this choice, the following rules generally apply.

- You must treat any gain when you dispose of the bond as ordinary interest income, up to the amount of the accrued market discount. See *Discounted Debt Instruments*, later.

- You must treat any partial payment of principal on the bond as ordinary interest income, up to the amount of the accrued market discount. See *Partial principal payments*, later in this discussion.
- If you borrow money to buy or carry the bond, your deduction for interest paid on the debt is limited. See *Limit on interest deduction for market discount bonds*, later.

Market discount. Market discount is the amount of the stated redemption price of a bond at maturity that is more than your basis in the bond immediately after you acquire it. You treat market discount as zero if it is less than one-fourth of 1% (0.0025) of the stated redemption price of the bond multiplied by the number of full years to maturity (after you acquire the bond).

If a market discount bond also has OID, the market discount is the sum of the bond's issue price and the total OID includible in the

gross income of all holders (for a tax-exempt bond, the total OID that accrued) before you acquired the bond, reduced by your basis in the bond immediately after you acquired it.

Bonds acquired at original issue.

Generally, a bond you acquired at original issue is not a market discount bond. If your adjusted basis in a bond is determined by reference to the adjusted basis of another person who acquired the bond at original issue, you also are considered to have acquired it at original issue.

Exceptions. A bond you acquired at original issue can be a market discount bond if either of the following is true.

- Your cost basis in the bond is less than the bond's issue price.
- The bond is issued in exchange for a market discount bond under a plan of reorganization.

(This does not apply if the bond is issued in exchange for a market discount bond issued before July 19, 1984, and the terms and interest rates of both bonds are the same.)

Accrued market discount. The accrued market discount is figured in one of two ways.

Ratable accrual method. Treat the market discount as accruing in equal daily installments during the period you hold the bond. Figure the daily installments by dividing the market discount by the number of days after the date you acquired the bond, up to and including its maturity date. Multiply the daily installments by the number of days you held the bond to figure your accrued market discount.

Constant yield method. Instead of using the ratable accrual method, you can choose to figure the accrued discount using a constant interest rate (the constant yield method).

Make this choice by attaching to your timely filed return a statement identifying the bond and stating that you are making a constant interest rate election. The choice takes effect on the date you acquired the bond. If you choose to use this method for any bond, you cannot change your choice for that bond.

See Pub. 1212 for information about using the constant yield method. To use this method to figure market discount (instead of OID), treat the bond as having been issued on the date you acquired it. Treat the amount of your basis (immediately after you acquired the bond) as the issue price and apply the formula shown in Pub. 1212.

Choosing to include market discount in income currently. You can make this choice if you have not revoked a prior choice to include market discount in income currently within the last 5 calendar years. Make the choice by attaching to your timely filed return a statement in which you:

- State that you have included market discount in your gross income for the year under section 1278(b) of the Internal Revenue Code, and
- Describe the method you used to figure the accrued market discount for the year.

Once you make this choice, it will apply to all market discount bonds you acquire during the tax year and in later tax years. You cannot revoke your choice without the consent of the IRS. See Rev. Proc. 2024-23, section 31, for information on how to revoke your election.

Also, see *Election To Report All Interest as OID*, later. If you make that election, you must use the constant yield method.

Effect on basis. You increase the basis of your bonds by the amount of market discount you include in your income.

Partial principal payments. If you receive a partial payment of principal on a market discount bond you acquired after October 22,

1986, and you did not choose to include the discount in income currently, you must treat the payment as ordinary interest income up to the amount of the bond's accrued market discount. Reduce the amount of accrued market discount reportable as interest at disposition by that amount.

There are three methods you can use to figure accrued market discount for this purpose.

1. On the basis of the constant yield method, described earlier.
2. In proportion to the accrual of OID for any accrual period, if the debt instrument has OID.
3. In proportion to the amount of stated interest paid in the accrual period, if the debt instrument has no OID.

Under method (2) above, figure accrued market discount for a period by multiplying the total remaining market discount by a

fraction. The numerator (top part) of the fraction is the OID for the period, and the denominator (bottom part) is the total remaining OID at the beginning of the period.

Under method (3) above, figure accrued market discount for a period by multiplying the total remaining market discount by a fraction. The numerator is the stated interest paid in the accrual period, and the denominator is the total stated interest remaining to be paid at the beginning of the accrual period.

Discount on Short-Term Obligations

When you buy a short-term obligation (one with a fixed maturity date of 1 year or less from the date of issue), other than a tax-exempt obligation, you generally can choose to include any discount and interest payable on the obligation in income currently. If you do not make this choice, the following rules generally apply.

- You must treat any gain when you sell, exchange, or redeem the obligation as ordinary income, up to the amount of the ratable share of the discount. See *Discounted Debt Instruments*, later.
- If you borrow money to buy or carry the obligation, your deduction for interest paid on the debt is limited. See *Limit on interest deduction for short-term obligations*, later.

Short-term obligations for which no choice is available. You must include any discount or interest in current income as it accrues for any short-term obligation (other than a tax-exempt obligation) that is:

- Held by an accrual-basis taxpayer;
- Held primarily for sale to customers in the ordinary course of your trade or business;
- Held by a bank, regulated investment company, or common trust fund;

- Held by certain pass-through entities;
- Identified as part of a hedging transaction; or
- A stripped bond or stripped coupon held by the person who stripped the bond or coupon (or by any other person whose basis in the obligation is determined by reference to the basis in the hands of the person who stripped the bond or coupon).

Effect on basis. Increase the basis of your obligation by the amount of discount you include in income currently.

Figuring the accrued discount. Figure the accrued discount by using either the ratable accrual method or the constant yield method discussed in Accrued market discount, earlier.

Government obligations. For an obligation described above that is a short-term government obligation, the amount you include in your income for the current year is the accrued acquisition discount,

if any, plus any other accrued interest payable on the obligation. The acquisition discount is the stated redemption price at maturity minus your basis.

If you choose to use the constant yield method to figure accrued acquisition discount, treat the cost of acquiring the obligation as the issue price. If you choose to use this method, you cannot change your choice.

Nongovernment obligations. For an obligation listed above that is not a government obligation, the amount you include in your income for the current year is the accrued OID, if any, plus any other accrued interest payable. If you choose the constant yield method to figure accrued OID, apply it by using the obligation's issue price.

Choosing to include accrued acquisition discount instead of OID. You can choose to report accrued acquisition discount (defined earlier under *Government obligations*)

rather than accrued OID on these short-term obligations. Your choice will apply to the year for which it is made and to all later years and cannot be changed without the consent of the IRS.

You must make your choice by the due date of your return, including extensions, for the first year for which you are making the choice. Attach a statement to your return or amended return indicating:

- Your name, address, and social security number;
- The choice you are making and that it is being made under section 1283(c)(2) of the Internal Revenue Code;
- The period for which the choice is being made and the obligation to which it applies; and
- Any other information necessary to show you are entitled to make this choice.

Choosing to include accrued discount and other interest in current income. If you acquire short-term discount obligations that are not subject to the rules for current inclusion in income of the accrued discount or other interest, you can choose to have those rules apply. This choice applies to all short-term obligations you acquire during the year and in all later years. You cannot change this choice without the consent of the IRS.

The procedures to use in making this choice are the same as those described for choosing to include acquisition discount instead of OID on nongovernment obligations in current income. However, you should indicate that you are making the choice under section 1282(b)(2) of the Internal Revenue Code.

Also, see the following discussion. If you make the election to report all interest currently as OID, you must use the constant yield method.

Election To Report All Interest as OID

Generally, you can elect to treat all interest on a debt instrument acquired during the tax year as OID and include it in income currently. For purposes of this election, interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount, and unstated interest as adjusted by any amortizable bond premium or acquisition premium. See Regulations section 1.1272-3.

When To Report Interest Income

Terms you may need to know (see Glossary):

Accrual method

Cash method

When to report your interest income depends on whether you use the cash method or an accrual method to report income.

Cash method. Most individual taxpayers use the cash method. If you use this method, you generally report your interest income in the year in which you actually or constructively receive it. However, there are special rules for reporting the discount on certain debt instruments. See *U.S. Savings Bonds* and *Discount on Debt Instruments*, earlier.

Example. On September 1, 2022, you loaned another individual \$2,000 at 4% compounded annually. You are not in the business of lending money. The note stated that principal and interest would be due on August 31, 2024. In 2024, you received \$2,163.20 (\$2,000 principal and \$163.20 interest). If you use the cash method, you must include in income on your 2024 return the \$163.20 in interest you received in that year.

Constructive receipt. You constructively receive income when it is credited to your account or made available to you. You do not need to have physical possession of it.

For example, you are considered to receive interest, dividends, or other earnings on any deposit or account in a bank, savings and loan association, or similar financial institution, or interest on life insurance policy dividends left to accumulate, when they are credited to your account and subject to your withdrawal.

You constructively receive income on the deposit or account even if you must:

- Make withdrawals in multiples of even amounts,
- Give a notice to withdraw before making the withdrawal,
- Withdraw all or part of the account to withdraw the earnings, or
- Pay a penalty on early withdrawals, unless the interest you are to receive on an early withdrawal or redemption is substantially less than the interest payable at maturity.

Accrual method. If you use an accrual method, you report your interest income when you earn it, whether or not you have received it. Interest is earned over the term of the debt instrument.

Example. If, in the previous example, you use an accrual method, you must include the interest in your income as you earn it. You would report the interest as follows: 2022, \$26.67; 2023, \$81.06; and 2024, \$55.47.

Coupon bonds. Generally, interest on coupon bonds is taxable in the year the coupon becomes due and payable. It does not matter when you mail the coupon for payment.

How To Report Interest Income

Terms you may need to know (see Glossary):

Nominee

Original issue discount (OID)

Generally, you report all your taxable interest income on Form 1040 or 1040-SR, line 2b.

Schedule B (Form 1040). You must complete Schedule B (Form 1040), Part I, if any of the following apply.

1. Your taxable interest income is more than \$1,500.
2. You are claiming the interest exclusion under the Education Savings Bond Program (discussed earlier).
3. You received interest from a seller-financed mortgage, and the buyer used the property as a home.
4. You received a Form 1099-INT for U.S. savings bond interest that includes amounts you reported in a previous tax year.
5. You received, as a nominee, interest that actually belongs to someone else.

6. You received a Form 1099-INT for interest on frozen deposits.
7. You received a Form 1099-INT for interest on a bond you bought between interest payment dates.
8. You are reporting OID in an amount less than the amount shown on Form 1099-OID.
9. You are reporting interest income of less than the amount shown on a Form 1099 due to amortizable bond premium.

In Part I, line 1, list each payer's name and the amount received from each. If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, list the brokerage firm as the payer.

Reporting tax-exempt interest. Total your tax-exempt interest (such as interest or accrued OID on certain state and municipal bonds, including zero coupon municipal

bonds) reported on Form 1099-INT, box 8; Form 1099-OID, box 11; and exempt-interest dividends from a mutual fund or other RIC reported on Form 1099-DIV, box 12. Add these amounts to any other tax-exempt interest you received. Report the total on Form 1040 or 1040-SR, line 2a.

Form 1099-INT, box 9, and Form 1099-DIV, box 13, show the tax-exempt interest subject to the AMT on Form 6251. These amounts already are included in the amounts on Form 1099-INT, box 8, and Form 1099-DIV, box 12. Do not add the amounts in Form 1099-INT, box 9, and Form 1099-DIV, box 13, to, or subtract them from, the amounts on Form 1099-INT, box 8, and Form 1099-DIV, box 12.



Do not report interest from an individual retirement arrangement (IRA) as tax-exempt interest.

Form 1099-INT. Your taxable interest income, except for interest from U.S. savings bonds and Treasury obligations, is shown in Form 1099-INT, box 1. Add this amount to any other taxable interest income you received. See the Form 1099-INT Instructions for Recipient if you have interest from a security acquired at a premium. You must report all your taxable interest income even if you do not receive a Form 1099-INT. Contact your financial institution if you do not receive a Form 1099-INT by February 15. Your identifying number may be truncated on any paper Form 1099-INT you receive.

If you forfeited interest income because of the early withdrawal of a time deposit, the deductible amount will be shown on Form 1099-INT, box 2. See *Penalty on early withdrawal of savings*, later.

Form 1099-INT, box 3 shows the interest income you received from U.S. savings bonds, Treasury bills, Treasury notes, and

Treasury bonds. Generally, add the amount shown in Form 1099-INT, box 3 to any other taxable interest income you received. If part of the amount shown in Form 1099-INT, box 3 was previously included in your interest income, see U.S. savings bond interest previously reported, later. If you redeemed U.S. savings bonds you bought after 1989 and you paid qualified educational expenses, see Interest excluded under the Education Savings Bond Program, later.

Form 1099-INT, box 4 will contain an amount if you were subject to backup withholding. Include the amount from box 4 on Form 1040 or 1040-SR, line 25b.

Form 1099-INT, box 5 shows your share of investment expenses of a single-class REMIC. This amount is included in Form 1099-INT, box 1 and is not deductible.

Form 1099-INT, box 6 shows foreign tax paid. You may be able to claim this tax as a deduction or a credit on your Form 1040 or

1040-SR. See your tax return instructions. Form 1099-INT, box 7 shows the country or U.S. territory to which the foreign tax was paid.

For a covered security, if you made an election under section 1278(b) to include market discount in income as it accrues and you notified your payer of the election in writing in accordance with Regulations section 1.6045-1(n) (5), Form 1099-INT, box 10 shows the market discount that accrued on the debt instrument during the year while held by you. Report this amount on your income tax return as directed in the Instructions for Form 1040 or 1040-SR.

For a covered security, Form 1099-INT, box 11 shows the amount of premium amortization for the year, unless you notified the payer in writing in accordance with Regulations section 1.6045-1(n)(5) that you did not want to amortize bond premium under section 171.

If an amount is reported in this box, see the Instructions for Schedule B (Form 1040).

If an amount is not reported in this box for a covered security acquired at a premium, the payer has reported a net amount of interest in box 1, 3, 8, or 9, whichever is applicable.

If the amount in this box is greater than the amount of interest paid on the covered security, see Regulations section 1.171-2(a)(4).

Form 1099-OID. The taxable OID on a discounted obligation for the part of the year you owned it is shown in Form 1099-OID, box 1. Include this amount in your total taxable interest income. But see *Refiguring OID shown on Form 1099-OID*, earlier. Your identifying number may be truncated on any paper Form 1099-OID you receive.

You must report all taxable OID even if you do not receive a Form 1099-OID.

Form 1099-OID, box 2 shows any taxable interest on the obligation other than OID. Add this amount to the OID shown in Form 1099-OID, box 1 and include the result in your total taxable income.

If you bought and/or sold an obligation during the year, see *Bonds Sold Between Interest Dates*, earlier, for information about the treatment of periodic interest that may be shown in Form 1099-OID, box 2.

If you forfeited interest or principal on the obligation because of an early withdrawal, the deductible amount will be shown in Form 1099-OID, box 3. See *Penalty on early withdrawal of savings*, later.

Form 1099-OID, box 4 will contain an amount if you were subject to backup withholding. Report the amount from box 4 on Form 1040 or 1040-SR, line 25b.

Form 1099-OID, box 5 shows the market discount that accrued on the debt instrument during the year while held by you for a covered security acquired with OID, if you made an election under section 1278(b) to include market discount in income as it accrues and you notified your payer of the election in writing in accordance with Regulations section 1.6045-1(n)(5).

For a taxable covered security, Form 1099-OID, box 6 shows the amount of acquisition premium amortization for the year that reduces the amount of OID that is included as interest on your income tax return.

Form 1099-OID, box 9 shows your share of investment expenses of a single-class REMIC. This amount is not deductible.

U.S. savings bond interest previously reported. If you received a Form 1099-INT for U.S. savings bond interest, the form may show interest you do not have to report.

See Form 1099-INT for U.S. savings bond interest, earlier.

On Schedule B (Form 1040), Part I, line 1, report all the interest shown on your Form 1099-INT. Then follow these steps.

1. Several rows above Schedule B (Form 1040), Part I, line 2, enter a subtotal of all interest listed on Schedule B (Form 1040), Part I, line 1.
2. Below the subtotal, enter "U.S. Savings Bond Interest Previously Reported" and enter amounts previously reported or interest accrued before you received the bond.
3. Subtract these amounts from the subtotal and enter the result on Schedule B (Form 1040), Part I, line 2.

Example 1. Your parents bought U.S. savings bonds for you when you were a child. The bonds were issued in your name, and the

interest on the bonds was reported each year as it accrued. See *Choice to report interest each year*, earlier.

In March 2024, you redeemed one of the bonds—a \$1,000 Series EE bond. The bond was originally issued in March 2005 for \$500.00. When you redeemed the bond, you received \$732.80 for it.

The Form 1099-INT you received shows interest income of \$232.80. However, since the interest on your savings bonds was reported yearly, you need only include the \$6.40 interest that accrued from January 2024 to March 2024.

On Schedule B (Form 1040), Part I, line 1, enter your interest income as shown on Form 1099-INT—\$232.80. If you had other taxable interest income, you would enter it next and then enter a subtotal, as described earlier, before going to the next step.

Several rows above Schedule B (Form 1040), Part I, line 2, enter "U.S. Savings Bond Interest Previously Reported" and enter \$226.40 (\$232.80 – \$6.40). Subtract \$226.40 from \$232.80 and include \$6.40 on Schedule B (Form 1040), line 2. Add this amount to your subtotal (if any) and in the total on Schedule B (Form 1040), line 4.

Example 2. Your uncle died and left you a \$1,000 Series EE bond. You redeem the bond for \$1,000.

Your uncle paid \$500 for the bond, so \$500 of the amount you receive upon redemption is interest income. Your uncle's executor included in your uncle's final return \$200 of the interest that had accrued at the time of your uncle's death. You have to include only \$300 in your income.

The bank where you redeem the bond gives you a Form 1099-INT showing interest income of \$500.

You also receive a Form 1099-INT showing taxable interest income of \$300 from your savings account.

You file Form 1040 or 1040-SR and complete Schedule B (Form 1040). On Schedule B (Form 1040), line 1, you list the \$500 and \$300 interest amounts shown on your Forms 1099. Several rows above Schedule B (Form 1040), line 2, you put a subtotal of \$800. Below this subtotal, enter "U.S. Savings Bond Interest Previously Reported" and enter the \$200 interest included in your uncle's final return. Subtract the \$200 from the subtotal and enter \$600 on Schedule B (Form 1040), line 2. You then complete the rest of the form.

Worksheet for savings bonds distributed from a retirement or profit-sharing plan.

If you cashed a savings bond acquired in a taxable distribution from a retirement or profit-sharing plan (as discussed under U.S. Savings Bonds, earlier),

your interest income does not include the interest accrued before the distribution and taxed as a distribution from the plan.



Use the worksheet below to figure the amount you subtract from the interest shown on Form 1099-INT.

- A. Enter the amount of cash received upon redemption of the bond _____
- B. Enter the value of the bond at the time of distribution by the plan _____
- C. Subtract the amount on line B from the amount on line A. This is the amount of interest accrued on the bond since it was distributed by the plan . . . _____

D. Enter the amount of interest
shown on your Form 1099-INT . _____

E. Subtract the amount on line C
from the amount on line D. This
is the amount you include in
"U.S. Savings Bond Interest
Previously Reported" _____

Your employer should tell you the value of
each bond on the date it was distributed.

Example. You received a distribution
of Series EE U.S. savings bonds in
December 2021 from your company's
profit-sharing plan.

In March 2024, you redeemed a \$100 Series
EE bond that was part of the distribution you
received in 2021. You received \$88.16 for the
bond the company bought in May 2007. The
value of the bond at the time of distribution in
2021 was \$81.72. (This is the amount you
included on your 2021 return.)

The bank gave you a Form 1099-INT that shows \$38.16 interest (the total interest from the date the bond was purchased to the date of redemption). Since a part of the interest was included in your income in 2021, you need to include in your 2024 income only the interest that accrued after the bond was distributed to you.

On Schedule B (Form 1040), line 1, include all the interest shown on your Form 1099-INT as well as any other taxable interest income you received. Several rows above Schedule B (Form 1040), line 2, put a subtotal of all interest listed on Schedule B (Form 1040), line 1. Below this subtotal, enter "U.S. Savings Bond Interest Previously Reported" and enter the amount figured on the worksheet below.

- A. Enter the amount of cash received upon redemption of the bond \$88.16
- B. Enter the value of the bond at the time of distribution by the plan \$88.12
- C. Subtract the amount on line B from the amount on line A. This is the amount of interest accrued on the bond since it was distributed by the plan . . . \$6.44
- D. Enter the amount of interest shown on your Form 1099-INT . \$38.16
- E. Subtract the amount on line C from the amount on line D. This is the amount you include in "U.S. Savings Bond Interest Previously Reported" \$31.72

Subtract \$31.72 from the subtotal and enter the result on Schedule B (Form 1040), line 2. You then complete the rest of the form.

Interest excluded under the Education Savings Bond Program. Use Form 8815 to figure your interest exclusion when you redeem qualified savings bonds and pay qualified higher education expenses during the same year.

For more information on the exclusion and qualified higher education expenses, see the earlier discussion under Education Savings Bond Program.

Interest on seller-financed mortgage. If an individual buys his or her home from you in a sale that you finance, you must report the amount of interest received on Schedule B (Form 1040), line 1. Include on line 1 the buyer's name, address, and SSN. If you do not, you may have to pay a \$50 penalty. The buyer may have to pay a \$50 penalty if he or she does not give you this information.

You also must give your name, address, and SSN (or EIN) to the buyer. If you do not, you may have to pay a \$50 penalty.

Frozen deposits. Even if you receive a Form 1099-INT for interest on deposits that you could not withdraw at the end of 2024, you must exclude these amounts from your gross income. (See *Interest income on frozen deposits*, earlier.) Do not include as income on your annual income tax return. On Schedule B (Form 1040), Part I, include the full amount of interest shown on your Form 1099-INT, line 1. Several rows above Schedule B (Form 1040), Part I, line 2, put a subtotal of all interest income. Below this subtotal, enter “Frozen Deposits” and show the amount of interest that you are excluding. Subtract this amount from the subtotal and enter the result on Schedule B (Form 1040), Part I, line 2.

Accrued interest on bonds. If you received a Form 1099-INT that reflects accrued interest paid on a bond you bought between interest payment dates, include the full amount shown as interest on the Form 1099-INT on Schedule B (Form 1040), Part I, line 1. Then, below a subtotal of all interest income listed, enter “Accrued Interest” and the amount of accrued interest you paid to the seller. That amount is taxable to the seller, not you. Subtract that amount from the interest income subtotal. For more information, see *Bonds Sold Between Interest Dates*, earlier.

Nominee distributions. If you received a Form 1099-INT that includes an amount you received as a nominee for the real owner, report the full amount shown as interest on the Form 1099-INT on Schedule B (Form 1040), Part I, line 1.

Then, below a subtotal of all interest income listed, enter "Nominee Distribution" and the amount that actually belongs to someone else. Subtract that amount from the interest income subtotal.

File Form 1099-INT with the IRS. If you received interest as a nominee in 2024, you must file a Form 1099-INT for that interest with the IRS. Send Copy A of Form 1099-INT with a Form 1096 to your Internal Revenue Service Center by February 28, 2025 (March 31, 2025, if you file Form 1099-INT electronically). Give the actual owner of the interest Copy B of the Form 1099-INT by January 31, 2025. On Form 1099-INT, you should be listed as the "Payer." Prepare one Form 1099-INT for each other owner and show that person as the "Recipient." However, you do not have to file Form 1099-INT to show payments for your spouse.

For more information about the reporting requirements and the penalties for failure to file (or furnish) certain information returns, see the General Instructions for Certain Information Returns.

Similar rules apply to OID reported to you as a nominee on Form 1099-OID. You must file a Form 1099-OID with Form 1096 to show the proper distributions of the OID.

Example. You and your sibling have a joint savings account that paid \$1,500 interest for 2024. Your sibling deposited 30% of the funds in this account, and you and your sibling have agreed to share the yearly interest income in proportion to the amount each of you has invested. Because your SSN was given to the bank, you received a Form 1099-INT for 2024 that includes the interest income earned belonging to your sibling. This amount is \$450, or 30% of the total interest of \$1,500.

You must give your sibling a Form 1099-INT by January 31, 2025, showing \$450 of interest income your sibling earned for 2024. You also must send a copy of the nominee Form 1099-INT, along with Form 1096, to the Internal Revenue Service Center by February 28, 2025 (March 31, 2025, if you file Form 1099-INT electronically). Show your own name, address, and SSN as that of the "Payer" on the Form 1099-INT. Show your sibling's name, address, and SSN in the blocks provided for identification of the "Recipient."

When you prepare your own federal income tax return, report the total amount of interest income, \$1,500, on Schedule B (Form 1040), Part I, line 1, and identify the name of the bank that paid this interest. Show the amount belonging to your sibling, \$450, as a subtraction from a subtotal of all interest on Schedule B (Form 1040) and identify this subtraction as a "Nominee Distribution."

(Your sibling will report the \$450 of interest income on any income tax return your sibling files and identify you as the payer of that amount.)

Original issue discount (OID)

adjustment. If you are reporting OID in an amount less than the amount shown on Form 1099-OID or other written statement (such as for a REMIC regular interest), include the full amount of OID shown on your Form 1099-OID or other statement on Schedule B (Form 1040), Part I, line 1. Show OID you do not have to report below a subtotal of the interest and OID listed. Identify the amount as "OID Adjustment" and subtract it from the subtotal.

Penalty on early withdrawal of savings. If you withdraw funds from a certificate of deposit or other deferred interest account before maturity, you may be charged a penalty. The Form 1099-INT or similar statement given to you by the financial institution will show the total amount of

interest in box 1 and will show the penalty separately in box 2. You must include in income all interest shown in Form 1099-INT, box 1. You can deduct the penalty on Schedule 1 (Form 1040), line 18.

Dividends and Other Distributions

Dividends can be distributions of money, stock, or other property paid to you by a corporation or by a mutual fund. You also may receive dividends through a partnership, an estate, a trust, or an association that is taxed as a corporation. However, some amounts you receive called dividends actually are interest income. See *Dividends that are actually interest*, earlier.

The most common kinds of distributions are:

- Ordinary dividends,
- Capital gain distributions, and
- Nondividend distributions.

Most distributions are paid in cash (check). However, distributions can consist of more stock, stock rights, other property, or services.

Form 1099-DIV. Most corporations use Form 1099-DIV to show you the distributions you received from them during the year. Keep this form with your records. You do not have to attach it to your tax return. Your identifying number may be truncated on any paper Form 1099-DIV you receive.

Dividends not reported on Form 1099-DIV. Even if you do not receive a Form 1099-DIV, you must still report all your taxable dividend income. For example, you may receive distributive shares of dividends from partnerships or S corporations. These dividends are reported to you on Schedule K-1 (Form 1065) and Schedule K-1 (Form 1120-S).

Nominees. If someone receives distributions as a nominee for you, that person will give you a Form 1099-DIV which will show distributions received on your behalf.

If you receive a Form 1099-DIV that includes amounts belonging to another person, see *Nominees* under *How To Report Dividend Income*, later, for more information.

Form 1099-MISC. Certain substitute payments in lieu of dividends or tax-exempt interest received by a broker on your behalf must be reported to you on Form 1099-MISC or a similar statement. See also *Reporting Substitute Payments*, later.

Incorrect amount shown on a Form 1099. If you receive a Form 1099 that shows an incorrect amount (or other incorrect information), you should ask the issuer for a corrected form. The new Form 1099 you receive should be denoted “Corrected.”

Dividends on stock sold. If stock is sold, exchanged, or otherwise disposed of after a dividend is declared but before it is paid, the owner of record (usually the payee shown on the dividend check) must include the dividend in income.

Dividends received in January. If a mutual fund (or other RIC) or real estate investment trust (REIT) declares a dividend (including any exempt-interest dividend or capital gain distribution) in October, November, or December, payable to shareholders of record on a date in one of those months but actually pays the dividend during January of the next calendar year, the shareholder is considered to have received the dividend on December 31 and must report the dividend in the year it was declared.

Ordinary Dividends

Ordinary dividends are the most common type of distribution from a corporation or a

mutual fund. They are paid out of earnings and profits and are ordinary income to you. This means they are not capital gains. You can assume that any dividend you receive on common or preferred stock is an ordinary dividend unless the paying corporation or mutual fund tells you otherwise. Ordinary dividends will be shown on Form 1099-DIV, box 1a.

Qualified Dividends

Qualified dividends are the ordinary dividends subject to the same 0%, 15%, or 20% maximum tax rate that applies to net capital gain. They should be shown in box 1b of the Form 1099-DIV you receive.

See the instructions for Form 1040 to calculate the income tax on net capital gain and qualified dividends.

The maximum rate on qualified dividends applies only if all of the following requirements are met.

- The dividends must have been paid by a U.S. corporation or a qualified foreign corporation. (See Qualified foreign corporation, later.)
- The dividends are not of the type listed later under Dividends that are not qualified dividends.
- You meet the holding period (discussed next).

Holding period. You must have held the stock for more than 60 days during the 121-day period that begins 60 days before the ex-dividend date. The ex-dividend date is the first date following the declaration of a dividend on which the buyer of a stock is not entitled to receive the next dividend payment. When counting the number of days you held the stock, include the day you disposed of the stock, but not the day you acquired it. See the examples below.

Exception for preferred stock. In the case of preferred stock, you must have held the stock more than 90 days during the 181-day period that begins 90 days before the ex-dividend date if the dividends are due to periods totaling more than 366 days. If the preferred dividends are due to periods totaling less than 367 days, the holding period in the preceding paragraph applies.

Example 1. You bought 5,000 shares of XYZ Corp. common stock on July 5, 2024. XYZ Corp. paid a cash dividend of 10 cents per share. The ex-dividend date was July 12, 2024. Your Form 1099-DIV from XYZ Corp. shows \$500 in box 1a (ordinary dividends) and in box 1b (qualified dividends). However, you sold the 5,000 shares on August 8, 2024. You held your shares of XYZ Corp. for only 34 days of the 121-day period (from July 6, 2024, through August 8, 2024). The 121-day period began on May 13, 2024 (60 days before the ex-dividend date),

and ended on September 10, 2024. You have no qualified dividends from XYZ Corp. because you held the XYZ stock for less than 61 days.

Example 2. Assume the same facts as in *Example 1* except that you bought the stock on July 11, 2024 (the day before the ex-dividend date), and you sold the stock on September 13, 2024. You held the stock for 63 days (from July 12, 2024, through September 13, 2024). The \$500 of qualified dividends shown in box 1b of your Form 1099-DIV are all qualified dividends because you held the stock for 61 days of the 121-day period (from July 12, 2024, through September 13, 2024).

Example 3. You bought 10,000 shares of ABC Mutual Fund common stock on July 5, 2024. ABC Mutual Fund paid a cash dividend of 10 cents per share. The ex-dividend date was July 12, 2024.

The ABC Mutual Fund advises you that the portion of the dividend eligible to be treated as qualified dividends equals 2 cents per share. Your Form 1099-DIV from ABC Mutual Fund shows total ordinary dividends of \$1,000 and qualified dividends of \$200. However, you sold the 10,000 shares on August 8, 2024. You have no qualified dividends from ABC Mutual Fund because you held the ABC Mutual Fund stock for less than 61 days.

Holding period reduced where risk of loss is diminished. When determining whether you met the minimum holding period discussed earlier, you cannot count any day during which you meet any of the following conditions.

1. You had an option to sell, were under a contractual obligation to sell, or had made (and not closed) a short sale of substantially identical stock or securities.

2. You were grantor (writer) of an option to buy substantially identical stock or securities.
3. Your risk of loss is diminished by holding one or more other positions in substantially similar or related property.

For information about how to apply condition (3), see Regulations section 1.246-5.

Qualified foreign corporation. A foreign corporation is a qualified foreign corporation if it meets any of the following conditions.

1. The corporation is incorporated in a U.S. territory.
2. The corporation is eligible for the benefits of a comprehensive income tax treaty with the United States that the Department of the Treasury determines is satisfactory for this purpose and that includes an exchange

of information program. For a list of those treaties, see Table 1-3.

3. The corporation does not meet (1) or (2) above, but the stock for which the dividend is paid is readily tradable on an established securities market in the United States. See Readily tradable stock, later.

Exception. A corporation is not a qualified foreign corporation if it is a passive foreign investment company during its tax year in which the dividends are paid or during its previous tax year.

Controlled foreign corporation (CFC).

Dividends paid out of a CFC's earnings and profits that were not previously taxed are qualified dividends if the CFC is otherwise a qualified foreign corporation and the other requirements in this discussion are met.

Certain dividends paid by a CFC that would be treated as a passive foreign investment company but for section 1297(d) of the

Internal Revenue Code may be treated as qualified dividends. For more information, see Notice 2004-70, which can be found at [IRS.gov/irb/2004-44 IRB#NOT-2004-70](https://www.irs.gov/irb/2004-44_IRB#NOT-2004-70).

Readily tradable stock. Any stock or American depositary receipt in respect of that stock is considered to satisfy requirement (3) under *Qualified foreign corporation* if it is listed on a national securities exchange that is registered under section 6 of the Securities Exchange Act of 1934 or on the Nasdaq Stock Market. For a list of the exchanges that meet these requirements, see [National Securities Exchange | Investor.gov](https://www.investor.gov/national-securities-exchange).

Table 1-3. **Income Tax Treaties**

Income tax treaties that the United States has with the following countries satisfy requirement (2) under *Qualified foreign corporation*.

Australia

Indonesia

Romania

Austria	Ireland	Slovak
Bangladesh	Israel	Republic
Bulgaria	Italy	Slovenia
Barbados	Jamaica	South Africa
Belgium	Japan	Spain
Canada	Kazakhstan	Sri Lanka
Chile	Korea	Sweden
China	Latvia	Switzerland
Cyprus	Lithuania	Thailand
Czech	Luxembourg	Trinidad
Republic	Malta	and
Denmark	Mexico	Tobago
Egypt	Morocco	Tunisia
Estonia	Netherlands	Turkey
Finland	New Zealand	Ukraine
France	Norway	United

Germany	Pakistan	Kingdom
Greece	Philippines	Venezuela
Iceland	Poland	
India	Portugal	

Note. For details and effective dates, see Notice 2024-11 in Internal Revenue Bulletin 2024-02, available at [IRS.gov/irb/2024-02_IRB#NOT-2024-11](https://www.irs.gov/irb/2024-02_IRB#NOT-2024-11).



For the latest information about developments related to Pub. 550, such as tax treaties between the United States and particular countries, go to www.irs.gov/Pub550.

Dividends that are not qualified

dividends. The following dividends are not qualified dividends. They are not qualified dividends even if they are shown on Form 1099-DIV, box 1b.

- Capital gain distributions.

- Dividends paid on deposits with mutual savings banks, cooperative banks, credit unions, U.S. building and loan associations, U.S. savings and loan associations, federal savings and loan associations, and similar financial institutions. Report these amounts as interest income.
- Dividends from a corporation that is a tax-exempt organization or farmer's cooperative during the corporation's tax year in which the dividends were paid or during the corporation's previous tax year.
- Dividends paid by a corporation on employer securities held on the date of record by an employee stock ownership plan (ESOP) maintained by that corporation.
- Dividends on any share of stock to the extent you are obligated (whether under a short sale or otherwise) to make related

payments for positions in substantially similar or related property.

- Payments in lieu of dividends, but only if you know or have reason to know the payments are not qualified dividends.
- Payments shown on Form 1099-DIV, box 1b, from a foreign corporation to the extent you know or have reason to know the payments are not qualified dividends.

Dividends Used To Buy More Stock

The corporation in which you own stock may have a dividend reinvestment plan. This plan lets you choose to use your dividends to buy (through an agent) more shares of stock in the corporation instead of receiving the dividends in cash. Most mutual funds also permit shareholders to automatically reinvest distributions in more shares in the fund, instead of receiving cash.

If you use your dividends to buy more stock at a price equal to its fair market value, you must still report the dividends as income.

If you are a member of a dividend reinvestment plan that lets you buy more stock at a price less than its fair market value, you must report as dividend income the fair market value of the additional stock on the dividend payment date.

You also must report as dividend income any service charge subtracted from your cash dividends before the dividends are used to buy the additional stock. But you may be able to deduct the service charge.

In some dividend reinvestment plans, you can invest more cash to buy shares of stock at a price less than fair market value. If you choose to do this, you must report as dividend income the difference between the cash you invest and the fair market value of the stock you buy.

When figuring this amount, use the fair market value of the stock on the dividend payment date.

Money Market Funds

Report amounts you receive from money market funds as dividend income. Money market funds are a type of mutual fund and should not be confused with bank money market accounts that pay interest.

Capital Gain Distributions

Capital gain distributions (also called capital gain dividends) are paid to you or credited to your account by mutual funds (or other regulated investment companies) and real estate investment trusts (REITs). They will be shown in Form 1099-DIV, box 2a you receive from the mutual fund or REIT.

Report capital gain distributions as long-term capital gains, regardless of how long you owned your shares in the mutual fund or REIT.

See Capital gain distributions under *How To Report Dividend Income*, later in this chapter.

Qualified Opportunity Fund (QOF).

Effective December 22, 2017, section 1400Z-2 provides a temporary deferral of inclusion in gross income for capital gains invested in QOFs, and permanent exclusion of capital gains from the sale or exchange of an investment in the QOF if the investment is held for at least 10 years. See the Form 8949 instructions on how to report your election to defer eligible gains invested in a QOF. For additional information, please see Opportunity Zones Frequently Asked Questions available at www.IRS.gov/Newsroom/Opportunity-Zones-Frequently-Asked-Questions.

Qualified Opportunity Investment. If you held a qualified investment in a qualified opportunity fund (QOF) at any time during the year, you must file your return with Form 8997, attached. See Form 8997 instructions.

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