Publication 1212

Guide to Original Issue Discount (OID) InstrumentsBenefits

(Rev. January 2024)

Volume 2 of 2

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Figuring daily OID. The daily OID for the initial accrual period is figured using the following formula.

$$\frac{\left(ip \times \left(\frac{ytm}{n}\right)\right) - qsi}{p}$$

ip = issue price

ytm = yield to maturity

n = number of accrual periods in 1 year

qsi = qualified stated interest

p = number of days in accrual period

The daily OID for subsequent accrual periods is figured the same way except the adjusted issue price at the beginning of each period is used in the formula instead of the issue price.

Example 5. On January 1 of Year 1, you bought a 15-year, 10% (0.10) debt instrument of A Corporation at original issue for $86,235.17. According to the prospectus, the debt instrument matures on December 31 of Year 15 at a stated redemption price of $100,000. The YTM is 12% (0.12), compounded semiannually. The debt instrument provides for qualified stated interest payments of $5,000 on June 30 and December 31 of each calendar year. The accrual periods are the 6-month periods ending on each of these dates. The number of days for the first accrual period (January 1 through June 30) is 181 days (182 for leap years). The daily OID for the first accrual period is figured as follows.

$$\frac{(\$86{,}235.17 \times 0.12/2) - \$5{,}000}{181 \text{ days}}$$

$$= \frac{\$174.11020}{181} = \$0.96193$$

The adjusted issue price at the beginning of the second accrual period is the issue price plus the OID previously includible in income ($86,235.17 + $174.11), or $86,409.28. The number of days for the second accrual period (July 1 through December 31) is 184 days. The daily OID for the second accrual period is figured as follows.

$$\frac{(\$86{,}409.28 \times 0.12/2) - \$5{,}000}{184 \text{ days}}$$

$$= \frac{\$184.55681}{184} = \$1.00303$$

Since the first and second accrual periods coincide exactly with your tax year, you include in income for Year 1 the OID allocable to the first two accrual periods, $174.11 ($0.96193 × 181 days) plus $184.56 ($1.00303 × 184 days), or $358.67. Add the OID to the $10,000 interest you report on your income tax return for Year 1.

Example 6. Assume the same facts as in *Example 5*, except that you bought the debt instrument at original issue on May 1 of Year 1, with a maturity date of April 30, Year 16. Also, the interest payment dates are October

31 and April 30 of each calendar year. The accrual periods are the 6-month periods ending on each of these dates.

The number of days for the first accrual period (May 1 through October 31) is 184 days. The daily OID for the first accrual period is figured as follows.

$$\frac{(\$86{,}235.17 \times 0.12/2) - \$5{,}000}{184 \text{ days}}$$

$$= \frac{\$174.11020}{184} = \$0.94625$$

The number of days for the second accrual period (November 1 through April 30) is 181 days (182 for leap years). The daily OID for the second accrual period is figured as follows.

$$\frac{(\$86{,}409.28 \times 0.12/2) - \$5{,}000}{181 \text{ days}}$$

$$= \frac{\$184.55681}{181} = \$1.01965$$

If you hold the debt instrument through the end of Year 1, you must include $236.31 of OID in income. This is $174.11 ($0.94625 × 184 days) for the period May 1 through October 31 plus $62.20 ($1.01965 × 61 days) for the period November 1 through December 31. The OID is added to the $5,000 interest income paid on October 31 of Year 1. Your basis in the debt instrument is increased by the OID you include in income. On January 1 of Year 2, your basis in the A Corporation debt instrument is $86,471.48 ($86,235.17 + $236.31).

Short first accrual period. You may have to make adjustments if a debt instrument has a short first accrual period. For example, a debt instrument with 6-month accrual periods that is issued on February 15 and matures on October 31 has a short first accrual period that ends April 30. (The remaining accrual periods begin on May 1 and November 1.) For this short period, figure the daily OID as described earlier, but adjust the yield for the length of the short accrual period. You may use any reasonable compounding method in determining OID for a short period. Examples of reasonable compounding methods include continuous compounding and monthly compounding (that is, simple interest within a month). Consult your tax advisor for more information about making this computation.

The OID for the final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period.

Reduction for acquisition premium. If you acquired a debt instrument with OID at an acquisition premium, you must amortize the acquisition premium over the life of the debt instrument. Unless you make the constant yield election under Regulations section 1.1272-3, figure the OID includible in income by reducing the daily OID by the daily acquisition premium.

To figure the daily acquisition premium, multiply the daily OID by the following fraction.

- The numerator is the acquisition premium.
- The denominator is the total OID remaining for the debt instrument after your purchase date.

If your debt instrument is a covered security, your broker may either report a gross amount of OID in box 1 or box 8 and the amount of acquisition premium amortization in box 6, or your broker may report a net OID amount to you in box 1 or box 8, and leave box 6 blank.

If your broker reports a net OID amount in box 1 or box 8, do not deduct acquisition premium amortization from that amount. If your broker reports a gross amount of OID in box 1 or box 8, and the amount of acquisition premium amortization in box 6, follow steps

1.a through 1.c under *Showing an OID adjustment*, earlier.

Example 7. Assume the same facts as in *Example 6*, except that you bought the debt instrument on November 1 of Year 1 for $87,000, after its original issue on May 1 of Year 1. The adjusted issue price on November 1 of Year 1 is $86,409.28 ($86,235.17 + $174.11). In this case, you paid an acquisition premium of $590.72 ($87,000 − $86,409.28). The daily OID for the accrual period November 1 through April 30, reduced for the acquisition premium, is figured as follows.

1)	Daily OID on date of purchase (2nd accrual period)..........		$1.01965*
2)	Acquisition premium..........	$590.72	

3)	Total OID remaining after purchase date ($13,764.83 − $174.11).........	$13,590.72	
4)	Line 2 ÷ line 3...............	0.04346
5)	Line 1 × line 4...............	0.04432
6)	**Daily OID reduced for the acquisition premium. Line 1 − line 5**...............	**$0.97533**

* As shown in *Example 6,* earlier.

The total OID to include in income for Year 1 is $59.50 ($0.97533 × 61 days).

Contingent Payment Debt Instruments

This discussion shows how to figure OID on a contingent payment debt instrument issued after August 12, 1996, that was issued for cash or publicly traded property. In general, a contingent payment debt instrument provides for one or more payments that are contingent as to timing or amount. If you hold a contingent payment debt instrument, you must report OID as it accrues each year.

Contingent payment debt instruments acquired on or after January 1, 2016, are "covered securities." Dispositions of covered and noncovered securities must be reported on Form 8949. The gain or loss on these securities subject to the noncontingent bond method will be adjusted by any amounts shown in column (g) with a corresponding code O in column (f). In general, the gain from the sale of these securities will be ordinary and losses will be ordinary to the extent of prior-year OID inclusions.

Because the actual payments on a contingent payment debt instrument cannot be known in advance, issuers and holders cannot use the

Constant yield method (discussed earlier under *Debt Instruments Issued After 1984*) without making certain assumptions about the payments on the debt instrument. To figure OID accruals on contingent payment debt instruments, holders and issuers must use the noncontingent bond method.

Noncontingent bond method. Under this method, the issuer must figure a comparable yield for the debt instrument and, based on this yield, construct a projected payment schedule for the instrument, which includes a projected fixed amount for each contingent payment. In general, holders and issuers accrue OID on this projected payment schedule using the constant yield method that applies to fixed payment debt instruments. When the actual amount of a contingent payment differs from the projected fixed amount, the holders and issuers make adjustments to their OID accruals. If the actual contingent payment is larger than expected, both the issuer and the holder increase their OID accruals. If the actual contingent payment is smaller than expected, holders and issuers generally decrease their OID accruals.

Form 1099-OID. The amount shown on Form 1099-OID in box 1 you receive for a contingent payment debt instrument may not be the correct amount to include in income. For example, the amount may not be correct if the actual amount of the contingent payment was different from the projected amount. If the amount in box 1 is not correct, you must figure the OID to report on your return under the following rules. For information on showing an OID adjustment on your tax return, see *How To Report OID*, earlier.

Figuring OID. To figure OID on a contingent payment debt instrument, you need to know the “comparable yield” and “projected payment schedule” of the debt instrument.

The issuer must make these available to you. If the issuer does not determine the comparable yield and/or the projected payment schedule, the holder must do so instead.

Comparable yield. The comparable yield is generally the yield at which the issuer would issue a fixed rate debt instrument with terms and conditions similar to those of the contingent payment debt instrument. The comparable yield is determined as of the debt instrument's issue date.

Projected payment schedule. The projected payment schedule for a contingent payment debt instrument includes all fixed payments due under the instrument and a projected fixed amount for each contingent payment. The projected payment schedule is created by the issuer as of the debt instrument's issue date. It is used to determine the issuer's and holder's interest accruals and adjustments. If the issuer does not determine the projected payment schedule, the holder must do so instead.

Steps for figuring OID. Figure the OID on a contingent payment debt instrument in two steps.

1. Figure the OID using the *Constant yield method* (discussed earlier under *Debt Instruments Issued After 1984*) that applies to fixed payment debt instruments. Use the comparable yield as the YTM. In general, use the projected payment schedule to determine the instrument's adjusted issue price at the beginning of each accrual period (other than the initial period). Do not treat any amount payable as qualified stated interest.
2. Adjust the OID in (1) to account for the actual contingent payments. If the actual amount of the contingent payment is greater than the projected fixed amount, you have a positive

adjustment. If the contingent payment is less than the projected fixed amount, you have a negative adjustment.

Net positive adjustment. A net positive adjustment exists for a tax year when the total of any positive adjustments described in (2) above for the tax year is more than the total of any negative adjustments for the tax year. Treat a net positive adjustment as additional OID for the tax year.

Net negative adjustment. A net negative adjustment exists for a tax year when the total of any negative adjustments described in (2) above for the tax year is more than the total of any positive adjustments for the tax year. Use a net negative adjustment to offset OID on the debt instrument for the tax year. If the net negative adjustment is more than the OID on the debt instrument for the tax year, you can claim the difference as an ordinary loss. However, the amount you can claim as an ordinary loss is limited to the OID on the debt instrument you included in income in prior tax years. You must carry forward any net negative adjustment that is more than the total OID for the tax year and treat it as a negative adjustment in the next tax year.

Basis adjustments. In general, increase your basis in a contingent payment debt instrument by the OID included in income. Your basis, however, is not affected by any negative or positive adjustments. Decrease your basis by any noncontingent payment received and the projected contingent payment scheduled to be received.

Treatment of gain or loss on sale or exchange. If you sell a contingent payment debt instrument at a gain, your gain is ordinary income (interest income), even if you hold the debt instrument as a capital asset. If you sell a contingent payment debt instrument at a loss, your loss is an ordinary loss to the extent of your prior OID accruals on the debt instrument. If the debt instrument is a capital asset, treat any loss that is more than your prior OID accruals as a capital loss.

See Regulations section 1.1275-4(b) for exceptions to these rules.

Premium, acquisition premium, and market discount. The rules for accruing premium, acquisition premium, and market discount do not apply to a contingent payment debt instrument. See Regulations section 1.1275-4(b) to determine how to account for these items.

Inflation-Indexed Debt Instruments

This discussion shows how you figure OID on certain inflation-indexed debt instruments issued after January 5, 1997. An inflation-indexed debt instrument is generally a debt instrument on which the payments are adjusted for inflation and deflation (such as TIPS).

In general, if you hold an inflation-indexed debt instrument, you must report as OID any increase in the inflation-adjusted principal amount of the debt instrument that occurs while you held the debt instrument during the tax year. You must include the OID in gross income whether or not you hold the debt instrument as a capital asset. Your basis in the debt instrument is increased by the OID you include in income.

Inflation-indexed debt instruments acquired on or after January 1, 2016, are “covered securities.” Dispositions of covered and noncovered securities must be reported on Form 8949.

Inflation-adjusted principal amount. For any date, the inflation-adjusted principal amount of an inflation-indexed debt instrument is the debt instrument's outstanding principal amount multiplied by the index ratio for that date. (For TIPS, multiply the par value by the index ratio for that date.) For this purpose, determine the outstanding principal amount as if there were no inflation or deflation over the term of the debt instrument.

Index ratio. This is a fraction, the numerator of which is the value of the reference index for the date and the denominator of which is the value of the reference index for the debt instrument's issue date.

A reference index measures inflation and deflation over the term of a debt instrument. Its value is reset each month to a current value of a single qualified inflation index (for example, the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U), published by the *Department of Labor*). The value of the index for any date between reset dates is determined through straight-line interpolation.

The daily index ratios for TIPS are available on the Internet at *TreasuryDirect.gov/instit/annceresult/tipscpi/tipscpi.htm*.

Form 1099-OID. The amount shown in box 8 of the Form 1099-OID you receive for an inflation-indexed debt instrument may not be the correct amount to include in income. For example, the amount may not be correct if you bought the debt instrument other than at original issue or sold it during the year. If the amount shown in box 8 is not correct, you must figure the OID to report on your return under the following rules. For information about showing an OID adjustment on your tax return, see *How To Report OID*, earlier.

Figuring OID. Figure the OID on an inflation-indexed debt instrument using one of the following methods.

- The **coupon bond method**, described in the following discussion, applies if the debt instrument is issued at par (as determined under Regulations section 1.1275-7(d)(2) (i)), all stated interest payable on the debt instrument is qualified stated interest, and the coupons have not been stripped from the debt instrument. This method applies to TIPS, including TIPS issued with more than a de minimis amount of premium (see Regulations section 1.1275-7).

- The **discount bond method** applies to any inflation-indexed debt instrument that does not qualify for the coupon bond method, such as a stripped debt instrument. This method is described in Regulations section 1.1275-7(e).

Under the coupon bond method, figure the OID you must report for the tax year as follows.

Debt instrument held at the end of the tax year. If you held the debt instrument at the end of the tax year, figure your OID for the year using the following steps.

1. Add the inflation-adjusted principal amount for the day after the last day of the tax year and any principal payments you received during the year. (For TIPS, multiply the par value by the index ratio for the day after the last day of the tax year, and add any principal payments received.)
2. Subtract from (1) above the inflation-adjusted principal amount for the first day on which you held the debt instrument during the tax year. (For TIPS, subtract from (1) above the product of the par value times the index ratio for the first day held during the tax year.)

Interest is reported separately, as discussed later under *Stated interest*, later.

Debt instrument sold or retired during the tax year. If you sold the debt instrument during the tax year, or if it was retired, figure your OID for the year using the following steps.

1. Add the inflation-adjusted principal amount for the last day on which you held the debt instrument during the tax year and any principal payments you received during the year. (For TIPS, multiply the par value by the index ratio for the sale or retirement date, and add any principal payments received.)

2. Subtract from (1) above the inflation-adjusted principal amount for the first day on which you held the debt instrument during the tax year. (For TIPS, subtract from (1) above the product of the par value times the index ratio for the first day held during the tax year.)

Interest is reported separately, as discussed later under <u>*Stated interest*</u>, later

Example 8. On February 6 of Year 9, you bought an old 10-year, 3.375% (0.03375) inflation-indexed debt instrument (maturing January 15 of Year 11) for $9,831. The stated principal (par value) amount is $10,000 and the inflation-adjusted principal amount for February 6 of Year 9 is $12,047.50 ($10,000 par value times 1.20475 index ratio). You held the debt instrument until August 29 of Year 9 when the inflation-adjusted principal amount was $12,275.70 ($10,000 par value times 1.22757 index ratio). Your OID for Year 9 is $228.20 ($12,275.70 − $12,047.50). Your basis in the debt instrument on August 29 of Year 9 was $10,059.20 ($9,831 cost + $228.20 OID) for Year 9.

Stated interest. Under the coupon bond method, you report any stated interest on the debt instrument under your regular method of accounting. For example, if you use the cash method, you generally include in income for the tax year any interest payments received on the debt instrument during the year.

Deflation adjustments. If your calculation to figure OID on an inflation-indexed debt instrument produces a negative number, you do not have any OID. Instead, you have a deflation adjustment. A deflation adjustment is generally used to offset interest income from the debt instrument for the tax year. Show this offset as an adjustment on your Schedule B (Form 1040) in the same way you would show an OID adjustment. See *How To Report OID*, earlier.

You decrease your basis in the debt instrument by the deflation adjustment used to offset interest income.

Example 9. Assume the same facts as in *Example 8*, except that you bought the debt instrument for $9,831 on January 6 of Year 9, when the inflation-adjusted principal amount was $12,050.10, and sold the debt instrument on March 1 of Year 9, when the inflation-adjusted principal amount was $12,011.20. Because the OID calculation for Year 9 ($12,011.20 − $12,050.10) produces a negative number (negative $38.90), you have a deflation adjustment. You use this deflation adjustment to offset the stated interest reported to you on the debt instrument.

Your basis in the debt instrument on March 1 of Year 9 is $9,792.10 ($9,831 cost − $38.90 deflation adjustment).

Premium on inflation-indexed debt instruments. In general, any premium on an inflation-indexed debt instrument is determined as of the date you acquire the debt instrument by assuming there will be no further inflation or deflation over the remaining term of the debt instrument. You allocate any premium over the remaining term of the debt instrument by making the same assumption. In general, the premium allocable to a tax year offsets the interest otherwise includible in income for the year. If the premium allocable to the year is more than that interest, the difference generally offsets the OID on the debt instrument for the year. See Regulations section 1.1275-7 for an example applying the coupon bond method to a TIPS issued with more than a de minimis amount of premium.

Figuring OID on Stripped Bonds and Coupons

If you strip one or more coupons from a bond and then sell or otherwise dispose of the bond or the stripped coupons, they 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 an interest payment on the bond. The rule requiring the holder of a debt instrument issued with OID to include the OID in gross income as it accrues applies to stripped bonds and coupons acquired after

July 1, 1982. See *Debt Instruments and Coupons Purchased After July 1, 1982, and Before 1985* or *Debt Instruments and Coupons Purchased After 1984*, later, for information about figuring the OID to report.

Stripped bonds and coupons include the following instruments.

- Zero coupon bonds available through the Department of the Treasury's STRIPS program and government-sponsored enterprises such as the Resolution Funding Corporation and the Financing Corporation.
- Debt instruments backed by U.S. Treasury securities that represent ownership interests in those securities. Examples include obligations backed by U.S. Treasury bonds that are offered primarily by brokerage firms (variously called CATS, TIGRs, etc.).

Seller of stripped bonds or coupons. 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 the interest was not previously included in your income. For an obligation acquired after October 22, 1986, you must also include the market discount that accrued before the date of sale of the stripped bond (or coupon) to the extent the discount was not previously included in your income.

Add the interest and market discount you include in income to the basis of the bond and coupons. This adjusted basis is then allocated 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 the gain or loss from the sale.

Treat any item you keep as an OID bond originally issued and purchased by you on the sale date of the other items. If you keep the bond, treat the excess of the redemption price of the bond over the basis of the bond as OID. If you keep the coupons, treat the excess of the amount payable on the coupons over the basis of the coupons as OID.

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

Form 1099-OID

The amount shown in box 8 of the Form 1099-OID you receive for a stripped bond or coupon may not be the proper amount to include in income. If not, you must figure the OID to report on your return under the rules that follow. For information about showing an OID adjustment on your tax return, see *How To Report OID*, earlier.

Tax-Exempt Bonds and Coupons

The OID on a stripped tax-exempt bond, or on a stripped coupon from such a bond, is generally not taxable. However, if you acquired the stripped bond or coupon after October 22, 1986, you must accrue OID on it to determine its basis when you dispose of it. How you figure accrued OID and whether any OID is taxable depend on the date you bought (or are treated as having bought) the stripped bond or coupon.

Acquired before June 11, 1987. None of the OID on bonds or coupons acquired before this date is taxable. The accrued OID is added to the basis of the bond or coupon. The accrued OID is the amount that produces a YTM, based on your purchase date and purchase price, equal to the lower of the following rates.

1. The coupon rate on the bond before the separation of coupons. (However, if you can establish the YTM of the bond (with all coupons attached) at the time of its original issue, you can use that YTM instead.) 2. The YTM of the stripped bond or coupon.

Increase your basis in the stripped tax-exempt bond or coupon by the interest that accrued but was neither paid nor previously reflected in your basis before the date you sold the bond or coupon.

Acquired after June 10, 1987. Part of the OID on bonds or coupons acquired after this date may be taxable. Figure the taxable part in three steps.

Step 1. Figure OID as if all taxable. First, figure the OID following the rules in this section as if all the OID were taxable. (See *Debt Instruments and Coupons Purchased After 1984*, later.) Use the YTM based on the date you obtained the stripped bond or coupon.

Step 2. Determine nontaxable part. Find the issue price that would produce a YTM as of the purchase date equal to the lower of the following rates.

1. The coupon rate on the bond from which the coupons were separated. (However, you can use the original YTM instead.)

2. The YTM based on the purchase date and purchase price of the stripped coupon or bond.

Subtract this issue price from the stated redemption price of the bond at maturity (or, in the case of a coupon, the amount payable on the due date of the coupon). The result is the part of the OID treated as nontaxable OID on a stripped tax-exempt bond or coupon.

Step 3. Determine taxable part. The taxable part of OID is the OID determined in *Step 1* minus the nontaxable part determined in *Step 2*.

Exception. None of the OID on your stripped tax-exempt bond or coupon is taxable if you bought it from a person who held it for sale on June 10, 1987, in the ordinary course of that person's trade or business.

Basis adjustment. Increase the basis of your stripped tax-exempt bond or coupon by the taxable and nontaxable accrued OID. If you own a tax-exempt bond from which one or more coupons have been stripped, increase your basis in it by the sum of the interest accrued but not paid before you dispose of it (and not previously reflected in basis) and any accrued market discount to the extent not previously included in your income.

Example 10. Assume that a tax-exempt bond with a face amount of $100 due January 1 of Year 4 and a coupon rate of 10% (0.10) (compounded semiannually) was issued for $100 on January 1 of Year 1. On January 1 of Year 2, the bond was stripped and you bought the right to receive the principal amount for $79.21. The stripped bond is treated as if it was originally issued on January 1 of Year 2 with OID of $20.79 ($100.00 − $79.21). This reflects a YTM at the time of the strip of 12% (0.12) (compounded semiannually). The tax-exempt part of OID on the stripped bond is limited to $17.73. This is the difference between the redemption price ($100) and the issue price that would produce a YTM of 10% (0.10) ($82.27). This part of the OID is treated as OID on a tax-exempt obligation.

The OID on the stripped bond that is more than the tax-exempt part is $3.06. This is the excess of the total OID ($20.79) over the tax-exempt part ($17.73). This part of the OID

($3.06) is treated as OID on an obligation that is not tax-exempt.

The total OID allocable to the accrual period ending June 30 of Year 2 is $4.75 (6% (0.06) × $79.21). Of this, $4.11 (5% (0.05) × $82.27) is treated as OID on a tax-exempt obligation and $0.64 ($4.75 − $4.11) is treated as OID on an obligation that is not tax-exempt. Your basis in the debt instrument as of June 30 of Year 2 is increased to $83.96 ($79.21 purchase price + accrued OID of $4.75).

Debt Instruments and Coupons Purchased After July 1, 1982, and Before 1985

If you purchased a stripped bond or coupon after July 1, 1982, and before 1985, and you held that debt instrument as a capital asset during any part of a calendar year, you must figure the OID to be included in income using a constant yield method. Under this method, OID is allocated over the time you hold the debt instrument by adjusting the acquisition price for each accrual period. The OID for the accrual period is figured by multiplying the adjusted acquisition price at the beginning of the period by the YTM.

Adjusted acquisition price. The adjusted acquisition price of a stripped bond or coupon at the beginning of the first accrual period is its purchase (or acquisition) price. The adjusted acquisition price at the beginning of any subsequent accrual period is the sum of the acquisition price and all of the OID includible in income before that accrual period.

Accrual period. An accrual period for any stripped bond or coupon acquired before 1985 is each year period beginning on the date of the purchase of the obligation and each anniversary thereafter, or the shorter period to maturity for the last accrual period.

Yield to maturity (YTM). In general, the YTM of a stripped bond or coupon is the discount rate that, when used in figuring the present value of all principal and interest payments, produces an amount equal to the acquisition price of the debt instrument or coupon.

Figuring YTM. If you purchased a stripped bond or coupon after July 1, 1982, but before 1985, and the period from your purchase date to the day the debt instrument matures can be divided exactly into full 1-year periods without including a shorter period, then the YTM can be figured by applying the following formula.

$$\left(\left(\frac{srp}{ap}\right)^{\frac{1}{m}}\right) - 1$$

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srp = stated redemption price at maturity

ap = acquisition price

m = number of full accrual periods from purchase to maturity

If the debt instrument is a stripped coupon, the stated redemption price is the amount payable on the due date of the coupon.

If the period between your purchase date and the maturity date (or due date) of the debt instrument does not divide into an exact number of full 1-year periods, so that a period shorter than 1 year must be included, consult your broker or your tax advisor for information about figuring the YTM.

Daily OID. The OID for any accrual period is allocated equally to each day in the accrual period. You figure the amount to include in income by adding the daily OID amounts for each day you hold the debt instrument during the year. If your tax year includes parts of more than one accrual period (which will be the case unless the accrual period coincides with your tax year), you must include the proper daily OID amounts for each of the two accrual periods.

The daily OID for the initial accrual period is figured by applying the following formula.

$$\frac{(ap \times ytm)}{p}$$

ap = acquisition price

ytm = yield to maturity

p = number of days in accrual period

The daily OID for subsequent accrual periods is figured in the same way, except the adjusted acquisition price at the beginning of each period is used in the formula instead of the acquisition price.

The rules for figuring OID on these debt instruments are similar to those in *Debt Instruments Issued After July 1, 1982, and Before 1985*, earlier.

Debt Instruments and Coupons Purchased After 1984

If you purchased a stripped bond or coupon (other than a stripped inflation-indexed debt instrument) after 1984, and you held that debt instrument during any part of a calendar year, you must figure the OID to be included in income using a constant yield method. Under this method, OID is allocated over the time you hold the debt instrument by adjusting the acquisition price for each accrual period. The OID for the accrual period is figured by multiplying the adjusted acquisition price at the beginning of the period by a fraction. The numerator of the fraction is the debt instrument's YTM, and the denominator is the number of accrual periods per year.

If the stripped bond or coupon is an inflation-indexed instrument, you must figure the OID to be included in income using the discount bond method described in Regulations section 1.1275-7(e).

Adjusted acquisition price. The adjusted acquisition price of a stripped bond or coupon at the beginning of the first accrual period is its purchase (or acquisition) price. The adjusted acquisition price at the beginning of any subsequent accrual period is the sum of the acquisition price and all of the OID includible in income before that accrual period.

Accrual period. For a stripped bond or coupon acquired after 1984, and before April 4, 1994, an accrual period is each 6-month period that ends on the day that corresponds to the stated maturity date of the stripped bond (or payment date of a stripped coupon) or the date 6 months before that date. For example, a stripped bond that has a maturity date (or a stripped coupon that has a payment date) of March 31 has accrual periods that end on September 30 and March

31 of each calendar year. Any short period is included as the first accrual period.

For a stripped bond or coupon acquired after April 3, 1994, accrual periods may be of any length and may vary in length over the term of the debt instrument, as long as each accrual period is no longer than 1 year and all payments are made on the first or last day of an accrual period.

Yield to maturity (YTM). In general, the YTM of a stripped bond or coupon is the discount rate that, when used in figuring the present value of all principal and interest payments, produces an amount equal to the acquisition price.

Figuring YTM. How you figure the YTM for a stripped debt instrument or coupon purchased after 1984 depends on whether you have equal accrual periods or a short initial accrual period.

1. Equal accrual periods. If the period from the date you purchased a stripped bond or coupon to the maturity date can be divided evenly into full accrual periods without including a shorter period, you can figure the YTM by using the following formula.

$$n \times \left(\left(\frac{srp}{ap} \right)^{\frac{1}{m}} - 1 \right)$$

n = number of accrual periods in 1 year

srp = stated redemption price at maturity

ap = acquisition price

m = number of full accrual periods from purchase to maturity

If the debt instrument is a stripped coupon, the stated redemption price is the amount payable on the due date of the coupon.

Example 11. On May 15 of Year 1, you bought a coupon stripped from a U.S. Treasury bond through the Department of the

Treasury's STRIPS program for $38,000. An amount of $100,000 is payable on the coupon's due date,

November 14 of Year 13. There are exactly 25 6-month periods between the purchase date, May 15 of Year 1, and the coupon's due date, November 14 of Year 13. The YTM on this stripped coupon is figured as follows.

$$2 \times \left(\left(\frac{\$100{,}000}{\$38{,}000} \right)^{\frac{1}{25}} - 1 \right)$$

$$= 2 \times (1.03946 - 1) = 0.07892 = 7.892\%$$

Use 7.892% (0.07892) YTM to figure the OID for each accrual period or partial accrual period for which you must report OID.

2. Short initial accrual period. If the period from the date you purchased a stripped bond or coupon to the date of its maturity cannot be divided evenly into accrual periods, so that a shorter period must be included, you can figure the YTM by using the following formula (the exact method).

$$n \times \left(\left(\frac{srp}{ap} \right)^{\left(\frac{1}{\frac{r}{s} + m} \right)} - 1 \right)$$

n = number of accrual periods in 1 year

srp = stated redemption price at maturity

ap = acquisition price

r = number of days from purchase to end of short accrual period

s = number of days in accrual period ending on last day of short accrual period

m = number of full accrual periods from purchase to maturity

Example 12. On May 30 of Year 1, you bought a coupon stripped from a U.S. Treasury bond through the Department of the Treasury's STRIPS program for $60,000.

$100,000 is payable on the coupon's due date, August 11 of Year 7. You decide to figure OID using 6-month accrual periods. There are 12 full 6-month accrual periods and a 74-day short initial accrual period from the purchase date to the coupon's due date. The YTM on this stripped coupon is figured as follows.

$$2 \times \left(\left(\left(\frac{\$100{,}000}{\$60{,}000} \right)^{\left(\frac{1}{\frac{74}{181} + 12} \right)} \right) - 1 \right)$$

$$= 2 \times (1.04203 - 1) = 0.08406 = 8.406\%$$

Use 8.406% (0.08406) YTM to figure the OID for each accrual period or partial accrual period for which you must report OID.

Daily OID. The OID for any accrual period is allocated equally to each day in the accrual period. You must include in income the sum of the daily OID amounts for each day you hold the debt instrument during the year. Since your tax year will usually include parts of two or more accrual periods, you must include the proper daily OID amounts for each accrual period.

Figuring daily OID. For the initial accrual period of a stripped bond or coupon acquired after 1984, figure the daily OID using *Formula 1*, later, if there are equal accrual periods. Use *Formula 2*, later, if there is a short initial accrual period.

For subsequent accrual periods, figure the daily OID using *Formula 1* (whether or not there was a short initial accrual period), but use the adjusted acquisition price in the formula instead of the acquisition price.

Formula 1.

$$\frac{ap \times ytm/n}{p}$$

Formula 2.

$$\frac{\left(ap \;\; x \left(1 + \frac{ytm}{n}\right)^{\left(\frac{r}{s}\right)}\right) - ap}{r}$$

ap = acquisition price

ytm = yield to maturity

n = number of accrual periods in 1 year

p = number of days in accrual period

r = number of days from purchase to end of short accrual period

s = number of days in accrual period ending on last day of short accrual period

The rules for figuring OID on these debt instruments are similar to those illustrated in *Example 5* and *Example 6*, earlier, under *Debt Instruments Issued After 1984*.

Example 13. Assume the same facts as in *Example 12* and that you held the coupon for the rest of Year 1.

For the short initial accrual period from May 30 through August 11, the daily OID is figured using *Formula 2*, as follows.

$$\frac{\left(\$60{,}000 \times \left(1 + \frac{0.08406}{2}\right)^{\left(\frac{74}{181}\right)}\right) - \$60{,}000}{74}$$

$$= \frac{\$1{,}018.48}{74} = \$13.76327$$

The OID for this period is $1,018.48 ($13.76327 × 74 days).

For the second accrual period from August 12 of Year 1 through February 11 of Year 2, the adjusted acquisition price is $61,018.48. This is the original $60,000 acquisition price plus $1,018.48 OID for the short initial accrual period. The daily OID is figured using *Formula 1*, as follows.

$$\frac{\$61{,}018.48 \times (0.08406/2)}{184}$$

$$= \frac{\$2{,}564.60671}{184} = \$13.93808$$

The OID for the part of this period included in Year 1 (August 12–December 31) is $1,979.21 ($13.93808 × 142 days).

The OID to be reported on your income tax return for Year 1 is $2,997.69 ($1,018.48 + $1,979.21).

Final accrual period. The OID for the final accrual period for a stripped bond or coupon is the amount payable at maturity of the stripped bond (or interest payable on the stripped coupon) minus the adjusted acquisition price at the beginning of the final accrual period. The daily OID for the final accrual period is figured by dividing the OID for the period by the number of days in the period.

How To Get Tax Help

If you have questions about a tax issue; need

help preparing your tax return; or want to download free publications, forms, or instructions, go to *IRS.gov* to find resources that can help you right away.

Preparing and filing your tax return. After receiving all your wage and earnings statements (Forms W-2, W-2G, 1099-R, 1099-MISC, 1099-NEC, etc.); unemployment compensation statements (by mail or in a digital format) or other government payment statements (Form 1099-G); and interest, dividend, and retirement statements from banks and investment firms (Forms 1099), you have several options to choose from to prepare and file your tax return. You can prepare the tax return yourself, see if you qualify for free tax preparation, or hire a tax professional to prepare your return.

Free options for tax preparation. Your options for preparing and filing your return online or in your local community, if you qualify, include the following.

- **Free File.** This program lets you prepare and file your federal individual income tax return for free using software or Free File Fillable Forms. However, state tax preparation may not be available through Free File. Go to *IRS.gov/FreeFile* to see if you qualify for free online federal tax preparation, e-filing, and direct deposit or payment options.
- **VITA.** The Volunteer Income Tax Assistance (VITA) program offers free tax help to people with low-to-moderate incomes, persons with disabilities, and limited-English-speaking taxpayers who need help preparing their own tax returns.

Go to *IRS.gov/VITA*, download the free IRS2Go app, or call 800-906-9887 for information on free tax return preparation.

- **TCE.** The Tax Counseling for the Elderly (TCE) program offers free tax help for all taxpayers, particularly those who are 60 years of age and older. TCE volunteers specialize in answering questions about pensions and retirement-related issues unique to seniors. Go to *IRS.gov/TCE* or download the free IRS2Go app for information on free tax return preparation.
- **MilTax.** Members of the U.S. Armed Forces and qualified veterans may use MilTax, a free tax service offered by the Department of Defense through Military OneSource. For more information, go to *MilitaryOneSource* (*MilitaryOneSource.mil/MilTax*).

Also, the IRS offers Free Fillable Forms, which can be completed online and then e-filed regardless of income.

Using online tools to help prepare your return. Go to *IRS.gov/Tools* for the following.

- The *Earned Income Tax Credit Assistant* (*IRS.gov/EITCAssistant*) determines if you're eligible for the earned income credit (EIC).
- The *Online EIN Application* (*IRS.gov/EIN*) helps you get an employer identification number (EIN) at no cost.
- The *Tax Withholding Estimator (IRS.gov/W4App*) makes it easier for you to estimate the federal income tax you want your employer to withhold from your paycheck. This is tax withholding. See how your withholding affects your refund, take-home pay, or tax due.
- The *First-Time Homebuyer Credit Account Look-up* (*IRS.gov/HomeBuyer*) tool

provides information on your repayments and account balance.

- The *Sales Tax Deduction Calculator* (*IRS.gov/SalesTax*) figures the amount you can claim if you itemize deductions on Schedule A (Form 1040).

Getting answers to your tax questions. On IRS.gov, you can get up-to-date information on current events and changes in tax law.

- *IRS.gov/Help*: A variety of tools to help you get answers to some of the most common tax questions.

- *IRS.gov/ITA*: The Interactive Tax Assistant, a tool that will ask you questions and, based on your input, provide answers on a number of tax topics.

- *IRS.gov/Forms*: Find forms, instructions, and publications. You will find details on the most recent tax changes and interactive links to help you find answers to your questions.

- You may also be able to access tax information in your e-filing software.

Need someone to prepare your tax return? There are various types of tax return preparers, including enrolled agents, certified public accountants (CPAs), accountants, and many others who don’t have professional credentials. If you choose to have someone prepare your tax return, choose that preparer wisely. A paid tax preparer is:

- Primarily responsible for the overall substantive accuracy of your return,
- Required to sign the return, and
- Required to include their preparer tax identification number (PTIN).

CAUTION *Although the tax preparer always signs the return, you're ultimately responsible for providing all the* *information required for the preparer to accurately prepare your return and for the accuracy of every item reported on the return. Anyone paid to prepare tax returns for others should have a thorough understanding of tax matters. For more information on how to choose a tax preparer, go to Tips for Choosing a Tax Preparer on IRS.gov.*

Employers can register to use Business Services Online. The Social Security Administration (SSA) offers online service at *SSA.gov/ employer* for fast, free, and secure W-2 filing options to CPAs, accountants, enrolled agents, and individuals who process Form W-2, Wage and Tax Statement, and Form W-2c, Corrected Wage and Tax Statement.

IRS social media. Go to *IRS.gov/SocialMedia* to see the various social media tools the IRS uses to share the latest information on tax changes, scam alerts, initiatives, products, and services. At the IRS, privacy and security are our highest priority. We use these tools to share public information with you. **Don’t** post your social security number (SSN) or other confidential information on social media sites. Always protect your identity when using any social networking site.

The following IRS YouTube channels provide short, informative videos on various tax-related topics in English, Spanish, and ASL.

- *Youtube.com/irsvideos*.
- *Youtube.com/irsvideosmultilingua*.
- *Youtube.com/irsvideosASL*.

Watching IRS videos. The IRS Video portal *(IRSVideos.gov)* contains video and audio presentations for individuals, small businesses, and tax professionals.

Online tax information in other languages. You can find information on *IRS.gov/ MyLanguage* if English isn't your native language.

Free Over-the-Phone Interpreter (OPI) Service. The IRS is committed to serving taxpayers with limited-English proficiency (LEP) by offering OPI services. The OPI Service is a federally funded program and is available at Taxpayer Assistance Centers (TACs), most IRS offices, and every VITA/TCE tax return site. The OPI Service is accessible in more than 350 languages.

Accessibility Helpline available for taxpayers with disabilities. Taxpayers who need information about accessibility services can call 833-690-0598. The Accessibility Helpline can answer questions related to current and future accessibility products and services available in alternative media formats (for example, braille, large print, audio, etc.). The Accessibility Helpline does not have access to your IRS account. For help with tax law, refunds, or account-related issues, go to *IRS.gov/LetUsHelp*.

Note. Form 9000, Alternative Media Preference, or Form 9000(SP) allows you to elect to receive certain types of written correspondence in the following formats.

- Standard Print.
- Large Print.
- Braille.
- Audio (MP3).
- Plain Text File (TXT).
- Braille Ready File (BRF).

Disasters. Go to *IRS.gov/DisasterRelief* to review the available disaster tax relief.

Getting tax forms and publications. Go to *IRS.gov/Forms* to view, download, or print all the forms, instructions, and publications you may need. Or, you can go to *IRS.gov/OrderForms* to place an order.

Getting tax publications and instructions in eBook format. Download and view most tax publications and instructions (including the Instructions for Form 1040) on mobile devices as eBooks at *IRS.gov/eBooks*.

IRS eBooks have been tested using Apple's iBooks for iPad. Our eBooks haven’t been tested on other dedicated eBook readers, and eBook functionality may not operate as intended.

Access your online account (individual taxpayers only). Go to *IRS.gov/Account* to securely access information about your federal tax account.

- View the amount you owe and a breakdown by tax year.
- See payment plan details or apply for a new payment plan.

- Make a payment or view 5 years of payment history and any pending or scheduled payments.
- Access your tax records, including key data from your most recent tax return, and transcripts.
- View digital copies of select notices from the IRS.
- Approve or reject authorization requests from tax professionals.
- View your address on file or manage your communication preferences.

Get a transcript of your return. With an online account, you can access a variety of information to help you during the filing season. You can get a transcript, review your most recently filed tax return, and get your adjusted gross income. Create or access your online account at *IRS.gov/Account*.

Tax Pro Account. This tool lets your tax professional submit an authorization request to access your individual taxpayer IRS online account. For more information, go to *IRS.gov/TaxProAccount*.

Using direct deposit. The safest and easiest way to receive a tax refund is to e-file and choose direct deposit, which securely and electronically transfers your refund directly into your financial account. Direct deposit also avoids the possibility that your check could be lost, stolen, destroyed, or returned undeliverable to the IRS. Eight in 10 taxpayers use direct deposit to receive their refunds. If you don’t have a bank account, go to *IRS.gov/DirectDeposit* for more information on where to find a bank or credit union that can open an account online.

Reporting and resolving your tax-related identity theft issues.

- Tax-related identity theft happens when someone steals your personal information to commit tax fraud. Your taxes can be affected if your SSN is used to file a fraudulent return or to claim a refund or credit.

- The IRS doesn’t initiate contact with taxpayers by email, text messages (including shortened links), telephone calls, or social media channels to request or verify personal or financial information. This includes requests for personal identification numbers (PINs), passwords, or similar information for credit cards, banks, or other financial accounts.
- Go to *IRS.gov/IdentityTheft,* the IRS Identity Theft Central webpage, for information on identity theft and data security protection for taxpayers, tax professionals, and businesses. If your SSN has been lost or stolen or you suspect you’re a victim of tax-related identity theft, you can learn what steps you should take.

- Get an Identity Protection PIN (IP PIN). IP PINs are six-digit numbers assigned to taxpayers to help prevent the misuse of their SSNs on fraudulent federal income tax returns. When you have an IP PIN, it prevents someone else from filing a tax return with your SSN. To learn more, go to *IRS.gov/IPPIN*.

Ways to check on the status of your refund.

- Go to *IRS.gov/Refunds*.
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 800-829-1954.

The IRS can't issue refunds before mid-February for returns that claimed the EIC or the additional child tax credit (ACTC). This applies to the entire refund, not just the portion associated with these credits.

Making a tax payment. Payments of U.S. tax must be remitted to the IRS in U.S. dollars. *Digital assets* are **not** accepted. Go to *IRS.gov/ Payments* for information on how to make a payment using any of the following options.

- *IRS Direct Pay*: Pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you.
- *Debit Card, Credit Card, or Digital Wallet*: Choose an approved payment processor to pay online or by phone.
- *Electronic Funds Withdrawal*: Schedule a payment when filing your federal taxes using tax return preparation software or through a tax professional.
- *Electronic Federal Tax Payment System*: Best option for businesses. Enrollment is required.

- *Check or Money Order*: Mail your payment to the address listed on the notice or instructions.
- *Cash*: You may be able to pay your taxes with cash at a participating retail store.
- *Same-Day Wire*: You may be able to do same-day wire from your financial institution. Contact your financial institution for availability, cost, and time frames.

Note. The IRS uses the latest encryption technology to ensure that the electronic payments you make online, by phone, or from a mobile device using the IRS2Go app are safe and secure. Paying electronically is quick, easy, and faster than mailing in a check or money order.

What if I can't pay now? Go to *IRS.gov/Payments* for more information about your options.

- Apply for an *online payment agreement* (*IRS.gov/OPA*) to meet your tax obligation in monthly installments if you can’t pay your taxes in full today. Once you complete the online process, you will receive immediate notification of whether your agreement has been approved.
- Use the *Offer in Compromise Pre-Qualifier* to see if you can settle your tax debt for less than the full amount you owe. For more information on the Offer in Compromise program, go to *IRS.gov/OIC*.

Filing an amended return. Go to *IRS.gov/Form1040X* for information and updates.

Checking the status of your amended return. Go to *IRS.gov/WMAR* to track the status of Form 1040-X amended returns.

CAUTION *It can take up to 3 weeks from the date you filed your amended return for it to show up in our system, and processing it can take up to 16 weeks.*

Understanding an IRS notice or letter you've received. Go to *IRS.gov/Notices* to find additional information about responding to an IRS notice or letter.

Responding to an IRS notice or letter. You can now upload responses to all notices and letters using the Document Upload Tool. For notices that require additional action, taxpayers will be redirected appropriately on IRS.gov to take further action. To learn more about the tool go to *IRS.gov/Upload*.

Note. You can use Schedule LEP (Form 1040), Request for Change in Language Preference, to state a preference to receive notices, letters, or other written communications from the IRS in an alternative language. You may not immediately receive written communications in the requested language. The IRS's commitment to LEP taxpayers is part of a multi-year timeline that began providing translations in 2023. You will continue to receive communications, including notices and letters, in English until they are translated to your preferred language.

Contacting your local TAC. Keep in mind, many questions can be answered on IRS.gov without visiting a TAC. Go to *IRS.gov/LetUsHelp* for the topics people ask about most. If you still need help, TACs provide tax help when a tax issue can’t be handled online or by phone. All TACs now provide service by appointment, so you’ll know in advance that you can get the service you need without long wait times. Before you visit, go to *IRS.gov/TACLocator* to find the nearest TAC and to check hours, available services, and appointment options. Or, on the IRS2Go app, under the Stay Connected tab, choose the Contact Us option and click on “Local Offices.”

The Taxpayer Advocate Service (TAS) Is Here To Help You

What Is TAS?

TAS is an ***independent*** organization within the IRS that helps taxpayers and protects taxpayer rights. TAS strives to ensure that every taxpayer is treated fairly and that you know and understand your rights under the *Taxpayer Bill of Rights*.

How Can You Learn About Your Taxpayer Rights?

The Taxpayer Bill of Rights describes 10 basic rights that all taxpayers have when dealing with the IRS. Go to *TaxpayerAdvocate.IRS.gov* to help you understand what these rights mean to you and how they apply. These are ***your*** rights. Know them. Use them.

What Can TAS Do for You?

TAS can help you resolve problems that you can't resolve with the IRS. And their service is free. If you qualify for their assistance, you will be assigned to one advocate who will work with you throughout the process and will do everything possible to resolve your issue. TAS can help you if:

- Your problem is causing financial difficulty for you, your family, or your business;
- You face (or your business is facing) an immediate threat of adverse action; or
- You've tried repeatedly to contact the IRS but no one has responded, or the IRS hasn't responded by the date promised.

How Can You Reach TAS?

TAS has offices *in every state, the District of Columbia, and Puerto Rico*. To find your advocate's number:

- Go to *TaxpayerAdvocate.IRS.gov/ContactUs;*
- Download Pub. 1546, The Taxpayer Advocate Service Is Your Voice at the IRS, available at *IRS.gov/pub/irs-pdf/p1546.pdf;*
- Call the IRS toll free at 800-TAX-FORM (800-829-3676) to order a copy of Pub. 1546;
- Check your local directory; or • Call TAS toll free at 877-777-4778.

How Else Does TAS Help Taxpayers?

TAS works to resolve large-scale problems that affect many taxpayers. If you know of one of these broad issues, report it to TAS at *IRS.gov/ SAMS*. Be sure to not include any personal taxpayer information.

Low Income Taxpayer Clinics (LITCs)

LITCs are independent from the IRS and TAS. LITCs represent individuals whose income is below a certain level and who need to resolve tax problems with the IRS. LITCs can represent taxpayers in audits, appeals, and tax collection disputes before the IRS and in court. In addition, LITCs can provide information about taxpayer rights and responsibilities in different languages for individuals who speak English as a second language. Services are offered for free or a small fee. For more information or to find an

LITC near you, go to the LITC page at *TaxpayerAdvocate.IRS.gov/LITC* or see IRS Pub. 4134, *Low Income Taxpayer Clinic List*, at *IRS.gov/pub/irs-pdf/4134.pdf*.

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To help us develop a more useful index, please let us know if you have ideas for index entries. See “Comments and Suggestions” in the “Introduction” for the ways you can reach us.

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