Note: *The draft you are looking for begins on the next page.*

Caution: *DRAFT—NOT FOR FILING*

This is an early release draft of an IRS tax form, instructions, or publication, which the IRS is providing for your information. **Do not file draft forms** and do **not** rely on draft forms, instructions, and publications for filing. We do **not** release draft forms until we believe we have incorporated all changes (except when explicitly stated on this coversheet). However, unexpected issues occasionally arise, or legislation is passed—in this case, we will post a new draft of the form to alert users that changes were made to the previously posted draft. Thus, there are never any changes to the last posted draft of a form and the final revision of the form. Forms and instructions generally are subject to OMB approval before they can be officially released, so we post only drafts of them until they are approved. Drafts of instructions and publications usually have some changes before their final release.

Early release drafts are at IRS.gov/DraftForms and remain there after the final release is posted at IRS.gov/LatestForms. All information about all forms, instructions, and pubs is at IRS.gov/Forms.

Almost every form and publication has a page on IRS.gov with a friendly shortcut. For example, the Form 1040 page is at IRS.gov/Form1040; the Pub. 501 page is at IRS.gov/Pub501; the Form W-4 page is at IRS.gov/W4; and the Schedule A (Form 1040/SR) page is at IRS.gov/ScheduleA. If typing in a link above instead of clicking on it, be sure to type the link into the address bar of your browser, not a Search box.

If you wish, you can submit comments to the IRS about draft or final forms, instructions, or publications at IRS.gov/FormsComments. We cannot respond to all comments due to the high volume we receive and may not be able to consider many suggestions until the subsequent revision of the product.

If you have comments on reducing paperwork and respondent (filer) burden, with respect to draft or final forms, please respond to the relevant information collection through the Federal Register process; for more info, click here.

Department of the Treasury

Internal Revenue Service

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Guide to Original Issue Discount (OID) Instruments

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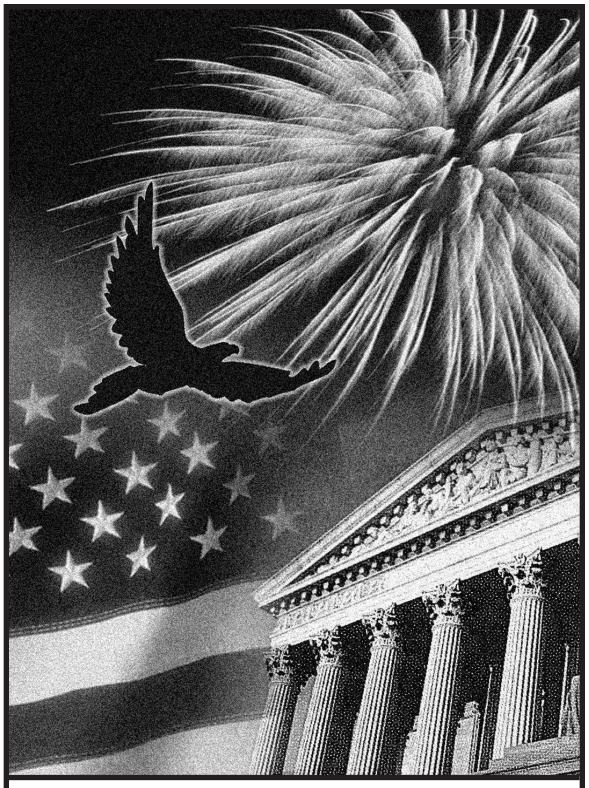

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Future Developments

For the latest information about developments related to Pub. 1212, such as legislation enacted after it was published, go to *IRS.gov/Pub1212*.

What's New

Continuous-use Form 1099-OID and instructions. Form 1099-OID and its instructions, have been converted from an annual

revision to continuous use. Both the form and instructions will be updated as needed. For the most recent version, go to *IRS.gov/Form1099OID*.

Obligations issued by a state or a local government. Section I-B (both current and future) includes any taxable obligations issued by a state or a local government for which a Form 8281 has been filed with the IRS.

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Photographs of Missing Children

The IRS is a proud partner with the *National Center for Missing & Exploited Children® (NCMEC)*. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

This publication has two purposes. Its primary purpose is to help brokers and other middlemen identify publicly offered original issue discount (OID) debt instruments they may hold as nominees for the true owners, so they can file Forms 1099-OID or Forms 1099-INT, as required. The other purpose of the publication is to help owners of publicly offered OID debt instruments determine how much OID to report on their income tax returns.

The tables of publicly offered OID debt instruments (OID tables) are available at *IRS.gov/Pub1212*, by clicking the link under Recent Developments. An advance release of the annual tables is posted in the fall of each year, followed by the final release later the same year or early in the subsequent year. The information in the OID tables comes from the issuers of the debt instruments and from financial publications and is updated annually. (However, see *Debt Instruments Not in the OID Tables*, later.)

Brokers and other middlemen can rely on the OID tables to determine for information reporting purposes, whether a debt instrument was issued at a discount and the OID to be reported on information returns. However, because the information in the OID tables has generally not been verified by the IRS as correct, the following tax matters are subject to change upon examination by the IRS.

- The OID reported by owners of a debt instrument on their income tax returns.
- The issuer's classification of an instrument as debt for federal income tax purposes.
- The adjusted basis of a debt instrument.

Instructions for issuers of OID debt instruments. In general, issuers of publicly offered OID debt instruments must file Form 8281 within 30 days after the date of issuance, and, if registered with the Securities and Exchange Commission (SEC), within 30 days after registration with the SEC. A separate Form 8281 must be filed for each issuance or SEC registration. For more information, see Form 8281 and its instructions.

Issuers should report errors in and omissions from the list in writing at the following address:

IRS OID Publication Project
SE:W:CAR:MP:TFP
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

REMIC and CDO information reporting requirements. Brokers and other middlemen must follow special information reporting requirements for real estate mortgage investment conduit (REMIC) regular interests, and collateralized debt obligation (CDO) interests. The rules are explained in Pub. 938.

Holders of interests in REMICs and CDOs should see chapter 1 of Pub. 550 for information on REMICs and CDOs.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can send us comments through *IRS.gov/FormComments*. Or, you can write to:

Internal Revenue Service
Tax Forms and Publications
1111 Constitution Ave. NW
IR-6526
Washington, DC 20224

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Although we can't respond individually to each comment received, we do appreciate your feedback and will consider your comments as we revise our tax forms, instructions, and publications. We can't answer tax questions sent to the above address.

Tax questions. If you have a tax question not answered by this publication or the *How To Get Tax Help* section at the end of this publication, go to the IRS Interactive Tax Assistant page at *IRS.gov/Help/ITA* where you can find topics using the search feature or by viewing the categories listed.

Getting tax forms, instructions, and publications. Visit *IRS.gov/Forms* to download current and prior-year forms, instructions, and publications.

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Useful Items

You may want to see:

Publication

- ❑ **515** Withholding of Tax on Nonresident Aliens and Foreign Entities
- ❑ **550** Investment Income and Expenses
- ❑ **938** Real Estate Mortgage Investment Conduits (REMICs) Reporting Information (And Other Collateralized Debt Obligations (CDOs))

Form (and Instructions)

- ❑ **1096** Annual Summary and Transmittal of U.S. Information Returns
- ❑ **1099-B** Proceeds From Broker and Barter Exchange Transactions
- ❑ **1099-INT** Interest Income
- ❑ **1099-OID** Original Issue Discount
- ❑ **8281** Information Return for Publicly Offered Original Issue Discount Instruments
- ❑ **8949** Sales and Other Dispositions of Capital Assets
- ❑ **Schedule B (Form 1040 or 1040-SR)** Interest and Ordinary Dividends
- ❑ **Schedule D (Form 1040 or 1040-SR)** Capital Gains and Losses
- ❑ **W-8** Instructions for the Requester of Forms W-8BEN, W-8BEN-E, W-8ECI, W-8EXP, and W-8IMY

See *How To Get Tax Help* at the end of this publication for information about getting publications and forms.

Definitions

The following terms are used throughout this publication. "Original issue discount" is defined first. The other terms are listed alphabetically.

Original issue discount (OID). OID is a form of interest. It is the excess of a debt instrument's stated redemption price at maturity over its issue price (acquisition price for a stripped bond or coupon). Zero coupon bonds and debt instruments that pay no stated interest until maturity are examples of debt instruments that have OID.

Accrual period. An accrual period is an interval of time used to measure OID. The length of an accrual period can be 6 months, a year, or some other period no longer than 1 year, depending on when the debt instrument was issued.

Acquisition premium. Acquisition premium is the excess of a debt instrument's adjusted basis immediately after purchase, including purchase at original issue, over the debt instrument's adjusted issue price at that time. A purchaser reduces any OID income by the acquisition premium, as discussed under *Information for Owners of OID Debt Instruments*, later.

If the purchaser's adjusted basis exceeds the total of all amounts payable under the debt instrument (other than qualified stated interest) after the date of purchase, then the debt instrument has premium instead of acquisition premium. See *Premium*, later.

Adjusted issue price. The adjusted issue price of a debt instrument at the beginning of an accrual period is used to figure the OID allocable to that period. In general, the adjusted issue price at the beginning of the debt instrument's first accrual period is its issue price. The adjusted issue price at the beginning of any

subsequent accrual period is the sum of the issue price and all the OID includible in income before that accrual period minus any payment previously made on the debt instrument, other than a payment of qualified stated interest.

Debt instrument. The term "debt instrument" means any instrument or contractual arrangement that constitutes indebtedness under general principles of federal income tax law (including, for example, a bond, debenture, note, certificate, or other evidence of indebtedness). It generally does not include an annuity contract.

Issue price. For debt instruments listed in *Section I-A* and *Section I-B*, the issue price is generally the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of these instruments was sold.

Market discount. A debt instrument is generally acquired with market discount if its stated redemption price at maturity is greater than its basis immediately after its acquisition. In general, a debt instrument is purchased in the secondary market at a market discount when the value of the debt instrument has decreased since the instrument's issue date (for example, because of an increase in interest rates). An OID debt instrument has market discount if your adjusted basis in the debt instrument immediately after you acquired it (usually its purchase price) was less than the debt instrument's issue price plus the total OID that accrued before you acquired it. The market discount is the difference between the issue price plus accrued OID and your adjusted basis.

Premium. A debt instrument is purchased at a premium if its adjusted basis immediately after purchase is greater than the total of all amounts payable on the debt instrument after the purchase date, other than qualified stated interest. The premium is the excess of the adjusted basis over the payable amounts.

Premium will generally eliminate the future reporting of OID in income by the purchaser, as discussed under *Information for Owners of OID Debt Instruments*, later. See Pub. 550 for more information on the tax treatment of bond premium.

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

Stated redemption price at maturity. A debt instrument's stated redemption price at maturity is the sum of all amounts (principal and interest) payable on the debt instrument, other than qualified stated interest.

Yield to maturity (YTM). In general, the YTM is the discount rate that, when used in figuring the present value of all principal and interest payments, produces an amount equal to the issue price of the debt instrument. The YTM is generally shown on the face of the debt instrument or in the literature you receive from your broker. If you do not have this information, consult your broker, tax advisor, or the issuer.

Debt Instruments in the OID Tables

The OID tables, available at *IRS.gov/Pub1212*, can be used by brokers and other middlemen to prepare information returns.

CAUTION *If you own a debt instrument included in tables, you generally should not rely on the information in the OID tables to determine (or compare) the OID to be reported on your tax return, but you should use, as a starting point, the information supplied to you on Form 1099-OID. The OID amounts listed are figured without reference to the price or date at which you acquired the debt instrument. For information about determining the OID to be reported on your tax return, see the instructions for figuring OID under* Information for Owners of OID Debt Instruments*, later.*

The following discussions explain what information is contained in each section of the tables.

Section I. This section contains publicly offered, long-term debt instruments.

- Section I-A: Corporate Debt Instruments Issued Before 1985.
- Section I-B:

  Corporate Debt Instruments Issued After 1984.
  Taxable obligations issued by a state or a local government.
- Section I-C: Inflation-Indexed Debt Instruments.

For each publicly offered debt instrument in *Section I,* the list contains the following information.

- The name of the issuer.
- The Committee on Uniform Security Identification Procedures (CUSIP) number.
- The issue date.
- The maturity date.
- The issue price expressed as a percent of principal or of stated redemption price at maturity.
- The annual stated or coupon interest rate. (This rate is shown as 0.00 if no annual interest payments are provided.)
- The YTM will be added to Section I-B for bonds issued after December 31, 2006.
- The total OID accrued up to January 1 of a calendar year. (This information is not available for every instrument.)
- For long-term debt instruments issued after July 1, 1982, the daily OID for the accrual periods falling in a calendar year and a subsequent year.
- The total OID per $1,000 of principal or maturity value for a calendar year and a subsequent year.

Section II. This section contains stripped coupons and principal components of U.S. Treasury and Government-Sponsored Enterprise debt instruments. These stripped components are 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. This section also includes debt instruments backed by U.S. Treasury securities that represent ownership interests in those securities.

The obligations listed in *Section II* are arranged by maturity date. The amounts listed are the total OID for a calendar year per $1,000 of redemption price.

Section III. This section contains short-term discount obligations.

- Section III-A: Short-Term U.S. Treasury Bills.
- Section III-B: Federal Home Loan Banks.
- Section III-C: Federal National Mortgage Association.
- Section III-D: Federal Farm Credit Banks.
- Section III-E: Federal Home Loan Mortgage Corporation.
- Section III-F: Federal Agricultural Mortgage Corporation.

Information that supplements *Section III-A* is available on the Internet at *TreasuryDirect.gov/tdhome.htm*.

The short-term obligations listed in this section are arranged by maturity date. For each obligation, the list contains the CUSIP number, maturity date, issue date, issue price (expressed as a percent of principal), and discount to be reported as interest for a calendar year per $1,000 of redemption price. Brokers and other middlemen should rely on the issue price information in *Section III* only if they are unable to determine the price actually paid by the owner.

Debt Instruments Not in the OID Tables

The list of debt instruments discussed earlier does not contain the following items.

- U.S. savings bonds.
- Certificates of deposit and other face-amount certificates issued at a discount, including syndicated certificates of deposit.
- Obligations issued by tax-exempt organizations.
- OID debt instruments that matured or were entirely called by the issuer before the tables were posted on the IRS website.
- Mortgage-backed securities and mortgage participation certificates.
- Short-term obligations, other than the obligations listed in *Section III.*
- Debt instruments issued at a discount by states or their political subdivisions. These debt instruments are tax exempt and not subject to the OID information reporting rules.
- REMIC regular interests and CDOs.
- Commercial paper and banker's acceptances issued at a discount.
- Obligations issued at a discount by individuals.
- Foreign obligations not traded in the United States and obligations not issued in the United States.

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Information for Brokers and Other Middlemen

The following discussions contain specific instructions for brokers and middlemen who hold or redeem a debt instrument for the owner.

In general, you must file a Form 1099-INT or Form 1099-OID for the debt instrument if the interest or OID to be included in the owner's income for a calendar year totals $10 or more. You must also file a Form 1099-INT or Form 1099-OID if you were required to deduct and withhold tax, even if the interest or OID is less than $10. See *Backup Withholding*, later.

If you must file a Form 1099-INT or Form 1099-OID, furnish a copy to the owner of the debt instrument by January 31 in the year it is due. File all your Forms 1099 with the IRS, accompanied by Form 1096, by February 28 in the year they are due (March 31 if you file electronically).

Electronic payee statements. You can issue Form 1099-INT or Form 1099-OID electronically with the consent of the recipient.

More information. For more information, including penalties for failure to file (or furnish) required information returns or statements, see the current General Instructions for Certain Information Returns.

Short-Term Obligations Redeemed at Maturity

If you redeem a short-term discount obligation for the owner at maturity, you must report the discount as interest on Form 1099-INT.

To figure the discount, use the purchase price shown on the owner's copy of the purchase confirmation receipt or similar record, or the price shown in your transaction records.

If the owner's purchase price cannot be determined, figure the discount as if the owner had purchased the obligation at its original issue price. A special rule is used to determine the original issue price for information reporting on U.S. Treasury bills (T-bills) listed in *Section III-A.* Under this rule, you treat as the original issue price of the T-bill the noncompetitive (weighted average of accepted auction bids) discount price for the longest-maturity T-bill maturing on the same date as the T-bill being redeemed. This noncompetitive discount price is the issue price (expressed as a percent of principal) shown in *Section III-A.*

A similar rule is used to figure the discount on short-term discount obligations issued by the organizations listed in *Section III-B* through *Section III-F.*

Example 1. There are 13-week and 26-week T-bills maturing on the same date as the T-bill being redeemed. The price actually paid by the owner cannot be established by owner or middleman records. You treat as the issue price of the T-bill the noncompetitive discount price (expressed as a percent of principal) shown in *Section III-A* for a 26-week bill maturing on the same date as the T-bill redeemed. The interest you report on Form 1099-INT is the OID (per $1,000 of principal) shown in *Section III-A* for that obligation.

Long-Term Debt Instruments

If you hold a long-term OID debt instrument as a nominee for the true owner, you must generally file Form 1099-OID. For this purpose, you can rely on *Section I* of the OID tables to determine the following information.

- Whether a debt instrument has OID.
- The OID to be reported on the Form 1099-OID.

In general, you must report OID on publicly offered, long-term debt instruments listed in *Section I.* You can also report OID on other long-term debt instruments.

Form 1099-OID. Form 1099-OID for a calendar year shows the following information.

- *Box 1.* The OID for the actual dates the owner held the debt instruments during a calendar year. To determine this amount, see *Figuring OID* next. You may report a net amount of OID that reflects the offset of OID by the amount of acquisition premium amortization for the year. If you do so, leave box 6 blank.
- *Box 2.* The qualified stated interest paid or credited during the calendar year. Interest reported here is not reported on Form 1099-INT. The qualified stated interest on Treasury inflation-protected securities (TIPS) may be reported on Form 1099-INT in box 3 instead.
- *Box 3.* Any interest or principal forfeited because of an early withdrawal that the owner can deduct from gross income. Do not reduce the amounts in boxes 1 and 2 by the forfeiture.
- *Box 4.* Any backup withholding for this debt instrument.
- *Box 5.* For a covered security acquired with market discount, enter the amount of market discount that accrued during the period the holder owned the debt instrument, provided the holder notified you of an election made under section 1278(b) to include market discount in income as it accrued. Follow the instructions in Regulations section 1.6045-1(n) to determine the accruals of market discount.
- *Box 6.* For a covered security acquired with acquisition premium, enter the amount of acquisition premium amortization for the period the holder owned the debt instrument. If a net amount of OID is reported in box 1, box 8, or box 11, as applicable, leave this box blank. Follow the instructions in Regulations section 1.6045-1(n) to determine the amortization of acquisition premium.
- *Box 7* The CUSIP number, if any. If there is no CUSIP number, give a description of the debt instrument, including the abbreviation for the stock exchange, the abbreviation used by the stock exchange for the issuer, the coupon rate, and the year of maturity (for example, NYSE XYZ 12.50 2006). If the issuer of the debt instrument is other than the payer, show the name of the issuer in this box.
- *Box 8.* The OID on a U.S. Treasury obligation for the part of the year the owner held the debt instrument. You may report a net amount of OID that reflects the offset of OID by the amount of acquisition premium amortization for the year. If you do so, leave box 6 blank.
- *Box 9.* Investment expenses passed on to holders of a single-class REMIC. **Caution.** This amount is **not** deductible.
- *Box 10.* For a taxable covered security acquired at a premium, enter the amount of bond premium amortization allocable to the interest paid during the tax year, unless you were notified in writing that the holder did not want to amortize bond premium under section 171. See Regulations sections 1.6045-1(n)(5) and 1.6049-9(b). If you are required to report bond premium amortization and you reported a net amount of interest in box 2, leave this box blank.
- *Box 11.* Use to report any tax-exempt OID.
- *Boxes 12–14.* Use to report any state income tax withheld for this debt instrument.

Figuring OID. You can determine the OID on a long-term debt instrument by using either of the following.

- *Section I* of the OID tables.
- The income tax regulations.

Using Section I. If the owner held the debt instrument for the entire calendar year, report the OID shown in *Section I* for the calendar year. Because OID is listed for each $1,000 of stated redemption price at maturity, you must adjust the listed amount to reflect the debt instrument's actual stated redemption price at maturity. For example, if the debt instrument's stated redemption price at maturity is $500, report one-half the listed OID.

If the owner held the debt instrument for less than the entire calendar year, figure the OID to report as follows.

1. Look up the daily OID for the first accrual period in the calendar year during which the owner held the debt instrument.
2. Multiply the daily OID by the number of days the owner held the debt instrument during that accrual period.
3. Repeat steps (1) and (2) for any remaining accrual periods for the year during which the owner held the debt instrument.
4. Add the results in steps (2) and (3) to determine the owner's OID per $1,000 of stated redemption price at maturity.
5. If necessary, adjust the OID in step (4) to reflect the debt instrument's stated redemption price at maturity.

Report the result on Form 1099-OID in box 1.

Using the income tax regulations. Instead of using *Section I* to figure OID, you can use the regulations under sections 1272 through 1275 of the Internal Revenue Code. For example, under the regulations, you can use monthly accrual periods in figuring OID for a

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debt instrument issued after April 3, 1994, that provides for monthly payments. (If you use *Section I-B,* the OID is figured using 6-month accrual periods.)

For a general explanation of the rules for figuring OID under the regulations, see *Figuring OID on Long-Term Debt Instruments* under *Information for Owners of OID Debt Instruments*, later.

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Certificates of Deposit

If you hold a bank certificate of deposit (CD) as a nominee, you must determine whether the CD has OID and any OID includible in the income of the owner. You must file an information return showing the reportable interest and OID, if any, on the CD. These rules apply whether or not you sold the CD to the owner. Report OID on a CD in the same way as OID on other debt instruments. See *Short-Term Obligations Redeemed at Maturity* and *Long-Term Debt Instruments*, earlier.

Bearer Bonds and Coupons

If a coupon from a bearer bond is presented to you for collection before the bond matures, you must generally report the interest on Form 1099-INT. However, do not report the interest if either of the following applies.

- You hold the bond as a nominee for the true owner.
- The payee is a foreign person. See *Payments to foreign person* under *Backup Withholding* , later.

Because you cannot assume the presenter of the coupon also owns the bond, you should not report OID on the bond on Form 1099-OID. The coupon may have been "stripped" (separated) from the bond and separately purchased.

However, if a long-term bearer bond in the OID tables is presented to you for redemption upon call or maturity, you should prepare a Form 1099-OID showing the OID for that calendar year, as well as any coupon interest payments collected at the time of redemption.

Backup Withholding

If you report OID on Form 1099-OID or interest on Form 1099-INT for a calendar year, you may be required to apply backup withholding to the reportable payment at a rate of 24%. The backup withholding is deducted at the time a cash payment is made. See Pub. 1281 for more information.

Backup withholding generally applies to reportable interest and OID in the following situations.

1. The payee does not give you a taxpayer identification number (TIN).
2. The IRS notifies you that the payee gave an incorrect TIN.
3. The IRS notifies you that the payee is subject to backup withholding due to payee underreporting.
4. For debt instruments acquired after 1983:
   a. The payee does not certify, under penalties of perjury, that he or she is not subject to backup withholding under (3); or
   b. The payee does not certify, under penalties of perjury, that the TIN given is correct.

However, for short-term discount obligations (other than government obligations), bearer bonds and coupons, and U.S. savings bonds, backup withholding applies to reportable interest and OID only if the payee does not give you a TIN or gives you an obviously incorrect number for a TIN.

Short-term obligations. Backup withholding applies to the payment of OID that is includible in the holder's gross income, to the extent it is in cash. However, backup withholding applies to any interest payable before maturity when the interest is paid or credited.

If the owner of a short-term obligation at maturity is not the original owner and can establish the purchase price of the obligation, the amount subject to backup withholding must be determined by treating the purchase price as the issue price. However, you can choose to disregard that price if it would require significant manual intervention in the computer or recordkeeping system used for the obligation. If the purchase price of a listed obligation is not established or is disregarded, you must use the issue price shown in *Section III.*

Long-term obligations. If no cash payments are made on a long-term obligation before maturity, backup withholding applies only at maturity. The amount subject to backup withholding is the OID includible in the owner's gross income for the calendar year when the obligation matures. The amount to be withheld is limited to the cash paid.

Registered long-term obligations with cash payments. If a registered long-term obligation has cash payments before maturity, backup withholding applies when a cash payment is made. The amount subject to backup withholding is the total of the qualified stated interest (defined earlier under *Definitions*) and OID includible in the owner's gross income for the calendar year when the payment is made. If more than one cash payment is made during the year, the OID subject to withholding for the year must be allocated among the expected cash payments in the ratio that each bears to the total of the expected cash payments. For any payment, the required withholding is limited to the cash paid.

Payee not the original owner. If the payee is not the original owner of the obligation, the OID subject to backup withholding is the OID includible in the gross income of all owners during the calendar year (without regard to any amount paid by the new owner at the time of transfer). The amount subject to backup withholding at maturity of a listed obligation must be determined using the issue price shown in *Section I.*

Bearer long-term obligations with cash payments. If a bearer long-term obligation has cash payments before maturity, backup withholding applies when the cash payments are made. For payments before maturity, the amount subject to withholding is the qualified stated interest (defined earlier under *Definitions*) includible in the owner's gross income for the calendar year. For a payment at maturity, the amount subject to withholding is only the total of any qualified stated interest paid at maturity and the OID includible in the owner's gross income for the calendar year when the obligation matures. The required withholding at maturity is limited to the cash paid.

Sales and redemptions. If you report the gross proceeds from a sale, exchange, or redemption of a debt instrument on Form 1099-B for a calendar year, you may be required to withhold 24% of the amount reported. Backup withholding applies in the following situations.

- The payee does not give you a TIN.
- The IRS notifies you that the payee gave an incorrect TIN.
- For debt instruments held in an account opened after 1983, the payee does not certify, under penalties of perjury, that the TIN given is correct.

Payments outside the United States to U.S. person. The requirements for backup withholding and information reporting apply to payments of OID and interest made outside the United States to a U.S. person, or a foreign person at least 50% of whose income for the preceding 3-year period is effectively connected with the conduct of a U.S. trade or business.

Payments to foreign person. The following discussions explain the rules for backup withholding and information reporting on payments to foreign persons.

U.S. source amount. Backup withholding and information reporting are not required for payments of U.S.-source OID, interest, or proceeds from a sale or redemption of an OID instrument if the payee has given you proof (generally, the appropriate Form W-8 or an acceptable substitute) that the payee is a foreign person. A U.S. resident is not a foreign person. For proof of the payee's foreign status, you can rely on the appropriate Form W-8 or on documentary evidence for payments made outside the United States to an offshore account or, in case of broker proceeds, a sale effected outside the United States. Receipt of the appropriate Form W-8 does not relieve you from information reporting and backup withholding if you actually know the payee is a U.S. person.

For information about the 24% withholding tax that may apply to payments of U.S.-source OID or interest to foreign persons, see Pub. 515.

Foreign-source amount. Backup withholding and information reporting are not required for payments of foreign-source OID and interest paid and received outside the United States. However, if the payments are made inside the United States, the requirements for backup withholding and information reporting will apply unless the payee has given you the appropriate Form W-8 or acceptable substitute as proof that the payee is a foreign person.

More information. For more information about information reporting on foreign-source amounts or payments to foreign persons, and backup withholding, see, respectively, Regulations sections 1.6049-5 and 31.3406(g)-1.

Information for Owners of OID Debt Instruments

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This section is for persons who prepare their own tax returns. It discusses the income tax rules for figuring and reporting OID on long-term debt instruments. It also includes a similar discussion for stripped bonds and coupons, such as zero coupon bonds available through the Department of the Treasury's STRIPS program and government-sponsored enterprises such as the Resolution Funding Corporation. However, the information provided does not cover every situation. More information can be found in the regulations under sections 1271 through 1275 of the Internal Revenue Code.

Including OID in income. Generally, you include OID in income as it accrues each year, whether or not you receive any payments from the debt instrument issuer.

Exceptions. The rules for including OID in income as it accrues generally do not apply to the following debt instruments.

- U.S. savings bonds.
- Tax-exempt obligations. (However, see *Tax-Exempt Bonds and Coupons*, later.)
- Loans of $10,000 or less between individuals who are not in the business of lending money. (The dollar limit includes outstanding prior loans by the lender to the borrower.) This exception does not apply if a principal purpose of the loan is to avoid any federal tax.

See chapter 1 of Pub. 550 for information about the rules for these and other types of discounted debt instruments, such as short-term and market discount obligations. Pub. 550 also discusses rules for holders of REMIC interests and CDOs.

De minimis rule. You can treat OID as zero if the total OID on a debt instrument 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. Debt instruments with de minimis OID are not listed in this publication. There are special rules to determine the de minimis amount in the case of debt instruments that provide for more than one payment of principal. Also, the de minimis rules generally do not apply to tax-exempt obligations.

Example 2. You bought at issuance a 10-year debt instrument with a stated redemption price at maturity of $1,000, issued at $980 with OID of $20. One-fourth of 1% of $1,000 (the stated redemption price) times 10 (the number of full years from the date of original issue to maturity) equals $25. Under the de minimis rule, you can treat the OID as zero because the $20 discount is less than $25.

Example 3. Assume the same facts as *Example 2*, except the debt instrument was issued at $950. You must report part of the $50 OID each year because it is more than $25.

Choice to report all interest as OID. Generally, you can choose to treat all interest on a debt instrument acquired after April 3, 1994, as OID and include it in gross income by using the constant yield method. See *Constant yield method* under *Debt Instruments Issued After 1984*, later, for more information.

For this choice, 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. For more information, see Regulations section 1.1272-3.

Purchase after date of original issue. A debt instrument you purchased after the date of original issue may have premium, acquisition premium, or market discount. If your debt instrument has premium or acquisition premium, the OID reported to you on Form 1099-OID may have to be adjusted. For more information, see *Showing an OID adjustment* under *How To Report OID*, later. If your debt instrument is a covered security under Regulations section 1.6045-1(a)(15), market discount, acquisition premium, or premium is reported in box 5, 6, or 10 of Form 1099-OID, respectively. The following rules generally do not apply to contingent payment debt instruments.

Adjustment for premium. If your debt instrument (other than an inflation-indexed debt instrument) has premium, do not report any OID as ordinary income. Your adjustment is the total OID shown on your Form 1099-OID. If you pay a premium to buy a debt instrument, you may be able to amortize the premium over the remaining term of the debt instrument, which would allow you to reduce the amount of qualified stated interest reportable with respect to the debt instrument starting as of the date of purchase. For more information, see *Bond Premium Amortization* in Pub. 550.

Adjustment for acquisition premium. If your debt instrument has acquisition premium, reduce the OID you report. Your adjustment is the difference between the OID shown on your Form 1099-OID and the reduced OID amount figured using the rules explained later under *Figuring OID on Long-Term Debt Instruments*. If your debt instrument is a covered security under Regulations section 1.6045-1(a)(15), your broker may either report the acquisition premium amortization adjustment amount in box 6 or may report a net amount of OID in box 1 or box 8, as applicable, that reflects the adjustment of OID by the amortized acquisition premium. In general, your broker will use the rules in Regulations section 1.1272-2(b)(4) to determine the amortization of acquisition premium.

Market discount. If your debt instrument has market discount that you choose to include in income currently and if the debt instrument is a covered security under Regulations section 1.6045-1(a)(15), the market discount includible in income is reported in box 5 of Form 1099-OID. Unless you notify your broker in writing that you have not elected to use a constant yield method under section 1276(b) to determine accruals of market discount, your broker will use a constant yield method to determine accruals of market discount rather than a ratable method.

See *Market Discount Bonds* in chapter 1 of Pub. 550 for information on how to figure accrued market discount and include it in your income currently and for other information about market discount bonds.

If you choose to use the constant yield method to figure accrued market discount, also see *Figuring OID on Long-Term Debt Instruments*, later. The constant yield method of figuring accrued OID, explained under *Debt Instruments Issued After July 1, 1982, and Before 1985* or *Debt Instruments Issued After 1984*, as appropriate, is also used to figure accrued market discount.

For more information concerning premium or market discount on an inflation-indexed debt instrument, see Regulations section 1.1275-7.

Sale, exchange, or redemption. Generally, you treat your gain or loss from the sale, exchange, or redemption of an OID debt instrument as a capital gain or loss if you held the debt instrument as a capital asset. If you sold the debt instrument through a broker, you should receive Form 1099-B or an equivalent statement from the broker. Use the Form 1099-B or other statement and your brokerage statements to complete Form 8949, and Schedule D (Form 1040 or 1040-SR).

Your gain or loss is the difference between the amount you realized on the sale, exchange, or redemption and your basis in the debt instrument. Your basis, generally, is your cost increased by the OID you have included in income each year you held it. In general, to determine your gain or loss on a tax-exempt bond, figure your basis in the bond by adding to your cost the OID you would have included in income if the bond had been taxable. For a covered security, your broker will report the adjusted basis of the debt instrument to you on Form 1099-B.

See chapter 4 of Pub. 550 for more information about the tax treatment of the sale or redemption of discounted debt instruments.

Example 4. Larry, a calendar year taxpayer, bought a corporate debt instrument at original issue for $86,235.00 on November 1 of Year 1. The 15-year debt instrument matures on October 31 of Year 16 at a stated redemption price of $100,000. The debt instrument provides for semiannual payments of interest at 10%. Assume the debt instrument is a capital asset in Larry's hands. The debt instrument has $13,765.00 of OID ($100,000 stated redemption price at maturity minus $86,235.00 issue price).

Larry sold the debt instrument for $90,000 on November 1 of Year 4. Including the OID he will report for the period he held the debt instrument in Year 4, Larry has included $4,556.00 of OID in income and has increased his basis by that amount to $90,791.00. Larry has realized a loss of $791.00. All of Larry's loss is capital loss.

Form 1099-OID

The issuer of the debt instrument (or your broker, if you purchased or held the debt instrument through a broker) should give you a copy of Form 1099-OID or a similar statement if the accrued OID for the calendar year is $10 or more and the term of the debt instrument is more than 1 year. Form 1099-OID shows all OID income in box 1 except OID on a U.S. Treasury obligation, which is shown in box 8. It also shows, in box 2, any qualified stated interest you must include in income. (However, any qualified stated interest on TIPS can be reported on Form 1099-INT in box 3.) For a taxable covered security, Form 1099-OID may show accrued market discount in box 5, acquisition premium in box 6, or premium in box 10. For a taxable covered security with acquisition premium, box 1 or box 8, as applicable, may show a net amount of OID that reflects the offset of OID by the amount of acquisition premium amortization for the year. If so, box 6 will be blank. For a covered security with bond premium, box 2 may show a net amount of qualified stated interest that reflects the offset of interest income by the amount of premium amortization for the year. If so, box 10 will be blank. A copy of Form 1099-OID will be sent to the IRS. Do not attach your copy to your tax return. Keep it for your records.

CAUTION *If you are required to file a tax return and you receive Form 1099-OID showing taxable amounts, you must report these amounts on your return. A 20% accuracy-related penalty may be charged for underpayment of tax due to either negligence or disregard of rules and regulations or substantial understatement of tax.*

Tax-exempt obligations. For a tax-exempt OID obligation that is a covered security acquired on or after January 1, 2017, box 11 of Form 1099-OID shows the tax-exempt OID on the obligation for the part of the year you owned it. If there is an amount in both boxes 10 and 11, for a tax-exempt obligation that is a covered security acquired on or after January 1, 2017, and issued with OID, the amount in box 10 shows the amount of premium amortization for the year that reduces the amount of your tax-exempt interest for the year. The payer may, but is not required to, report the premium amortization for a tax-exempt obligation that is a covered security acquired before January 1, 2017, and issued with OID.

Form 1099-OID not received. If you held an OID debt instrument for a calendar year but did not receive a Form 1099-OID, refer to the discussions under *Figuring OID on Long-Term Debt Instruments*, later, for information on the OID you must report.

Refiguring OID. You may need to refigure the OID shown in box 1 or box 8 of Form 1099-OID to determine the proper amount to include in income if one of the following applies.

- You bought the debt instrument at a premium or at an acquisition premium. However, if you bought a covered security at an acquisition premium, you may not have to refigure the OID if your broker reported a net adjusted amount of OID in box 1 or box 8, as applicable, that reflects the adjustment of the OID by the amortized acquisition premium.
- The debt instrument is a stripped bond or coupon (including zero coupon bonds backed by U.S. Treasury securities).
- The debt instrument is a contingent payment or inflation-indexed debt instrument.

See the discussions under *Figuring OID on Long-Term Debt Instruments* or *Figuring OID on Stripped Bonds and Coupons*, later, for the specific computations.

Refiguring interest. If you disposed of a debt instrument or acquired it from another holder between interest dates, see the discussion under *Bonds Sold Between Interest Dates* in chapter 1 of Pub. 550 for information about refiguring the interest shown on Form 1099-OID in box 2.

Nominee. If you are the holder of an OID debt instrument and you receive a Form 1099-OID that shows your taxpayer identification number and includes amounts belonging to another person, you are considered a "nominee." You must file another Form 1099-OID for each actual owner, showing the OID for the owner. Show the owner of the debt instrument as the "recipient" and you as the "payer."

Complete Form 1099-OID and Form 1096 and file the forms with the Internal Revenue Service Center for your area. See *Where to File* in the Instructions for Form 1096. You must also give a copy of the Form 1099-OID to the actual owner. However, you are not required to file a nominee return to show amounts belonging to your spouse. See the Form 1099-OID instructions for more information.

When preparing your tax return, follow the instructions under *Showing an OID adjustment*, later.

How To Report OID

You report your taxable interest and OID income on the interest line of Form 1040 or 1040-SR.

Where to report. List each payer's name (if a brokerage firm gave you a Form 1099, list the brokerage firm as the payer), and the amount received from each payer on Schedule B (Form 1040 or 1040-SR), line 1. Include all OID and qualified stated interest shown on any Form 1099-OID, boxes 1, 2, and 8, you received for the tax year. Also include any other OID and interest income for which you did not receive a Form 1099.

Showing an OID adjustment. To report more or less OID than shown in box 1 or box 8 on Form 1099-OID, list the full OID on Schedule B (Form 1040 or 1040-SR), Part I, line 1, and follow the instructions under (1) or (2) next.

1. If the OID, as adjusted, is less than the amount shown on Form 1099-OID, show the adjustment as follows.
   a. Under your last entry on line 1, subtotal all interest and OID income listed on line 1.
   b. Below the subtotal, write "Nominee Distribution" or "OID Adjustment" and show the OID you are not required to report.
   c. Subtract that OID from the subtotal and enter the result on line 2.
2. If the OID, as adjusted, is more than the amount shown on Form 1099-OID, show the adjustment as follows.
   a. Under your last entry on line 1, subtotal all interest and OID income listed on line 1.
   b. Below the subtotal, write "OID Adjustment" and show the additional OID.
   c. Add that OID to the subtotal and enter the result on line 2.

Note. The above does not apply to a debt instrument acquired at an acquisition premium if the broker reported a net amount of OID rather than a gross amount of OID in box 1 or box 8.

Figuring OID on Long-Term Debt Instruments

How you figure the OID on a long-term debt instrument depends on the date it was issued. It may also depend on the type of the debt instrument. There are different rules for each of the following debt instruments.

1. Debt instruments issued after July 1, 1982, and before 1985.
2. Debt instruments issued after 1984 (other than debt instruments described in *Box 6* under *Form 1099-OID*, earlier).
3. Contingent payment debt instruments issued after August 12, 1996.
4. Inflation-indexed debt instruments (including TIPS) issued after January 5, 1997.

Zero coupon bonds. The rules for figuring OID on zero coupon bonds backed by U.S. Treasury securities are discussed under *Figuring OID on Stripped Bonds and Coupons*, later.

Form 1099-OID. You should receive a Form 1099-OID showing OID for the part of the year you held the debt instrument. However, if you paid an acquisition premium, you may need to refigure the OID to report on your tax return. See *Reduction for acquisition premium*, later. If your debt instrument is a covered security under Regulations section 1.6045-1(a)(15), you may not have to refigure the OID if your broker reported a net adjusted amount of OID in box 1 or box 8, as applicable, that reflects the adjustment of OID by the amortized acquisition premium.

If you held an OID debt instrument in a calendar year but did not receive a Form 1099-OID, see *Form 1099-OID not received*, later, and refer to *Section I-A*, available at *IRS.gov/Pub1212* by clicking the link under Recent Developments.

Form 1099-OID not received. The OID listed is for each $1,000 of redemption price. You must adjust the listed amount if your debt

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instrument has a different principal amount. For example, if you have a debt instrument with a $500 principal amount, use one-half the listed amount to figure your OID.

If you held the debt instrument the entire year, use the OID shown in *Section I-A* for a calendar year. (If your debt instrument is not listed in *Section I-A,* consult the issuer for information about the issue price and the OID that accrued for that year.) If you did not hold the debt instrument the entire year, figure your OID using the following method.

1. Divide the OID shown by 12.
2. Multiply the result in (1) by the number of complete and partial months (for example, 6½ months) you held the debt instrument during a calendar year. This is the OID to include in income unless you paid an acquisition premium. The reduction for acquisition premium is discussed next.

Reduction for acquisition premium. If you bought the debt instrument at an acquisition premium, figure the OID to include in income as follows.

1. Divide the total OID on the debt instrument by the number of complete months, and any part of a month, from the date of original issue to the maturity date. This is the monthly OID.
2. Subtract from your cost the issue price and the accumulated OID from the date of issue to the date of purchase. (If the result is zero or less, stop here. You did not pay an acquisition premium.)
3. Divide the amount figured in (2) by the number of complete months, and any part of a month, from the date of your purchase to the maturity date.
4. Subtract the amount figured in (3) from the amount figured in (1). This is the OID to include in income for each month you hold the debt instrument during the year.

Transfers during the month. If you buy or sell a debt instrument on any day other than the same day of the month as the date of original issue, the portion of OID for the month of sale is divided between the seller and the buyer according to the number of days each held the debt instrument. Your holding period for this purpose begins the day you acquire the debt instrument and ends the day before you dispose of it.

Debt Instruments Issued After July 1, 1982, and Before 1985

If you hold these debt instruments as capital assets, you must include part of the OID in income each year you own the debt instruments and increase your basis by the amount included. For information about showing the correct OID on your tax return, see *How To Report OID*, earlier.

Form 1099-OID. You should receive a Form 1099-OID showing OID for the part of the year you held the debt instrument. However, if you paid an acquisition premium, you may need to refigure the OID to report on your tax return. See *Constant yield method* and the discussions on acquisition premium that follow, later.

If you held an OID debt instrument in a calendar year but did not receive a Form 1099-OID, see *Form 1099-OID not received*, later, and refer to *Section I-A*, available at *IRS.gov/Pub1212* by clicking the link under Recent Developments.

Form 1099-OID not received. The OID listed is for each $1,000 of redemption price. You must adjust the listed amount if your debt instrument has a different principal amount. For example, if you have a debt instrument with a $500 principal amount, use one-half the listed amount to figure your OID.

If you held the debt instrument the entire year, use the OID shown in *Section I-A*. (If your instrument is not listed in *Section I-A,* consult the issuer for information about the issue price, the YTM, and the OID that accrued for that year.) If you did not hold the debt instrument the entire year, figure your OID using either of the following methods.

Method 1.

1. Divide the total OID for a calendar year by 365 (366 for leap years).
2. Multiply the result in (1) by the number of days you held the debt instrument during that particular year.

This computation is an approximation and may result in a slightly higher OID than method 2.

Method 2.

1. Look up the daily OID for the first accrual period you held the debt instrument during a calendar year. (See *Accrual period* under *Constant yield method*, later.)
2. Multiply the daily OID by the number of days you held the debt instrument during that accrual period.
3. If you held the debt instrument for part of both accrual periods, repeat (1) and (2) for the second accrual period.
4. Add the results of (2) and (3). This is the OID to include in income, unless you paid an acquisition premium. (The reduction for acquisition premium is discussed later.)

Constant yield method. This discussion shows how to figure OID on debt instruments issued after July 1, 1982, and before 1985, using a constant yield method. OID is allocated over the life of the debt instrument through adjustments to the issue price for each accrual period.

Figure the OID allocable to any accrual period as follows.

1. Multiply the adjusted issue price at the beginning of the accrual period by the debt instrument's YTM.
2. Subtract from the result in (1) any qualified stated interest allocable to the accrual period.

Accrual period. An accrual period for any OID debt instrument issued after July 1, 1982, and before 1985 is each year period beginning on the date of the issue of the obligation and each anniversary thereafter, or the shorter period to maturity for the last accrual period. Your tax year will usually include parts of two accrual periods.

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 OID amounts for each day you hold the debt instrument during the year. If your tax year includes parts of two or more accrual periods, you must include the proper daily OID amounts for each accrual period.

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

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

ip = issue price

ytm = yield to maturity

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.

Reduction for acquisition premium on debt instruments purchased before July 19, 1984. If you bought the debt instrument at an acquisition premium before July 19, 1984, figure the OID includible in income by reducing the daily OID by the daily acquisition premium. Figure the daily acquisition premium by dividing the total acquisition premium by the number of days in the period beginning on your purchase date and ending on the day before the date of maturity.

Reduction for acquisition premium on debt instruments purchased after July 18, 1984. If you bought the debt instrument at an acquisition premium after July 18, 1984, figure the OID includible in income by reducing the daily OID by the daily acquisition premium. However, the method of figuring the daily acquisition premium is different from the method described in the preceding discussion. To figure the daily acquisition premium under this method, 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.

Section I-A is available at *IRS.gov/Pub1212* by clicking the link under Recent Developments.

Using Section I-A to figure accumulated OID. If you bought your corporate debt instrument in a calendar year or the subsequent year, you can figure the accumulated OID to the date of purchase by adding the following amounts.

1. The amount from the "Total OID to January 1, YYYY" column for your debt instrument.

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2. The OID from January 1 of a calendar year to the date of purchase, figured as follows.
   a. Multiply the daily OID for the first accrual period in the calendar year by the number of days from January 1 to the date of purchase, or the end of the accrual period if the debt instrument was purchased in the second or third accrual period.
   b. Multiply the daily OID for each subsequent accrual period by the number of days in the period to the date of purchase or the end of the accrual period, whichever applies.
   c. Add the amounts figured in (2a) and (2b).

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Debt Instruments Issued After 1984

If you hold debt instruments issued after 1984, you must report part of the OID in gross income each year that you own the debt instruments. 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. For information about showing the correct OID on your tax return, see *How To Report OID*, earlier.

Form 1099-OID. You should receive a Form 1099-OID showing OID for the part of a calendar year you held the debt instrument. However, if you paid an acquisition premium, you may need to refigure the OID to report on your tax return. See *Constant yield method* and *Reduction for acquisition premium*, later.

If your taxable debt instrument is a covered security, your broker will figure the amortization of acquisition premium for you. Your broker may report either a gross amount of OID in box 1 or box 8, as applicable, and the acquisition premium amortization in box 6, or may report a net amount of OID that reflects the offset of OID by the amount of acquisition premium amortization for the year in box 1 or box 8, as applicable. In general, your broker will use the rules in Regulations section 1.1272-2(b)(4) to determine the amortization of acquisition premium. However, you may use a constant yield method to amortize acquisition premium if you make an election under Regulations section 1.1272-3.

You may also need to refigure the OID for a contingent payment or inflation-indexed debt instrument on which the amount reported on Form 1099-OID is inaccurate. See *Contingent Payment Debt Instruments* or *Inflation-Indexed Debt Instruments*, later.

If you held an OID debt instrument in a calendar year but did not receive a Form 1099-OID, see *Form 1099-OID not received*, later, and refer to *Section I-B*, available at *IRS.gov/Pub1212* by clicking the link under Recent Developments.

Form 1099-OID not received. The OID listed is for each $1,000 of redemption price. You must adjust the listed amount if your debt instrument has a different principal amount. For example, if you have a debt instrument with a $500 principal amount, use one-half the listed amount to figure your OID.

Use the OID shown in *Section I-B* for a calendar year if you held the debt instrument the entire year. (If your debt instrument is not listed in *Section I-B,* consult the issuer for information about the issue price, the YTM, and the OID that accrued for that year.) If you did not hold the debt instrument the entire year, figure your OID as follows.

1. Look up the daily OID for the first accrual period in which you held the debt instrument during a calendar year. (See *Accrual period* under *Constant yield method,* later.)
2. Multiply the daily OID by the number of days you held the debt instrument during that accrual period.
3. Repeat (1) and (2) for any remaining accrual periods in which you held the debt instrument.
4. Add the results of (2) and (3). This is the OID to include in income for that year, unless you paid an acquisition premium. (The reduction for acquisition premium is discussed later.)

Tax-exempt bond. If you own a tax-exempt bond, figure your basis in the bond by adding to your cost the OID you would have included in income if the bond had been taxable. You need to make this adjustment to determine if you have a gain or loss on a later disposition of the bond. In general, use the rules that follow to determine your OID. If your tax-exempt bond is a covered security under Regulations section 1.6045-1(a)(15), your broker will make this adjustment to your basis and will report the adjusted basis on Form 1099-B.

Constant yield method. This discussion shows how to figure OID on debt instruments issued after 1984 using a constant yield method. (The special rules that apply to contingent payment debt instruments and inflation-indexed debt instruments are explained later.) OID is allocated over the life of the debt instrument through adjustments to the issue price for each accrual period.

Figure the OID allocable to any accrual period as follows.

1. Multiply the adjusted issue price at the beginning of the accrual 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. The yield must be stated appropriately taking into account the length of the particular accrual period.
2. Subtract from the result in (1) any qualified stated interest allocable to the accrual period.

Accrual period. For debt instruments issued 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 debt instrument or the date 6 months before that date. For example, a debt instrument maturing on 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 debt instruments issued 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. However, the OID listed for these debt instruments in *Section I-B* has been figured using 6-month accrual periods.

Daily OID. The OID for any accrual period is allocated equally to each day in the accrual period. Figure the amount to include in income by adding the OID 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 for each accrual period. If your debt instrument has 6-month accrual periods, your tax year will usually include one full 6-month accrual period and parts of two other 6-month periods.

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

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

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% 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%, 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 bond, 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, Sales and Other Dispositions of Capital Assets. 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.

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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.

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 prior tax years 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 qualified 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 nonseasonally 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*.

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

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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 *Stated interest*.

Example 8. On February 6 of Year 9, you bought an old 10-year, 3.375% 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 or 1040-SR) 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

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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 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% (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% (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% ($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.

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

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

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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% 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.

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

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

Use 8.406% 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.

$$\frac{ap \times (1 + ytm/n)^{\frac{r}{s}} - ap}{r}$$

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.

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

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

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 and find resources that can help you right away.

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Preparing and filing your tax return. After receiving your wage and earning statements (Form W-2, W-2G, 1099-R, 1099-MISC) from all employers and interest and dividend statements from banks (Forms 1099), you can find free options to prepare and file your return on IRS.gov or in your local community if you qualify.

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. 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.

You can go to IRS.gov to see your options for preparing and filing your return, which include the following.

- **Free File.** Go to *IRS.gov/FreeFile* to see if you qualify to use brand-name software to prepare and *e-file* your federal tax return for free.
- **VITA.** Go to *IRS.gov/VITA*, download the free IRS2Go app, or call 800-906-9887 to find the nearest VITA location for free tax return preparation.
- **TCE.** Go to *IRS.gov/TCE*, download the free IRS2Go app, or call 888-227-7669 to find the nearest TCE location for free tax return preparation.

Employers can register to use Business Services Online. The SSA offers online service for fast, free, and secure online W-2 filing options to CPAs, accountants, enrolled agents, and individuals who process Forms W-2, Wage and Tax Statement, and Forms W-2c, Corrected Wage and Tax Statement. Employers can go to *SSA.gov/employer* for more information.

Getting answers to your tax questions. On IRS.gov, get answers to your tax questions anytime, anywhere.

- Go to *IRS.gov/Help* for a variety of tools that will help you get answers to some of the most common tax questions.
- Go to *IRS.gov/ITA* for the Interactive Tax Assistant, a tool that will ask you questions on a number of tax law topics and provide answers. You can print the entire interview and the final response for your records.
- Go to *IRS.gov/Forms* to search for our forms, instructions, and publications. You will find details on 2019 tax changes and hundreds of interactive links to help you find answers to your questions.
- You may also be able to access tax law information in your electronic filing software.

Tax reform. Tax reform legislation affects individuals, businesses, and tax-exempt and government entities. Go to *IRS.gov/TaxReform* for information and updates on how this legislation affects your taxes.

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 paramount. We use these tools to share public information with you. **Don't** post your social security number 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.

Getting tax information in other languages. For taxpayers whose native language isn't English, we have the following resources available. Taxpayers can find information on IRS.gov in the following languages.

- *Spanish* (*IRS.gov/Spanish*).
- *Chinese* (*IRS.gov/Chinese*).
- *Korean* (*IRS.gov/Korean*).
- *Russian* (*IRS.gov/Russian*).
- *Vietnamese* (*IRS.gov/Vietnamese*).

The IRS Taxpayer Assistance Centers (TACs) provide over-the-phone interpreter service in over 170 languages, and the service is available free to taxpayers.

Getting tax forms and publications. Go to *IRS.gov/Forms* to view, download, or print all of the forms, instructions, and publications you may need. You can also download and view popular tax publications and instructions (including the 1040 and 1040-SR instructions) on mobile devices as an eBook at no charge at *IRS.gov/eBooks*. Or you can go to *IRS.gov/OrderForms* to place an order and have them mailed to you within 10 business days.

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, pay online, or set up an online payment agreement.
- Access your tax records online.
- Review the past 24 months of your payment history.
- Go to *IRS.gov/SecureAccess* to review the required identity authentication process.

Using direct deposit. The fastest way to receive a tax refund is to combine direct deposit and IRS *e-file*. Direct deposit securely and electronically transfers your refund directly into your financial account. Eight in 10 taxpayers use direct deposit to receive their refund. The IRS issues more than 90% of refunds in less than 21 days.

Getting a transcript or copy of a return. The quickest way to get a copy of your tax transcript is to go to *IRS.gov/Transcripts*. Click on either "Get Transcript Online" or "Get Transcript by Mail" to order a copy of your transcript. If you prefer, you can order your transcript by calling 800-908-9946.

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 EIC.
- The *Online EIN Application* (*IRS.gov/EIN*) helps you get an employer identification number.
- The *Tax Withholding Estimator* (*IRS.gov/W4app*) makes it easier for everyone to pay the correct amount of tax during the year. The Estimator replaces the Withholding Calculator. The redesigned tool is a convenient, online way to check and tailor your withholding. It's more user-friendly for taxpayers, including retirees and self-employed individuals. The new and improved features include the following.
  - Easy to understand language;
  - The ability to switch between screens, correct previous entries, and skip screens that don't apply;
  - Tips and links to help you determine if you qualify for tax credits and deductions;
  - A progress tracker;
  - A self-employment tax feature; and
  - Automatic calculation of taxable social security benefits.
- 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 or 1040-SR), choose not to claim state and local income taxes, and you didn't save your receipts showing the sales tax you paid.

Resolving tax-related identity theft issues.

- The IRS doesn't initiate contact with taxpayers by email or telephone to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.
- Go to *IRS.gov/IDProtection* for information.
- If your SSN has been lost or stolen or you suspect you're a victim of tax-related identity theft, visit *IRS.gov/IdentityTheft* to learn what steps you should take.

Checking on the status of your refund.

- Go to *IRS.gov/Refunds*.
- The IRS can't issue refunds before mid-February 2020 for returns that claimed the EIC or the ACTC. This applies to the entire refund, not just the portion associated with these credits.
- Download the official IRS2Go app to your mobile device to check your refund status.
- Call the automated refund hotline at 800-829-1954.

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

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Go to *IRS.gov/Payments* 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 or Credit Card*: Choose an approved payment processor to pay online, by phone, and by mobile device.
- *Electronic Funds Withdrawal*: Offered only 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 cut-off times.

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*.

Checking the status of an amended return. Go to *IRS.gov/WMAR* to track the status of Form 1040-X amended returns. Please note that it can take up to 3 weeks from the date you mailed 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. Go to *IRS.gov/Notices* to find additional information about responding to an IRS notice or letter.

Contacting your local IRS office. Keep in mind, many questions can be answered on IRS.gov without visiting an IRS Taxpayer Assistance Center (TAC). Go to *IRS.gov/LetUsHelp* for the topics people ask about most. If you still need help, IRS 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, 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."

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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. Their job is 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*. Your local advocate's number is in your local directory and at *TaxpayerAdvocate.IRS.gov/Contact-Us*. You can also call them 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, please report it to them at *IRS.gov/SAMS*.

TAS also has a website, *Tax Reform Changes*, which shows you how the new tax law may change your future tax filings and helps you plan for these changes. The information is categorized by tax topic in the order of the IRS Form 1040 or 1040-SR. Go to *TaxChanges.us* for more information.

TAS for Tax Professionals

TAS can provide a variety of information for tax professionals, including tax law updates and guidance, TAS programs, and ways to let TAS know about systemic problems you've seen in your practice.

Low Income Taxpayer Clinics (LITCs)

LITCs are independent from the IRS. LITCs represent individuals whose income is below a certain level and need to resolve tax problems with the IRS, such as audits, appeals, and tax collection disputes. In addition, clinics 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. To find a clinic near you, visit *IRS.gov/LITC* or see IRS Pub. 4134, *Low Income Taxpayer Clinic List*.

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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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