

## Guidance Under Section 451(b) Relating to Market Discount

Notice 2018-80

### SECTION 1. PURPOSE

This notice announces that the Department of the Treasury (Treasury Department) and the Internal Revenue Service (IRS) intend to issue proposed regulations under section 451(b) of the Internal Revenue Code that will address the applicability of section 451(b) to market discount as defined in section 1278(a)(2). Section 451(b) was added on December 22, 2017, by section 13221 of An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018, Pub. L. No. 115-97, 131 Stat. 2054, 2116 (2017).

### SECTION 2. TREATMENT OF MARKET DISCOUNT UNDER SECTION 451(b)

For an accrual method taxpayer, income is includible in gross income when all the events have occurred which fix the right to receive such income and the amount thereof can be determined with reasonable accuracy (all events test). See § 451(b)(1)(C); § 1.451-1(a) of the Income Tax Regulations. Section 451(b)(1)(A) provides that the all events test is met with respect to an item of gross income no later than when the taxpayer takes that item of gross income into account as revenue for financial accounting purposes in an “applicable financial statement” as defined in section 451(b)(3). Section 451(b)(2) provides that the general rule in section 451(b)(1) does not apply to any item of gross income for which the taxpayer uses a special

method of accounting, other than items accounted for under a provision of part V of subchapter P, which contains sections 1271 through 1288.

Section 1276(a)(1) treats gain (if any) on the disposition of a market discount bond as ordinary income to the extent that the gain does not exceed the accrued market discount on the bond. Section 1276(a)(3) provides that any partial principal payment on a market discount bond is includible in gross income to the extent the payment does not exceed accrued market discount on the bond.

Taxpayers have requested guidance as to whether market discount is includible in income under section 451(b). The Treasury Department and the IRS intend to issue proposed regulations providing that accrued market discount is not includible in income under section 451(b). The guidance described in this notice will be applicable as of January 1, 2018.

### SECTION 3. DRAFTING AND GENERAL CONTACT INFORMATION

The principal author of this notice is Alexa T. Dubert of the Office of the Associate Chief Counsel (Financial Institutions and Products). Other personnel from the Treasury Department and the IRS participated in its development. For further information regarding this notice, contact Charles W. Culmer of the Office of the Associate Chief Counsel (Financial Institutions and Products) at (202) 317-4528 (not a toll- free number).