

Part III - Administrative, Procedural, and Miscellaneous

Grace Period Interest

Notice 97-67

Many credit card agreements provide for a grace period during which the credit card issuer does not charge interest for a billing cycle if the credit card holder pays off its account balance by a specified date. Under section 1004 of the Taxpayer Relief Act of 1997 (the "Act"), Pub. L. No. 105-34, 111 Stat. 788, 911, if a taxpayer holds a pool of credit card receivables, the taxpayer must accrue interest and original issue discount on the receivables based on a reasonable assumption regarding the timing of the payments by the obligors of the receivables in the pool. Thus, the taxpayer is not permitted to assume that all of its credit card holders will pay their balances by the date specified in the grace period provision of the credit card agreement and, based on this assumption, defer the inclusion of grace period interest. Section 1004 of the Act is effective for taxable years beginning after August 5, 1997. The Internal Revenue Service will issue guidance that provides the procedures for a taxpayer to automatically change its method of accounting to comply with section 1004 for the taxpayer's first taxable year beginning after August 5, 1997.

The Service will process requests by taxpayers to change

their methods of accounting for grace period interest that were pending with the Service on August 4, 1997. For any requests filed on or after August 5, 1997 (the date of enactment of the Act), the Service will exercise its discretion to deny requests to change to a method of accounting for grace period interest other than the method required by section 1004 of the Act. See § 446(e) of the Internal Revenue Code. See also H.R. Conf. Rep. No. 220, 105th Cong., 1st Sess. 523 (1997); H.R. Rep. No. 148, 105th Cong., 1st Sess. 457 (1997).

For further information about this notice, contact William E. Blanchard of the Office of Assistant Chief Counsel (Financial Institutions and Products) at (202) 622-3950, or Wendy MacDonald of the Office of Assistant Chief Counsel (Income Tax and Accounting), at (202) 622-6299 (not toll-free numbers).