List of Original Issue Discount Instruments

For use in preparing 2002 Returns

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Important Reminder

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. 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 in this and other publications 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 must 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.

This publication contains a list of publicly offered OID debt instruments. The information on this list comes from the issuers of the debt instruments and from financial publications and is updated annually. (However, see Debt Instruments Not on the OID List, later.)

Brokers and other middlemen can rely on this list 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 list 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.

Instructions for issuers of OID debt instruments.

In general, issuers of publicly offered OID debt instruments must, within 30 days after the issue date, report information about the instruments to the IRS on Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments. See the form instructions for more information.

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

Internal Revenue Service
OID Publication Project
W:CAR:MP:FP
1111 Constitution Ave. NW
Washington, D.C. 20224

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, depending on when the debt instrument was issued.

Acquisition premium. Acquisition premium is the excess of a bond’s adjusted basis immediately after purchase over its OID. The bond’s OID is included in income before that accrual period minus any payment previously made on the instrument, other than a payment of qualified stated interest.

Debt instrument. The term “debt instrument” means a bond, debenture, note, certificate, or other evidence of indebtedness. It generally does not include an annuity contract.

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

Market discount. Market discount arises when a debt instrument purchased in the secondary market has decreased in value since its issue date, generally because of an increase in interest rates. An OID bond has market discount if your adjusted basis in the bond immediately after you acquired it (usually its purchase price) was less than the bond’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 instrument after the purchase date, other than qualified stated interest. The premium is the excess of the adjusted basis over the payable amounts. See Publication 550 for 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 instrument at a single fixed rate.

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

For instruments listed in Section I–A and Section I–B, the issue price is the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of these instruments was sold.
Information in the OID List

The information in the OID list can be used by brokers and other middlemen to prepare information returns for 2002.

If you own a listed debt instrument, you generally should not rely on the information in the OID list to determine (or compare to) the OID to be reported on your tax return. 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 explains what information is contained in each section of the list.


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 total OID up to January 1, 2002. (This information is not available for every instrument.)
- For long-term instruments issued after July 1, 1982, the daily OID for the accrual periods falling in calendar years 2002 and 2003.
- The total OID per $1,000 of principal or maturity value for calendar years 2002 and 2003.

See Table I on the page preceding Section I–A for an explanation of these items.

Section II. This section contains stripped obligations 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 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 calendar year 2002 per $1,000 of redemption price.

Section III. This section contains short-term discount obligations. Section III–A lists Treasury bills (T-bills), which are short-term discount obligations issued by the U.S. Treasury Department. Sections III–B through III–G contain short-term discount obligations issued by the Student Loan Marketing Association, Federal Home Loan Banks, the Federal National Mortgage Association, Federal Farm Credit Banks, the Federal Home Loan Mortgage Corporation, and the Federal Agricultural Mortgage Corporation.

Information that supplements Section III–A is available on the Internet at www.publicdebt.treas.gov.

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 calendar year 2002 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 on the OID List

The list of debt instruments in this publication 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 2002.
- Mortgage-backed securities and mortgage participation certificates.
- Short-term obligations, other than the obligations listed in Section III.
- Original issue U.S. Treasury notes and bonds. These debt instruments are direct obligations of the U.S. Government. Generally, they contain either de minimis or no discount at original issue. See U.S. Treasury Bills, Notes, and Bonds in chapter 1 of Publication 550 for more information.
- Debt instruments issued at a discount by states or their political subdivisions.
- 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.
- OID debt instruments for which no information was available or that were issued in late 2002 after publication of this list. These will be included in the next revision of the publication.

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 Form 1099–B if the debt instrument if the interest or OID to be included in the owner’s income for 2002 totals $10 or more. You also must file a Form 1099 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, furnish a copy to the owner of the debt instrument by January 31, 2003. By February 28, 2003 (March 31, 2003, if you file electronically), file all your Forms 1099 with the IRS, accompanied by Form 1096.

Electronic payee statements. You can issue 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 2002 General Instructions for Form 1099, 1098, 5498, and W–2G.

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 you sell the obligation for the owner before maturity, you must file Form 1099–B to reflect the gross proceeds to the seller. Do not report the accrued discount to the date of sale on either Form 1099–INT or Form 1099–OID.

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 re...
Form 1099 – OID.

You also may report OID on other
payment is made. 2) Multiply the daily OID by the number of Backup withholding generally applies in the
nominee for the true owner, you generally must
Debt Instruments

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

• Whether an instrument has OID.

• The OID to be reported on the Form 1099–OID.

In general, you must report OID on publicly of-
long-term debt instruments listed in Sec-
section I. You also may report OID on other-

Form 1099–OID. On Form 1099–OID for 2002, show the following information.

• Box 1. The OID for the actual dates the owner held the instruments during 2002. To determine this amount, see Figuring OID, next.

• 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-indexed securities may be reported in box 3 of Form 1099–INT instead.

• Box 3. Any interest or principal forfeited because of an early withdrawal that the owner can deduct from gross income. Do not report amounts in boxes 1 and 2 by the forfeiture.

• Box 4. Any backup withholding for this in-

• Box 5. The CUSIP number, if any. If there is no CUSIP number, give a description of the 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 2003). If the issuer of the instrument is other than the payee, show the name of the issuer in this box.

• Box 6. The OID on a U.S. Treasury obliga-

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

• Section I of the OID list.

• 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 instrument’s ac-
tual stated redemption price at maturity. For example, if the 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 2002 accrued period during which the owner held the instrument.

2) Multiply the daily OID by the number of days in 2002 the owner held the instru-

3) Repeat steps (1) and (2) for any remaining 2002 accrued periods during which the owner held the instrument.

4) Add the results in steps (2) and (3) to de-
terminate the owner’s OID per $1,000 of stated redemption price at maturity.

5) If necessary, adjust the OID in (4) to reflect the instrument’s stated redemption price at maturity.

Report the result in box 1 of Form 1099–OID.

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 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 In-
formation for Owners of OID Debt Instruments, later.

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 includable 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 Ma-
turity 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 generally must report the interest on Form 1099–INT. However, do not report the interest if either of the following apply.

• You hold the bond as a nominee for the true owner.

• The payee is a foreign person. See Pay-
ments 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 on the OID list in this publication 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 inter-
employment payments collected at the time of rede-

Backup Withholding

If you report OID on Form 1099–OID or interest on Form 1099–INT for 2002, you may be re-
cord-low rate of 30%. The backup withholding tax is deducted at the time a cash payment is made.

Backup withholding generally applies in the following situations.

1) The payee does not give you a taxpayer identifi-
cal TIN. The amount subject to backup withholding is deemed. This noncompetitive discount price is

2) The IRS notifies you that the payee gave an incorrect TIN.

3) The IRS notifies you that the payee is sub-
et to backup withholding due to payee underreporting.

4) For debt instruments acquired after 1983:

a) The payee does not certify, under pen-
alties of perjury, that he or she is not subject to backup withholding under (3).

b) The payee does not certify, under pen-
alties of perjury, that the TIN given is correct.

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

Short-term obligations. Backup withholding applies to OID on a short-term obligation only when the OID is paid at maturity. However, backup withholding applies to any interest pay-
able 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 estab-

ish 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 disre-
gard that price if it would require significant man-
tual 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 ma-

aturity, backup withholding applies only at matur-

ity. The amount subject to backup withholding is the OID includable in the owner’s gross income for the calendar year when the obligation ma-
The following debt instrument has market discount that you discuss explain the rules for backup with-

payments of U.S.-source OID, interest, or pro-
ceeds from a sale or redemption of an OID
instrument if the payee has given you proof
(generally the appropriate Form W–8 or an ac-
ceptable 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 docu-
mentary evidence for payments made outside
the United States to an offshore account or, in
case of broker proceedings, a sale effected outside
the United States. Receipt of the appropriate
Form W–8 does not relieve you from informa-
tion reporting and backup withholding if you ac-
tually know the payee is a U.S. person.

For information about the 30% withholding tax that may apply to payments of U.S.-source OID or interest to foreign persons, see Publica-
tion 515.

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

More information. See section 1.6049–9 of the regulations for more information about backup withholding and information reporting on foreign-source amounts or payments to foreign persons.

Information for Owners of OID Debt Instruments

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 dis-
cussion for stripped bonds and coupons, as well as zero coupon instruments available through the Department of the Treasury’s STRIPS pro-
gram 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.

Reporting OID. Generally, you report OID as it accrues each year, whether or not you receive any payments from the bond issuer.

Exceptions. The rules for reporting OID on long-term instruments do not apply to the follow-
ing debt instruments:

• U.S. savings bonds.
• Tax-exempt obligations. (However, see Exempt Bonds and Coupons, later.)
• Obligations issued by individuals before March 2, 1984.
• Loans of $10,000 or less between individ-
uals who are not in the business of lending money. (The dollar limit includes outstanding
prior loans by the lender to the bor-
rower.) This exception does not apply if a principal purpose of the loan is to avoid any federal tax.

See chapter 1 of Publication 550 for informa-
tion about the rules for these and other types of discount and obligations. Publication 550 also discusses rules for holders of REMIC inter-
est 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% (.0025) of the stated redemption price at maturity multiplied by the number of full years from the date of original issue to matur-
ity. Long-term instruments with de minimis OID are not listed in this publication.

Example 2. You bought at issuance a 10-year bond with a stated redemption price at maturity of $1,000, issued at $980 with OID of $20. One-fourth of 1% of $1,000 (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 Ex-
ample 2, except the bond 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. Gener-
ally, 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 Figuring OID using the constant yield method under Debt Insti-
tuents Issued After 1984, later, for more infor-
mation.

For this choice, interest includes stated inter-
est, acquisition discount, OID, de minimis OID, market discount, de minimis market discount, and unstated interest, as adjusted by any amor-
izable bond premium or acquisition premium. See section 1.1272–3 of the regulations for more information.

Purchase after date of original issue. A debt instrument you purchased after the date of origi-
nal issue may have premium, acquisition pre-
mium, or market discount. If so, 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.

Adjustment for premium. If your debt in-


accrued market discount and include it in your income currently and for other information about market discounts, see Figuring OID on Long-Term Debt Instruments. The constant yield method of figuring accrued OID, explained in those discussions under Figuring OID using the constant yield method, is also used to figure accrued market discount.

Sale, exchange, or redemption. Generally, you treat any gain or loss from the sale, exchange, or redemption of a discounted bond or other debt instrument as a capital gain or loss if you held the bond as a capital asset. If you sold the bond 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 Schedule D (Form 1040).

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. 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.

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

Example 4. On November 1, 1999, Larry, a calendar year taxpayer, bought a corporate bond at original issue for $86,235.17. The 15-year bond matures on October 31, 2014, at a stated redemption price of $100.00. The bond provides for semiannual payments of interest at 10%. Assume the bond is a capital asset in Larry’s hands. The bond has $13,764.83 of OID ($100,000 stated redemption price at maturity minus $86,235.17 issue price).

On November 1, 2002, Larry sold the bond for $90,000. Including the OID he will report for the period he held the bond in 2002, Larry has included $1,214.48 of OID in income and has increased his basis by that amount to $87,449.65. Larry has realized a gain of $2,550.35. All of Larry’s gain is capital gain.

Form 1099–OID

The issuer of the debt instrument (or your broker, if you purchased or held the 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 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 6. It also shows, in box 2, any qualified stated interest you must include in income. (However, any qualified stated interest on Treasury inflation-indexed securities that is not OID can be reported in box 3 of Form 1099 (NT) 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.

If you are required to file a tax return and you receive Form 1099–OID claiming 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 of the following reasons:

- Negligence or disregard of rules and regulations.
- Substantial understatement of tax.

Form 1099–OID not received. If you held an OID instrument for 2002 but did not receive a Form 1099–OID, refer to the later discussion under Figuring OID on Long-Term Debt Instruments for information on the OID you must report.

Figuring OID. You must figure the OID shown in box 1 or box 6 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.
- The debt instrument is a stripped bond or coupon (including zero coupon instruments 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 specific computations.

Figuring 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 Publication 550 for information about figuring the interest shown in box 2 of Form 1099–OID.

Nominee. If you are the holder of an OID 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 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. 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 instructions for more information.

When preparing your tax return, follow the instructions under Showing an OID adjustment in the next discussion.

How To Report OID

Generally, you report your taxable interest and OID income on line 2, Form 1040EZ, line 8a, Form 1040A, or line 8a, Form 1040.

Form 1040 or Form 1040A required. You must use Form 1040 or Form 1040A (you cannot use Form 1040EZ) under either of the following conditions:

- You received a Form 1099–OID as a nominee for the actual owner.
- Your total interest and OID income for the year was more than $1,500.

Form 1040 required. You must use Form 1040 (you cannot use Form 1040A or Form 1040EZ) if you are reporting more or less OID than the amount shown on Form 1099–OID, other than because you are a nominee. For example, if you paid a premium or an acquisition premium when you purchased the debt instrument, you must use Form 1040 because you will report less OID than shown on Form 1099–OID. Also, you must use Form 1040 if you were charged an early withdrawal penalty.

Where to report. List each taxpayer’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 line 1 of Schedule B (Form 1040). Include all OID and periodic interest shown in boxes 1, 2, and 6 of any Form 1099–OID 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. If you use Form 1040 to report more or less OID than shown on Form 1099–OID, list the full OID on line 1, Part I of Schedule B and follow the instructions under (1) or (2), next.

If you use Form 1040A to report the OID shown on a Form 1099–OID you received as a nominee for the actual owner, list the full OID on line 1, Part I of Schedule 1 and follow the instructions under (1).

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.

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 also may depend on the type of the instrument. There are different rules for each of the following debt instruments.


4) Debt instruments issued after 1984 (other than debt instruments described in (5) and (6)).
5) Contingent payment debt instruments issued after August 12, 1996.

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

Corporate Debt Instruments Issued After 1954 and Before July 2, 1982
If you hold these debt instruments as capital assets, you include OID in income in the year the instrument is sold, exchanged, or reacquired, and only if you have a gain. The OID, which is taxed as ordinary income, generally equals the following amount.

\[
\text{number of full months you held the instrument} \times \text{original issue discount} \\
\text{number of full months from date of original issue to date of maturity}
\]

The balance of the gain is capital gain. If there is a loss on the sale of the instrument, the entire loss is a capital loss and no OID is reported.

Corporate Debt Instruments Issued After May 27, 1969, and Before July 2, 1982
If you hold these debt instruments as capital assets, you must include part of the discount in income each year you own the instruments. For information about showing the correct OID on your tax return, see the discussion under How To Report OID, earlier. Your basis in the instrument is increased by the OID you include in income.

Form 1099—OID. You should receive a Form 1099—OID showing OID for the part of the year you held the bond. 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.

Form 1099—OID not received. If you held an OID instrument in 2002 but did not receive a Form 1099—OID, refer to Section I–A later in this publication. The OID listed is for each $1,000 of redemption price. You must adjust the listed amount if the debt instrument has a different principal amount. For example, if you have an instrument with a $500 principal amount, use one-half the listed amount to figure your OID.

If you held the instrument the entire year, use the OID shown in Section I–A for calendar year 2002. (If your instrument is not listed in Section I–A, consult the issuer for information about the issue price and the OID that accrued for 2002. If you did not hold the instrument the entire year, figure your OID using the following method.

1) Divide the OID shown for 2002 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 in 2002. 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 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. If 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 instrument during the year.

Example 5. On June 1, 1982, Acme Corporation issued 30-year bonds at 90% of the principal amount. On February 1, 2002, you bought Acme bonds with a $10,000 principal amount on the open market for $9,800. The amount you must include in income is figured as follows:

1) Monthly OID ($1,000 total OID ÷ 360 months) = $2.78
2) Your cost = $9,800.00
   Minus: Issue price = $9,000.00
   $800.00
   Minus: Accumulated OID ($2.78 × 236 months) = $656.08
   Acquisition premium = $143.92
3) Acquisition premium divided by number of complete and partial months from date of purchase to maturity date ($143.92 ÷ 124 months) = $1.16
4) Line 1 minus line 3 = $1.62

You must include $17.62 ($1.62 × 11 months) in income for 2002 because the acquisition premium reduces the ratable monthly portion of OID.

Example 6. Assume the same facts as in Example 5, except that you bought the bonds on September 14, 2001, for $9,643.38 ($9,000 issue price plus $643.38 accumulated OID) and sold them on March 14, 2002. You figure the OID to include in your 2001 income as follows.

Amount for September ($2.78 × 17 days = 45.96) .......................... $1.58
Amount for complete months October through December ($2.78 × 3 months) = $8.34
Total to include in 2001 income .......................... $9.92
You figure the OID to include in your 2002 income as follows.

Amount for complete months January through February ($2.78 × 2 months) = $5.56
Amount for March ($2.78 × 13 days = 37.14) .......................... $1.17
Total to include in 2002 income .......................... $6.73
You increase your basis in the bonds by the OID you include in income. Your basis in the bonds when you sold them is $9,660.03 ($9,643.38 cost + $9.92 OID for 2001 and $6.73 OID for 2002).

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 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 bond. However, if you paid an acquisition premium, you may need to refigure the OID to report on your tax return. See Figuring OID using the constant yield method and the discussions on acquisition premium that follow, later.

Form 1099—OID not received. If you held an OID instrument in 2002 but did not receive a Form 1099—OID, refer to Section I–A later in this publication. 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 an 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...
The OID for any accrual period is 
\[ \text{OID} = \text{Daily OID} \times \text{Number of days in accrual period} \]

### Example 1

1. **Divide the total OID for 2002 by 365.**
2. **Multiply the result in (1) by the number of days you held the bond during that accrual period.**
3. **If you sold the bond on August 30, 2002, you must include the proper daily OID amounts for 120 days.**

### Accrual Period

An accrual period for any OID instrument issued after July 1, 1982, and before July 1, 1985, using a constant yield method, OID is allocated over the life of the instrument through adjustments to the issue price for each accrual period.

### Figure the OID allow able to each accrual period as follows.

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

### Accrual Period

An accrual period for any OID instrument issued after July 1, 1982, and before July 1, 1985, using a constant yield method, OID 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 held the 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.

### Figure daily OID

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

\[ \text{daily OID} = \frac{\text{issue price} \times \text{yield to maturity}}{\text{number of days in accrual period}} \]

### Table: OID Calculations

<table>
<thead>
<tr>
<th>Year</th>
<th>Period</th>
<th>Issue Price</th>
<th>Daily OID</th>
<th>OID for the Period</th>
<th>Adjusted Issue Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>120 days</td>
<td>$102.83</td>
<td>$2.8096</td>
<td>$102.83</td>
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<td>1985</td>
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<td>$102.83</td>
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<td>$245 days</td>
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<td>$90,220.63</td>
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<tr>
<td>1988</td>
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<td>$117.80</td>
<td>$266.27</td>
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<tr>
<td>1989</td>
<td>245 days</td>
<td>$266.27</td>
<td>$245 days</td>
<td>$266.27</td>
<td>$90,333.90</td>
</tr>
<tr>
<td>1990</td>
<td>121 days</td>
<td>$266.27</td>
<td>$266.27</td>
<td>$266.27</td>
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<td>$245 days</td>
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<td>1992</td>
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<td>$266.27</td>
<td>$266.27</td>
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<tr>
<td>1993</td>
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<tr>
<td>1994</td>
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<td>$266.27</td>
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<tr>
<td>1995</td>
<td>245 days</td>
<td>$266.27</td>
<td>$245 days</td>
<td>$266.27</td>
<td>$90,333.90</td>
</tr>
<tr>
<td>1996</td>
<td>121 days</td>
<td>$266.27</td>
<td>$266.27</td>
<td>$266.27</td>
<td>$90,333.90</td>
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<td>245 days</td>
<td>$266.27</td>
<td>$245 days</td>
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<td>$90,333.90</td>
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<tr>
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<td>$266.27</td>
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<td>$266.27</td>
<td>$266.27</td>
<td>$90,333.90</td>
</tr>
</tbody>
</table>

### OID Calculations

The daily OID for the 20th accrual period is figured as follows:

\[ \text{Daily OID} = \frac{\text{Issue Price} \times \text{Yield to Maturity}}{365} \]

If you sold the bond on August 30, 2002, you would have included in income $266.27 for 120 days and $17.80 for 245 days.

### Calculate Total to Include in Income

\[ \text{Total to Include in Income} = \text{Second Accrual Period} + \text{First Accrual Period} \]

<table>
<thead>
<tr>
<th>Year</th>
<th>First Accrual Period</th>
<th>Second Accrual Period</th>
<th>Total</th>
</tr>
</thead>
<tbody>
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<td>$102.83</td>
<td>$383.79</td>
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<tr>
<td>1985</td>
<td>$327.24</td>
<td>$102.83</td>
<td>$430.07</td>
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<td>$369.73</td>
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<td>$433.56</td>
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<td>1991</td>
<td>$729.81</td>
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<td>1992</td>
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<td>$2,266.80</td>
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<td>2000</td>
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<tr>
<td>2001</td>
<td>$2,839.92</td>
<td>$102.83</td>
<td>$3,042.75</td>
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</table>

### Conclusion

If you held the bond the entire year of 2002, the total OID to report is $3,042.75. However, if you held the bond for all of 2003, you would include OIDs of $1,004.53 in income for 2003.
1984, through April 30, 1985, reduced for the acquisition premium, is figured as follows.

1) Daily OID on date of purchase (2nd accrual period) ........................................ $3.2274
2) Acquisition premium ..................................... $1,897.17
3) Total days from purchase date to maturity date (365 × 18 years) + 4 days for leap year) ......................................... 6,399
4) Line 2 ÷ line 3 ............................................. $273.41

5) Daily OID reduced for the acquisition premium, Line 1 – line 4 $0.04935

The OID you would have included in income for 2004 is $12.09 ($0.04935 × 245 days).

Assuming you still owned the bond in 2002, you would have reduced the total OID for each year (as determined in Example 10) by the allocable portion of the acquisition premium for that year. You would have included the following amounts of OID in income.

<table>
<thead>
<tr>
<th>Year</th>
<th>OID</th>
</tr>
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<tbody>
<tr>
<td>1985</td>
<td>$29.52</td>
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<td>1986</td>
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<td>1987</td>
<td>69.62</td>
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<td>1988</td>
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<tr>
<td>1989</td>
<td>122.92</td>
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<tr>
<td>1990</td>
<td>155.35</td>
</tr>
<tr>
<td>1991</td>
<td>191.94</td>
</tr>
<tr>
<td>1992</td>
<td>235.33</td>
</tr>
<tr>
<td>1993</td>
<td>283.80</td>
</tr>
<tr>
<td>1994</td>
<td>339.65</td>
</tr>
<tr>
<td>1995</td>
<td>402.66</td>
</tr>
<tr>
<td>1996</td>
<td>477.59</td>
</tr>
<tr>
<td>1997</td>
<td>560.88</td>
</tr>
<tr>
<td>1998</td>
<td>657.06</td>
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<td>1999</td>
<td>765.59</td>
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<tr>
<td>2000</td>
<td>894.85</td>
</tr>
<tr>
<td>2001</td>
<td>1,038.08</td>
</tr>
</tbody>
</table>

If you held the bond all of 2002, reduce the total OID for that year, $1,303.52 (as determined in Example 10), by the allocable part of the acquisition premium for 2002, $99.79 ($0.27341 × 365 days). The difference, $1,203.73, is the total OID to include in income for 2002.

Example 12. Assume the same facts as in Example 11, except that you bought the bond for $90,102.83. In this case, you bought the bond for an amount equal to the original issue price plus accumulated OID. Therefore, you did not pay an acquisition premium. You would have included $78.07 ($3.2274 ÷ 245 days) in income for 1984. For the remaining years, you would have included the amounts figured in Example 10.

Example 13. Assume the same facts as in Example 11, except that you bought the bond for $89,500. You did not pay an acquisition premium because your cost was less than the adjusted issue price. You must include in income each year the amounts of OID figured in Example 12. The bonds have market discount, which must be reported under the rules explained in chapter 1 of Publication 550.

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 instrument after your purchase date.

Example 14. Assume the same facts as in Example 9, except that you bought the bond for $99,000 on August 1, 2002, after its original issue on August 1, 1983. In this case, you paid more for the bond than its $88,637.71 adjusted issue price ($90,000 – $8,637.71 accrued OID). You paid $362.29 ($99,000 – $88,637.71) acquisition premium. The daily OID for the 19th accrual period, August 1, 2002, to July 31, 2003, reduced for the acquisition premium, is figured as follows:

1) Daily OID on date of purchase (20th accrual period) ........................ $3,72704*
2) Acquisition premium ..................................... $362.29
3) Total OID remaining after purchase date ($10,000 – $8,637.71) .................. $1,362.29
4) Line 2 ÷ line 3 ............................................. 0.29584
5) Line 1 × line 4 ............................................. 0.99117
6) Daily OID reduced for the acquisition premium, Line 1 – line 5 ........................ $2,73587

*As shown in Example 9.

The total OID to include in income for 2002 (August 1 – December 31) is $418.59 ($2,73587 ÷ 537 days).

If you held the bond until maturity in 2003, multiply the total OID for the year by 0.99117 and subtract the result from the total OID. The reduced amount is the total OID to be included in income for 2003.

Using Section 1–A to figure accumulated OID. If you bought your corporate debt instrument in 2002 or 2003 and it is listed in Section 1–A, 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, 2002” column for your debt instrument at the time of purchase.
2) The OID from January 1, 2002, to the date of purchase, figured as follows.
   a) Multiply the daily OID for the first accrual period in 2002 by the number of days from January 1 to the date of purchase, or the end of the accrual period if the 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).

Debt Instruments Issued After 1984

If you hold debt instruments issued after 1984, you must report part of the discount in gross income each year that you own the instruments. You must include the OID in gross income whether or not you hold the instrument as a capital asset. Your basis in the 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 2002 you held the bond. However, if you paid an acquisition premium, you may need to refigure the OID to report on your tax return. See Figuring OID using the constant yield method and Reduction for acquisition premium, later.

You may also need to refigure the OID for a contingent payment or inflation-indexed debt instrument that accrues interest on which you received an amount. If you hold a Form 1099–OID is inaccurate. See Contingent Payment Debt Instruments or Inflation-Indexed Debt Instruments, later.

Form 1099–OID not received. If you held an OID instrument in 2002 but did not receive a Form 1099–OID, refer to Section 1–B later in this publication. The OID listed for each $1,000 of redemption premium. You must adjust the listed amount if your debt instrument has a different principal amount. For example, if you have an instrument with a $500 principal amount, use one-half the listed amount to figure your OID.

Use the OID shown in Section 1–B for the calendar year if you held the instrument the entire year. (If your instrument is not listed in Section 1–B, consult the issuer for information about the issue price, the yield to maturity, and the OID that accrued for 2002.) 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 2002 accrual period in which you held the instrument. (See Also Example 9: Figuring OID using the constant yield method, later.)
2) Multiply the daily OID by the number of days in 2002 you held the instrument during that accrual period.
3) Repeat (1) and (2) for any remaining 2002 accrual periods in which you held the instrument.
4) Add the results of (2) and (3). This is the OID to include in income for 2002, unless you paid an acquisition premium. (The re-duction for acquisition premium is dis-cussed 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. Use the rules that follow to determine your OID.

Figuring OID using the 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
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 instrument’s yield to maturity 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 year. The first 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 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.

$$ \text{Daily OID} = \frac{\text{ip} \times \text{ytm}}{\text{n}} - \text{qsi} $$

$$ \text{ip} = \text{issue price} $$

$$ \text{ytm} = \text{yield to maturity} $$

$$ \text{n} = \text{number of accrual periods in 1 year} $$

$$ \text{qsi} = \text{qualified stated interest} $$

$$ \text{p} = \text{number of days in accrual period} $$

The daily OID for subsequent accrual periods is figured using the initial issue price at the beginning of each period is used in the formula instead of the issue price.

Example 15. On January 1, 2002, you bought a 15-year, 10% bond of A Corporation at original issue for $86,235.17. According to the prospectus, the bond matures on December 31, 2016, at a stated redemption price of $100,000. The yield to maturity is 12%, compounded semi-annually. The bond 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 daily OID for the first accrual period is figured as follows.

$$ \text{Daily OID} = \frac{\text{ip} \times \text{ytm}}{\text{n}} - \text{qsi} $$

$$ \text{ip} = \$86,235.17 \times 2 \text{nd period} - 5,000 $$

$$ \text{ytm} = 12\% $x 6 \text{ periods} $$

$$ \text{n} = 30 \text{ days} $$

$$ \text{qsi} = 0.09176 $$

$$ \text{p} = 30 \text{ days} $$

$$ \frac{\$86,235.17 \times 6}{30} - 0.09176 = \$1,01967 $$

If you hold the bond through the end of 2002, you must include $236.31 of OID in income. This is $174.11 ($9,4625 x 184 days) for the period May 1 through October 31 plus $62.20 ($1,01967 x 61 days) for the period November 1 through December 31. The OID is added to the $5,000 interest income paid on October 31, 2002. Your basis in the bond is increased by the OID you include in income. On January 1, 2003, your basis in the A Corporation bond 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 or 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 bought the debt instrument at an acquisition premium, figure the OID includible in income by reducing the daily OID by the acquisition premium. To figure the daily acquisition premium, multiply the daily OID by the following fraction.

1) The numerator is the acquisition premium.
2) The denominator is the total OID remaining for the instrument after your purchase date.

Example 17. Assume the same facts as in Example 16, except that you bought the bond on November 1, 2002, at $87,000, after its original issue on May 1, 2002. The adjusted issue price on November 1, 2002, 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, 2002, through April 30, 2003, reduced for the acquisition premium, is figured as follows.

$$ \text{Daily OID} = \frac{\text{ip} \times \text{ytm}}{\text{n}} - \text{qsi} $$

$$ \text{ip} = \$86,409.28 \times 2 \text{nd period} - 5,000 $$

$$ \text{ytm} = 12\% $x 6 \text{ periods} $$

$$ \text{n} = 341 \text{ days} $$

$$ \text{qsi} = 0.09176 $$

$$ \text{p} = 341 \text{ days} $$

$$ \frac{\$86,409.28 \times 6}{341} - 0.09176 = \$1,04341 $$

(As shown in Example 16).

The total OID to include in income for 2002 is $59.50 ($97536 x 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 is a debt instrument that provides for one or more payments that are contingent as to timing or amount. If you hold a contingent payment debt instrument, you must report OID as it accrues each year.

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 bought the debt instrument at an acquisition premium, figure the OID includible in income by reducing the daily OID by the acquisition premium. To figure the daily acquisition premium, multiply the daily OID by the following fraction.

1) The numerator is the acquisition premium.
2) The denominator is the total OID remaining for the instrument after your purchase date.
ments, holders and issuers must use the non-contingent bond method.

Noncontingent bond method. Under this method, the issuer must construct a hypothetical noncontingent bond that has terms and conditions similar to the contingent payment debt instrument. The issuer constructs the payment schedule of the hypothetical noncontingent bond by projecting a fixed amount for each contingent payment. Holders and issuers accrue OID on this hypothetical noncontingent bond using the constant yield method that applies to fixed payment debt instruments. When 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 in box 1 of the Form 1099–OID 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 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.

Comparable yield. The comparable yield is the yield on the hypothetical noncontingent bond that the issuer determines and constructs at the time of issuance.

Projected payment schedule. The projected payment schedule is the payment schedule of the hypothetical noncontingent bond. The schedule includes all fixed payments due under the contingent payment debt instrument and a projected fixed amount for each contingent payment. The projected payment schedule is created by the issuer. It is used to determine the 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 on the hypothetical noncontingent bond 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 yield to maturity. Use the projected payment schedule to determine the hypothetical bond’s adjusted issue price at the beginning of the accrual period. Do not treat any amount payable as qualified stated interest.

2) Adjust the OID in (1) to account for actual contingent payments. If the contingent payment is less than the projected fixed amount, you have a negative adjustment. If the contingent payment is greater than the projected fixed amount, you have a negative adjustment.

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

Net negative adjustment. A net negative adjustment exists when the total of any negative adjustments described in (2) above is more than the total of any positive adjustments. 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 adjustment for inflation. Decrease your basis by any non-contingent 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 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 instrument. If the instrument is a capital asset, treat any loss that is more than your prior OID accruals as a capital loss. See section 1.1275–4 of the regulations for exceptions to these rules.

Premium, acquisition premium, and market discount. The rules for figuring the OID on an acquisition premium, market discount and normal OID accruals are identical. Use your prior OID accruals as your basis in a contingent payment debt instrument. For OID accruals, see section 1.1275–4(d) of the regulations 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 Treasury inflation-indexed securities (TIIS)).

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

Inflation-adjusted principal amount. For any date, the inflation-adjusted principal amount of an inflation-indexed debt instrument is the instrument’s outstanding principal amount multiplied by the index ratio for that date. (For TIIS, 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 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 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 seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U), published by the Bureau of Labor Statistics of the Department of Labor). The value of the index for any date between reset dates is determined through linear-interpolation.

The daily index ratios for Treasury inflation-indexed securities are available on the Internet at www.publicdebt.treas.gov.

Form 1099–OID. The amount shown in box 6 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 6 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 instrument is issued at par, all stated interest payable on the instrument is qualified stated interest, and the coupons have not been stripped from the instrument. This method generally applies, for example, to Treasury inflation-indexed securities.

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

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

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 TIIS, 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 of the tax year (for TIIS, subtract from (1) above the product of the par value times the in-
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 instrument during the tax year and any principal payments you received during the year. (For TIS, multiply the par value by the index ratio for the sale or retirement date, and add any principal payments received.)

2. Subtract from (1) above the inflation-adjusted principal amount for the first day on which you held the instrument during the tax year. (For TIS, 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 18.** On February 6, 2002, you bought an old 10-year, 3.375% inflation-indexed debt instrument (maturing January 15, 2007) for $9,831. The stated principal (par value) amount is $10,000 and the inflation-adjusted principal amount for February 6, 2002, is $11,189.10 ($10,000 par value times 1.11891 index ratio). You held the debt instrument until September 1, 2002, when the inflation-adjusted principal amount was $11,354.80 ($10,000 par value times 1.13548 index ratio). Your OID for the 2002 tax year is $165.70 ($11,354.80 − $11,189.10). Your basis in the debt instrument on September 1, 2002, was $9,996.70 ($9,831 cost + $165.70 OID for 2002).

**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 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 generally is used to offset income from the debt instrument for the tax year. Show this offset as an adjustment on your Schedule B (Form 1040), in the space provided for an OID adjustment. See How To Report OID, earlier.

Example 19. Assume the same facts as in Example 18, except that you bought the instrument for $9,831 on January 6, 2002, when the inflation-adjusted principal amount was $11,212.90, and sold the instrument on April 1, 2002, when the inflation-adjusted principal amount was $11,178.10. Because the OID calculation for 2002 ($11,178.10 − $11,212.90) produces a negative number (negative $34.80), you have a deflation adjustment. You use this deflation adjustment to offset the stated interest reported to you on the debt instrument.

**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 instrument by assuming there will be no further inflation or deflation over the remaining term of the instrument. You allocate any premium over the remaining term of the 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 instrument for the year.

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

Stripped bonds and coupons include the following instruments:

- **Zero coupon instruments available through the Department of the Treasury’s STRIPS program and government-sponsored enterprises such as the Resolution Funding Corporation and the Financing Corporation.**
- **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 bond or coupon. 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 sell the coupons, treat the excess of the amount payable on the coupons over the basis of the coupons as OID.

**Purchaser of stripped bond or coupon.** 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 date of the coupon over your purchase price.

**Form 1099—OID.** The amount shown in box 6 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 yield to maturity (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 Bonds and Coupons Purchased After 1984, later.) Use the yield to maturity (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 of as of the purchase date equal to the lower of the following rates.
Bonds and Coupons

In it by the sum of the interest accrued but not
ments Issued After July 1, 1982, and Before
1985.

Subtract this issue price from the stated re-
demption 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.

Example. 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 ba-
sis in it by the sum of the interest accrued but not
paid before you dispose of it (and not previously
reflected in your accounting records). Any accrued in-
come, whether or not taxable, is treated as if it were

Example 20. Assume that a tax-exempt
bond with a face amount of $100 due January 1,
2004, and a coupon rate of 10% (compounded
semiannually) was issued for $100 on January
1, 2001. On January 1, 2002, 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 were originally issued on Janu-
ary 1, 2002, with OID of $20.79 ($100.00 −
$79.21). This reflects a YTM at the time of the
accrual period. The OID for the accrual period is
figured by applying the discount method.

Figuring OID. 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 instrument matures can be divided
exactly into full 1-year periods without including
a shorter period, then the OID can be figured by
applying the following formula.

\[
\text{OID} = \text{srp} \times \frac{\text{ap}}{\text{m}} - 1
\]

Where

- \( \text{srp} \) = stated redemption price at maturity
- \( \text{ap} \) = acquisition price
- \( \text{m} \) = number of full accrual periods from
purchase to maturity

If the instrument is a stripped coupon, the
stated redemption price is the amount payable
on the due date of the coupon. See Example 21.

Example 21. Assume that you purchased a
stripped bond on July 1, 1982, but before 1985,
and held that bond until November 15, 1984.
Your YTM on this stripped bond is 6% (7% on
the due date of the coupon). To figure the OID
on this bond, use the following formula.

\[
\text{OID} = \text{srp} \times \frac{\text{ap}}{\text{m}} - 1
\]

Where

- \( \text{srp} \) = stated redemption price at maturity
- \( \text{ap} \) = acquisition price
- \( \text{m} \) = number of full accrual periods from
purchase to maturity

If you purchased a stripped bond or coupon
after 1984 and before April 4, you must consult
your tax advisor for information about figuring
the OID.

Adjusted acquisition price. The adjusted ac-
quisition price of a stripped bond or coupon at
the beginning of the first accrual period is the
purchase (or acquisition) price. The adjusted
acquisition price at the beginning of any subse-
quent accrual period is the sum of the acquisi-
tion price and all of the OID includable in income
before that accrual period.

Accrual period. An accrual period for any
stripped bond or coupon acquired before 1985 is
each 1-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 bond
or coupon.

Bonds and Coupons Purchased After 1984

If you purchased a stripped bond or coupon
other than a stripped inflation-indexed instru-
ment after 1984, you must consult your tax
advisor for information about figuring the OID.

Adjusted acquisition price. The adjusted ac-
quisition price of a stripped bond or coupon at
the beginning of the first accrual period is the
purchase (or acquisition) price. The adjusted
acquisition price at the beginning of any subse-
quent accrual period is the sum of the acquisi-
tion price and all of the OID includable in income
before that accrual period.

Accrual period. For a stripped bond or cou-
pon purchased after 1984 and before April 4,
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 6-month
duration of the term (if a stripped bond that has a
payment date) of March 31 has accrual periods that
end on September 30 and March 31 of each calendar
year. Any short period is included as the first accrual
period.
For a stripped bond or coupon acquired after April 3, 1994, accrual periods may be of any length and may vary in length over the term of the 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 bond 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.

\[ \text{YTM} = \left( \frac{\text{srp}}{\text{ap}} \right) \times \left( \frac{1}{n} \right) - 1 \]

where:
- \( n \) = number of accrual periods in 1 year
- \( \text{srp} \) = stated redemption price at maturity
- \( \text{ap} \) = acquisition price

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 full accrual periods, so that a shorter period must be included, you can figure the YTM by using the following formula (the exact method).

\[ \text{YTM} = \left( \frac{\text{srp}}{\text{ap}} \right) \times \left( \frac{1}{n} \right) - 1 \]

where:
- \( n \) = number of accrual periods in 1 year
- \( \text{srp} \) = stated redemption price at maturity
- \( \text{ap} \) = 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 23.** On May 31, 2002, 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 12, 2008. 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.

\[ \text{YTM} = \left( \frac{1}{(74/181)} \right) - 1 \]

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 held 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, next, if there are equal accrual periods. Use Formula 2 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**

\[ \text{ OID} = \text{ap} \times \text{ytm} \times \frac{n}{p} \]

**Formula 2**

\[ \text{ OID} = \text{ap} \times \left( \frac{1 + \text{ytm} \times n}{p} \right) - \text{ap} \]

where:
- \( \text{ap} \) = acquisition price
- \( \text{ytm} \) = 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 instruments are similar to those illustrated in Example 15 and Example 16, earlier, under Debt Instruments Issued After 1984.

**Example 24.** Assume the same facts as in Example 23, and that you held the coupon for the rest of 2002.

For the short initial accrual period from May 31, 2002, through August 12, 2002, the daily OID is figured using Formula 2, as follows.

\[ \text{OID} = \frac{\$60,000 \times (1 + .08406/2)}{184} - \frac{\$60,000}{184} \]

Use 6.01848 and make an adjustment in the following formula.

\[ \text{ OID} = \frac{\$1,018.48}{184} \]

The OID for this period is $1,018.48 ($13,763.27 x 74 days).

For the second accrual period from August 13, 2002, through February 12, 2003, 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.

\[ \text{ OID} = \frac{\$61,018.48 \times (1 + .08406/2)}{184} - \frac{\$61,018.48}{184} \]

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

**How To Get Tax Help**

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

**Contacting your Taxpayer Advocate.** If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at 1–877–777–4778.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call 1–800–829–4059 if you are a TTY/TDD user.
The type and rule above prints on all proofs including departmental reproduction proofs. MUST be removed before printing.
Table 1. Explanation of Section I Column Headings

<table>
<thead>
<tr>
<th>Name of Issuer</th>
<th>CUSIP Number</th>
<th>Issue Date</th>
<th>Maturity Date</th>
<th>Issue Price (Percent of Principal Amount)</th>
<th>Annual Stated Interest Rate</th>
<th>Total OID to 1/1/02</th>
<th>2002 1st Period</th>
<th>2002 2nd Period &amp; 2003 1st Period</th>
<th>2003 2nd Period</th>
<th>OID per $1,000 of Maturity Value for Each Accrual Period</th>
<th>2002</th>
<th>2003</th>
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</thead>
<tbody>
<tr>
<td>XYZ Corp.</td>
<td>123456AA</td>
<td>08/01/84</td>
<td>08/01/04</td>
<td>90.0</td>
<td>13.0</td>
<td>68.47</td>
<td>028399</td>
<td>032534</td>
<td>037270</td>
<td>11.00</td>
<td>12.60</td>
<td></td>
</tr>
</tbody>
</table>

1. **CUSIP Number** — The CUSIP number identifies the debt instrument. The first six digits of the CUSIP number represent the issuer and the last two digits identify the particular issue. The ninth, or check digit, is omitted for most debt instruments issued before 1985.

2. **Issue Date** — This is the date of original issue, which is generally the date on which the instrument was first sold to the public at the issue price.

3. **Maturity Date** — This is the date the debt instrument matures and is redeemable at its full principal amount. For example, if the bond of XYZ Corp. above has a principal amount of $1,000, the holder will be paid $1,000 when he or she redeems it on August 1, 2004 (maturity date).

4. **Issue Price (Percent of Principal Amount)** — In general, the issue price is the initial offering price at which a substantial amount of the debt instruments are sold to the public. In the above example, XYZ bonds were first offered to the public at $900. Since they have a principal amount of $1,000, the issue price expressed as a percent of principal amount is 90.

5. **Annual Stated Interest Rate** — This is the rate of annual interest payments. In the above example, XYZ bond has a stated interest rate of 13% and pays $130 a year for each $1,000 principal amount of the bond.

6. **Total OID to 1/1/02** — This shows the total OID accumulated on the debt instrument from the date of original issue to 1/1/02. (This information is not available for all instruments listed.)

7. **Daily OID in 2002 and 2003** — This is the OID for each day you held the debt instrument during the accrual periods falling in 2002 and 2003. (The daily OID for the second accrual period in 2002 and the first accrual period in 2003 are identical.) For corporate debt instruments issued after July 1, 1982, and before 1985, an accrual period is a 1-year period beginning on the same month and day as the date of issue of the instrument. In the above example, the first accrual period shown for 2002 for XYZ bond is 8/1/01-7/31/02. The part of this accrual period that falls in 2002 is from 1/1/02-7/31/02. For each $1,000 principal amount of the bond, the OID is .028399 each day you held the bond during this accrual period. Similarly, the part of the second accrual period in 2002 is from 8/1/02-12/31/02. The OID is .032534 for each day you held the bond during this accrual period. The OID for each day you held a debt instrument in 2003 is determined in the same manner, using the daily OID applicable to the part of each accrual period falling in 2003. If you bought the debt instrument after original issue and paid an acquisition premium, see Debt Instruments Issued After July 1, 1982, and Before 1985, for more information.

8. **OID for 2002 and 2003 (Per $1,000 of Maturity Value)** — The amount appearing in the 2002 column is the total OID if you held the instrument the entire year or the part it was outstanding. For debt instruments entirely called or maturing in 2002, the amount is computed to the date of call or maturity. In the above example, if you held XYZ bond for all of 2002, the OID is $11.00 for each $1,000 principal amount of the bond. If you did not hold the bond for the entire year, use the daily OID for each accrual period in 2002. (See Figuring OID, earlier, for more detailed information.) Similarly, the amount appearing in the 2003 column is the total OID if you held the instrument for the entire year or the part it was outstanding. If you bought the instrument after original issue and paid an acquisition premium, see Debt Instruments Issued After July 1, 1982, and Before 1985, for more information.

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