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Guide to Original Issue Discount (OID) Instruments

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What’s New

Sections I-A through III-G available online. The original issue discount tables, Sections I-A through III-G, are now only available on the IRS website at http://www.irs.gov/formspubs/article/0,,id=213465,00.html. The tables are posted to the website in late November or early December of each year.

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 and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

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

The list of publicly offered OID debt instru- ments (OID list) is on the IRS website (see What’s New on page 1). The information on this list comes from the issuers of the debt instru- ments and from financial publications and is updated annually. (However, see Debt Instru- ments 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 in- formation in the list has generally not been veri- fied by the IRS as correct, the following tax mat- ters 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 instru- ments. In general, issuers of publicly offered OID debt instruments must, within 30 days after the issue date, report information about the in- struments to the IRS on Form 8831, Information Return for Publicly Offered Original Issue Dis- count Instruments. See the form instructions for more information.

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

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

REMIC and CDO information reporting re- quirements. Brokers and other middlemen must follow special information reporting re- quirements for real estate mortgage investment conduits (REMIC) regular, and collateralized debt obligations (CDO) interests. The rules are explained in Publication 938, Real Estate Mort- gage Investment Conduits (REMICs) Reporting Information (And Other Collateralized Debt Obliga- tions (CDOs)).

Holders of interests in REMICs and CDOs should see chapter 1 of Publication 550 for infor- mation on REMICs and CDOs.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions. If you would like to comment on the publication, please send your comments to:

IRS Tax Forms and Publications
SE:W:CAR:MP:T:B
1111 Constitution Ave. NW, IR-6526
Washington, D.C. 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would in- clude your daytime phone number, including the area code, in your correspondence.

Useful Items

You may want to see:

Publication

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

Form (and Instructions)

q 1096 Annual Summary and Transmittal of U.S. Information Returns
q 1099-B Proceeds From Broker and Barter Exchange Transactions
q 1099-INT Interest Income
q 1099-OID Original Issue Discount
q Schedule B (Form 1040) Interest and Ordinary Dividends
q Schedule D (Form 1040) Capital Gains and Losses
q W-8 Instructions for the Requester of
W-8BEN, W-8ECI, W-8EXP, and W-8IMY

See How To Get Tax Help near the end of the text for information about getting publica- tions and forms.

Definitions

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

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

Accrual period. An accrual period is an inter- val 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 debt instrument’s adjusted basis immediately after purchase, including purchase at original issue, over the debt instrument’s ad- justed issue price at that time. A debt instrument does not have acquisition premium, however, if the debt instrument was purchased at a pre- mium. See Premium, later.

Adjusted issue price. The adjusted issue price of a debt instrument at the beginning of an accrual period is used to figure the OID allocable to that period. In general, the adjusted issue price at the beginning of the debt instrument’s first accrual period is its issue price. The ad- justed issue price at the beginning of any subse- quent accrual period is the sum of the issue price and all the OID includable in income before that accrual period minus any payment previ- ously reported on the debt instrument, other than a payment of qualified stated interest.

Debt instrument. The term "debt instrument" means any instrument or contractual arrange- ment that constitutes indebtedness under gen- eral principles of federal income tax law (including, for example, a bond, debenture, note, certificate, or other evidence of indebted- ness). It generally does not include an annually contract.

Issue price. For debt instruments listed in Chapter A and B, the issue price generally 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 secon- dary market has decreased in value since its issue date, generally because of an increase in interest rates. An OID debt instrument has mar- ket discount if your adjusted basis in the debt instrument immediately after you acquired it (usually its purchase price) was less than the debt instrument’s issue price plus the total OID that accrued before you acquired it. The market discount is the difference between the issue price plus accrued OID and your adjusted basis.

Premium. A debt instrument is purchased at a premium if its adjusted basis immediately after purchase is greater than the total of all amounts payable on the debt instrument after the purchase date, other than qualified stated inter- est. The premium is the excess of the adjusted basis over the payable amounts. See Publica- tion 550 for information on the tax treatment of bond premium.

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

Stated redemption price at maturity. A debt instrument’s stated redemption price at maturity is the sum of all amounts (principal and interest) payable on the debt instrument other than quali- fied stated interest.

Yield to maturity (YTM). In general, the YTM is the discount rate that, when used in figuring the present value of all principal and interest payments, produces an amount equal to the issue price of the debt instrument. The YTM is generally shown on the face of the debt instru- ment or in the literature you receive from your broker. If you do not have this information, con- sult your broker, tax advisor, or the issuer.
If you own a listed debt instrument, you generally should not rely on the information in the OID list to determine (or compare) 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 discussions explain what information is contained in each section of the list.

Section I. This section contains publicly offered, long-term debt instruments.
- Section I-B: Corporate Debt Instruments Issued After 1984.
- Section I-C: Inflation-Indexed Debt Instruments.

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

Section II. This section contains stripped coupons and principal components of U.S. Treasury and Government-Sponsored Enterprise debt instruments. These stripped coupons are available through the Department of the Treasury’s Separate Trading of Registered Interest and Principal of Securities (STRIPS) program and government-sponsored enterprises such as the Resolution Funding Corporation. This section also includes debt instruments backed by U.S. Treasury securities that represent owner interests in those securities.

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

Section III. This section contains short-term obligations.
- Section III-A: Short-Term U.S. Treasury Bills.
- Section III-B: Student Loan Marketing Association.
- Section III-C: Federal Home Loan Banks.
- Section III-E: Federal Farm Credit Bank.
- Section III-F: Federal Home Loan Mortgage Corporation.
- Section III-G: Federal Agricultural Mortgage Corporation.

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

Information for Owners of OID Debt Instruments

The list of debt instruments discussed earlier does not contain the following items:
- U.S. savings bonds.
- Certificates of deposit and other face-amount certificates issued at a discount, including syndicated certificates of deposit.
- Obligations issued by tax-exempt organizations.
- OID debt instruments that matured or were entirely called by the issuer before the tables were posted on the IRS website.
- Mortgage-backed securities and mortgage participation certificates.
- Short-term obligations, other than the obligations listed in Section III.
- Debt instruments issued at a discount by states or their political subdivisions.
- 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.

Information for Brokers and Other Middlemen

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

In general, you must file a Form 1099 for the debt instrument if the interest or OID to be included in the owner’s income for a calendar year totals $10 or more. You 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 in the year it is due. File all your Forms 1099 with the IRS, accompanied by Form 1096, by February 28 in the year it is due (March 31 if you file electronically).

Electronic payment 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 General Instructions for Certain Information Returns (Forms 1098, 1098, 3921,3922, 5498, and W-2G) for the appropriate calendar year.

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 redeemed. This noncompetitive discount price is the issue price (expressed as a percent of principal) shown in Section III-A.

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

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

### Long-Term Debt Instruments

If you hold a long-term OID debt instrument as
a nominee for the true owner, you 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 a debt instrument has OID.
- The OID to be reported on the Form
  1099-OID.

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

#### Form 1099-OID

On Form 1099-OID for a cal-
endar year show the following information.

- **Box 1.** The OID for the actual dates the
  owner held the debt instruments during a
  calendar year. To determine this amount, see
  Figuring OID, next.

- **Box 2.** The qualified stated interest paid or
  credited during the calendar year. Interest
  reported here is not reported on Form
  1099-INT. The qualified stated interest on
  Treasury inflation-protected securities may be
  reported on Form 1099-INT in box 3 instead.

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

- **Box 4.** Any backup withholding for this
debt instrument.

- **Box 5.** The CUSIP number, if any. If there
  is no CUSIP number, give a description of
  the debt instrument, including the abbrevi-
avation for the stock exchange for the
  issuer, the coupon rate, and the year of
  maturity (for example, NYSE XYZ 12.50
  2006). If the issuer of the debt instrument is
  other than the payer, show the name of the
  issuer in this box.

- **Box 6.** The OID on a U.S. Treasury obliga-
tion for the part of the year the owner held
the debt instrument.

#### Figuring OID

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

- **Section I of the OID 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 debt instrument’s
actual stated redemption price at maturity. For
example, if the debt instrument’s stated redemp-
tion price at maturity is $500, report one-half the
listed OID.

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

1. Look up the daily OID for the first accrual
   period in the calendar year during which
   the owner held the debt instrument.

2. Multiply the daily OID by the number of
days the owner held the debt instrument
during that accrual period.

3. Repeat steps (1) and (2) for any remaining
accrual periods for the year during which
the owner held the debt instrument.

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

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

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

#### Using the income tax regulations

Instead of using Section I to figure OID, you can use the
regulations under sections 1272 through 1275 of
the Internal Revenue Code. For example, under
the regulations, you can use monthly accrual
periods in figuring OID for a debt instrument
issued after April 3, 1994, that provides for
monthly payments. (If you use Section I-B, the
OID is figured using 6-month accrual periods.)

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

#### Certificates of Deposit

If you hold a bank certificate of deposit (CD) as
a nominee, you must determine whether the CD
has OID and any OID includible in the income of
the owner. You must file an information return
showing the reportable interest and OID, if any,
on the CD. These rules apply whether or not you
sold the CD to the owner. Report OID on a CD in
the same way as OID on other debt instruments.

See Short-Term Obligations Redeemed at 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-OINT. 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 is presented to you for redemption upon
call or maturity, you should prepare a Form
1099-OID showing the OID for that calendar
year, as well as any coupon interest payments
collected at the time of redemption.

#### Backup Withholding

If you report OID on Form 1099-OID or interest
on Form 1099-OINT for a calendar year, you may
be required to apply backup withholding to the
reportable payment at a rate of 28%.

The backup withholding is deducted at the time a
cash payment is made. See Pub. 1281, Backup
Withholding for Missing and Incorrect Name/ TIN(s), for more information.

Backup withholding generally applies in the
following situations.

1. The payee does not give you a taxpayer
identification number (TIN).

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

3. The IRS notifies you that the payee is sub-
ject 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
bonds and coupons, and U.S. savings bonds,
backup withholding applies only if the payee
does not give you a TIN or gives you an obvi-
ously incorrect 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-
lish 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-
ual intervention in the computer or the 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-
turity, backup withholding applies only at matur-
ity. The amount subject to backup withholding is
the OID includible in the owner’s gross income for
the calendar year when the obligation ma-
tures. The amount to be withheld is limited to the
cash paid.
Registered long-term obligations with cash payments. If a registered long-term obligation has cash payments before maturity, backup withholding applies when the cash payments are made. As of April 1, 1983, the amount subject to withholding is the qualified stated interest (defined earlier under Definitions) includible in the owner’s gross income for the calendar year (without regard to any amount paid by the new owner at the time of transfer). The amount subject to backup withholding at maturity of a listed obligation must be determined using the issue price shown in Section I.

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

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

Sales and redemptions. If you report the gross proceeds from a sale, exchange, or redemption of a debt instrument on Form 1099-B for a calendar year, you may be required to withhold 28% of the amount reported. Backup withholding applies in the following situations:

• The payee does not give you a TIN.

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

• For debt instruments held in an account opened after April 1983, the payee does not certify, under penalties of perjury, that the TIN given is correct.

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

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

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

For information about the 28% withholding tax that may apply to payments of U.S.-source OID or interest to foreign persons, see Publication 515.

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

More information. For more information about backup withholding and information reporting on foreign-source amounts or payments to foreign persons, see Regulations section 1.6049-5.

Information for Owners of OID Debt Instruments

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

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

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

• U.S. savings bonds

• Tax-exempt obligations. (However, see Tax-Exempt Bonds and Coupons, later.)

• Obligations issued by individuals before March 2, 1984.

• Loans of $10,000 or less between individuals who are not in the business of lending money. (The dollar limit includes outstanding prior loans by the lender to the borrower.) This exception does not apply if a principal purpose of the loan is to avoid any federal tax.

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

De minimis rule. You can treat OID as zero if the total OID on a debt instrument is less than one-fourth of 1% (.0025) of the stated redemption price at maturity multiplied by the number of full years from the date of original issue to maturity. Debt instruments with the de minimis rule are not listed in this publication. There are special rules to determine the de minimis amount in the case of debt instruments that provide for more than one payment of principal. Also, the de minimis rules generally do not apply to tax-exempt obligations.

Example 2. You bought at issuance a 10-year debt instrument with a stated redemption price at maturity of $500. The stated redemption price at maturity is $500. One-fourth of 1% of $1,000 (the stated redemption price) times 10 (the number of full years from the date of original issue to maturity) equals $25. Under the de minimis rule, you can treat the OID as zero because the $20 discount is less than $25.

Example 3. Assume the same facts as Example 2, except the debt instrument was issued at $450. You must report part of the $50 OID each year because it is more than $25.

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

For this choice, interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. For more information, see Regulations section 1.1272-2.

Purchase after date of original issue. A debt instrument you purchased after the date of original issue may have premium, acquisition premium, or market discount. If so, the OID reported to you on Form 1099-OID may have to be adjusted. For more information, see Showning an OID adjustment under How To Report OID, later. The following rules generally do not apply to contingent payment debt instruments.

Adjustment for premium. If your debt instrument has premium, reduce the OID you report. Your adjustment is the difference between the OID shown on your Form 1099-OID and the reduced OID amount.
How To Report OID

Generally, you report your taxable interest and OID income on the interest line of Form 1040EZ, Form 1040A, or 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 payer’s name (if a brokerage firm gave you a Form 1099, list the brokerage firm as the payer) and the amount included in OID you received from each payer on Form 1040A, Schedule 1, line 1, or Form 1040, Schedule B, line 1. Include all OID and periodic interest income shown on any Form 1099-OID, boxes 1, 2, and 3, and income received for the tax year. Also include any other OID and interest income for which you did not receive a Form 1099.

How to report OID. Use Form 1040 to report the OID shown on a Form 1099-OID you received as a nominee for the actual owner, list the full OID on Schedule B, Part I, line 1, 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 Schedule 1, Part I, line 1 and follow the instructions under 1 or 2.

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


If you hold these debt instruments as capital assets, you include OID in income only in the year the debt instrument is sold, exchanged, or redeemed, and only if you have a gain. The OID, which is taxed as ordinary income, generally equals the following amount:

\[
\text{number of full months} \times \frac{\text{original issue discount}}{\text{date of original issue to date of maturity}}
\]

The balance of the gain is capital gain. If there is a loss on the sale of the debt 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 OID in income each year you own the debt instruments. For information about showing the correct OID on your tax return, see How To Report OID, earlier. Your basis in the debt 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 debt instrument. However, if you paid an acquisition premium, you may need to refigure the OID to report on your tax return. See Reduction for acquisition premium, later.

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

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

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

Form 1099-OID not received.

If you hold an OID debt instrument in a calendar year but did not receive a Form 1099-OID, refer to Section I-A at http://www.irs.gov/formspubs/article/0,,id=213465,00.html.

The OID listed is for each $1,000 of redemp- tion price. You must adjust the listed amount if your debt instrument has a different principal amount. For example, if you have a debt instrument with a $500 principal amount, use one-half the listed amount to figure your OID.

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

1. Divide the OID shown by 12.

2. Multiply the result in (1) by the number of complete and partial months (for example, 6/12 months) you held the debt instrument during a calendar year. This is the OID to include in income unless you paid an ac- quisition premium. The reduction for acquisi- tion premium is discussed next.

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

1. Divide the total OID on the debt instrument by the number of complete months, and any part of a month, from the date of origi- nal 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 is- sue to the date of purchase. (If the result is zero or less, stop here. You did not pay an acquisition premium.)

3. Divide the amount figured in (2) by the number of complete months, and any part of a month, from the date of your purchase to the maturity date.

4. Subtract the amount figured in (3) from the amount figured in (1). This is the OID to include in income for each month you held the debt instrument during the year.

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

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

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

Daily OID. The OID for any accrual period is allocated equally to each day in the accrual period. Under the constant yield method, the sum of the OID amounts for each day you hold the debt instrument during the year. If your tax year includes parts of two or more accrual periods, you must include the proper daily OID amounts for each accrual period.

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

\[
\text{Daily OID} = \frac{(p \times \text{yield to maturity}) - \text{qualified stated interest}}{\text{number of days in accrual period}}
\]

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

Reduction for acquisition premium on debt instruments purchased before July 19, 1984. If you bought the debt instrument at an acquisition premium before July 19, 1984, you must report part of the OID in gross income each year that you own the debt instruments.

If you hold debt instruments issued after 1984, you must report part of the OID in gross income each year that you own the debt instruments. You must include the OID in gross income whether or not you hold the debt instrument as a capital asset. Your basis in the debt instrument is increased by the OID you include in income. For information about showing the correct OID on your tax return, see How To Report OID, earlier.

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

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

Debt Instruments Issued After 1984

If you hold debt instruments issued after 1984, you must report part of the OID in gross income during the year. If your tax year includes parts of two or more accrual periods in which you held the debt instrument during a calendar year, (See Accrual period under Constant yield method, later.) must include the proper daily OID amounts for each day you held the debt instrument during that accrual period.

3. Repeat (1) and (2) for any remaining accrual periods in which you held the debt instrument.

Tax-exempt bond. If you own a tax-exempt bond, figure your basis in the bond by adding to your cost the OID you would have included in income if the bond had been taxable. You need to make this adjustment to determine if you have a gain or loss on a later disposition of the bond. In general, use the rules that follow to determine your OID.

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

You should receive a Form 1099-OID showing OID for the part of a calendar year you held the debt instrument. However, if you paid an OID receivable, you may need to refigure the OID to report on your tax return. See 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 on which the amount reported on 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 debt instrument in a calendar year but did not receive a Form 1099-OID, refer to Section I-B at http://www.irs.gov/formspubs/article/0,,id=213465,00.html.

The OID listed is for each $1,000 of redemption price. You must adjust your income if your debt instrument has a different principal amount. For example, if you have a debt instrument with a $500 principal amount, use one-half the listed amount to figure your OID.

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

1. Look up the daily OID for the first accrual period in which you held the debt instrument during a calendar year. (See Accrual period under Constant yield method, later.)
2. Multiply the daily OID by the number of days you held the debt instrument during that accrual period.
3. Repeat (1) and (2) for any remaining accrual periods in which you held the debt instrument.

4. Add the results of (2) and (3). This is the OID to include in income for that year, unless you paid an acquisition premium. (The reduction for acquisition premium is discussed later.)
on the day that corresponds to the stated maturity date of the debt instrument or the date 6 months before that date for, except a debt instrument maturing on March 31 has accrual periods that end on September 30 and March 31 of each calendar year. Any short period is included as the first accrual period.

For debt instruments issued after April 3, 1994, accrual periods may be of any length and may vary in length over the term of the debt instrument. The number of accrual periods 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 other 6-month periods.

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

\[
\text{p} \times \frac{\text{yield to maturity}}{\text{number of days in accrual period}}
\]

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

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

\[
\frac{($86,235.17 \times .12/2)}{181} = \frac{5,000}{181} = $27.693
\]

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

\[
\frac{($86,409.28 \times .12/2)}{184} = $27.693
\]

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

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

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

\[
\frac{($86,409.28 \times .12/2)}{184} = $27.693
\]

The daily OID on date of purchase (2nd accrual period) is $1.01965 × $1.01965 × $1.01965 × $1.01965 × $1.01965

\[
\text{Line 1 \times line 2} \text{ \times line 3} \text{ \times line 4} = $358.67
\]

The total OID to include in income for Year 1 is $59.50 ($358.67 + $10,000 interest).
Noncontingent bond method. Under this method, the issuer must compute a comparable yield on the debt instrument and, based on this yield, construct a projected payment schedule for the instrument, which includes a projected fixed amount for each contingent payment. In general, holders and issuers accrue OID on this projected payment schedule using the constant yield method that applies to fixed payment debt instruments. When 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 in- crease their OID accruals. If the actual contin- gent payment is smaller than expected, holders and issuers generally decrease their OID accru- als.

Form 1099-OID. The amount shown on Form 1099-OID in box 1 you receive for a contingent payment debt instrument may not be the correct amount to include in income. For example, the amount may not be correct if the 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," or debt instrument. The issuer must make these available to you.

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

Projected payment schedule. The pro- jected payment schedule for a contingent pay- ment debt instrument includes all fixed payments on the debt instrument and a pro- jected fixed amount for each contingent pay- ment. The projected payment schedule is created by the issuer as of the debt instrument's issue date. It is used to determine the issuer's and holder's interest accruals and adjustments.

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

1. Figure the OID using the constant yield method (discussed earlier under Debt In- struments Issued After 1984) that applies to fixed payment debt instruments. Use the comparable yield as the yield to maturity. In general, use the projected payment schedule to determine the instrument's ad- justed issue price at the beginning of each accrual period (other than the initial pe- riod). 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 greater than the projected fixed amount, you have a positive adjustment. If the contingent payment is less than the projected fixed amount, you have a nega- tive adjustment.

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

Net negative adjustment. A net negative adjustment exists for a tax year when the total of any negative adjustments described in (2) above for the tax year is more than the total of any positive adjustments for the tax year. Use a net negative adjustment to offset OID on the debt instrument for the tax year. If the net nega- tive 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 adjust- ment 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, howev- er, is not affected by any negative or positive adjustments. Decrease your basis by any non- contingent payment received and the projected contingent payment schedule to be received.

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

See Regulations section 1.1275-4 for excep- tions to these rules.

Premium, acquisition premium, and market discount. The rules for accruing premium, ac- quisition premium, and market discount do not apply to a contingent payment debt instrument. See Regulations section 1.1275-4 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 is- sued 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- protected securities (TIPS)).

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

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

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

A qualified reference index measures infla- tion and deflation over the term of the debt instru- ment. 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 Department of Labor). The value of the index for any date between reset dates is determined through straight-line interpolation.


Form 1099-OID. The amount shown in box 6 of the Form 1099-OID you receive for an infla- tion-indexed debt instrument may not be the correct amount to include in income. For exam- ple, 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 adjust- ment on your tax return, see How To Report OID, earlier.

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

• The coupon bond method, described in the following discussion, applies to a TIPS, if the debt instrument is issued at par, all stated inter- est payable on the debt instrument is qual- ified stated interest, and the coupons have not been stripped from the debt instru- ment. This method generally applies, for example, to TIPS.

• The discount bond method applies to any inflation-indexed debt instrument that does not qualify for the coupon bond method, such as a stripped debt instru- ment. This method is discussed in Regula- tions section 1.1275-7(e).

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

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

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

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

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

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

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

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

Example 8. On February 6 of Year 9, you
bought an old-1-year, 3.375% inflation-indexed
debt instrument (maturing January 15 of Year
11) for $9,831. The stated principal (par value)
amount is $10,000 and the inflation-adjusted
principal amount for February 6 of Year 9 is $12,047.50 ($10,000 par value times 1.20475
index ratio). You held the debt instrument until
August 29 of Year 9 when the inflation-adjusted
principal amount was $12,275.70 ($10,000 par
value times 1.22757 index ratio). Your OID for
Year 9 is $228.20 ($12,275.70 − $12,047.50).
Your basis in the debt instrument on August 29
of Year 9 is $10,059.20 ($9,831 cost +
$228.20 OID) for Year 9.

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

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

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

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

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

Premium on inflation-indexed debt instru-
ments. In general, any premium on an infla-
tion-indexed debt instrument is determined as of
the date you acquire the debt instrument by
assuming there will be no further inflation or
deflation over the remaining term of the debt
instrument. You allocate any premium over the
remaining term of the debt instrument by making
the same assumption. In general, the premium
allocable to a tax year offsets the interest other-
wise includable in income for the year. If the
premium allocable to the year is more than that
interest, the difference generally offsets the OID
on the debt instrument for the year.

Figuring OID on Stripped
Bonds and Coupons

If you strip one or more coupons from a bond
and sell or otherwise dispose of the bond or
the stripped coupons, they are treated as sepa-
rate 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 before July 1, 1982. See
Debt Instruments and Coupons Published After
July 1, 1982, and Before 1985 or Debt Instru-
ments and Coupons Purchased After 1984,
later, for information about figuring the OID to
report.

Stripped bonds and coupons include the fol-
lowing instruments.

• ZERO coupon bonds available through the
Department of the Treasury’s STRIPS pro-
gram and government-sponsored enter-
prises such as the Resolution Funding
Corporation and the Financing Corpora-
tion.

• Debt instruments backed by U.S. Treasury
securities that represent ownership inter-
est in those securities. Examples include obliga-
tions backed by U.S. Treasury
bonds that are offered primarily by broker-
age firms (variously called CATS, TIGRs, etc.).

Seller of stripped bonds or coupons. If you
strip coupons from a bond and sell the bond or
coupons, include in income the interest that ac-
crued 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 ac-
quired 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.

And 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
dividend and bond or coupon purchased by you on
the sale date of the other items. If you keep the
bond, treat the excess of the redemption price
of the bond over the basis of the bond as OID.
If you keep the coupons, treat the excess of the
amount payable on the coupons over the basis
of the coupons as OID.

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

Form 1099-OID

The amount shown in box 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 adjust-
ment 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 depends 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 follow-
ing 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.
The tax-exempt bond or coupon. just the purchase (or acquisition) price of the debt instrument by adjusting the acquisition price for each accrual period. The OID for the accrual period is figured by multiplying the adjusted acquisition price at the beginning of the period by the yield to maturity.

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

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

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

$$\text{YTM} = \frac{1}{m} \sum_{i=1}^{m} \left( \frac{\text{srp}}{\text{sp}} \right) - 1$$

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

Accrual period. For a stripped bond or coupon acquired after July 1, 1982, and before 1985, the OID for each accrual period is allocated equally to each day in the accrual period. You figure the amount to include in income by adding the daily OID amounts for each day you hold the debt instrument during the year. If your tax year includes more than one accrual period (which will be the case unless the accrual period coincides with your tax year), you must include the proper daily OID amounts for each of the two accrual periods. The daily OID for the initial accrual period is figured by applying the following formula:
stripped coupon that has a payment date) of March 31 has accrual periods that end on September 30 and March 31 of each calendar year. Any short period is included as the first accrual period.

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

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

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

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

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

- \(n\) = number of accrual periods in 1 year
- \(\text{srp}\) = stated redemption price at maturity
- \(\text{ap}\) = acquisition price
- \(m\) = number of full accrual periods from purchase to maturity

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

**Example 1.** On May 15 of Year 1, you bought a coupon stripped from a U.S. Treasury bond through the Department of the Treasury's STRIPS program for $38,000. An amount of $100,000 is payable on the coupon's due date, November 14 of Year 13. The YTM on this stripped coupon is figured as follows.

\[
2 \times \left( \frac{1}{100,000} \times \frac{38,000}{100,000} \times \frac{1}{7} \right) = 2 \times (0.03946 - 1) \times 0.07892 = 7.892\%
\]

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

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

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

- \(n\) = number of accrual periods in 1 year
- \(\text{srp}\) = stated redemption price at maturity
- \(\text{ap}\) = acquisition price
- \(m\) = number of full accrual periods from purchase to maturity
- \(r\) = number of days from purchase to end of short accrual period
- \(s\) = number of days in accrual period ending on last day of short accrual period

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

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

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

\[
\frac{\text{srp} \times \text{ap} \times (1 + \text{ym} / n)}{\text{p}} = \frac{74 \times 100,000 \times (1 + 0.08406/2)}{\text{srp}} = 74 \times 61,018.48
\]

\[
\text{srp} = \frac{100,000 \times (1 + 0.08406/2)}{74} = \frac{13,763.27}{\text{srp}}
\]

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

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

\[
\text{srp} \times \text{ap} \times (1 + \text{ym} / n) \times \frac{\text{p}}{\text{srp}} = \frac{74 \times 100,000 \times (1 + 0.08406/2)}{74} \times 61,018.48 \times 0.08406/2 = \frac{2,564.60671}{\text{srp}} = \frac{13,938.08}{\text{srp}}
\]

The OID for the part of this period included in Year 1 (August 12 – December 31) is $1,979.21 ($13,938.08 × 142 days). The OID to be reported on your income tax return for Year 1 is $2,997.69 ($1,018.48 + $1,979.21).

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

**How To Get Tax Help**

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get 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.** The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. Here are seven things every taxpayer should know about TAS:

- TAS is your voice at the IRS.
Our service is free, confidential, and tailored to meet your needs. You may be eligible for TAS help if you have tried to resolve your tax problem through normal IRS channels and have gotten nowhere, or you believe an IRS procedure just isn’t working as it should.

TAS helps taxpayers whose problems are causing financial difficulty or significant cost, including the cost of professional representation. This includes businesses as well as individuals.

TAS employees know the IRS and how to navigate it. We will listen to your problem, help you understand what needs to be done to resolve it, and stay with you every step of the way until your problem is resolved.

TAS has at least one local taxpayer advocate in every state, the District of Columbia, and Puerto Rico. You can call your local advocate, whose number is in your phone book, in Pub. 1546, Taxpayer Advocacy Service—Your Voice at the IRS, and on our website at www.irs.gov/advocate. You can also call our toll-free line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.

You can learn about your rights and responsibilities as a taxpayer by visiting our online tax toolkit at www.taxtoolkit.irs.gov.

Low income tax clinics (LITCs). The Low Income Taxpayer Clinic program serves individuals who have a problem with the IRS and whose income is below a certain level. LITCs are independent from the IRS. Most LITCs can provide representation before the IRS or in court on audits, tax collection disputes, and other issues for free or a small fee. If an individual's native language is not English, some clinics can provide multilingual information about taxpayer rights and responsibilities. For more information, see Publication 4134, Low Income Taxpayer Clinic List. This publication is available at www.irs.gov, by calling 1-800-TAX-FORM (1-800-829-3676), or at your local IRS office.

Free tax services. To find out what services are available, get Publication 910, IRS Guide to Free Tax Services. It contains lists of free tax information services, including publications, services, and free tax education and assistance programs. It also has an index of over 100 TeleTax topics (recorded tax information) you can listen to on your telephone. Accessible versions of IRS published products are available on request in a variety of alternative formats for people with disabilities.

Internet. You can access the IRS website at www.irs.gov 24 hours a day, 7 days a week to:

- E-file your return. Find out about commercial tax preparation and e-file services available free to eligible taxpayers.
- Check the status of your 2009 refund. Go to www.irs.gov and click on Where’s My Refund? Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after mailing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2009 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications. Order IRS products online.
- Research your tax questions online. Search publications online by topic or keyword. Use the online Internal Revenue Code, Regulations, or other official guidance.
- View Internal Revenue Bulletins (IRBs) published in the last few years.
- Figure your withholding allowances using the withholding calculator online at www.irs.gov/individuals.
- Determine if Form 6251 must be filed by using our Alternative Minimum Tax (AMT) Assistant.
- Sign up to receive local and national tax news by email.
- Get information on starting and operating a small business.

Phone. Many services are available by phone.

- Ordering forms, instructions, and publications. Call 1-800-TAX-FORM (1-800-829-3676) to order current-year forms, instructions, and publications, and prior-year forms and instructions. You should receive your order within 10 days.
- Asking tax questions. Call the IRS with your tax questions at 1-800-829-1040.
- Solving problems. You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov/localcontacts or look in the phone book under United States Government, Internal Revenue Service.
- TTY/TDD equipment. If you have access to TTY/TDD equipment, call 1-800-829-4059 to ask tax questions or to order forms and publications.
- TeleTax topics. Call 1-800-829-4477 to listen to pre-recorded messages covering various tax topics.
- Refund information. To check the status of your 2009 refund, call 1-800-829-1954 during business hours or 1-800-829-4477 (automated refund information 24 hours a day, 7 days a week). Wait at least 72 hours after the IRS acknowledges receipt of your e-filed return, or 3 to 4 weeks after filing a paper return. If you filed Form 8379 with your return, wait 14 weeks (11 weeks if you filed electronically). Have your 2009 tax return available so you can provide your social security number, your filing status, and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure IRS representatives give accurate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is to have a second IRS representative to listen in on or record random telephone calls. Another is to ask some callers to complete a short survey at the end of the call.

Walk-in. Many products and services are available on a walk-in basis.

- Products. You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocer stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.

- Services. You can walk in to your local Taxpayer Assistance Center every business day for face-to-face help. An employee can explain IRS letters, request adjustments to your tax account, or help you set up a payment plan. If you need to resolve a tax problem, have questions about how the tax law applies to your individual tax return, or you are more comfortable talking with someone in person, visit your local Taxpayer Assistance Center where you can spread out your records and talk with an IRS representative face-to-face. No appointment is necessary—just walk in. If you prefer, you can call your local center and leave a message requesting an appointment to resolve a tax account issue. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. If you have an ongoing, complex tax account problem or a special need, such as a disability, an appointment can be requested. All other issues will be handled without an appointment. To find the number of your local office, go to www.irs.gov/localcontacts or look in the phone book under United States Government, Internal Revenue Service.
Mail. You can send your order for forms, instructions, and publications to the address below. You should receive a response within 10 days after your request is received.

Internal Revenue Service
1201 N. Mitsubishi Motorway
Bloomington, IL 61705-6613

DVD for tax products. You can order Publication 1796, IRS Tax Products DVD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Tax Map: an electronic research tool and finding aid.
- Tax law frequently asked questions.
- Tax Topics from the IRS telephone response system.
- Internal Revenue Code—Title 26 of the U.S. Code.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.
- Two releases during the year.
  - The first release will ship the beginning of January 2010.
  - The final release will ship the beginning of March 2010.

Purchase the DVD from National Technical Information Service (NTIS) at www.irs.gov/ cduorders for $30 (no handling fee) or call T:877-233-6767 toll free to buy the DVD for $30 (plus a $6 handling fee).
To help us develop a more useful index, please let us know if you have ideas for index entries. See “Comments and Suggestions” in the “Introduction” for the ways you can reach us.

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