Department
of the
Treasury

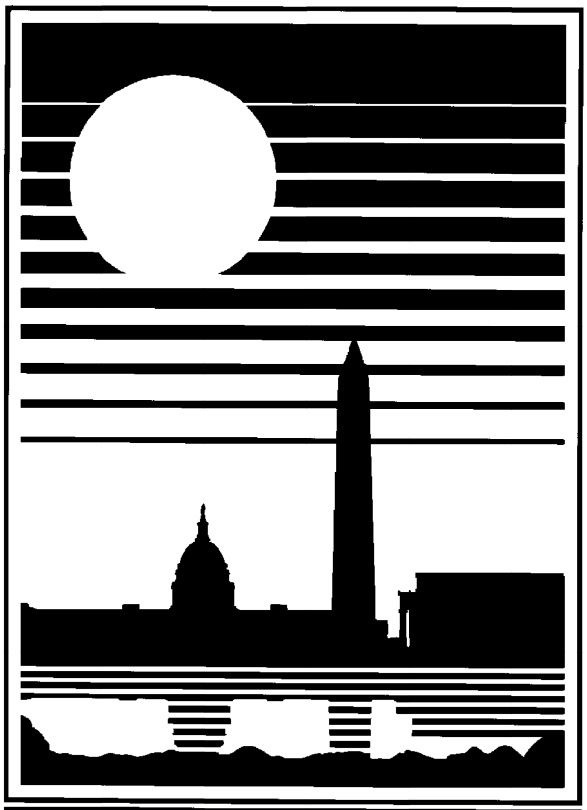
**Internal
Revenue
Service**

Publication 1212
Rev. Nov. 96
Cat. No. 61273T

List of Original Issue Discount Instruments

For use in preparing

1996 Returns



Get forms and other information faster and easier by:

COMPUTER
- World Wide Web ▸ http://www.irs.ustreas.gov
- FTP ftp.irs.ustreas.gov
- IRIS at FedWorld ▸ (703) 321-8020

FAX
- From your FAX machine, dial ▸ (703) 487-4160.

See *How To Get More Information* in this publication.

Contents

Important Change for 1996

Individual taxpayer identification number (ITIN). The IRS will issue an ITIN to a nonresident or resident alien who does not have and is not eligible to get a social security number (SSN). To apply for an ITIN, Form W-7 must be filed with the IRS. It usually takes about 30 days to get an ITIN. The ITIN is entered wherever an SSN is requested on a tax return. If you are required to include another person's SSN on your return and that person does not have one and cannot get one, enter that person's ITIN.

An ITIN is for tax use only. It does not entitle the holder to social security benefits or change the holder's employment or immigration status under U.S. law.

Important Reminders

Change in length of accrual periods. For debt instruments issued after April 3, 1994, accrual periods used to figure original issue discount (OID) 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 one 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 because of space limitations. When preparing Forms 1099–OID for these instruments, brokers and other middlemen can use the amounts listed in *Section I–B* or refigure the OID using the actual accrual periods of the instrument. See *Debt Instruments Issued After 1984,* later, for information on figuring OID.

Tables available on electronic bulletin board.

The original issue discount tables in *Sections I–A* through *III–G* are also available electronically for the convenience of brokers and middlemen. You can download these tables from the electronic bulletin board (IRP-BBS) maintained in Martinsburg, WV. Using your modem, dial 1–304–264–7070 and follow the instructions. This is not a toll-free call.

REMIC and CDO information reporting requirements.

Brokers and other middlemen must follow special information reporting requirements for real estate mortgage investment (REMIC) regular and collateralized debt obligations (CDO) interests. The rules are explained in Publication 938. Publication 938 is available only from the electronics bulletin board (IRP-BBS) maintained in Martinsburg, W. V. Use your modem to dial 1–304–264–7070. Holders of interests in REMICs and CDOs should see chapter 1 of Publication 550 for information.

Introduction

The primary purpose of this publication is to help brokers and other middlemen identify publicly offered ***original issue discount (OID)*** debt instruments, which they may hold as nominees for the true owners, so they can comply with their responsibility to file Forms 1099–OID or Forms 1099–INT. The other purpose is to assist owners of publicly offered OID instruments to determine the OID to report on their income tax returns.

This publication contains a list of OID instruments. The information on this list comes from financial publications and from the issuers of the debt instruments. Issuers of certain publicly offered OID debt instruments must report this information directly to the IRS on Form 8281 within 30 days after the issue date. The information provided on that form enables the IRS to update this list annually. (However, see *Debt Instruments Not on the OID List,* later.)

The information on the OID list has generally not been verified by an IRS examination or rulings action. Issuers and their paying agents should not assume that the information has been verified by the IRS as correct, although every effort has been made to do so. Issuers should advise the IRS of errors and omissions in writing at the following address:

OID Publication Project
T:FP:P Room 5607
Internal Revenue Service
1111 Constitution Ave., N.W.
Washington, D.C. 20224

Brokers and other middlemen can rely on this published OID list to determine, for information reporting purposes, if a debt instrument was issued at a discount and the OID to be reported on information returns. However, the following are subject to change upon examination by the IRS:

1) The OID reported by holders on their income tax returns, and
2) Whether an issuer's classification of an instrument as debt for federal income tax purposes is correct.

Useful Items

You may want to see:

Publication

- ☐ **515** Withholding of Tax on Nonresident Aliens and Foreign Corporations
- ☐ **550** Investment Income and Expenses
- ☐ **938** Real Estate Mortgage Investment Conduits (REMICs) Reporting Information *(Available only from the electronic bulletin board at the IRS Computing Center. Dial (by modem) 1–304–264–7070.)*

Form (and Instructions)

- ☐ **W–8** Certificate of Foreign Status
- ☐ **Schedule B (Form 1040)** Interest and Dividend Income
- ☐ **Schedule D (Form 1040)** Capital Gains and Losses
- ☐ **1096** Annual Summary and Transmittal of U.S. Information Returns
- ☐ **1099–B** Proceeds from Broker and Barter Exchange Transactions
- ☐ **1099–INT** Interest Income
- ☐ **1099–OID** Original Issue Discount
- ☐ **8281** Information Return for Publicly Offered Original Issue Discount Instruments

See *How To Get More Information,* near the end of this publication for information about getting these publications and forms.

Structure of the OID List

The list has the following sections.

- **Section I** contains long-term corporate debt instruments. *Section I–A* lists corporate debt instruments issued before 1985. *Section I–B* lists instruments issued after 1984.
- **Section II** lists zero coupon instruments available through the Department of the Treasury's STRIPS program and government-sponsored enterprises such as the Resolution Funding Corporation. It also includes instruments backed by U.S. Treasury securities that represent ownership interests in those securities. Brokers and other middlemen may use this list to prepare information returns. The list is arranged by maturity date.

  Brokers and other middlemen should not rely on the information in *Section II* of previous editions of Publication 1212 to prepare information returns for 1996.

  Owners of these debt instruments should not rely on the OID listed in *Section II* to determine (or compare) OID to be reported on their tax return. The amounts listed in *Section II* are calculated without reference to the price or date at which an owner acquired the debt instrument. For information about determining the OID on zero coupon instruments to be reported on your tax return, see *Figuring OID on Stripped Bonds and Coupons,* later.
- **Section III** contains short-term discount obligations. *Section III–A* lists short-term discount obligations issued by the U.S. Treasury Department. These generally are referred to as Treasury bills or T-bills. *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, Federal Home Loan Mortgage Corporation, and the Federal Agricultural Mortgage Corporation.

Debt Instruments Not on the OID List

The list of debt instruments does not contain the following:

- Long-term OID instruments issued before May 28, 1969.
- Short-term obligations, other than the obligations listed in *Section III.*
- OID debt instruments that matured or were entirely called by the issuer before 1996.
- 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.)
- U.S. savings bonds.
  (These are not subject to the OID information reporting rules.)
- Debt instruments issued at a discount by states or their political subdivisions.
  (These are not subject to the OID information reporting rules.)
- Mortgage-backed securities and mortgage participation certificates.
- REMIC regular interests and CDOs.
- Commercial paper and banker's acceptances that may have been originally issued at a discount.
- Obligations issued by tax-exempt organizations.
- Obligations issued at a discount by individuals.
- Certificates of deposit and other face-amount certificates issued at a discount, including syndicated certificates of deposit.
- Foreign obligations not traded in the United States and obligations not issued in the United States.
- OID debt instruments for which no information was currently available or that were issued in late 1996 after publication of this list. These will be included in the next revision of the publication.

Information on the OID List

This section describes the information in each part of the list.

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

- The name of the issuer.
- The 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 stated or coupon interest rate.
  (Shown as 0.00 if no annual interest payments are provided.)
- The total OID up to January 1, 1996.
  (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 1996 and 1997.
- The total OID per $1,000 of principal or maturity value for calendar years 1996 and 1997.

See *Table 1* on the page preceding *Section I–A* for an explanation of these items.

Section II. This section lists the OID to be reported by brokers and other middlemen for calendar year 1996 for stripped components of instruments available through the U.S. Treasury and government-sponsored enterprises. (See *Structure of the OID List,* earlier, for more information about these instruments.) The amounts listed are per $1,000 redemption price and are arranged by maturity date.

Section III. The short-term obligations listed in this section are arranged by maturity date. *Section III* lists the CUSIP number, maturity date, issue date, noncompetitive issue price (as percent of principal), and discount to be reported as interest for calendar year 1996 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.

Information for Brokers and Other Middlemen

The following discussions contain specific instructions for brokers and other middlemen.

CAUTION *Any broker or middleman who holds a bank certificate of deposit (CD) as a nominee must determine whether the CD was issued at a discount and if so, the discount includible in the income of the owner. The broker or middleman must file an information return showing the reportable interest and OID, if any, on that CD. These rules apply whether or not the broker or middleman sold the CD to the owner.*

Short-Term Obligations Redeemed at Maturity

If a short-term discount obligation is redeemed at maturity through a broker or other middleman for the true owner, the broker or middleman must report the discount on Form 1099–INT. Form 1099–B should ***not*** be filed. However, if the obligation is sold before maturity, the broker effecting the transaction must file Form 1099–B to reflect the gross proceeds to the seller. The ''accrued'' discount to the date of sale is ***not*** reported on either Form 1099–INT or Form 1099–OID.

When the obligation is redeemed at maturity, the purchase price shown on the owner's copy of the purchase confirmation receipt or similar record, or the price shown in the transaction records of the middleman, should be used to determine the discount to be reported on Form 1099–INT.

If the owner's purchase price ***cannot*** be determined, the broker or other middleman reports 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 listed in *Section III–A.* Under this rule, the middleman prepares Form 1099–INT by using the noncompetitive (weighted average of accepted auction bids) discount price for the longest-maturity Treasury bill maturing on that date. This price is shown in *Section III–A.* Information that supplements *Section III–A* is provided semiannually in the *Internal Revenue Bulletin.*

A similar rule applies to the short-term discount obligations issued by the organizations listed in *Sections III–B* through *III–F.*

Example 1. Assume there are 13-week, 26-week, and 52-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. In this case, the broker or middleman prepares Form 1099–INT using the noncompetitive discount price (expressed as a percent of principal) in *Section III–A* for a 52–week bill maturing on the same date as the T-bill redeemed. The interest reported is the discount (per $1,000 of principal) shown for that obligation.

Backup withholding. For short-term discount obligations, backup withholding on the discount applies only at maturity of the obligation. However, backup withholding applies to any interest payable before maturity, when the interest is paid or credited. The backup withholding requirements are explained later.

Long-Term Debt Instruments

A broker or other middleman who holds a long-term debt instrument as a nominee for the true owner generally must file Form 1099–OID.

How to report. File Form 1099–OID for each holder if the OID to be included in the holder's income totals $10 or more for the calendar year. Also, file Form 1099–OID when you are required to deduct and withhold taxes, even if the OID is less than $10. See *Backup Withholding Requirements,* next.

Furnish a Form 1099–OID to each holder by January 31, 1997. Forms 1099–OID must be filed with the IRS by February 28, 1997, accompanied by Form 1096.

Form 1099–OID for 1996 must show the following information:

- In box 1, the OID for the actual dates of ownership of the holder during 1996. *Sections I* and *II* of this publication show reportable OID for each $1,000 of the principal amount for calendar year 1996. Multiply the amount shown by the multiple (or fraction) of $1,000 of the principal amount held. (If the IRS has information that the instrument was fully called in 1996, before maturity, the amount shown on the list is the OID calculated to the date the instrument was called.)
- In box 2, the periodic or stated interest (other than OID) paid or credited during the calendar year. Interest reported here is not reported on Form 1099–INT. Leave this box blank if OID is the only interest on an obligation, such as a zero coupon instrument.
- In box 3, any interest or principal forfeited because of an early withdrawal that the recipient can deduct from gross income. Do ***not*** reduce the amounts in boxes 1 and 2 by the forfeiture.
- In box 4, any backup withholding for this instrument.
- 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 (e.g., NYSE XYZ 12 1/2 98). If the issuer of the instrument is other than the payer, show the name of the issuer in this box.

Backup Withholding Requirements

A broker or other middleman who reports OID or interest on Form 1099–OID or Form 1099–INT may be required to apply backup withholding at a 31% rate.

Backup withholding applies to OID only when a cash payment is made to the payee. This includes a payment of:

1) Stated interest.
2) Proceeds from sale of the instrument.
3) Proceeds from redemption of the instrument at maturity.

The tax is deducted and withheld at the time a cash payment is made. If there are no cash payments before maturity, backup withholding applies only to the OID includible in income for the calendar year the instrument matures.

Backup withholding applies in the following situations:

1) The payee fails to furnish his or her taxpayer identification number (TIN) to the middleman.
2) The IRS notifies the middleman that the payee furnished an incorrect TIN.
3) The IRS notifies the middleman that the payee is subject to backup withholding.
4) For instruments acquired after 1983:
   a) The payee fails to certify to the middleman, under penalties of perjury, that he or she is not subject to backup withholding under (3) above.
   b) The payee fails to certify, under penalties of perjury, that his or her TIN is correct.

When interest payments are made on a long-term registered OID instrument, backup withholding applies to the stated interest plus the OID includible in the gross income of the holder during the calendar year. However, the amount withheld cannot be more than the cash paid.

Foreign person. Backup withholding and information reporting requirements apply to U.S. source OID, interest, or proceeds from sale or redemption of an OID instrument, when paid in the United States to a foreign person. However, if the person has given the broker or middleman Form W–8 or an acceptable substitute, the requirements do not apply. A U.S. resident is not a foreign person. Form W–8 does not relieve a broker from backup withholding if the broker actually knows the payee is a U.S. person.

Backup withholding does not apply to payments of U.S. source OID and interest made outside the United States unless the payer actually knows that the payee is a U.S. person. For information about backup withholding on U.S. source amounts paid outside the United States, see Regulations sections 35a.9999–3, –3A, –4, and –5. See Publication 515 for general information about withholding on foreign persons.

Sale or redemption. A broker effecting the following transactions for long-term OID instruments must report them on Form 1099–B:

1) Sale or exchange before maturity, or
2) Redemption at maturity or when called.

The backup withholding requirements apply to brokers required to file Form 1099–B. If applicable, backup withholding is imposed on the gross proceeds of the sale or redemption of the instrument.

Additional information. For more information about backup withholding, information reporting requirements, and the penalties for failure to file (or furnish) certain information returns or statements, see the instructions for Forms 1099.

Cashing Bearer Bond Coupons

A broker, financial institution, or other servicing agency should report the interest paid on a coupon from a bearer bond on a Form 1099–INT identifying the owner of the coupon (unless the owner of the coupon is a foreign person) if:

1) The coupon is presented to the servicing agency for collection before the bond matures, and
2) The servicing agency does not hold the bond as a nominee for the true owner.

Because the servicing agency cannot assume the presenter of the coupon also owns the bond, the servicing agency should ***not*** report OID on the bond on Form 1099–OID. The coupon may have been "stripped" from the bond and separately purchased.

However, if a long-term bearer bond on the OID list in this publication is presented to the servicing agency for redemption upon call or maturity the servicing agency 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.

Information reporting is not required if the payment or collection of portfolio interest or OID on a bearer bond or coupon is made outside the United States to a foreign person, and the broker, financial institution, or servicing agency is an issuer's agent. See Publication 515 for more information.

Information reporting also is not required for a payment or collection of interest or OID on a bearer bond or coupon outside the United States by a custodian, nominee, or other agent of the payee if the agent has documentary evidence that the payee is a foreign person. The agent should disregard the documentary evidence if the agent actually knows the payee is not a foreign person.

However, information reporting is required if the custodian, nominee, or other agent is a U.S. person, controlled foreign corporation, or 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.

Backup withholding. The backup withholding requirements, explained earlier, also apply to long-term obligations in bearer form. If there are stated interest payments before maturity, backup withholding applies only to the interest payments and not to any OID. In the year the obligation matures, the total of interest paid and OID includible in income is subject to backup withholding.

A broker is required to withhold 31% from payments made when cashing interest coupons only if the payee does not provide his or her TIN to the broker. The payee is not required to certify the TIN is correct.

Information for Owners of OID Debt Instruments

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

Reporting OID. Generally, you report OID as it accrues each year, whether or not you receive any payments from the bond issuer. If you purchase an OID instrument in the secondary market and you have ''premium'' or ''acquisition premium'' as explained later, you must adjust the OID to report.

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

1) Tax-exempt obligations. (However, see *Stripped Tax-Exempt Obligations,* later.)
2) U.S. savings bonds.
3) Obligations issued by individuals before March 2, 1984.
4) 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 that individual to the other individual.) 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 instruments such as short-term and market discount obligations. Publication 550 also discusses rules for holders of REMIC interests and CDOs.

Definition of OID. A long-term debt instrument, such as a bond or note, generally has OID when it is issued for a price less than its stated redemption price at maturity (principal amount). The OID is the difference between the stated redemption price at maturity and the issue price of the instrument. OID is a form of interest. All debt instruments that pay no interest before maturity (for example, zero coupon bonds) are presumed to be issued at a discount.

Issue price. For instruments listed in this publication, 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.

De minimis rule. You can disregard the OID and treat it 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. Long-term instruments with de minimis OID are not listed in this publication.

Example 2. You bought 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 (stated redemption price) times 10 (number of full years from the date of original issue to maturity) equals $25. Under the de minimis rule, you can disregard the OID since the $20 discount you received is less than $25.

Example 3. Assume the same facts as *Example 2,* except the bond was issued at $950. You must report part of the $50 OID each year because the discount is more than the $25 de minimis figure in *Example 2.*

Election to report all interest as OID. Generally, you can elect 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* under *Debt Instruments Issued After 1984,* later, for information about this method.

For purposes of this election, 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. See Regulations section 1.1272–3 for more information.

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 *Showing an OID adjustment* in the discussion of *How To Report OID,* later.

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. If you buy a debt instrument at a premium, you do not report any OID as ordinary income.

Acquisition premium. A debt instrument is purchased at an acquisition premium if:

1) It is not purchased at a premium, and
2) Its adjusted basis immediately after purchase, including purchase at original issue, is greater than its adjusted issue price.

Acquisition premium will reduce the OID you report. For information about how to determine the OID to report for instruments on which you paid an acquisition premium, see the later discussions, definitions, and examples under *Figuring OID on Long-Term Debt Instruments.* Also see *Figuring OID on Long-Term Debt Instruments* for definitions of qualified stated interest and adjusted issue price.

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 (defined earlier) plus the total OID that accrued before you acquired it.

When you dispose of the bond, you must report the gain due to accrued market discount as taxable interest, unless you choose to report it as it accrues. See *Market Discount Bonds* in chapter 1 of Publication 550 for information on how to figure accrued market discount and for other information about market discount bonds. If you elect to use the constant yield method to figure accrued market discount, also see *Figuring OID on Long-Term Debt Instruments* later in this publication. The constant yield method of figuring accrued OID, explained in those discussions under *Figuring OID,* is also used to figure accrued market discount.

Sale, exchange, or redemption. Generally, you treat your 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 (as discussed later under *Figuring OID on Long-Term Debt Instruments).* 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, 1993, Larry, a calendar year taxpayer, bought a corporate bond at original issue for $86,235.17. The 15-year bond matures on October 31, 2008, at a stated redemption price of $100,000. 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 less $86,235.17 issue price).

On November 1, 1996, Larry sold the bond for $90,000. With the OID he will report for the period he held the bond in 1996, 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 one year. Form 1099–OID shows the OID income in box 1. It will also show, in box 2, any periodic interest you must include in income. A copy of Form 1099–OID will be sent to the IRS. Do not attach your copy to your tax return. Keep it for your records.

CAUTION *If you are required to file a tax return and you receive Form 1099–OID showing taxable amounts, you must report these amounts on your return. A 20%*

accuracy-related penalty may be charged for underpayment of tax due to:

1) Negligence or disregard of rules and regulations, or
2) Substantial understatement of tax.

Form 1099–OID not received. If you held an OID instrument for 1996 but did not receive a Form 1099–OID, refer to the later discussions under *Figuring OID on Long-Term Debt Instruments* for information on the OID you must report.

Refiguring OID. You must refigure the OID shown in box 1 of Form 1099–OID to determine the proper amount to include in income if either of the following applies:

1) You bought the debt instrument at a premium or at an acquisition premium.
2) The debt instrument is a stripped bond or coupon (including zero coupon instruments backed by U.S. Treasury securities).

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

Refiguring periodic interest. If you disposed of a corporate debt instrument or acquired it from another holder during 1996, see the discussion under *Bonds Sold Between Interest Dates* in chapter 1 of Publication 550 for information about refiguring the periodic 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'' recipient. 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 payments for your spouse. See the Form 1099 instructions and *How to Report Interest Income* in chapter 1 of Publication 550 for more information.

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

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. Unless you are a nominee for the actual owner of the instrument, you must use Form 1040 if you are reporting more or less OID than the amount shown on Form 1099–OID. For example, if you paid a premium or an acquisition premium when you purchased the debt instrument, you would report less OID than shown on Form 1099–OID. Also, you must use Form 1040 if you were subject to the early withdrawal penalty.

You must use Form 1040 or Form 1040A (you cannot use Form 1040EZ) if either of the following applies:

1) You received a Form 1099–OID as a nominee for the actual owner, or
2) Your total interest and OID income for the year was more than $400.

Where to report. List each payer's name (if a brokerage firm gave you a Form 1099, list the brokerage firm as the payer) and the amount received from each payer on line 1 of Schedule 1 (Form 1040A) or line 1 of Schedule B (Form 1040). Include all OID and periodic interest shown in boxes 1 and 2 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:
   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:
   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

The rules for figuring OID depend on the date the long-term debt instrument was issued. The rules differ for:

1) Debt instruments issued after 1954 and before May 28, 1969 (government instruments issued before July 2, 1982).
2) Corporate debt instruments issued after May 27, 1969, and before July 2, 1982.
3) Debt instruments issued after July 1, 1982, and before 1985.
4) Debt instruments issued after 1984.
5) Contingent payment debt instruments issued after August 12, 1996. (For rules concerning these instruments, see section 1.1275–4 in the income tax regulations.)

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

Debt Instruments Issued After 1954 and Before May 28, 1969 (Government Instruments Issued Before July 2, 1982)

For these instruments, you do not include OID in income until the year the instrument is sold, exchanged, or redeemed. If a gain results and the instrument is a capital asset, the OID is taxed as ordinary income. 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.

The gain taxed as ordinary income when the instrument is sold, exchanged, or redeemed generally equals the following amount:

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

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.

If you held an OID instrument in 1996 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 this figure 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 amount listed to figure your OID.

If you held the instrument the entire year, use the OID shown in *Section I–A* for calendar year 1996. If you did not hold the instrument the entire year, figure your OID using the following method:

1) Divide the OID shown for 1996 by 12.

2) Multiply the result in (1) by the number of complete and partial months (for example, 6 1/2 months) you held the debt instrument in 1996. This is the OID to include in income unless you paid an acquisition premium. The reduction for acquisition premium is discussed later.

If your instrument is not listed in *Section I–A,* consult the issuer for information about the issue price, yield to maturity, and the OID that accrued for 1996.

Acquisition premium. If you bought the instrument for more than the original issue price plus the accumulated OID from the date of issue, that excess (or acquisition premium) reduces the OID includible in income. In this case, figure the amount 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 ratable monthly portion.
2) Subtract from your cost the issue price and the accumulated OID from the date of issue to the date of purchase. (If the result is zero or less, stop here. You did not pay an acquisition premium.)
3) Divide the amount figured in (2) by the number of complete months, and any part of a month, from the date of your purchase to the maturity date.
4) Subtract the amount figured in (3) from the amount figured in (1). This is the amount of OID to include in income for each month you hold the instrument during the year.

See the discussion under *How To Report OID,* earlier, for information about showing an adjustment for OID on your return.

Example 5. On June 1, 1982, Acme Corporation issued 20-year bonds at 90% of the principal amount. On February 1, 1996, you bought Acme bonds with a $10,000 principal amount on the open market for $9,900. The amount you must include in income is figured as follows:

1)	Ratable monthly portion ($1,000.00 total OID ÷ 240 months)		$4.17
2)	Your cost	$9,900.00	
	Minus: Issue price	9,000.00	
		$ 900.00	
	Minus: Accumulated OID ($4.17 × 164 months)	683.88	
	Acquisition premium	$ 216.12	
3)	Acquisition premium divided by number of complete and partial months from date of purchase to maturity date ($216.12 ÷ 76 months)		2.84
4)	Line 1 minus line 3		$1.33

You must include $14.63 ($1.33 × 11 months) in income for 1996 because the acquisition premium reduces the ratable monthly portion of OID.

Example 6. Assume the same facts as *Example 5,* except that you bought the bonds for $9,683.88. In this case, your cost equals the original issue price plus accumulated OID. Therefore, you did not pay an acquisition premium. For 1996, include $45.87 ($4.17 × 11 months) of OID in income.

Example 7. Assume the same facts as *Example 5,* except that you bought the bonds for $9,400. In this case, you must include $45.87 of OID in your 1996 income. You did not pay an acquisition premium because you bought the bonds for less than the sum of the original issue price plus accumulated OID. You do have market discount, which must be reported under the rules explained in chapter 1 of Publication 550.

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 ratable 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 instrument. Your ***holding period*** for this purpose begins the day you obtain the instrument and ends the day before you dispose of it.

Example 8. On June 1, 1982, Ace Corporation issued a bond for $9,280, redeemable in 15 years at a stated redemption price of $10,000. The total OID is $720. The ratable monthly portion is $4, which is computed by dividing $720 by 180 months. You bought the bond on September 14, 1995, for $9,918 ($9,280 issue price plus $638 accumulated OID). You sold it on March 14, 1996. You figure the OID to include in your 1995 income as follows:

Amount for September ($4 × 17 days ÷ 30 days)	$ 2
Amount for complete months, October through December ($4 × 3 months)	12
Total to include in 1995 income	$14

You figure the OID to include in your 1996 income as follows:

Amount for complete months, January through February ($4 × 2 months)	$ 8
Amount for March ($4 × 13 days ÷ 31 days)	2
Total to include in 1996 income	$10

You increase your basis in the bond by the OID you include in income. Your basis in the bond when you sold it is $9,942 ($9,918 cost plus $14 OID for 1995 and $10 OID for 1996).

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.

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,* later.

Form 1099–OID not received. If you held an OID instrument during the year 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 this figure 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 amount listed to figure your OID.

If you held the debt instrument the entire year, use the OID shown for calendar year 1996. If you did not hold the debt instrument the entire year, figure your OID using either of the following methods.

Method 1.
(This computation is an approximation and may result in a slightly higher amount of OID than Method 2.)

1) Divide the total OID for 1996 by 366 (leap year).
2) Multiply the result in (1) by the number of days you held the debt instrument in 1996.

Method 2.

1) Look up the daily OID amount for the first 1996 accrual period you held the instrument. (See *Accrual period* under *Figuring OID,* next.)
2) Multiply the daily OID amount by the number of days in 1996 you held the instrument during that accrual period.
3) If you held the instrument for part of both 1996 accrual periods, repeat (1) and (2) for the second accrual period.
4) Add the results of (2) and (3). This is the OID to include in income for 1996, unless you paid an acquisition premium. (The reduction for acquisition premium is discussed later.)

If your instrument is not listed in *Section I–A,* consult the issuer for information about the issue price, yield to maturity, and the OID that accrued for 1996.

Figuring OID. This discussion shows how to figure OID on debt instruments issued after July 1, 1982, and before 1985, using a ***constant yield method*** (also known as the ''exact'' method). This method corresponds to the actual economic accrual of interest. OID is allocated over the life of the instrument through adjustments to the issue price for each accrual period.

To figure the OID allocable to any accrual period:

1) Multiply the ''adjusted issue price'' at the beginning of the accrual period by the instrument's ''yield to maturity. ''

2) Subtract from the result in (1) any "qualified stated interest" allocable to the "accrual period."

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

Yield to maturity (YTM). The yield to maturity is generally shown on the face of the bond or in the literature you receive from your broker. If you do not have this information, consult your broker or tax advisor. 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.

Qualified stated interest (QSI). Qualified stated interest is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate.

Accrual period. An accrual period for any OID instrument issued before 1985 is each one-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 overlap more than one accrual period.

Daily OID. The OID for any accrual period is allocated ratably to each day in the accrual period. You must include in income the sum of the OID amounts for each day that you hold the instrument during the year. If your tax year overlaps more than one accrual period, you must include the proper daily OID amounts for each of the two accrual periods.

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

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

ip = issue price

ytm = yield to maturity

qsi = qualified stated interest

p = number of days in accrual period

The daily OID for ***subsequent accrual periods*** is computed 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 9. On January 1, 1984, you bought a 20-year, 13% bond for $90,000 at original issue. The redemption price of the bond is $100,000. The qualified stated interest is $13,000 (13% × $100,000), which is unconditionally payable each year. The bond has a yield to maturity of 14.5587%. The daily OID for the first accrual period is figured as follows:

$$\frac{(\$90{,}000.00 \times 14.5587\%) - \$13{,}000}{366 \text{ (leap year)}}$$

$$= \frac{102.83}{366} = \$.28096$$

You would have included in income $.28096 for each day you held the bond during 1984. If you held the bond for all of 1984, you would have included OID of $102.83 ($.28096 × 366).

The following table shows the adjusted issue price, daily OID, and OID per accrual period through 1996.

Acc. Per.	Year	Adjusted Issue Price	Daily OID	OID per Accrual Period
1	1984	$90,000.00	$.28096	$102.83
2	1985	90,102.83	.32274	117.80
3	1986	90,220.63	.36973	134.95
4	1987	90,355.58	.42356	154.60
5	1988	90,510.18	.48391	177.11
6	1989	90,687.29	.55586	202.89
7	1990	90,890.18	.63679	232.43
8	1991	91,122.61	.72951	266.27
9	1992	91,388.88	.83342	305.03
10	1993	91,693.91	.95737	349.44
11	1994	92,043.35	1.09677	400.32
12	1995	92,443.67	1.25644	458.60
13	1996	92,902.27	1.43541	525.36

The daily OID for 1997 is figured as follows:

$$\frac{(\$92{,}902.27 \times 14.5587\%) - \$13{,}000}{366}$$

$$= \frac{525.36}{366} = \$1.43541$$

If you hold the bond for all of 1997 (the fourteenth accrual period), you would include $601.85 in income (1.64890 × 365).

Example 10. Assume the same facts as *Example 9,* except that you bought the bond at original issue on May 1, 1983. The daily OID for the first accrual period (May 1, 1983 — April 30, 1984) was $.28096, as figured in *Example 9.* If you held the bond until the end of 1983,— you would have included $68.84 in income for 1983 ($.28096 × 245 days).

For 1984, you would have included $113.07 of OID in income —($.28096 × 121 days) plus ($.32274 × 245 days).

For 1985, you would have included $129.31 of OID in income —($.32274 × 120 days) plus ($.36973 × 245 days).

For 1986, you would have included $148.14 of OID in income —($.36973 × 120 days) plus ($.42356 × 245 days).

For 1987, you would have included $169.39 of OID in income —($.42356 × 120 days) plus ($.48391 × 245 days).

For 1988, you would have included $194.74 of OID in income —($.48391 × 121 days) plus ($.55586 × 245 days).

For 1989, you would have included $222.71 of OID in income —($.55586 × 120 days) plus ($.63679 × 245 days).

For 1990, you would have included $255.14 of OID in income —($.63679 × 120 days) plus ($.72951 × 245 days).

For 1991, you would have included $291.73 of OID in income —($.72951 × 120 days) plus ($.83342 × 245 days).

For 1992, you would have included $335.40 of OID in income —($.83342 × 121 days) plus ($.95737 × 245 days).

For 1993, you would have included $383.59 of OID in income —($.95737 × 120 days) plus ($1.09677 × 245 days).

For 1994, you would have included $439.44 of OID in income —($1.09677 × 120 days) plus ($1.25644 × 245 days).

For 1995, you would have included $502.45 of OID in income —($1.25644 × 120 days) plus ($1.43541 × 245 days).

If you sold the bond on August 30, 1996, you would figure the amount to include in your 1996 income as follows:

First accrual period: $1.43541 × 121 days (Jan 1 – Apr 30)	$173.68
Second accrual period: $1.64890 × 121 days (May 1 – Aug 29)	199.52
Total to include in 1996 income	$373.20

However, if you held the bond the entire year of 1996, the total OID to report is $577.66 [$173.68 + $403.98 ($1.64890 × 245 days)].

Acquisition premium on debt instruments purchased before July 19, 1984. If you bought a debt instrument for more than its adjusted issue price (defined earlier), you paid an acquisition premium that reduces the OID to include in income over the period you hold the bond.

You reduce the daily OID by the daily acquisition premium. Figure this by dividing the acquisition premium by the number of days in the period beginning on your purchase date and ending on the day before the date of maturity.

Example 11. Assume the same facts as *Example 10,* except that you bought the bond for $92,000 on May 1, 1984, after its original issue on May 1, 1983. In this case, you paid more for the bond than its $90,102.83 adjusted issue price ($90,000 + 102.83). The OID reduced by the daily acquisition premium for the accrual period May 1, 1984, to April 30, 1985, is figured as follows:

1) Daily OID on date of purchase (2nd accrual period)		$.32274
2) Your cost	$92,000.00	
Minus: Issue price	90,000.00	
	$ 2,000.00	
Minus: Accumulated OID ($.28096 × 366 days)	102.83	
Acquisition premium	$ 1,897.17	
3) Acquisition premium divided by total days from purchase date to maturity date: $1,897.17 ÷ 6,939 [(365 × 19 years) + 4 days for leap years]		.27341
4) Line 1 minus line 3		$.04933

The OID you would have included in income for 1984 is $12.09 ($.04933 × 245 days).

Assuming you still owned the bond in 1996, 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 in income: $29.52 for

1985, $48.35 for 1986, $69.60 for 1987, $94.67 for 1988, $122.92 for 1989, $155.35 for 1990, $191.94 for 1991, $235.33 for 1992, $283.80 for 1993, $339.65 for 1994, and $402.66 for 1995.

If you held the bond all of 1996, reduce the total OID for that year, $577.66 (as determined in *Example 10),* by the allocable portion of the acquisition premium for 1996, $100.07 ($.27341 × 366 days). The difference, $477.59, is the total OID to include in income for 1996.

Example 12. Assume the same facts as *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 $79.07 ($.32274 × 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 *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 figured in *Example 12.* You do have market discount because your cost was less than the issue price plus the total OID that accrued before you acquired the bond. See *Market discount,* earlier, under *Purchase after date of original issue* at the beginning of this section of the publication.

Acquisition premium on debt instruments purchased after July 18, 1984. If you purchased an OID instrument for more than its adjusted issue price (defined earlier), you paid an acquisition premium. If you bought the debt instrument after July 18, 1984, the method of calculating the reduction of OID includible in income is different from the method described earlier in *Example 11.* Under this method, you multiply the daily OID by the following fraction to figure the amount that reduces the daily OID.

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

Example 14. Assume the same facts as *Example 9,* except that you bought the bond for $93,000 on August 1, 1995, after its original issue on August 1, 1984. In this case, you paid more for the bond than its $92,902.27 adjusted issue price ($90,000 + $102.83 + $117.80 + $134.95 + $154.60 + $177.11 + $202.89 + $232.43 + $266.27 + $305.03 + $349.44 + $400.32 + $458.60). You paid $97.73 ($93,000 – $92,902.27) acquisition premium. The daily OID as reduced for the acquisition premium for the accrual period August 1, 1995, to July 31, 1996, is figured as follows:

1)	Daily OID on date of purchase (13th accrual period)		$ 1.43541*
2)	Acquisition premium	$ 97.73	
3)	Acquisition premium divided by total OID remaining after purchase date: $97.73 ÷ $7,097.73 ($10,000 − $2,902.27)	.01377	
4)	Line 1 times line 3		.01977
5)	Line 1 minus line 4		$ 1.41564

(* As shown in *Example 9.*)

The total amount to include in income for 1995 (August 1 –December 31) is $216.59 ($1.41564 × 153 days).

If you held the bond for all of 1996, reduce the OID for that year ($558.02) by $7.68 (.01377 × $558.02). The difference, $550.34, is the total OID to include in income for 1996.

Note. If you bought your corporate debt instrument in 1996 or 1997 and it is listed in *Section I–A* , you can compute the accumulated OID to the date of purchase by adding the following amounts:

1) The amount from the ''Total OID to 1/1/96'' column for your debt instrument.
2) The OID from January 1, 1996, to the date of purchase, figured as follows:
   a) Multiply the daily OID for the first accrual period in 1996 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 these debt instruments, 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.

You should receive a Form 1099–OID showing OID for the part of 1996 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,* later.

Form 1099–OID not received. If you had OID for 1996 but did not receive a Form 1099–OID, refer to *Section I–B* later in this publication. The OID listed is for each $1,000 of redemption price. You must adjust this figure if your debt instrument has a different principle amount. For example, if you have an instrument with a $500 principal amount, use one-half the amount listed to figure your OID.

Use the OID shown for the calendar year if you held the instrument the entire year. If you did not hold the debt instrument the entire year, figure your OID as follows:

1) Look up the daily OID amount for the first 1996 accrual period in which you held the instrument. (See *Accrual period* under *Figuring OID,* later.)
2) Multiply the daily OID amount by the number of days in 1996 you held the instrument during that accrual period.
3) Repeat (1) and (2) for any remaining 1996 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 1996 unless you paid an acquisition premium. (The reduction for acquisition premium is discussed later.)

If your instrument is not listed in *Section I–B,* consult the issuer for information about the issue price, yield to maturity, and the OID that accrued for 1996.

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. This discussion shows how to compute OID on debt instruments issued after 1984 using a ***constant yield method*** (also known as the ''exact'' method). This method corresponds to the actual economic accrual of interest. OID is allocated over the life of the instrument through adjustments to the issue price for each accrual period.

To figure the OID allocable to any accrual period:

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.
2) Subtract from the result in (1) any ''qualified stated interest '' allocable to the ''accrual period.''

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

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

Qualified stated interest (QSI). Qualified stated interest is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate.

Accrual period. For debt instruments issued after 1984 and before April 4, 1994, an accrual period is each 6-month period that ends on the day that corresponds to the stated maturity date of the debt instrument or the date 6 months before that date. For example, a debt instrument maturing on March 31 has accrual periods that end on September 30 and March 31 of each calendar year. Any short period is included as the first accrual period.

For debt instruments issued after April 3, 1994, accrual periods may be of any length and may vary in length over the term of the instrument as long as each accrual period is no longer than one 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 ratably to each day in the accrual period. Figure the amount to include in income by adding the daily OID amounts for each day that you hold the debt instrument during the year. Since your tax year will usually overlap more than one accrual period, you must include the proper daily OID amounts for each accrual period that falls within or overlaps your tax year. 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.

The daily OID is determined by dividing the OID for the accrual period by the number of days in the period.

Expressed as a formula, the daily OID for the ***initial accrual period*** is computed as follows:

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

ip = issue price

ytm = yield to maturity

n = number of accrual periods in one year

qsi = qualified stated interest

p = number of days in accrual period

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

Example 15. On January 1, 1996, you bought a 15-year, 10% bond of A Corporation at original issue for $86,200. According to the prospectus, the bond matures on December 31, 2010, at a stated redemption price of $100,000. The yield to maturity is 12%, compounded semiannually. 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:

$$\frac{(\$86,200 \times .12/2) - \$5,000}{182 \text{ days}}$$

$$= \frac{\$172}{182} = \$.94505$$

The adjusted issue price at the beginning of the second accrual period is the issue price plus the OID previously includible in income ($86,200 + $172), or $86,372. The daily OID for the second accrual period is:

$$\frac{(\$86,372 \times .12/2) - \$5,000}{184 \text{ days}}$$

$$= \frac{\$182.32}{184} = \$.99087$$

Since the first and second accrual periods coincide exactly with your tax year, you include in income for 1996 the OID allocable to the first two accrual periods, $172.00 ($.94505 × 182 days) plus $182.32 ($.99087 × 184 days), or $354.32. Add the OID to the $10,000 interest you report in 1996.

Example 16. Assume the same facts as *Example 15,* except that you bought the bond at original issue on May 1, 1996. Also, the interest payment dates are October 31 and April 30 of each calendar year. The accrual periods are the 6-month periods ending on each of these dates.

The daily OID for the first accrual period (May 1, 1996 —October 31, 1996) is figured as follows:

$$\frac{(\$86,200 \times .12/2) - \$5,000}{184 \text{ days}}$$

$$= \frac{\$172}{184} = \$.93478$$

The daily portion of OID for the second accrual period (November 1, 1996 — April 30, 1997) is:

$$\frac{(\$86,372 \times .12/2) - \$5,000}{181 \text{ days}}$$

$$= \frac{\$182.32}{181} = \$1.00729$$

If you hold the bond through the end of 1996, you must include $233.44 of OID in income, $172.00 ($.93478 × 184 days) plus $61.44 ($1.00729 × 61 days). The OID is added to the $5,000 interest income paid on October 31, 1996. Your basis in the bond is increased by the OID you include in income. On January 1, 1997, your basis in the A Corporation bond is $86,433.44 ($86,200 + $233.44).

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, compute the daily OID as described earlier, but adjust the yield for the length of the short accrual period. You may use any reasonable compounding assumption 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 excess of the amount payable at maturity over the adjusted issue price (issue price plus accumulated OID) at the beginning of the final accrual period.

Acquisition premium. If you bought a debt instrument for more than its adjusted issue price (defined earlier), you paid an acquisition premium. The acquisition premium reduces the OID you include in income over the remaining life of the bond. Multiply the daily OID by the following fraction to figure the amount that reduces the daily OID.

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

If your cost is less than the adjusted issue price, you may have a market discount bond. See *Market discount,* earlier, under *Purchase after date of original issue* at the beginning of this section of the publication.

Example 17. Assume the same facts as *Example 16* , except that you bought the bond on November 1, 1996, for $87,000, after its original issue on May 1, 1996. The adjusted issue price (issue price plus accumulated OID) on November 1, 1996, is $86,372. Under these assumptions, you purchased the bond at an acquisition premium of $628 (your cost, $87,000, less the adjusted issue price, $86,372) and you must reduce the daily OID for any day you hold the bond.

The daily OID, as reduced for the acquisition premium, for the accrual period November 1, 1996, to April 30, 1997, is figured as follows:

1)	Daily OID on date of purchase (2nd accrual period)		$1.00729
2)	Acquisition premium	$ 628	
3)	Acquisition premium divided by total OID remaining after purchase date: $628 ÷ ($13,800 – $172)	.04608	
4)	Line 1 times line 3		.04642
5)	Line 1 minus line 4		$ .96087

The total OID to include in income for 1996 is $58.61 ($.96087 × 61 days).

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

Stripped bonds and coupons include 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. They also include 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 that 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 the OID. If you keep the coupons, treat the excess of the amount payable on the coupons over the basis of the coupons as the 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 due date of the coupon over your purchase price.

Form 1099–OID

The amount shown in box 1 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.

CAUTION *Any broker or middleman who holds a bank certificate of deposit (CD) as a nominee must determine whether the CD was issued at a discount and if so, the discount includible in the income of the owner. The broker or middleman must file an information return showing the reportable interest and OID, if any, on that CD. These rules apply whether or not the broker or middleman sold the CD to the owner.*

Stripped Tax-Exempt Obligations

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:

1) The coupon rate on the bond before the separation of coupons, or
2) The YTM of the stripped bond or coupon.

If you can establish the YTM of the bond (with all coupons attached) at the time of its original issue, you may use that YTM instead of the coupon rate in (1) above.

Increase your basis in the stripped tax-exempt bond or coupon by the interest that accrued but was not paid, and was not 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 *Stripped Bonds and Coupons Acquired After 1984,* later.) Use the yield to maturity (YTM) based on the date you obtained the stripped bond or coupon.

Step 2 — Determine nontaxable portion. Find the issue price that would produce a YTM as of the purchase date equal to the lower of:

1) The coupon rate on the bond from which the coupons were separated, or
2) The YTM based on the purchase price of the stripped coupon or bond.

You can choose to use the original YTM instead of the coupon rate of the bond in (1) above.

Subtract this issue price from the stated redemption price of the bond at maturity (or, in the case of a coupon, the amount payable on the due date of the coupon). The result is the portion of the OID treated as OID on a stripped tax-exempt bond or coupon.

Step 3 — Determine taxable portion. The taxable portion of OID is the excess of the OID determined in *Step 1* over the nontaxable portion determined in *Step 2* .

Exception. None of the OID on your stripped tax-exempt bond or coupon is taxable if you bought it from a person who held it for sale on June 10, 1987, in the ordinary course of that person's trade or business.

Basis adjustment. Increase the basis in your stripped tax-exempt bond or coupon by the taxable and nontaxable accrued OID. If you own a tax-exempt bond from which one or more coupons have been stripped, increase your basis in it by the sum of the interest accrued but not paid before you dispose of it (and not previously reflected in basis) and any accrued market discount to the extent not previously included in your income.

Example 18. Assume that a tax-exempt bond with a face amount of $100 due January 1, 1998, and a coupon rate of 10% (compounded semiannually) was issued for $100 on January 1, 1995. On January 1, 1996, 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 January 1, 1996, with OID of $20.79 ($100.00 − $79.21). This reflects a YTM at the time of the strip of 12% (compounded semiannually). The tax-exempt portion of OID on the stripped bond is limited to $17.73. This is the difference between the redemption price ($100) and the issue price that would produce a YTM of 10% ($82.27). This portion of the OID is treated as OID on a tax-exempt obligation.

The OID on the stripped bond that is more than the tax-exempt portion is $3.06. This is the excess of the total OID ($20.79) over the tax-exempt portion ($17.73). This portion of the OID ($3.06) is treated as OID on an obligation that is not tax-exempt.

The total OID allocable to the accrual period ending June 30, 1996, is $4.75 (6% of $79.21). Of this, $4.11 is treated as OID on a tax-exempt obligation (5% of $82.27) and $0.64 ($4.75 − $4.11) is treated as OID on an obligation that is not tax exempt. Your basis in the bond is increased to $83.96 ($79.21 issue price plus accrued OID of $4.75).

Stripped Bonds and Coupons Acquired After July 1, 1982, and Before 1985

If you purchased a stripped bond or coupon after July 1, 1982, and before 1985, and you held that debt instrument as a capital asset during any part of 1996, you must compute the OID to be included in income using a ***constant yield method*** that corresponds to the actual economic accrual of interest. Under this method, OID is allocated over the time you hold the debt instrument by adjusting the acquisition price for each accrual period. The

OID for the accrual period is figured by multiplying the adjusted acquisition price at the beginning of the period by the 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 for 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 one-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 yield to maturity of a stripped bond or coupon is the discount rate that, when used in computing the present value of all principal and interest payments, produces an amount equal to the acquisition price.

Figuring YTM. If you purchased a stripped bond or coupon after July 1, 1982, but before 1985, and the period from your purchase date to the day the instrument matures can be divided exactly into full one-year periods without including a shorter period, then the YTM can be computed by applying the following formula:

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

srp = stated redemption price at maturity

ap = acquisition price

m = number of full accrual periods from purchase to maturity

If the instrument is a stripped coupon, the stated redemption price is the amount payable on the due date of the coupon. See *Example 19.*

If the period between your purchase date and the maturity date (or due date) of the instrument does not divide into an exact number of full one-year periods, so that a period shorter than one year must be included, consult your broker or your tax advisor for information about figuring the YTM.

Example 19. On November 15, 1984, you bought a coupon stripped from a U.S. Treasury bond through the Department of the Treasury's STRIPS program for $20,000. An amount of $100,000 is payable on the coupon's due date, November 14, 1998. There are exactly 14 one-year periods between the purchase date, November 15, 1984, and the coupon's due date, November 14, 1998. Your YTM on this stripped coupon is figured as follows:

$$\left(\frac{\$100{,}000}{\$20{,}000}\right)^{1/14} - 1$$

$$= (1.121828 - 1) = 0.12183 = 12.183\%$$

Use 12.183% 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 ratably to each day in the accrual period. You figure the amount to include in income by adding the daily OID amounts for each day that you hold the debt instrument during the year. If your tax year overlaps 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 computed by applying the following formula:

$$\frac{(ap \times ytm)}{p}$$

ap = acquisition price

ytm = yield to maturity

p = number of days in accrual period

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

The rules for figuring OID on these instruments are similar to those illustrated in *Examples 9* and *10,* earlier, under *Debt Instruments Issued After July 1, 1982, and Before 1985.*

Stripped Bonds and Coupons Acquired After 1984

If you purchased a stripped bond or coupon after 1984, and you held that debt instrument during any part of 1996, you must compute the OID to be included in income using a ***constant yield method*** that corresponds to the actual economic accrual of interest. Under this method, OID is allocated over the time you hold the debt instrument by adjusting the acquisition price for each accrual period.

The OID for the accrual period is figured by multiplying the adjusted acquisition price at the beginning of the period by a fraction. The numerator of the fraction is the instrument's "yield to maturity" and the denominator is the number of accrual periods per year.

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 for any subsequent accrual period is the sum of the acquisition price and all of the OID includible in income before that accrual period.

Accrual period. For a stripped bond or coupon acquired after 1984 and before April 4, 1994, an accrual period is each 6-month period that ends on the day that corresponds to the stated maturity date of the stripped bond (or payment date of a stripped coupon) or the date 6 months before that date. For example, a stripped bond that has a maturity date (or a stripped coupon that has a payment date) of March 31 has accrual periods that end on September 30 and March 31 of each calendar year. Any short period is included as the first accrual period.

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

Yield to maturity (YTM). In general, the yield to maturity of a stripped bond or coupon is the discount rate that, when used in computing 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, then you can figure the YTM by using the following formula:

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

n = number of accrual periods in one year

srp = stated redemption price at maturity

ap = acquisition price

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.

Example 20. On May 15, 1986, 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, 1998. There are exactly twenty-five 6-month periods between the purchase date, May 15, 1986, and the coupon's due date, November 14, 1998. The YTM on this stripped coupon is figured as follows:

$$2 \times \left(\left(\frac{\$100{,}000}{\$38{,}000}\right)^{1/25} - 1\right)$$

$$= 2 \times (1.039462 - 1) = 0.07892 = 7.892\%$$

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

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

$$n \times \left(\left(\frac{srp}{ap} \right)^{\left(\frac{1}{\frac{r}{s} + m} \right)} - 1 \right)$$

n = number of accrual periods in one year

srp = stated redemption price at maturity

ap = acquisition price

r = number of days from purchase to end of short accrual period

s = number of days in accrual period ending on last day of short accrual period

m = number of full accrual periods from purchase to maturity

Example 21. On June 2, 1996, you bought a coupon stripped from a U.S. Treasury bond through the Department of the Treasury's STRIPS program for $60,000. An amount of $100,000 is payable on the coupon's due date, August 14, 2002. You decide to figure OID using 6-month accrual periods. There are twelve full 6-month accrual periods and a 74-day short initial accrual period from the purchase date to the coupon's due date. The YTM on this stripped coupon is figured as follows.

$$2 \times \left((\$100{,}000/\$60{,}000)^{\left(\frac{1}{74/181 + 12} \right)} - 1 \right)$$
$$= 2 \times (1.0420253 - 1) = .084051 = 8.4051\%$$

Use 8.4051% 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 ratably to each day in the accrual period. You must include in income the sum of the daily OID amounts for each day you hold the debt instrument during the year. Since your tax year will usually overlap more than one accrual period, you must include the proper daily OID amounts for each accrual period that falls within or overlaps your tax year.

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), except use the adjusted acquisition price in the formula instead of the acquisition price.

Formula 1 —

$$\frac{ap \times ytm/n}{p}$$

Formula 2 —

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

ap = acquisition price

ytm = yield to maturity

n = number of accrual periods in one 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

Example 22. Assume the same facts as *Example 21.* The daily OID amounts are figured as follows:

For the short initial accrual period (using *Formula 2),* the daily OID equals:

$$\frac{\$60{,}000 \times (1 + .084051/2)^{\frac{74}{181}} - \$60{,}000}{74}$$

$$= \frac{\$1{,}018.374}{74} = \$13.76181$$

For the second accrual period (using *Formula 1),* the daily OID equals:

$$\frac{\$61{,}018.37 \times (.084051/2)}{184}$$

$$= \frac{\$2{,}564.3275}{184} = \$13.93656$$

The adjusted acquisition price of $61,018.37 in this accrual period is the original $60,000 acquisition price plus $1,018.37 OID for the short initial accrual period (figured in step (1) of the following computation).

The OID to be reported on your 1996 tax return is figured as follows:

Daily OID × Days Held During Tax Year = Reportable OID		
1) First accrual period: $13.76181 × 74 days (June 2 – August 14)	=	$1,018.37
2) Second accrual period: $13.93656 × 139 days (August 15 – December 31)	=	1,937.18
3) Total OID to report on 1996 tax return:		$2,955.55

Note. The rules for figuring OID on these instruments are similar to those illustrated in *Examples 15* and *16* earlier, under *Debt Instruments Issued After 1984.*

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

How To Get More Information

You can get help from the IRS in several ways.

Free publications and forms. To order free publications and forms, call 1–800–TAX-FORM (1–800–829–3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax packages for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services.* It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details. If space permitted, this information is at the end of this publication.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1–800–829–1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1–800–829–4059 to ask tax questions or to order forms and publications. See your income tax package for the hours of operation.

Table 1. Explanation of Section I Column Headings

	1	2	3	4	5	6	7			8	
							Daily OID per $1,000 of Maturity Value for Each Accrual Period			OID Per $1,000 of Maturity Value for Calendar Year	
Name of Issuer	CUSIP Number	Issue Date	Maturity Date	Issue Price (Percent of Principal Amount)	Annual Stated Interest Rate	Total OID to 1/1/96	1996 1st Period	1996 2nd & 1997 1st	1997 2nd Period	1996	1997
XYZ Corp.	123456AA	08/01/83	08/01/03	90.0	13.0	31.22	.014354	.016489	.018890	5.58	6.39

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, 2003 (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 1/1/96**—This shows the total OID accumulated on the debt instrument from the date of original issue to 1/1/96. (This information is not available for all instruments listed.)

7. **Daily OID in 1996 and 1997**—For corporate debt instruments issued after July 1, 1982, and before 1985, this is the OID for each day you held the debt instrument during the accrual periods falling in 1996 and 1997. (The daily OID for the second accrual period in 1996 and the first accrual period in 1997 are identical.) An accrual period is a one-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 1996 for XYZ bond is 8/1/95–7/31/96. The part of this accrual period that falls in 1996 is from 1/1/96–7/31/96. For each $1,000 principal amount of the bond, the OID is .014354 each day you held the bond during this accrual period. Similarly, the part of the second accrual period in 1996 is from 8/1/96–12/31/96. The OID is .016489 for each day you held the bond during this accrual period. The OID for each day you held a debt instrument in 1997 is determined in the same manner, using the daily OID applicable to the part of each accrual period falling in 1997. 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,* earlier, for more information.

   NOTE. For corporate debt instruments issued after 1984 (listed in Section I–B), the columns for the daily OID amounts are increased to include the number of 6-month accrual periods that apply to these instruments during 1996 and 1997. The 1996 OID is determined by using the daily OID for the 3 periods for the year. Although each accrual period is 6 months long, a 6-month period may cross over into the next calendar year.

8. **OID for 1996 and 1997 (Per $1,000 of Maturity Value)**—The amount appearing in the 1996 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 1996, the amount is computed to the date of call or maturity. In the above example, if you held XYZ bond for all of 1996, the OID is $5.58 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 1996. (See *Figuring OID,* earlier, for more detailed information.) Similarly, the amount appearing in the 1997 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,* earlier, for more information.

By double-clicking on the icon to the left, you may access the plain text (.prn) versions of the tables.