

section [enacting this section] shall apply to transactions entered into after July 11, 1999.”

**PART V—SPECIAL RULES FOR BONDS AND OTHER DEBT INSTRUMENTS**

**Subpart**

- A. Original issue discount.
- B. Market discount on bonds.
- C. Discount on short-term obligations.
- D. Miscellaneous provisions.

**AMENDMENTS**

1986—Pub. L. 99-514, title XVIII, §1899A(72), Oct. 22, 1986, 100 Stat. 2963, inserted “on bonds” after “discount” in item for subpart B.

**SUBPART A—ORIGINAL ISSUE DISCOUNT**

**Sec.**

- 1271. Treatment of amounts received on retirement or sale or exchange of debt instruments.
- 1272. Current inclusion in income of original issue discount.
- 1273. Determination of amount of original issue discount.
- 1274. Determination of issue price in the case of certain debt instruments issued for property.
- 1274A. Special rules for certain transactions where stated principal amount does not exceed \$2,800,000.
- 1275. Other definitions and special rules.

**AMENDMENTS**

1985—Pub. L. 99-121, title I, §102(d), Oct. 11, 1985, 99 Stat. 509, added item 1274A.

**§ 1271. Treatment of amounts received on retirement or sale or exchange of debt instruments**

**(a) General rule**

For purposes of this title—

**(1) Retirement**

Amounts received by the holder on retirement of any debt instrument shall be considered as amounts received in exchange therefor.

**(2) Ordinary income on sale or exchange where intention to call before maturity**

**(A) In general**

If at the time of original issue there was an intention to call a debt instrument before maturity, any gain realized on the sale or exchange thereof which does not exceed an amount equal to—

- (i) the original issue discount, reduced by
- (ii) the portion of original issue discount previously includible in the gross income of any holder (without regard to subsection (a)(7) or (b)(4) of section 1272 (or the corresponding provisions of prior law)),

shall be treated as ordinary income.

**(B) Exceptions**

This paragraph (and paragraph (2) of subsection (c)) shall not apply to—

- (i) any tax-exempt obligation, or
- (ii) any holder who has purchased the debt instrument at a premium.

**(3) Certain short-term Government obligations**

**(A) In general**

On the sale or exchange of any short-term Government obligation, any gain realized

which does not exceed an amount equal to the ratable share of the acquisition discount shall be treated as ordinary income.

**(B) Short-term Government obligation**

For purposes of this paragraph, the term “short-term Government obligation” means any obligation of the United States or any of its possessions, or of a State or any political subdivision thereof, or of the District of Columbia, which has a fixed maturity date not more than 1 year from the date of issue. Such term does not include any tax-exempt obligation.

**(C) Acquisition discount**

For purposes of this paragraph, the term “acquisition discount” means the excess of the stated redemption price at maturity over the taxpayer’s basis for the obligation.

**(D) Ratable share**

For purposes of this paragraph, except as provided in subparagraph (E), the ratable share of the acquisition discount is an amount which bears the same ratio to such discount as—

- (i) the number of days which the taxpayer held the obligation, bears to
- (ii) the number of days after the date the taxpayer acquired the obligation and up to (and including) the date of its maturity.

**(E) Election of accrual on basis of constant interest rate**

At the election of the taxpayer with respect to any obligation, the ratable share of the acquisition discount is the portion of the acquisition discount accruing while the taxpayer held the obligation determined (under regulations prescribed by the Secretary) on the basis of—

- (i) the taxpayer’s yield to maturity based on the taxpayer’s cost of acquiring the obligation, and
- (ii) compounding daily.

An election under this subparagraph, once made with respect to any obligation, shall be irrevocable.

**(4) Certain short-term nongovernment obligations**

**(A) In general**

On the sale or exchange of any short-term nongovernment obligation, any gain realized which does not exceed an amount equal to the ratable share of the original issue discount shall be treated as ordinary income.

**(B) Short-term nongovernment obligation**

For purposes of this paragraph, the term “short-term nongovernment obligation” means any obligation which—

- (i) has a fixed maturity date not more than 1 year from the date of the issue, and
- (ii) is not a short-term Government obligation (as defined in paragraph (3)(B) without regard to the last sentence thereof).

**(C) Ratable share**

For purposes of this paragraph, except as provided in subparagraph (D), the ratable share of the original issue discount is an