Original Issue Discount

- Difference between amount borrowed and face amount of the debt

OID Issues

- What is a Debt Instrument?
- Is there OID?
- When should OID be recognized?
- What about early dispositions?
Debt Instrument
- Bond
- Debenture
- Note
- Certificate
- Other evidence of indebtedness

Amounts Received
- Amounts received = Amounts realized on the sale of a capital asset
- Amount realized less adjusted basis is capital gain

Intent to Call Before Maturity
- Where debt is paid off early, some ordinary income from OID will be converted into capital gain
- If, when debt issued, there is an intent to pay off the debt before maturity, the gain that does not exceed the unaccrued OID is ordinary income
- This rule does not apply to individuals
Amortization of OID

- Four step process –
  - Determine the yield to maturity
  - Determine the debt instrument’s accrual periods
  - Compute the OID allocable to each accrual period
  - OID is allocated to each day in an accrual period

Yield to Maturity

- Interest rate that will cause the issue price to grow to the redemption price

- The stated interest rate if the loan calls for a fixed rate of interest over the entire term of the debt compounded at periodic intervals of one year or less

Accrual Period

- Period of six months which ends on a day that corresponds to the maturity date of the debt or the date six months before that maturity date

- Period from the date of issue to corresponding maturity date or six months before
Daily Portion

- Each day’s ratable share of OID
- Divide the OID allocable to the accrual period by the days
- Portions of OID for every day the debt is owned

Adjusted Issue Price

- Original issue price increased by OID previously includable in income
- Decreased by
- Any payment previously made

Subsequent Holder of Debt

- If the subsequent holder pays more than the redemption price at maturity – no OID
- If the subsequent holder pays less than the stated redemption price but more than the adjusted issue price –
  - The amount of OID is reduced to take into account the acquisition premium
Amount of OID
- Excess of the stated redemption price over the issue price
  - If no OID, then none of the OID rules apply

Stated Redemption Price
- Amount fixed by the last modification of the agreement pursuant to which the debt was acquired
  - Includes amounts payable at maturity
  - Does not include interest based on a fixed rate payable unconditionally at fixed periodic intervals of one year or less during the term of the debt

Issue Price
- Publicly offered debt issued for cash
  - The initial offering price to the public as long as a substantial dollar amount of the debt is sold at that price
Issue Price

- Non-publicly offered debt issued for cash
  - The price paid by the first buyer of the debt

De Minimus Rule

- OID is Zero if –
  - Stated redemption price over issue price is less than one quarter of one percent of the stated redemption price multiplied by the number of complete years to maturity