

Internal Revenue Service, Treasury

§ 1.1232-3

January 1, 1971. For treatment of renewable certificates of deposit, see paragraph (e)(4) of § 1.1232-3A.

[T.D. 7154, 36 FR 25000, Dec. 28, 1971, as amended by T.D. 7311, 39 FR 11880, Apr. 1, 1974; T.D. 7365, 40 FR 27936, July 2, 1975; T.D. 7728, 45 FR 72650, Nov. 3, 1980]

§ 1.1232-2 Retirement.

Section 1232(a)(1) provides that any amount received by the holder upon the retirement of an obligation shall be considered as an amount received in exchange therefor. However, section 1232(a)(1) does not apply in the case of an obligation issued before January 1, 1955, which was not issued with interest coupons or in registered form on March 1, 1954. For treatment of gain on an obligation held by certain financial institutions, see section 582(c) and paragraph (a)(1)(iii) of § 1.1232-3.

[T.D. 7154, 36 FR 25000, Dec. 28, 1971]

§ 1.1232-3 Gain upon sale or exchange of obligations issued at a discount after December 31, 1954.

(a) *General rule; sale or exchange*—(1) *Obligations issued by a corporation after May 27, 1969*—(i) *General rule.* Under section 1232(a)(2)(A), in the case of gain realized upon the sale or exchange of an obligation issued at a discount by a corporation after May 27, 1969 (other than an obligation subject to the transitional rule of subparagraph (4) of this paragraph), and held by the taxpayer for more than 1 year (6 months for taxable years beginning before 1977; 9 months for taxable years beginning in 1977):

(a) If at the time of original issue there was no intention to call the obligation before maturity, such gain shall be considered as long-term capital gain, or

(b) If at the time of original issue there was an intention to call the obligation before maturity, such gain shall be considered ordinary income to the extent it does not exceed the excess of:

(1) An amount equal to the entire *original issue discount*, over

(2) An amount equal to the entire *original issue discount* multiplied by a fraction the numerator of which is the sum of the number of complete months and any fractional part of a month elapsed since the date of original issue

and the denominator of which is the number of complete months and any fractional part of a month from the date of original issue to the stated maturity date.

The balance, if any, of the gain shall be considered as long-term capital gain. The amount described in (2) of this subdivision (b) in effect reduces the amount of original issue discount to be treated as ordinary income under this subdivision (b) by the amounts previously includible (regardless of whether included) by all holders (computed, however, as to any holder without regard to any purchase allowance under paragraph (a)(2)(ii) of § 1.1232-3A and without regard to whether any holder purchased at a premium as defined in paragraph (d)(2) of § 1.1232-3).

(ii) *Cross references.* For definition of the terms *original issue discount* and *intention to call before maturity*, see paragraphs (b) (1) and (4) respectively of this section. For definition of the term *date of original issue*, see paragraph (b)(3) of this section. For computation of the number of complete months and any fractional portion of a month, see paragraph (a)(3) of § 1.1232-3A.

(iii) *Effect of section 582(c).* Gain shall not be considered to be long-term capital gain under subdivision (i) of this subparagraph if section 582(c) (relating to treatment of losses and gains on bonds of certain financial institutions) applies.

(2) *Examples.* The provisions of subparagraph (1) of this paragraph may be illustrated by the following examples:

Example 1. On January 1, 1970, A, a calendar-year taxpayer, purchases at original issue for cash of \$7,600, M Corporation's 10-year, 5 percent bond which has a stated redemption price at maturity of \$10,000. On January 1, 1972, A sells the bond to B, for \$9,040. A has previously included \$480 of the original issue discount in his gross income (see example (1) of paragraph (d) of § 1.1232-3A) and increased his basis in the bond by that amount to \$8,080 (see paragraph (c) of § 1.1232-3A). Thus, if at the time of original issue there was no intention to call the bond before maturity, A's gain of \$960 (amount realized, \$9,040, less adjusted basis, \$8,080) is considered long-term capital gain.

Example 2. (i) Assume the same facts as in example (1), except that at the time of original issue there was an intention to call the bond before maturity. The amount of the entire gain includible by A as ordinary income