

# **IRC Section 1276(b)(2)**

## **Election to Accrue Market Discount on Basis Constant Interest Rate**

### **Overview**

Generally, §1276(a) provides that gain on the disposition of any market discount bond is treated as ordinary income to the extent of accrued market discount on the bond. Section 1278(a)(1) defines "market discount bond" as any bond having market discount with the exception of short-term obligations, tax-exempt obligations, U.S. savings bonds, and any installment obligation to which §453B applies, and in certain cases, tax-exempt obligations.

The rules of §1276(b) provide for the ratable accrual of market discount or, at the election of the taxpayer, for accrual of market discount on the basis of a constant interest rate. A constant interest rate election may be made by the taxpayer on a bond-by-bond basis. For each bond with respect to which the election is made, the election is effective as of the day the bond is acquired, and is irrevocable.

Because the constant interest rate election is irrevocable, it remains in effect without regard to whether the §1278(b) election to include market discount currently remains in effect, whether there are any partial principal payments on the bond, or whether there is any further net direct interest expense with respect to the bond.

### **When to File**

The taxpayer must attach a statement to the tax return for the earliest taxable year for which the taxpayer is required to determine accrued market discount. The election must be made no later than the due date, including extensions, of the taxpayer's return for such year.

### **Where to File**

The election statement is attached to the taxpayer's timely filed return, which is mailed to the designated Internal Revenue Service Center.

### **Index**

1. Code Section: 1276, 1278

2. Topic: Accounting Periods and Methods; Deduction Items; Gain/Loss

3. Return Type: 1040, 1065, 1120

### **Authorities**

IRC § 1278(b); Rev. Proc. 92-67