WEALTH SOLUTIONS GROUP

Summary of Tax Treatment of Bond Discount & Premium

Buying bonds above or below par value creates a variety of tax issues

Purchasing bonds at a price above or below the bond's maturity value can lead to unique tax consequences, but also provide investors some opportunity for tax planning.

Wealth Planning Department
Baird Private Wealth Management

February 2023

Original Issue Discount (OID)		Market Discount			Bond Premium	
Taxable Bond	**Tax-Exempt Bond**	**Taxable Bond**	**Tax-Exempt Bond**		**Taxable Bond**	**Tax-Exempt Bond**
Mandatory*		Optional		**Is accretion/amortization mandatory or optional?**	Optional	Mandatory
If discount is accreted:					**If premium is amortized**	
Constant Interest Rate		Constant Interest Rate or Ratable Accrual		**How is accretion/ amortization calculated?**	Constant Interest Rate	
Taxable ordinary income**	No federal tax impact	Taxable ordinary income**		**Tax treatment of discount/premium**	Reduction to interest income	No federal tax impact
Yes	No	No		**Is accretion/amortization reported to IRS on Form 1099?**	No	No
Basis increased by accreted discount				**Impact to bond cost basis**	Basis decreased by amortized premium	
If discount is not accreted:					**If premium is not amortized**	
n/a		No basis adjustment		**Impact to bond cost basis**	No basis adjustment	**n/a**
n/a		Taxable ordinary income up to amount of accrued discount, capital gain for the balance		**Tax treatment of discount/premium at sale/maturity**	Capital loss	**n/a**

* Accretion of OID on US Government Series E, EE and I bonds is optional

** If the discount is below a de minimis level it is taxed as a capital gain, not ordinary income. The de minimis threshold is a discount that is less than ¼ of 1% of the bond's par value times the number of years remaining until the bond matures.