

306 Fed. (2d) 422 (1962), where the court describes a "straddle" at page 195 as follows:

"A 'straddle' consists of two separate options, one a 'call' and one a 'put.' Both the 'put' and 'call' are identical as to stock, contract price and time expiration."

In view of the above, it is necessary to allocate the premium received for writing the "straddle" contract to the "put" option and to the "call" option. The allocation of the premium should be made on the basis of the relative market values, at the time of the issuance of the "straddle," of the "put" and "call" options contained therein.

Accordingly, if the "call" is exercised and the "put" is not, the amount of the premium properly allocable to the "put" would be considered ordinary income to the writer; conversely, if the "put" were exercised and the "call" were not, the amount of premium properly allocable to the "call" would be considered ordinary income to the writer. Naturally, if both options are exercised the amount of the premium allocated to the "call" option would be added to the amount realized on the sale of the property "called" from the writer, and the amount of the premium allocated to the "put" option would reduce the cost basis of the property purchased by ("put" to) the writer. Also, if neither option is exercised the amount of premium received by the writer constitutes ordinary income.

Pursuant to the authority contained in section 7805(b) of the Internal Revenue Code of 1954, this revenue ruling will be applied prospectively only with respect to a "straddle" transaction entered into on or after Tuesday, January 26, 1965.