

APPENDIX II—REVENUE PROCEDURE 65-29

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The U.S. Internal Revenue Service today announced that the following revenue procedure will appear in Internal Revenue Bulletin 1965-48, dated November 29, 1965:

Rev. Proc. 65-29

Guidelines for allocating the premium received by writers of "straddle" contracts with respect to corporate stock.

SECTION 1. PURPOSE

The purpose of this revenue procedure is to furnish taxpayers with a guide for allocating the premium received by writers of "straddle" contracts with respect to corporate stock.

SECTION 2. BACKGROUND

Revenue Ruling 65-31, I.R.B. 1965-9, 26, requires that the premium received by a writer of a "straddle" with respect to corporate stock be allocated between the "put" option and the "call" option contained therein, on the basis of the relative market values at the time of the issuance of the "straddle."

SECTION 3. ALLOCATION OF PREMIUM

.01 In the interest of uniform application of Revenue Ruling 65-31 the Revenue Service has determined with respect to "straddle" contracts involving corporate stock that 55 percent of the premium may be allocated to the "call" option and 45 percent of the premium to the "put" option. Since the market values of "puts" and "calls" are subject to price fluctuation, it may be necessary for the Revenue Service to adjust this allocation ratio periodically.

.02 The Revenue Service will accept an allocation on this basis for all such "straddle" transactions entered into on or after January 26, 1965 (the effective date of Revenue Ruling 65-31), provided the ratio or ratios determined by the Revenue Service are used by the taxpayer in allocating premiums on all such "straddle" contracts issued on or after such date.

.03 Option writers deciding to use the allocation method provided in this revenue procedure must attach a statement to their Federal income tax returns so indicating. If a taxpayer does not use this method for a taxable year, then the allocation based on relative market values required by Revenue Ruling 65-31 must be used.