

APPENDIX III—PRESS RELEASE OF JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

For the press, for immediate release Wednesday, January 27, 1965

CHAIRMAN WILBUR D. MILLS AND VICE-CHAIRMAN HARRY F. BYRD ANNOUNCE THAT STAFF OF JOINT COMMITTEE ON INTERNAL REVENUE TAXATION WILL STUDY NEW IRS RELEASE ON TAX TREATMENT OF WRITERS OF "STRADDLE" OPTIONS

Congressman Wilbur D. Mills, chairman of the Joint Committee on Internal Revenue Taxation, and Senator Harry F. Byrd, vice chairman, in a joint statement released today, state that questions have been raised with respect to a newly issued technical information release of the Internal Revenue Service dealing with the taxation of the income of writers of straddle options. The staff of the Joint Committee on Internal Revenue Taxation has been instructed to study the situation created by the new TIR and to give comments and suggestions to the committee with respect to it.

A "straddle" is a combination of an option to sell stock (usually referred to as a "put") and an option to buy stock (usually referred to as a "call"). Under the new TIR, the taxpayers who grant (or "write") a straddle option must divide the premium they receive between the two parts of the option. One part of the option ordinarily expires unexercised and the premium assigned to this part of the option will be regarded as ordinary income under the TIR. The premium allocated to the other part of the option is treated as an adjustment to the basis of the stock sold or acquired pursuant to the option. Thus, if the put were exercised, this portion of the premium would reduce the cost to the writer of the stock sold to him and if the call were exercised the premium allocated to the call would increase the price he received on the sale of the stock. In either case, the other part of the premium would be regarded as ordinary income.

If the stock subject to the straddle went down more than the amount of the premium allocated to the put, the taxpayer would have ordinary income from the expiration of the call and a potential capital loss on the stock that was put to him. In a series of such transactions, the taxpayer might have an overall loss but would be regarded as having ordinary income that could not be reduced by his capital loss in excess of \$1,000.

It has been the practice of most taxpayers who write straddles to allocate their entire premium to the side of the option that was exercised so that the entire gain or loss on the transaction would be capital gain or loss. Whether the gain or loss was long term or short term would depend on how long the stock was held.