89TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 2174

INCOME TAX TREATMENT OF CERTAIN STRADDLE TRANSACTIONS

OCTOBER 3, 1966.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MILLS, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H.R. 11765]

The Committee on Ways and Means, to whom was referred the bill (H.R. 11765) to amend section 1234 of the Internal Revenue Code of 1954, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment strikes out all after the enacting clause and inserts a substitute text which appears in the reported bill in italic type.

I. SUMMARY

A "straddle" is a combination of an option to buy and an option to sell a predetermined amount of a specified security at a fixed price for a limited period of time. The two component options are identical as to the security involved, the amount and price to which the options apply, and the length of time the options are available. The Internal Revenue Service requires the premium received for the straddle to be apportioned between these two component options. As a result, in the usual case where one option is exercised and the other is allowed to lapse, part of the premium (attributable to the lapsed option) gives rise to ordinary income, while the other part (attributable to the exercised option) becomes an adjustment in the cost or price of the security purchased or sold resulting in either an increase in a capital gain or a decrease in a capital loss. It is possible, therefore, for a single straddle transaction to give rise to both ordinary income and a capital loss, which it may not be possible to net against each other.

This bill provides that the income from the lapse of an option which originated as part of a straddle is to be treated as a short-term capital