

**FEDERAL RESERVE BANK  
OF NEW YORK**

Fiscal Agent of the United States

[ Circular No. **3679**  
March 26, 1951 ]

**INCOME TAX STATUS OF TREASURY BOND EXCHANGE OFFER**

*To all Banking Institutions, and Others Concerned,  
in the Second Federal Reserve District:*

The Treasury Department has asked the Commissioner of Internal Revenue whether the exchange of the 2½ percent Treasury Bonds of 1967-72 for the non-marketable 2¾ percent Treasury Bonds is a closed transaction such as to result in a gain or loss for income tax purposes. The Treasury Department has received the following ruling from the Commissioner of Internal Revenue:

Under the provisions of section 112(a) of the Internal Revenue Code, every exchange results in gain or loss for income tax purposes unless the exchange comes within one of the statutory exceptions enumerated in section 112.

Exchange of 2½ percent marketable Treasury Bonds of 1967-72 for non-marketable 2¾ percent Treasury Bonds does not come within any of the exceptions enumerated in that section.

Accordingly, gain derived or loss sustained from such exchange would be recognized for Federal income tax purposes. The gain or loss will be the difference between the cost or other basis of the old bonds and the fair market value of the new bonds on the date of the exchange. (Cf. I.T. 2359, C.B. VI-1, 51; I.T. 2734, C.B. XII-2, 73.) In the computation of such gain or loss the face amount of the new bonds will be regarded as their fair market value at the date of the exchange.

The gain derived or loss sustained will constitute capital gain or loss under the provisions of section 117 of the Code, except that in any case where the old bonds are held at the time of exchange by a dealer in securities primarily for sale to customers in the ordinary course of business such bonds would not constitute capital assets as defined in section 117(a) of the Code and the gain or loss would constitute ordinary gain or loss.

Additional copies of this circular will be furnished upon request.

ALLAN SPROUL,  
*President.*