

**FEDERAL RESERVE BANK  
OF NEW YORK**

Fiscal Agent of the United States

[ Circular No. 5045 ]  
June 6, 1961

**Tax Basis for Purchases of Strips  
of Treasury Bills**

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

The Treasury Department has informed us that the Internal Revenue Service states that purchasers of the strip of Treasury bills to be auctioned June 8, for issue June 14, for tax purposes should take such bills on to their books on the basis of their purchase price prorated to each of the eighteen outstanding issues, using as a basis for proration the closing market prices on June 14. The Internal Revenue Service further states that it is not permissible, for tax purposes, for purchasers of such bills to place each of the issues included in the strip on their books at the same purchase price or amount which they pay on accepted tenders for said bills.

The following hypothetical example illustrates the method of obtaining an issue price for tax purposes for each of the 18 specific issues included in the strip offered by the Treasury.

The example covers a hypothetical strip of 10 issues of Treasury bills, and explains the steps required to calculate the issue price for each of these 10 issues. The calculation is based on a hypothetical issue date of June 1, 1961, and market prices of these 10 issues as of May 31, 1961. Three steps are involved in the calculation.

**Step 1**

Calculate the average market price of the 10 issues as of May 31, 1961, as follows:

<i>Maturity date</i>	<i>Days to maturity</i>	<i>Rate<sup>1</sup> (%)</i>	<i>Market Price<sup>1</sup></i>
1961:			
9/28.....	119	2.36	99.220
10/5.....	126	2.42	99.153
10/13.....	134	2.44	99.092
10/19.....	140	2.46	99.043
10/26.....	147	2.46	98.996
11/2.....	154	2.50	98.931
11/9.....	161	2.505	98.880
11/16.....	168	2.51	98.829
11/24.....	176	2.525	98.766
11/30.....	182	2.555	98.708
AVERAGE.....			98.962

<sup>1</sup> Mean of closing bid and ask prices, 5/31/61.

(OVER)

*Step 2*

Calculate the ratio of the actual price bid for the strip of bills to the average market price obtained in Step 1. If the price bid for the strip is 98.920, the ratio is 0.9995756 (98.920 divided by 98.962). If the price bid is 99.000, the ratio is 1.0003840 (99.000 divided by 98.962).

*Step 3*

Multiply the market price for each issue as of May 31, 1961 by the ratio obtained in Step 2 above, as follows:

Maturity date	Market price <sup>1</sup>	Prorated issue price at hypothetical subscription price of:	
		98.920 <sup>2</sup>	99.000 <sup>3</sup>
1961:			
9/28.....	99.220	99.178	99.258
10/5.....	99.153	99.111	99.191
10/13.....	99.092	99.050	99.130
10/19.....	99.043	99.001	99.081
10/26.....	98.996	98.954	99.034
11/2.....	98.931	98.889	98.969
11/9.....	98.880	98.838	98.918
11/16.....	98.829	98.787	98.867
11/24.....	98.766	98.724	98.804
11/30.....	98.708	98.666	98.746
<b>AVERAGE.....</b>	<b>98.962</b>		

<sup>1</sup> Mean of closing bid and ask prices, 5/31/61.  
<sup>2</sup> .042 less than average market price of 10 bills.  
<sup>3</sup> .038 more than average market price of 10 bills.

**ALFRED HAYES,**  
*President.*