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SECTION 12(4)  
SECTION 12(9)  
SECTION REG 7000(1)(b)  
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Please note that the following document, although believed to be correct at the time of issue, may not represent the current position of the Department.  
Prenez note que ce document, bien qu'exact au moment émis, peut ne pas représenter la position actuelle du ministère.

PRINCIPAL ISSUES: Annual taxation of interest on stripped bonds  
POSITION TAKEN:  
Interest accrued to anniversary day of contract - clarification of definition of anniversary day  
REASONS FOR POSITION TAKEN:  
In accordance with definition of anniversary day in subsection 12(11)

XXXXXXXXXX 2002-012316  
G. Moore  
February 27, 2002

Dear XXXXXXXXXXXX :

Re: Anniversary Day of Stripped Bonds

This is in reply to your correspondence of February 12, 2002, in which you ask for our interpretation concerning the income tax consequences of disposing of a stripped bond.

You purchased a stripped bond on March 26, 2001. It is your understanding that you would not report any interest income for the 2001 taxation year. You also believe that if you sold the stripped bond prior to March 1, 2002, you would report the difference between the selling price and the purchase price as a gain but you would not have to report any interest income.

Our Comments

It appears that the situation you describe concerns a completed or proposed transaction and we are unable to provide any confirmation of the tax consequences except, with respect to a proposed transaction, in the context of an advance income tax ruling. Confirmation of the tax consequences respecting a completed transaction must be obtained from the local tax services office. We can offer, however, the following general comments.

In our view, a stripped bond is a "prescribed debt obligation" by virtue of paragraph 7000(1)(b) of the Income Tax Regulations (the "Regulations") with the result that by virtue of paragraph 7000(2)(b) of the Regulations and subsection

12(4) and 12(9) of the Income Tax Act (the "Act"), interest thereon must be included in income over the period of ownership of the stripped bond. Generally, the interest income accrued on a stripped bond at its anniversary day will be included in income in each taxation year in which a taxpayer owns a stripped bond on its anniversary day. The anniversary day is generally the date when a stripped bond was initially issued and each one year anniversary thereafter. However, when an investor disposes of a stripped bond, this triggers an anniversary day and subsection 12(4) of the Income Tax Act (the "Act") requires the investor to report the accrued interest up to the date of disposition. The amount of interest so included in computing income of the investor for the year is added in computing the cost to the investor of the stripped bond by virtue of subsection 52(1) of the Act. On a sale of a stripped bond, a capital gain could result if the proceeds of disposition are greater than the adjusted cost base of the bond (adjusted by any increase under subsection 52(1) of the Act). Similarly, a capital loss could result where proceeds of disposition are less than the adjusted cost base.

We trust that these comments will be of assistance.

Yours truly,

Paul Lynch  
for Director  
Financial Industries Division  
Income Tax Rulings Directorate  
Policy and Legislation Branch  
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