If you hold bonds or other debt instruments in a Vanguard Brokerage Account, you may wish to choose an accounting method that will determine when interest from bonds is recognized as part of taxable income and any corresponding basis adjustments for those bonds.

If you have bonds held in retirement accounts or accounts that are exempt from tax reporting, you don’t need to make any elections. You also don’t need to make elections for bond mutual funds or ETFs, as these elections don’t apply to those types of securities.

Note: Due to the complexities of accounting methods for bonds, we suggest that you consult a tax professional.

If after reading this information (and consulting your tax professional) you determine that you need to choose accounting methods for applicable bonds in your Vanguard Brokerage Account(s), call us at 800-669-0514 to request the Bond Amortization and Accrual Election Form. You can reach us Monday through Friday from 8 a.m. to 6:30 p.m., Eastern time.

Election for Form 1099 reporting
You must notify Vanguard in writing of your bond accounting method elections (described under “Accounting methods for bonds”) no later than December 31 of the year for which the elections are made if you want your elections considered when Vanguard furnishes Forms 1099-B, 1099-OID, and 1099-INT.

Election on your income tax return
You make an election for tax purposes for the corresponding bond accounting methods when you file your income tax return with the IRS. You may need the permission of the IRS to revoke a prior election that you’ve made on your income tax return.

Accounting methods for bonds
Vanguard offers four accounting methods:
• Amortize bond premium.
• Currently include accrued market discount.
• Accrue market discount based on a ratable (straight-line) method.
• Translate interest income and expense at the spot rate.

Refer to the following detailed descriptions for information on each method.

Amortize bond premium
This method, when elected, will apply to all taxable bonds held during the year of the election and thereafter unless revoked. This is Vanguard’s default method. Vanguard will assume that you’ve elected this method and adjust the basis of your bonds accordingly.

Form 1099 implications:
• If elected, the amortized bond premium for the year on taxable covered bonds will be reported to you on Form 1099-INT. For tax-exempt covered bonds, the amortized bond premium will be reported to you on Form 1099-INT regardless of your election.

(over, for more information)
• Your basis in the bond is reduced by the amortized bond premium reported on Form 1099-INT.
• The amortization of bond premium is mandatory (not elected or revoked) for tax-exempt bonds.
• You can revoke this method with Vanguard if you haven’t elected this method or don’t plan to elect it on your tax return, or have revoked a prior election, or will revoke it.

Currently include accrued market discount
This method applies to all market discount bonds acquired on or after the first day of the taxable year for which the election is made and thereafter. Market discount is calculated using the constant yield method over the remaining term of the bond. The default is to recognize market discount at the time of sale, redemption, or maturity.

Form 1099 implications:
• If elected, we’ll report the accrued market discount for the year on Form 1099-INT or 1099-OID.
• The market discount that’s reported on Form 1099-INT or 1099-OID will increase the basis of the bond.
• This method can be used for tax-exempt bonds.
• This method can be revoked.

Accrue market discount based on a ratable (straight-line) method
This method must be elected by the end of the calendar year in which you acquired the bond. Otherwise, brokers are required to assume that you’ve elected to accrue market discount based on a constant yield for any bond acquired on or after January 1, 2015.

Form 1099 implications:
• If elected, the accrual of market discount each year will be calculated based on a ratable method instead of a constant interest rate, resulting in less market discount accruing as the bond approaches maturity. If an election under “Currently include accrued market discount” is made, this election will impact the amount of the market discount reported on Form 1099-INT or 1099-OID, and the applicable cost basis adjustment.
• This method can be used for tax-exempt bonds.
• Once this method is elected, it’s irrevocable.

Translate interest income and expense at the spot rate
This method is for interest income received that’s denominated in a foreign currency and translated to U.S. dollars. When elected, this method applies to all taxable bonds held during the taxable year the election is made and thereafter.

Form 1099 implications:
• This method translates interest income at the spot rate on the last day of the interest accrual period or, in the case of a partial accrual period, the last day of the taxable year. The election will impact the amount of interest reported on Form 1099-INT.
• This method can’t be used for tax-exempt bonds.
• This method can be revoked.