

MOST MISAPPLIED IRS RULES REGARDING OPTION TRADING > EXERCISE

Table 4-3. Puts and Calls

IRS Pub 550 - Investment Income and Expenses

<b>Puts</b>		
When a put:	If you are the holder:	If you are the writer:
Is exercised	<u>Reduce your amount realized from sale of the underlying stock by the cost of the put.</u>	Reduce your basis in the stock you buy by the amount you received for the put.
Expires	Report the cost of the put as a capital loss on the date it expires.*	Report the amount you received for the put as a short-term capital gain.
Is sold by the holder	Report the difference between the cost of the put and the amount you receive for it as a capital gain or loss.*	This does not affect you. (But if you buy back the put, report the difference between the amount you pay and the amount you received for the put as a short-term capital gain or loss.)

<b>Calls</b>		
When a call:	If you are the holder:	If you are the writer:
Is exercised	Add the cost of the call to your basis in the stock purchased.	<u>Increase your amount realized on sale of the stock by the amount you received for the call.</u>
Expires	Report the cost of the call as a capital loss on the date it expires.*	Report the amount you received for the call as a short-term capital gain.
Is sold by the holder	Report the difference between the cost of the call and the amount you receive for it as a capital gain or loss.*	This does not affect you. (But if you buy back the call, report the difference between the amount you pay and the amount you received for the call as a short-term capital gain or loss.)