Journal of Applied Corporate Finance / Volume 11, Issue 1 / pp. 39-44

MIPS, QUIPS AND TOPrS: OLD WINE IN NEW BOTTLES

Arun Khanna, John J. McConnell

First published: 07 April 2005
https://doi.org/10.1111/j.1745-6622.1998.tb00075.x

Abstract

Monthly Income Preferred Stock (MIPS), Quarterly Income Preferred Stock (QUIPS), and Trust Originated Preferred Stock (TOPrS) all carry the title of preferred stock. As in the case of other forms of preferred stock, investors cannot force the issuer into bankruptcy if it fails to make a scheduled dividend payment. Unlike conventional preferred stock, however, the dividend payments on these new securities are deductible by the issuer for tax purposes.

Thus MIPS, QUIPS and TOPrS appear to provide issuers with in some respects the ideal security–one that offers the tax advantages of debt without the potential for financial distress and its associated costs. And since the first issue of this kind of security in 1993, nearly 300 corporate issuers have raised a total of close to $30 billion with this novel hybrid security.

But if these securities appear new, there is another security–namely, income bonds–that has offered these same advantages for at least the past 100 years. After discussing MIPS, QUIPS, and TOPrS in some detail, and the stock market's reaction issuing companies, the article explores the question: Why are tax-deductible preferreds so popular today when income bonds have been shunned for the past 60 years?

Citing Literature