DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF THE CHIEF COUNSEL

November 22, 2019

Number: **2019-0029**
Release Date: 12/27/2019

CC:PSI:B03
GENIN-124226-19

UIL: 691.00-00

Dear :

This letter responds to your letter dated July 30, 2019, in which you requested information on the federal income tax consequences of the testamentary transfer to a trust of United States Series EE savings bonds (the "Bonds") purchased by and issued to a decedent. You asked for written clarification regarding the following question:

Question:

Will the transfer of the Bonds to the trust create a taxable event?

Answer:

If series EE or series I U.S. savings bonds, owned by a cash method taxpayer who reported the interest each year, or by an accrual method taxpayer, are transferred because of death, the increase in value of the bonds (interest earned) in the year of death up to the date of death must be reported on the decedent's final return. The transferee (estate or beneficiary) reports on its return only the interest earned after the date of death.

If the bonds transferred because of death were owned by a cash method taxpayer who chose not to report the interest each year and had purchased the bonds entirely with personal funds, interest earned before death must be reported in one of the following ways:

1. The person (executor, administrator, etc.) who is required to file the decedent's final income tax return can elect to include all of the interest earned on the bonds before the decedent's death on the return. The transferee (estate or beneficiary) then includes only the interest earned after the date of death on its return.

2. If the election in (1), above, was not made, the interest earned to the date of death is income in respect of the decedent and is not included on the decedent's final return. In this case, all of the interest earned before and after the decedent's death is income to the transferee (estate or beneficiary). A transferee who uses the cash method of accounting and who has chosen not to report the interest annually may defer reporting any of it as income until the bonds are either cashed or reach the date of maturity, whichever is earlier. In the year the interest is reported, the transferee may claim a deduction for any federal estate tax paid that arose because part of interest (if any) was included in the decedent's estate.

Form FS 1851 is used to reissue U.S. savings bonds (including Series EE bonds) to a "personal trust," which includes a testamentary trust. When the form is filed, the bonds should be included with the form as indicated by the form instructions. Section 2 of Form FS 1851 requests the names of the grantors, trustees, taxpayer identification numbers, and beneficiaries of the trust. In general, the grantors would be any persons who transfer property to the trust and the trustees would be those persons identified in the trust instrument. The beneficiaries of a trust will generally include any living persons who may receive distributions from the trust.

Form FS 1851 is a publication of the Bureau of the Fiscal Service, rather than the Internal Revenue Service. For further clarification regarding the form, we suggest you contact the Bureau of the Fiscal Service, Forms Management Officer, Parkersburg, WV, 26106-1328, as indicated on page 5 of the form.

For more information on the reissuance of United States Series EE savings bonds and the tax consequences following the death of the owner, please refer to the enclosed materials published by the Internal Revenue Service and the Bureau of the Fiscal Service.

This letter has called your attention to certain general principles of the law. It is intended for informational purposes only and does not constitute a ruling. <u>See</u> Rev. Proc. 2019-1, §2.04, 2019-1 IRB 1 (Jan. 2, 2019). If you have any additional questions, please contact our office at .

Sincerely,

Wendy L. Kribell
Senior Counsel, Branch 3
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (3):

- Excerpt from IRS Publication 550 (Investment Income and Expenses)
- Excerpt from IRS Publication 559 (Survivors, Executors, and Administrators)
- Excerpt from the U.S. Savings Bond website maintained by U.S. Department of the Treasury, Bureau of the Fiscal Service, concerning the death of a Savings Bond Owner: https://www.treasurydirect.gov/indiv/research/indepth/ebonds/res_e_bonds_eedeath.htm