

Publication 17

Your Federal Income

For use in preparing
2023 Returns)

Volume 6 of 14



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The notice must explain:

- Your rights to elect not to have elective contributions made, or to have contributions made at a different percentage; and
- How contributions made will be invested in the absence of any investment decision by you.

You must be given a reasonable period of time after receipt of the notice and before the first elective contribution is made to make an election with respect to the contributions.

Overall limit on deferrals. For 2023, in most cases, you shouldn't have deferred more than a total of \$22,500 of contributions to the plans listed in (1) through (3) and (5) above. The limit for SIMPLE plans is \$15,500. The limit for section 501(c)(18)(D) plans is the lesser of \$7,000 or 25% of your compensation. The limit for section 457 plans is the lesser of your includible compensation

or \$22,500. Amounts deferred under specific plan limits are part of the overall limit on deferrals.

Designated Roth contributions.

Employers with section 401(k) plans, section 403(b) plans, and governmental section 457 plans can create qualified Roth contribution programs so that you may elect to have part or all of your elective deferrals to the plan designated as after-tax Roth contributions. Designated Roth contributions are treated as elective deferrals, except that they're included in income at the time contributed.

Excess deferrals. Your employer or plan administrator should apply the proper annual limit when figuring your plan contributions. However, you're responsible for monitoring the total you defer to ensure that the deferrals aren't more than the overall limit.

If you set aside more than the limit, the excess must generally be included in your income for that year, unless you have an

excess deferral of a designated Roth contribution. See Pub. 525 for a discussion of the tax treatment of excess deferrals.

Catch-up contributions. You may be allowed catch-up contributions (additional elective deferral) if you're age 50 or older by the end of the tax year.

Stock Options

If you receive a nonstatutory option to buy or sell stock or other property as payment for your services, you will usually have income when you receive the option, when you exercise the option (use it to buy or sell the stock or other property), or when you sell or otherwise dispose of the option. However, if your option is a statutory stock option, you won't have any income until you sell or exchange your stock. Your employer can tell you which kind of option you hold. For more information, see Pub. 525.

Restricted Property

In most cases, if you receive property for your services, you must include its fair market value in your income in the year you receive the property. However, if you receive stock or other property that has certain restrictions that affect its value, you don't include the value of the property in your income until it has substantially vested. (Although you can elect to include the value of the property in your income in the year it's transferred to you.) For more information, see *Restricted Property* in Pub. 525.

Dividends received on restricted stock.

Dividends you receive on restricted stock are treated as compensation and not as dividend income. Your employer should include these payments on your Form W-2.

Stock you elected to include in income.

Dividends you receive on restricted stock you elected to include in your income in the year

transferred are treated the same as any other dividends. Report them on your return as dividends. For a discussion of dividends, see Pub. 550, Investment Income and Expenses.

For information on how to treat dividends reported on both your Form W-2 and Form 1099-DIV, see *Dividends received on restricted stock* in Pub. 525.

Special Rules for Certain Employees

This section deals with special rules for people in certain types of employment: members of the clergy, members of religious orders, people working for foreign employers, military personnel, and volunteers.

Clergy

Generally, if you're a member of the clergy, you must include in your income offerings and fees you receive for marriages, baptisms, funerals, masses, etc., in addition to your

salary. If the offering is made to the religious institution, it isn't taxable to you.

If you're a member of a religious organization and you give your outside earnings to the religious organization, you must still include the earnings in your income. However, you may be entitled to a charitable contribution deduction for the amount paid to the organization. See Pub. 526.

Pension. A pension or retirement pay for a member of the clergy is usually treated as any other pension or annuity. It must be reported on lines 5a and 5b of Form 1040 or 1040-SR.

Housing. Special rules for housing apply to members of the clergy. Under these rules, you don't include in your income the rental value of a home (including utilities) or a designated housing allowance provided to you as part of your pay. However, the exclusion can't be more than the reasonable pay for your services. If you pay for the utilities, you

can exclude any allowance designated for utility cost, up to your actual cost. The home or allowance must be provided as compensation for your services as an ordained, licensed, or commissioned minister. However, you must include the rental value of the home or the housing allowance as earnings from self-employment on Schedule SE (Form 1040) if you're subject to the self-employment tax. For more information, see Pub. 517, Social Security and Other Information for Members of the Clergy and Religious Workers.

Members of Religious Orders

If you're a member of a religious order who has taken a vow of poverty, how you treat earnings that you renounce and turn over to the order depends on whether your services are performed for the order.

Services performed for the order. If you're performing the services as an agent of

the order in the exercise of duties required by the order, don't include in your income the amounts turned over to the order.

If your order directs you to perform services for another agency of the supervising church or an associated institution, you're considered to be performing the services as an agent of the order. Any wages you earn as an agent of an order that you turn over to the order aren't included in your income.

Example. You're a member of a church order and have taken a vow of poverty. You renounce any claims to your earnings and turn over to the order any salaries or wages you earn. You're a registered nurse, so your order assigns you to work in a hospital that is an associated institution of the church. However, you remain under the general direction and control of the order. You're considered to be an agent of the order and any wages you earn at the hospital that you

turn over to your order aren't included in your income.

Services performed outside the order. If you're directed to work outside the order, your services aren't an exercise of duties required by the order unless they meet both of the following requirements.

- They're the kind of services that are ordinarily the duties of members of the order.
- They're part of the duties that you must exercise for, or on behalf of, the religious order as its agent.

If you're an employee of a third party, the services you perform for the third party won't be considered directed or required of you by the order. Amounts you receive for these services are included in your income, even if you have taken a vow of poverty.

Example. You are a member of a religious order and have taken a vow of poverty. You renounce all claims to your earnings and turn over your earnings to the order.

You are a schoolteacher. You were instructed by the superiors of the order to get a job with a private tax-exempt school. You became an employee of the school, and, at your request, the school made the salary payments directly to the order.

Because you are an employee of the school, you're performing services for the school rather than as an agent of the order. The wages you earn working for the school are included in your income.

Foreign Employer

Special rules apply if you work for a foreign employer.

U.S. citizen. If you're a U.S. citizen who works in the United States for a foreign government, an international organization, a

foreign embassy, or any foreign employer, you must include your salary in your income.

Social security and Medicare taxes. You're exempt from social security and Medicare employee taxes if you're employed in the United States by an international organization or a foreign government. However, you must pay self-employment tax on your earnings from services performed in the United States, even though you aren't self-employed. This rule also applies if you're an employee of a qualifying wholly owned instrumentality of a foreign government.

Employees of international organizations or foreign governments. Your compensation for official services to an international organization is exempt from federal income tax if you aren't a citizen of the United States or you're a citizen of the Philippines (whether or not you're a citizen of the United States).

Your compensation for official services to a foreign government is exempt from federal income tax if all of the following are true.

- You aren't a citizen of the United States or you're a citizen of the Philippines (whether or not you're a citizen of the United States).
- Your work is like the work done by employees of the United States in foreign countries.
- The foreign government gives an equal exemption to employees of the United States in its country.

Waiver of alien status. If you're an alien who works for a foreign government or international organization and you file a waiver under section 247(b) of the Immigration and Nationality Act to keep your immigrant status, different rules may apply. See *Foreign Employer* in Pub. 525.

Employment abroad. For information on the tax treatment of income earned abroad, see Pub. 54.

Military

Payments you receive as a member of a military service are generally taxed as wages except for retirement pay, which is taxed as a pension. Allowances generally aren't taxed. For more information on the tax treatment of military allowances and benefits, see Pub. 3, *Armed Forces' Tax Guide*.

Differential wage payments. Any payments made to you by an employer during the time you're performing service in the uniformed services are treated as compensation. These wages are subject to income tax withholding and are reported on a Form W-2. See the discussion under *Miscellaneous Compensation*, earlier.

Military retirement pay. If your retirement pay is based on age or length of service, it's taxable and must be included in your income as a pension on lines 5a and 5b of Form 1040 or 1040-SR. Don't include in your income the amount of any reduction in retirement or retainer pay to provide a survivor annuity for your spouse or children under the Retired Serviceman's Family Protection Plan or the Survivor Benefit Plan.

For more detailed discussion of survivor annuities, see Pub. 575, Pension and Annuity Income.

Disability. If you're retired on disability, see *Military and Government Disability Pensions* under *Sickness and Injury Benefits*, later.

Veterans' benefits. Don't include in your income any veterans' benefits paid under any law, regulation, or administrative practice administered by the Department of Veterans Affairs (VA). The following amounts paid to veterans or their families aren't taxable.

- Education, training, and subsistence allowances.
- Disability compensation and pension payments for disabilities paid either to veterans or their families.
- Grants for homes designed for wheelchair living.
- Grants for motor vehicles for veterans who lost their sight or the use of their limbs.
- Veterans' insurance proceeds and dividends paid either to veterans or their beneficiaries, including the proceeds of a veteran's endowment policy paid before death.
- Interest on insurance dividends you leave on deposit with the VA.
- Benefits under a dependent-care assistance program.

- The death gratuity paid to a survivor of a member of the Armed Forces who died after September 10, 2001.
- Payments made under the compensated work therapy program.
- Any bonus payment by a state or political subdivision because of service in a combat zone.

Volunteers

The tax treatment of amounts you receive as a volunteer worker for the Peace Corps or similar agency is covered in the following discussions.

Peace Corps. Living allowances you receive as a Peace Corps volunteer or volunteer leader for housing, utilities, household supplies, food, and clothing are generally exempt from tax.

Taxable allowances. The following allowances, however, must be included in your income and reported as wages.

- Allowances paid to your spouse and minor children while you're a volunteer leader training in the United States.
- Living allowances designated by the Director of the Peace Corps as basic compensation. These are allowances for personal items such as domestic help, laundry and clothing maintenance, entertainment and recreation, transportation, and other miscellaneous expenses.
- Leave allowances.
- Readjustment allowances or termination payments. These are considered received by you when credited to your account.

Example. You are a Peace Corps volunteer and get \$175 a month as a readjustment allowance during your period of service, to be

paid to you in a lump sum at the end of your tour of duty. Although the allowance isn't available to you until the end of your service, you must include it in your income on a monthly basis as it's credited to your account.

Volunteers in Service to America

(VISTA). If you're a VISTA volunteer, you must include meal and lodging allowances paid to you in your income as wages.

National Senior Services Corps programs.

Don't include in your income amounts you receive for supportive services or reimbursements for out-of-pocket expenses from the following programs.

- Retired Senior Volunteer Program (RSVP).
- Foster Grandparent Program.
- Senior Companion Program.

Service Corps of Retired Executives

(SCORE). If you receive amounts for supportive services or reimbursements for

out-of-pocket expenses from SCORE, don't include these amounts in gross income.

Volunteer tax counseling. Don't include in your income any reimbursements you receive for transportation, meals, and other expenses you have in training for, or actually providing, volunteer federal income tax counseling for the elderly (TCE).

You can deduct as a charitable contribution your unreimbursed out-of-pocket expenses in taking part in the volunteer income tax assistance (VITA) program. See Pub. 526.

Volunteer firefighters and emergency medical responders. If you are a volunteer firefighter or emergency medical responder, don't include in your income the following benefits you receive from a state or local government.

- Rebates or reductions of property or income taxes you receive because of services you performed as a volunteer

firefighter or emergency medical responder.

- Payments you receive because of services you performed as a volunteer firefighter or emergency medical responder, up to \$50 for each month you provided services.

The excluded income reduces any related tax or contribution deduction.

Sickness and Injury Benefits

This section discusses sickness and injury benefits, including disability pensions, long-term care insurance contracts, workers' compensation, and other benefits.

In most cases, you must report as income any amount you receive for personal injury or sickness through an accident or health plan that is paid for by your employer. If both you and your employer pay for the plan, only the amount you receive that is due to your employer's payments is reported as income. However, certain payments may not be

taxable to you. For information on nontaxable payments, see *Military and Government Disability Pensions* and *Other Sickness and Injury Benefits*, later in this discussion.



Don't report as income any amounts paid to reimburse you for medical expenses you incurred after the plan was established.

Cost paid by you. If you pay the entire cost of a health or accident insurance plan, don't include any amounts you receive from the plan for personal injury or sickness as income on your tax return. If your plan reimbursed you for medical expenses you deducted in an earlier year, you may have to include some, or all, of the reimbursement in your income. See *What if You Receive Insurance Reimbursement in a Later Year?* in Pub. 502, Medical and Dental Expenses.

Cafeteria plans. In most cases, if you're covered by an accident or health insurance plan through a cafeteria plan, and the amount

of the insurance premiums wasn't included in your income, you aren't considered to have paid the premiums and you must include any benefits you receive in your income. If the amount of the premiums was included in your income, you're considered to have paid the premiums, and any benefits you receive aren't taxable.

Disability Pensions

If you retired on disability, you must include in income any disability pension you receive under a plan that is paid for by your employer. You must report your taxable disability payments on line 1h of Form 1040 or 1040-SR until you reach minimum retirement age. Minimum retirement age is generally the age at which you can first receive a pension or annuity if you're not disabled.



You may be entitled to a tax credit if you were permanently and totally disabled when you retired. For information on this credit and the definition of permanent and total disability, see Pub. 524, Credit for the Elderly or the Disabled.

Beginning on the day after you reach minimum retirement age, payments you receive are taxable as a pension or annuity. Report the payments on lines 5a and 5b of Form 1040 or 1040-SR. The rules for reporting pensions are explained in Disability Pensions in Pub. 575.

For information on disability payments from a governmental program provided as a substitute for unemployment compensation, see Unemployment Benefits in chapter 8.

Retirement and profit-sharing plans. If you receive payments from a retirement or profit-sharing plan that doesn't provide for disability retirement, don't treat the payments as a disability pension. The payments must

be reported as a pension or annuity. For more information on pensions, see Pub. 575.

Accrued leave payment. If you retire on disability, any lump-sum payment you receive for accrued annual leave is a salary payment. The payment is not a disability payment. Include it in your income in the tax year you receive it.

Military and Government Disability Pensions

Certain military and government disability pensions aren't taxable.

Service-connected disability. You may be able to exclude from income amounts you receive as a pension, annuity, or similar allowance for personal injury or sickness resulting from active service in one of the following government services.

- The armed forces of any country.

- The National Oceanic and Atmospheric Administration.
- The Public Health Service.
- The Foreign Service.

Conditions for exclusion. Don't include the disability payments in your income if any of the following conditions apply.

1. You were entitled to receive a disability payment before September 25, 1975.
2. You were a member of a listed government service or its reserve component, or were under a binding written commitment to become a member, on September 24, 1975.
3. You receive the disability payments for a combat-related injury. This is a personal injury or sickness that:
 - a. Results directly from armed conflict;

- b. Takes place while you're engaged in extra-hazardous service;
 - c. Takes place under conditions simulating war, including training exercises such as maneuvers; or
 - d. Is caused by an instrumentality of war.
- 4. You would be entitled to receive disability compensation from the Department of Veterans Affairs (VA) if you filed an application for it. Your exclusion under this condition is equal to the amount you would be entitled to receive from the VA.

Pension based on years of service. If you receive a disability pension based on years of service, in most cases you must include it in your income. However, if the pension qualifies for the exclusion for a service-connected disability (discussed earlier), don't include in income the part of your pension that you would have received if the pension had been

based on a percentage of disability. You must include the rest of your pension in your income.

Retroactive VA determination. If you retire from the armed services based on years of service and are later given a retroactive service-connected disability rating by the VA, your retirement pay for the retroactive period is excluded from income up to the amount of VA disability benefits you would have been entitled to receive. You can claim a refund of any tax paid on the excludable amount (subject to the statute of limitations) by filing an amended return on Form 1040-X for each previous year during the retroactive period. You must include with each Form 1040-X a copy of the official VA determination letter granting the retroactive benefit. The letter must show the amount withheld and the effective date of the benefit.

If you receive a lump-sum disability severance payment and are later awarded VA disability benefits, exclude 100% of the severance benefit from your income.

However, you must include in your income any lump-sum readjustment or other nondisability severance payment you received on release from active duty, even if you're later given a retroactive disability rating by the VA.

Special period of limitation. In most cases, under the period of limitation, a claim for credit or refund must be filed within 3 years from the time a return was filed or 2 years from the time the tax was paid. However, if you receive a retroactive service-connected disability rating determination, the period of limitation is extended by a 1-year period beginning on the date of the determination. This 1-year extended period applies to claims for credit or refund filed after June 17, 2008, and doesn't apply to any tax year that began

more than 5 years before the date of the determination.

Terrorist attack or military action. Don't include in your income disability payments you receive for injuries incurred as a direct result of a terrorist attack or military action directed against the United States (or its allies), whether outside or within the United States or from military action. See Pub. 3920 and Pub. 907 for more information.

Long-Term Care Insurance Contracts

Long-term care insurance contracts in most cases are treated as accident and health insurance contracts. Amounts you receive from them (other than policyholder dividends or premium refunds) in most cases are excludable from income as amounts received for personal injury or sickness. To claim an exclusion for payments made on a per diem or other periodic basis under a long-term care

insurance contract, you must file Form 8853 with your return.

A long-term care insurance contract is an insurance contract that only provides coverage for qualified long-term care services. The contract must:

- Be guaranteed renewable;
- Not provide for a cash surrender value or other money that can be paid, assigned, pledged, or borrowed;
- Provide that refunds, other than refunds on the death of the insured or complete surrender or cancellation of the contract, and dividends under the contract, may only be used to reduce future premiums or increase future benefits; and
- In most cases, not pay or reimburse expenses incurred for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer or the contract makes per diem or

other periodic payments without regard to expenses.

Qualified long-term care services.

Qualified long-term care services are:

- Necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative services, and maintenance and personal care services; and
- Required by a chronically ill individual and provided pursuant to a plan of care prescribed by a licensed health care practitioner.

Chronically ill individual. A chronically ill individual is one who has been certified by a licensed health care practitioner within the previous 12 months as one of the following.

- An individual who, for at least 90 days, is
- unable to perform at least two activities of daily living without substantial assistance

due to loss of functional capacity.
Activities of daily living are eating,
toileting, transferring, bathing, dressing,
and continence.

- An individual who requires substantial supervision to be protected from threats to health and safety due to severe cognitive impairment.

Limit on exclusion. You can generally exclude from gross income up to \$420 a day for 2023. See *Limit on exclusion*, under *Long-Term Care Insurance Contracts*, under *Sickness and Injury Benefits* in Pub. 525 for more information.

Workers' Compensation

Amounts you receive as workers' compensation for an occupational sickness or injury are fully exempt from tax if they're paid under a workers' compensation act or a statute in the nature of a workers' compensation act. The exemption also applies

to your survivors. The exemption, however, doesn't apply to retirement plan benefits you receive based on your age, length of service, or prior contributions to the plan, even if you retired because of an occupational sickness or injury.



If part of your workers' compensation reduces your social security or equivalent railroad retirement benefits received, that part is considered social security (or equivalent railroad retirement) benefits and may be taxable. For more information, see Pub. 915, Social Security and Equivalent Railroad Retirement Benefits.

Return to work. If you return to work after qualifying for workers' compensation, salary payments you receive for performing light duties are taxable as wages.

Other Sickness and Injury Benefits

In addition to disability pensions and annuities, you may receive other payments for sickness or injury.

Railroad sick pay. Payments you receive as sick pay under the Railroad Unemployment Insurance Act are taxable and you must include them in your income. However, don't include them in your income if they're for an on-the-job injury.

If you received income because of a disability, see *Disability Pensions*, earlier.

Federal Employees' Compensation Act (FECA). Payments received under this Act for personal injury or sickness, including payments to beneficiaries in case of death, aren't taxable. However, you're taxed on amounts you receive under this Act as continuation of pay for up to 45 days while a claim is being decided. Report this income as wages. Also, pay for sick leave while a claim

is being processed is taxable and must be included in your income as wages.



If part of the payments you receive under FECA reduces your social security or equivalent railroad retirement benefits received, that part is considered social security (or equivalent railroad retirement) benefits and may be taxable. See Pub. 554 for more information.

Other compensation. Many other amounts you receive as compensation for sickness or injury aren't taxable. These include the following amounts.

- Compensatory damages you receive for physical injury or physical sickness, whether paid in a lump sum or in periodic payments.
- Benefits you receive under an accident or health insurance policy on which either you paid the premiums or your employer

paid the premiums but you had to include them in your income.

- Disability benefits you receive for loss of income or earning capacity as a result of injuries under a no-fault car insurance policy.
- Compensation you receive for permanent loss or loss of use of a part or function of your body, or for your permanent disfigurement. This compensation must be based only on the injury and not on the period of your absence from work. These benefits aren't taxable even if your employer pays for the accident and health plan that provides these benefits.

Reimbursement for medical care. A reimbursement for medical care is generally not taxable. However, it may reduce your medical expense deduction. For more information, see Pub. 502.

6.

Interest Income

Reminders

Foreign source income. If you are a U.S. citizen with interest income from sources outside the United States (foreign income), you must report that income on your tax return unless it is exempt by U.S. law. This is true whether you reside inside or outside the United States and whether or not you receive a Form 1099 from the foreign payer.

Automatic 6-month extension. If you receive your Form 1099 reporting your interest income late and you need more time to file your tax return, you can request a 6-month extension of time to file. See *Automatic Extension* in chapter 1.

Children who have unearned income. See Form 8615 and its instructions for the rules

and rates that apply to certain children with unearned income.

Introduction

This chapter discusses the following topics.

- Different types of interest income.
- What interest is taxable and what interest is nontaxable.
- When to report interest income.
- How to report interest income on your tax return.

In general, any interest you receive or that is credited to your account and can be withdrawn is taxable income. Exceptions to this rule are discussed later in this chapter.

You may be able to deduct expenses you have in earning this income on Schedule A (Form 1040) if you itemize your deductions. See *Money borrowed to invest in certificate of deposit*, later, and chapter 12.

Useful Items

You may want to see:

Publication

- ☐ **537** Installment Sales
- ☐ **550** Investment Income and Expenses
- ☐ **1212** Guide to Original Issue Discount (OID) Instruments

Form (and Instructions)

- ☐ **1040** U.S. Individual Income Tax Return
- ☐ **1040-SR** U.S. Income Tax Return for Seniors
- ☐ **Schedule A (Form 1040)** Itemized Deductions
- ☐ **Schedule B (Form 1040)** Interest and Ordinary Dividends
- ☐ **1099** General Instructions for Certain Information Returns
- ☐ **3115** Application for Change in Accounting Method

- ☐ **8615** Tax for Certain Children Who Have Unearned Income
- ☐ **8814** Parents' Election To Report Child's Interest and Dividends
- ☐ **8815** Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989
- ☐ **8818** Optional Form To Record Redemption of Series EE and I U.S. Savings Bonds Issued After 1989

For these and other useful items, go to [IRS.gov/ Forms](https://www.irs.gov/forms).

General Information

A few items of general interest are covered here.



Recordkeeping. You should keep a list showing sources of interest income and interest amounts received during the year. Also, keep the forms you receive showing your interest income (Forms 1099-

INT, for example) as an important part of your records.

Tax on unearned income of certain children. Part of a child's 2023 unearned income may be taxed at the parent's tax rate. If so, Form 8615 must be completed and attached to the child's tax return. If not, Form 8615 isn't required and the child's income is taxed at his or her own tax rate.

Some parents can choose to include the child's interest and dividends on the parent's return. If you can, use Form 8814 for this purpose.

For more information about the tax on unearned income of children and the parents' election, go to [Form 8615](#).

Beneficiary of an estate or trust. Interest you receive as a beneficiary of an estate or trust is generally taxable income. You should receive a Schedule K-1 (Form 1041), Beneficiary's Share of Income, Deductions,

Credits, etc., from the fiduciary. Your copy of Schedule K-1 (Form 1041) and its instructions will tell you where to report the income on your Form 1040 or 1040-SR.

Taxpayer identification number (TIN).

You must give your name and TIN (either a social security number (SSN), an employer identification number (EIN), an adoption taxpayer identification number (ATIN), or an individual tax identification number (ITIN)) to any person required by federal tax law to make a return, statement, or other document that relates to you. This includes payers of interest. If you don't give your TIN to the payer of interest, the payer will generally be required to backup withhold on the interest payments at a rate of 24%, and you may also be subject to a penalty. Use Form W-9, Request for Taxpayer Identification Number and Certification, to provide the necessary information. See Form W-9 and its instructions.

TIN for joint account. Generally, if the funds in a joint account belong to one person, list that person's name first on the account and give that person's TIN to the payer. (For information on who owns the funds in a joint account, see *Joint accounts*, later.) If the joint account contains combined funds, give the TIN of the person whose name is listed first on the account. This is because only one name and TIN can be shown on Form 1099.

These rules apply to both joint ownership by a married couple and to joint ownership by other individuals. For example, if you open a joint savings account with your child using funds belonging to the child, list the child's name first on the account and give the child's TIN.

Form W-9 and its instructions provide: If this Form W-9 is for a joint account (other than an account maintained by a foreign financial institution (FFI)), list first, and then circle, the name of the person or entity whose number

you entered in Part I of Form W-9. If you are providing Form W-9 to an FFI to document a joint account, each holder of the account that is a U.S. person must provide a Form W-9. See Form W-9 and its instructions.

Custodian account for your child. If your child is the actual owner of an account that is recorded in your name as custodian for the child, give the child's TIN to the payer. For example, you must give your child's SSN to the payer of interest on an account owned by your child, even though the interest is paid to you as custodian.

Penalty for failure to supply TIN. If you don't give your TIN to the payer of interest, you may have to pay a penalty. See *Failure to supply SSN* under *Penalties* in chapter 1. Backup withholding may also apply.

Backup withholding. Your interest income is generally not subject to regular withholding. However, it may be subject to backup withholding to ensure that income tax is

collected on the income. Under backup withholding, the payer of interest must withhold, as income tax, on the amount you are paid, by applying the appropriate withholding rate. The current rate is 24%. Withholding is required only if there is a condition for backup withholding, such as failing to provide your TIN to the payer or failing to certify your TIN under penalties of perjury, if required.

Backup withholding may also be required if the IRS has determined that you underreported your interest or dividend income. For more information, see *Backup Withholding* in chapter 4.

Reporting backup withholding. If backup withholding is deducted from your interest income, the amount withheld will be reported on your Form 1099-INT. The Form 1099-INT will show any backup withholding as “Federal income tax withheld.”

Joint accounts. If two or more persons hold property (such as a savings account or bond) as joint tenants, tenants by the entirety, or tenants in common, each person's share of any interest from the property is determined by local law.

Income from property given to a child.

Property you give as a parent to your child under the Model Gifts of Securities to Minors Act, the Uniform Gifts to Minors Act, or any similar law becomes the child's property.

Income from the property is taxable to the child, except that any part used to satisfy a legal obligation to support the child is taxable to the parent or guardian having that legal obligation.

Savings account with parent as trustee.

Interest income from a savings account opened for a minor child, but placed in the name and subject to the order of the parents as trustees, is taxable to the child if, under

the law of the state in which the child resides, both of the following are true.

- The savings account legally belongs to the child.
- The parents aren't legally permitted to use any of the funds to support the child.

Form 1099-INT. Interest income is generally reported to you on Form 1099-INT, or a similar statement, by banks, savings and loans, and other payers of interest. This form shows you the interest income you received during the year. Keep this form for your records. You don't have to attach it to your tax return.

Report on your tax return the total interest income you receive for the tax year. See the Form 1099-INT Instructions for Recipient to see whether you need to adjust any of the amounts reported to you.

Interest not reported on Form 1099-INT.

Even if you don't receive a Form 1099-INT, you must still report all of your interest income. For example, you may receive distributive shares of interest from partnerships or S corporations. This interest is reported to you on Schedule K-1 (Form 1065), Partner's Share of Income, Deduction, Credits, etc.; or Schedule K-1 (Form 1120-S), Shareholder's Share of Income, Deductions, Credits, etc.

Nominees. Generally, if someone receives interest as a nominee for you, that person must give you a Form 1099-INT showing the interest received on your behalf.

If you receive a Form 1099-INT and interest as a nominee for another person, see the discussion on nominee distributions under *How To Report Interest Income* in Publication 550, chapter 1 or the Schedule B (Form 1040) instructions.

Incorrect amount. If you receive a Form 1099-INT that shows an incorrect amount or other incorrect information, you should ask the issuer for a corrected form. The new Form 1099-INT you receive will have the "CORRECTED" box checked.

Form 1099-OID. Reportable interest income may also be shown on Form 1099-OID, Original Issue Discount. For more information about amounts shown on this form, see *Original Issue Discount (OID)*, later in this chapter.



The box references discussed below are from the January 2022 revisions of Form 1099-INT and Form 1099-DIV. Later revisions may have different box references.

Exempt-interest dividends. Exempt-interest dividends you receive from a mutual fund or other regulated investment company (RIC) aren't included in your taxable income.

(However, see *Information reporting requirement* next.) Exempt-interest dividends should be shown on Form 1099-DIV, box 12. You don't reduce your basis for distributions that are exempt-interest dividends.

Information reporting requirement.

Although exempt-interest dividends aren't taxable, you must show them on your tax return if you have to file. This is an information reporting requirement and doesn't change the exempt-interest dividends into taxable income.

Note. Exempt-interest dividends paid by a mutual fund or other RIC on specified private activity bonds may be subject to the alternative minimum tax (AMT). The exempt-interest dividends subject to the AMT should be shown in box 13 of Form 1099-DIV. See *Alternative Minimum Tax (AMT)* in chapter 13 for more information. Publication 550, chapter 1 contains a discussion on private activity

bonds under *State or Local Government Obligations*.

Interest on VA dividends. Interest on insurance dividends left on deposit with the Department of Veterans Affairs (VA) isn't taxable. This includes interest paid on dividends on converted United States Government Life Insurance and on National Service Life Insurance policies.

Individual retirement arrangements (IRAs). Interest on a Roth IRA generally isn't taxable. Interest on a traditional IRA is tax deferred. You generally don't include interest earned in an IRA in your income until you make withdrawals from the IRA. See chapter 9.

Taxable Interest—General

Taxable interest includes interest you receive from bank accounts, loans you make to others, and other sources. The following are some sources of taxable interest.

Dividends that are actually interest.

Certain distributions commonly called dividends are actually interest. You must report as interest so-called dividends on deposits or on share accounts in:

- Cooperative banks,
- Credit unions,
- Domestic building and loan associations,
- Domestic savings and loan associations,
- Federal savings and loan associations, and
- Mutual savings banks.

The “dividends” will be shown as interest income on Form 1099-INT.

Money market funds. Money market funds pay dividends and are offered by nonbank financial institutions, such as mutual funds and stock brokerage houses. Generally, amounts you receive from money market

funds should be reported as dividends, not as interest.

Certificates of deposit and other deferred interest accounts. If you buy a certificate of deposit or open a deferred interest account, interest may be paid at fixed intervals of 1 year or less during the term of the account. You must generally include this interest in your income when you actually receive it or are entitled to receive it without paying a substantial penalty. The same is true for accounts that mature in 1 year or less and pay interest in a single payment at maturity. If interest is deferred for more than 1 year, see Original Issue Discount (OID), later.

Interest subject to penalty for early withdrawal. If you withdraw funds from a deferred interest account before maturity, you may have to pay a penalty. You must report the total amount of interest paid or credited to your account during the year, without subtracting the penalty. See *Penalty*

on early withdrawal of savings in Publication 550, chapter 1 for more information on how to report the interest and deduct the penalty.

Money borrowed to invest in certificate of deposit. The interest you pay on money borrowed from a bank or savings institution to meet the minimum deposit required for a certificate of deposit from the institution and the interest you earn on the certificate are two separate items. You must report the total interest income you earn on the certificate in your income. If you itemize deductions, you can deduct the interest you pay as investment interest, up to the amount of your net investment income. See *Interest Expenses* in Publication 550, chapter 3.

Example. You purchase a \$10,000 certificate of deposit by borrowing \$5,000 from Bank and adding an additional \$5,000 of your funds. The certificate earned \$575 at maturity in 2023, but you received only \$265, which represented the \$575 you earned minus \$310

interest charged on your \$5,000 loan. The bank gives you a Form 1099-INT for 2023 showing the \$575 interest you earned. The bank also gives you a statement showing that you paid \$310 of interest for 2023. You must include the \$575 in your income. If you itemize your deductions on Schedule A (Form 1040), you can deduct \$310, subject to the net investment income limit.

Gift for opening account. If you receive noncash gifts or services for making deposits or for opening an account in a savings institution, you may have to report the value as interest.

For deposits of less than \$5,000, gifts or services valued at more than \$10 must be reported as interest. For deposits of \$5,000 or more, gifts or services valued at more than \$20 must be reported as interest. The value is determined by the cost to the financial institution.

Example. You open a savings account at your local bank and deposit \$800. The account earns \$20 interest. You also receive a \$15 calculator. If no other interest is credited to your account during the year, the Form 1099-INT you receive will show \$35 interest for the year. You must report \$35 interest income on your tax return.

Interest on insurance dividends. Interest on insurance dividends left on deposit with an insurance company that can be withdrawn annually is taxable to you in the year it is credited to your account. However, if you can withdraw it only on the anniversary date of the policy (or other specified date), the interest is taxable in the year that date occurs.

Prepaid insurance premiums. Any increase in the value of prepaid insurance premiums, advance premiums, or premium deposit funds is interest if it is applied to the payment of

premiums due on insurance policies or made available for you to withdraw.

U.S. obligations. Interest on U.S. obligations issued by any agency or instrumentality of the United States, such as U.S. Treasury bills, notes, and bonds, is taxable for federal income tax purposes.

Interest on tax refunds. Interest you receive on tax refunds is taxable income.

Interest on condemnation award. If the condemning authority pays you interest to compensate you for a delay in payment of an award, the interest is taxable.

Installment sale payments. If a contract for the sale or exchange of property provides for deferred payments, it also usually provides for interest payable with the deferred payments. Generally, that interest is taxable when you receive it. If little or no interest is provided for in a deferred payment contract, part of each payment may be

treated as interest. See *Unstated Interest and Original Issue Discount (OID)* in Pub. 537, *Installment Sales*.

Interest on annuity contract. Accumulated interest on an annuity contract you sell before its maturity date is taxable.

Usurious interest. Usurious interest is interest charged at an illegal rate. This is taxable as interest unless state law automatically changes it to a payment on the principal.

Interest income on frozen deposits.

Exclude from your gross income interest on frozen deposits. A deposit is frozen if, at the end of the year, you can't withdraw any part of the deposit because:

- The financial institution is bankrupt or insolvent, or
- The state where the institution is located has placed limits on withdrawals because

other financial institutions in the state are bankrupt or insolvent.

The amount of interest you must exclude is the interest that was credited on the frozen deposits minus the sum of:

- The net amount you withdrew from these deposits during the year, and
- The amount you could have withdrawn as of the end of the year (not reduced by any penalty for premature withdrawals of a time deposit).

If you receive a Form 1099-INT for interest income on deposits that were frozen at the end of 2023, see *Frozen deposits* under *How To Report Interest Income* in Publication 550, chapter 1 for information about reporting this interest income exclusion on your tax return.

The interest you exclude is treated as credited to your account in the following year. You must include it in income in the year you can withdraw it.

Example. \$100 of interest was credited on your frozen deposit during the year. You withdrew \$80 but couldn't withdraw any more as of the end of the year. You must include \$80 in your income and exclude \$20 from your income for the year. You must include the \$20 in your income for the year you can withdraw it.

Bonds traded flat. If you buy a bond at a discount when interest has been defaulted or when the interest has accrued but hasn't been paid, the transaction is described as trading a bond flat. The defaulted or unpaid interest isn't income and isn't taxable as interest if paid later. When you receive a payment of that interest, it is a return of capital that reduces the remaining cost basis of your bond. Interest that accrues after the date of purchase, however, is taxable interest income for the year it is received or accrued. See *Bonds Sold Between Interest Dates*, later, for more information.

Below-market loans. Generally, a “below-market loan” means any loan if (A) in the case of a gift or demand loan, interest is payable on the loan at a rate less than the applicable Federal rate, or (B) in the case of a term loan, the amount loaned exceeds the present value (using a discount rate equal to the applicable Federal rate) of all payments due under the loan. (See Code section 7872 for details.) Section 7872 applies to certain below-market loans, including gift loans, compensation-related loans, and corporation-shareholder loans. (See Code section 7872(c).) If you are the lender of a below-market loan, you may have additional interest income. See *Below-Market Loans* in Publication 550, chapter 1 for more information.

U.S. Savings Bonds

This section provides tax information on U.S. savings bonds. It explains how to report the

interest income on these bonds and how to treat transfers of these bonds.

U.S. savings bonds currently offered to individuals include Series EE bonds and Series I bonds.



For information about U.S. savings bonds, go to [TreasuryDirect.gov/savings-bonds/](https://www.treasurydirect.gov/savings-bonds/).



If you prefer, write to:

Treasury Retail Securities Services
P.O. Box 9150
Minneapolis, MN 55480-9150

Accrual method taxpayers. If you use an accrual method of accounting, you must report interest on U.S. savings bonds each year as it accrues. You can't postpone reporting interest until you receive it or until the bonds mature. Accrual methods of

accounting are explained in chapter 1 under Accounting Methods.

Cash method taxpayers. If you use the cash method of accounting, as most individual taxpayers do, you generally report the interest on U.S. savings bonds when you receive it. The cash method of accounting is explained in chapter 1 under Accounting Methods. But see Reporting options for cash method taxpayers, later.

Series H and HH bonds. These bonds were issued at face value in exchange for other savings bonds. Series HH bonds were issued between 1980 and 2004. They mature 20 years after issue. Series HH bonds that have not matured pay interest twice a year (usually by direct deposit to your bank account). If you are a cash method taxpayer, you must report this interest as income in the year you receive it.

Series H bonds were issued before 1980. All Series H bonds have matured and are no longer earning interest.

In addition to the twice-a-year interest payments, most H/HH bonds have a deferred interest component. The reporting of this as income is addressed later in this chapter.

Series EE and Series I bonds. Interest on these bonds is payable when you redeem the bonds. The difference between the purchase price and the redemption value is taxable interest.

Series E and EE bonds. Series E bonds were issued before July 1980. All Series E bonds have matured and are no longer earning interest. Series EE bonds were first offered in January 1980 and have a maturity period of 30 years; they were offered in paper (definitive) form until 2012. Paper Series EE and Series E bonds were issued at a discount and increase in value as they earn interest. Electronic (book-entry) Series EE bonds were

first offered in 2003; they are issued at face value and increase in value as they earn interest. For all Series E and Series EE bonds, the purchase price plus all accrued interest is payable to you at redemption.

Series I bonds. Series I bonds were first offered in 1998. These are inflation-indexed bonds issued at face value with a maturity period of 30 years. Series I bonds increase in value as they earn interest. The face value plus all accrued interest is payable to you at redemption.

Reporting options for cash method taxpayers. If you use the cash method of reporting income, you can report the interest on Series EE and Series I bonds in either of the following ways.

1. ***Method 1.*** Postpone reporting the interest until the earlier of the year you cash or dispose of the bonds or the year they mature. (However, see *Savings bonds traded*, later.)

Note. Series EE bonds issued in 1993 matured in 2023. If you used method 1, you must generally report the interest on these bonds on your 2023 return.

2. **Method 2.** Choose to report the increase in redemption value as interest each year.

You must use the same method for all Series EE and Series I bonds you own. If you don't choose method 2 by reporting the increase in redemption value as interest each year, you must use method 1.



If you plan to cash your bonds in the same year you will pay for higher education expenses, you may want to use method 1 because you may be able to exclude the interest from your income. To learn how, see Education Savings Bond Program, later.

Change from method 1. If you want to change your method of reporting the interest from method 1 to method 2, you can do so without permission from the IRS. In the year of change, you must report all interest accrued to date and not previously reported for all your bonds.

Once you choose to report the interest each year, you must continue to do so for all Series EE and Series I bonds you own and for any you get later, unless you request permission to change, as explained next.

Change from method 2. To change from method 2 to method 1, you must request permission from the IRS. Permission for the change is automatically granted if you send the IRS a statement that meets all the following requirements.

1. You have typed or printed the following number at the top: "131."
2. It includes your name and social security number under "131."

3. It includes the year of change (both the beginning and ending dates).
4. It identifies the savings bonds for which you are requesting this change.
5. It includes your agreement to:
 - a. Report all interest on any bonds acquired during or after the year of change when the interest is realized upon disposition, redemption, or final maturity, whichever is earliest; and
 - b. Report all interest on the bonds acquired before the year of change when the interest is realized upon disposition, redemption, or final maturity, whichever is earliest, with the exception of the interest reported in prior tax years.

Table 6-1. Who Pays the Tax on U.S. Savings Bond Interest

IF...	THEN the interest must be reported by...
you buy a bond in your name and the name of another person as co-owners, using only your own funds	you.
you buy a bond in the name of another person, who is the sole owner of the bond	the person for whom you bought the bond.
you and another person buy a bond as co-owners, each	both you and the other co-owner, in proportion to the

contributing part of the purchase price	amount each paid for the bond.
you and your spouse, who live in a community property state, buy a bond that is community property	you and your spouse. If you file separate returns, both you and your spouse generally report one-half of the interest.

You must attach this statement to your tax return for the year of change, which you must file by the due date (including extensions).

You can have an automatic extension of 6 months from the due date of your return for the year of change (excluding extensions) to file the statement with an amended return.

On the statement, type or print "Filed pursuant to section 301.9100-2." To get this extension, you must have filed your original return for the year of the change by the due date (including extensions).

Instead of filing this statement, you can request permission to change from method 2 to method 1 by filing Form 3115, Application for Change in Accounting Method. In that case, follow the form instructions for an automatic change. No user fee is required.

Co-owners. If a U.S. savings bond is issued in the names of co-owners, such as you and your child or you and your spouse, interest on the bond is generally taxable to the co-owner who bought the bond.

One co-owner's funds used. If you used your funds to buy the bond, you must pay the tax on the interest. This is true even if you let the other co-owner redeem the bond and keep all the proceeds. Under these circumstances, the co-owner who redeemed the bond will receive a Form 1099-INT at the time of redemption and must provide you with another Form 1099-INT showing the amount of interest from the bond taxable to you. The co-owner who redeemed the bond is

a “nominee.” See *Nominee distributions* under *How To Report Interest Income* in Publication 550, chapter 1 for more information about how a person who is a nominee reports interest income belonging to another person.

Both co-owners' funds used. If you and the other co-owner each contribute part of the bond's purchase price, the interest is generally taxable to each of you, in proportion to the amount each of you paid.

Community property. If you and your spouse live in a community property state and hold bonds as community property, one-half of the interest is considered received by each of you. If you file separate returns, each of you must generally report one-half of the bond interest. For more information about community property, see Pub. 555.

Table 6-1. These rules are also shown in Table 6-1.

Ownership transferred. If you bought Series EE or Series I bonds entirely with your own funds and had them reissued in your co-owner's name or beneficiary's name alone, you must include in your gross income for the year of reissue all interest that you earned on these bonds and have not previously reported. But, if the bonds were reissued in your name alone, you don't have to report the interest accrued at that time.

This same rule applies when bonds (other than bonds held as community property) are transferred between spouses or incident to divorce.

Purchased jointly. If you and a co-owner each contributed funds to buy Series EE or Series I bonds jointly and later have the bonds reissued in the co-owner's name alone, you must include in your gross income for the year of reissue your share of all the interest earned on the bonds that you have not previously reported. The former co-owner

doesn't have to include in gross income at the time of reissue his or her share of the interest earned that was not reported before the transfer. This interest, however, as well as all interest earned after the reissue, is income to the former co-owner.

This income-reporting rule also applies when a new co-owner purchases your share of the bond and the bonds are reissued in the name of your former co-owner and a new co-owner. But the new co-owner will report only his or her share of the interest earned after the transfer.

If bonds that you and a co-owner bought jointly are reissued to each of you separately in the same proportion as your contribution to the purchase price, neither you nor your co-owner has to report at that time the interest earned before the bonds were reissued.

Example 1. You and your spouse each spent an equal amount to buy a \$1,000 Series EE savings bond. The bond was issued to you

and your spouse as co-owners. You both post-pone reporting interest on the bond. You later have the bond reissued as two \$500 bonds, one in your name and one in your spouse's name. At that time, neither you nor your spouse has to re-port the interest earned to the date of reissue.

Example 2. You bought a \$1,000 Series EE savings bond entirely with your own funds. The bond was issued to you and your spouse as co-owners. You both postpone reporting interest on the bond. You later have the bond reissued as two \$500 bonds, one in your name and one in your spouse's name. You must report half the interest earned to the date of reissue.

Transfer to a trust. If you own Series EE or Series I bonds and transfer them to a trust, giving up all rights of ownership, you must include in your income for that year the interest earned to the date of transfer if you have not already re-reported it. However, if you

are considered the owner of the trust and if the increase in value both before and after the transfer continues to be taxable to you, you can continue to defer re-reporting the interest earned each year. You must include the total interest in your income in the year you cash or dispose of the bonds or the year the bonds finally mature, whichever is earlier.

The same rules apply to previously unreported interest on Series EE or Series E bonds if the transfer to a trust consisted of Series HH bonds you acquired in a trade for the Series EE or Series E bonds. See *Savings bonds traded*, later.

Decedents. The manner of reporting interest income on Series EE or Series I bonds, after the death of the owner (decendent), depends on the accounting and income-reporting methods previously used by the decedent. This is explained in Publication 550, chapter 1.

Savings bonds traded. Prior to September 2004, you could trade (exchange) Series E or EE bonds for Series H or HH bonds. At the time of the trade, you had the choice to postpone (defer) reporting the interest earned on your Series E or EE bonds until the Series H or HH bonds received in the trade were redeemed or matured. Any cash you received in the transaction was income up to the amount of the interest that had accrued on the Series E or EE bonds. The amount of income that you chose to postpone reporting was recorded on the face of the Series H or HH bonds as "Deferred Interest"; this amount is also equal to the difference between the redemption value of the Series H or HH bonds and your cost. Your cost is the sum of the amount you paid for the exchanged Series E or EE bonds plus any amount you had to pay at the time of the transaction.

Example. You traded Series EE bonds (on which you postponed reporting the interest) for \$2,500 in Series HH bonds and \$223 in cash. You reported the \$223 as taxable income on your tax return. At the time of the trade, the Series EE bonds had accrued interest of \$523 and a redemption value of \$2,723. You hold the Series HH bonds until maturity, when you receive \$2,500. You must report \$300 as interest income in the year of maturity. This is the difference between their redemption value, \$2,500, and your cost, \$2,200 (the amount you paid for the Series EE bonds). It is also the difference between the accrued interest of \$523 on the Series EE bonds and the \$223 cash received on the trade.

Note. The \$300 amount that is reportable upon redemption or maturity may be found recorded on the face of the Series HH bond as "Deferred Interest." If more than one Series HH bond is received in the exchange, the

total amount of interest postponed/deferred in the transaction is divided proportionately among the Series HH bonds.

Choice to report interest in year of trade.

You can choose to treat all of the previously unreported accrued interest on the Series EE bonds traded for Series HH bonds as income in the year of the trade. If you made this choice, it is treated as a change from method 1. See *Change from method 1*, earlier. If you choose to report the interest, then the “Deferred Interest”

notation on the face of the Series HH bonds received in the trade will be \$0 or blank.

Form 1099-INT for U.S. savings bonds

interest. When you cash a bond, the bank or other payer that redeems it must give you a Form 1099-INT if the interest part of the payment you receive is \$10 or more. Box 3 of your Form 1099-INT should show the interest as the difference between the amount you received and the amount paid for the bond.

However, your Form 1099-INT may show more interest than you have to include on your income tax return. For example, this may happen if any of the following are true.

- You chose to report the increase in the redemption value of the bond each year. The interest shown on your Form 1099-INT won't be reduced by amounts previously included in income.
- You received the bond from a decedent. The interest shown on your Form 1099-INT won't be reduced by any interest reported by the decedent before death, or on the decedent's final return, or by the estate on the estate's income tax return.
- Ownership of the bond was transferred. The interest shown on your Form 1099-INT won't be reduced by interest that accrued before the transfer.

Note. This is true for paper bonds, but the Treasury reporting process for electronic bonds is more refined—if Treasury is aware that the transfer of an electronic savings bond is a reportable event, then the transferor will receive a Form 1099-INT for the year of the transfer for the interest accrued up to the time of the transfer; when the transferee later disposes of the bond (redemption, maturity, or further transfer), the transferee will receive a Form 1099-INT reduced by the amount reported to the transferor at the time of the original transfer.

- You were named as a co-owner, and the other co-owner contributed funds to buy the bond. The interest shown on your Form 1099-INT won't be reduced by the amount you received as nominee for the other co-owner. (See Co-owners, earlier in this chapter, for more information about the reporting requirements.)

- You received the bond in a taxable distribution from a retirement or profit-sharing plan. The interest shown on your Form 1099-INT won't be reduced by the interest portion of the amount taxable as a distribution from the plan and not taxable as interest. (This amount is generally shown on Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., for the year of distribution.)

For more information on including the correct amount of interest on your return, see *How To Report Interest Income*, later. Pub. 550 includes examples showing how to report these amounts.



Interest on U.S. savings bonds is exempt from state and local taxes. The Form 1099-INT you receive will indicate the amount that is for U.S. savings bond interest in box 3. Do not include this

income on your state or local income tax return.

Education Savings Bond Program

You may be able to exclude from income all or part of the interest you receive on the redemption of qualified U.S. savings bonds during the year if you pay qualified higher educational expenses during the same year. This exclusion is known as the Education Savings Bond Program.

You don't qualify for this exclusion if your filing status is married filing separately.

Form 8815. Use Form 8815 to figure your exclusion. Attach the form to your Form 1040 or 1040-SR.

Qualified U.S. savings bonds. A qualified U.S. savings bond is a Series EE bond issued after 1989 or a Series I bond. The bond must be issued either in your name (sole owner) or in your and your spouse's names (co-owners). You must be at least 24 years old

before the bond's issue date. For example, a bond bought by a parent and issued in the name of his or her child under age 24 doesn't qualify for the exclusion by the parent or child.



The issue date of a bond may be earlier than the date the bond is purchased because the issue date assigned to a bond is the first day of the month in which it is purchased.

Beneficiary. You can designate any individual (including a child) as a beneficiary of the bond.

Verification by IRS. If you claim the exclusion, the IRS will check it by using bond redemption information from the Department of the Treasury.

Qualified expenses. Qualified higher education expenses are tuition and fees required for you, your spouse, or your dependent (for whom you claim an

exemption) to attend an eligible educational institution.

Qualified expenses include any contribution you make to a qualified tuition program or to a Coverdell education savings account (ESA).

Qualified expenses don't include expenses for room and board or for courses involving sports, games, or hobbies that aren't part of a degree- or certificate-granting program.

Eligible educational institutions. These institutions include most public, private, and nonprofit universities, colleges, and vocational schools that are accredited and eligible to participate in student aid programs run by the U.S. Department of Education.

Reduction for certain benefits. You must reduce your qualified higher education expenses by all of the following tax-free benefits.

1. Tax-free part of scholarships and fellowships (see Scholarships and fellowships in chapter 8).
2. Expenses used to figure the tax-free portion of distributions from a Coverdell ESA.
3. Expenses used to figure the tax-free portion of distributions from a qualified tuition program.
4. Any tax-free payments (other than gifts or inheritances) received for educational expenses, such as:
 - a. Veterans' educational assistance benefits,
 - b. Qualified tuition reductions, or
 - c. Employer-provided educational assistance.
5. Any expense used in figuring the American opportunity and lifetime learning credits.

Amount excludable. If the total proceeds (interest and principal) from the qualified U.S. savings bonds you redeem during the year aren't more than your adjusted qualified higher education expenses for the year, you may be able to exclude all of the interest. If the proceeds are more than the expenses, you may be able to exclude only part of the interest.

To determine the excludable amount, multiply the interest part of the proceeds by a fraction. The numerator of the fraction is the qualified higher education expenses you paid during the year. The denominator of the fraction is the total proceeds you received during the year.

Example. In January 2023, Mark and Joan, a married couple, cashed qualified Series EE U.S. savings bonds with a total denomination of \$10,000 that they bought in January 2007 for \$5,000. They received proceeds of \$8,848, representing principal of \$5,000 and

interest of \$3,848. In 2023, they paid \$4,000 of their daughter's college tuition. They aren't claiming an education credit for that amount, and their daughter doesn't have any tax-free educational assistance. They can exclude \$1,739.60

$(\$3,848 \times (\$4,000 \div \$8,848))$ of interest in 2023. They must include the remaining \$2,108.40 $(\$3,848 - \$1,739.60)$ interest in gross income.

Modified adjusted gross income limit.

The interest exclusion is limited if your modified adjusted gross income (modified AGI) is:

- \$137,800 to \$167,800 for married taxpayers filing jointly, and
- \$91,850 to \$106,850 for all other taxpayers.

You don't qualify for the interest exclusion if your modified AGI is equal to or more than the upper limit for your filing status.

Modified AGI, for purposes of this exclusion, is adjusted gross income (Form 1040 or 1040-SR, line 11) figured before the interest exclusion, and modified by adding back any:

1. Foreign earned income exclusion,
2. Foreign housing exclusion and deduction,
3. Exclusion of income for bona fide residents of American Samoa,
4. Exclusion for income from Puerto Rico,
5. Exclusion for adoption benefits received under an employer's adoption assistance program, and
6. Deduction for student loan interest.

Use the Line 9 Worksheet in the Form 8815 instructions to figure your modified AGI.

If you have investment interest expense incurred to earn royalties and other investment income, see *Education Savings Bond Program* and *Royalties included in modified AGI* in Publication 550, chapter 1.



Recordkeeping. If you claim the interest exclusion, you must keep a written record of the qualified U.S. savings bonds you redeem. Your record must include the serial number, issue date, face value, and total redemption proceeds (principal and interest) of each bond. You can use Form 8818 to record this information. You should also keep bills, receipts, canceled checks, or other documentation that shows you paid qualified higher education expenses during the year.