



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

OFFICE OF
CHIEF COUNSEL

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Dear

This is in response to your November 11, 2004, request for ruling concerning the federal income tax consequences of the transfer of Series EE U.S. savings bonds (the "Bonds") to a revocable trust. The Bonds are registered in various manners: (i) you as sole owner; (ii) you and your wife as co-owners; (iii) you and your daughter as co-owners, and (iv) you as owner with the Bond payable on death ("POD") to your wife. We are unable to issue a ruling concerning the tax consequences of the transfer of the Bonds as the information provided does not indicate the source of the funds used to purchase the various Bonds. However, the following general information is provided in an effort to assist you.

In general, an owner of Bonds who uses the cash method of accounting may defer reporting accrued interest on Bonds for federal income tax purposes until the earlier of the time the owner cashes or disposes of the Bonds or they mature. If a Bond is registered in the names of co-owners, the co-owners are responsible for federal income tax on the interest on the Bond in proportion to the amount each paid for the Bond. If one co-owner provided all of the funds to buy a Bond, that co-owner is responsible for tax on all of the interest on the Bond irrespective of whether the Bond is registered in: (i) his name and that of his wife as co-owners; (ii) his name and that of his child as co-owners; or (iii) his name and that of his wife or child as the beneficiary on his death.

If the owner of a Bond creates a trust which provides that the trustee shall pay the transferor so much of the income and principal of the Trust as he shall request, the trust would be treated as owned by the transferor (a "grantor trust") for federal income tax purposes. As owner of the trust, the transferor would be taxed on the income of the trust.

If the owner of a Bond transfers the Bond to a trust that is treated as a grantor trust owned by the transferor, the transfer does not require the transferor to report all of the previously accrued tax-deferred interest on the Bond on his tax return for the year in

which the transfer took place. The transferor can continue to defer reporting the increase in the value of the Bond attributable to the periods both before and after the transfer to the trust until the earlier of the maturity of the Bond or the year in which it is disposed of or cashed.

If a co-owner (e.g., husband) who provided all the funds to purchase a Bond, has the Bond reissued solely in the name of the other co-owner (e.g., wife or child of the co-owner, or a grantor trust for the wife or daughter), the re-issuance would be considered a disposition of the co-owner's (husband's) interest in the Bond. As a result of the disposition, the husband would be required to include all the interest that accrued on the Bond prior to re-issuance in his gross income for the taxable year in which the Bond was reissued.

In circumstances where a husband provided all of the funds to purchase a Bond which is registered with the husband and wife as co-owners, the transfer (re-issuance) of the Bond to the husband's revocable trust will not cause the deferred interest on the Bond to be reported to the Internal Revenue Service if Form PD F 1851 E, Request to Reissue United States Savings Bonds to a Personal Trust is completed correctly. Section 5 of Form, PD F 1851 E, captioned "Tax Liability Statement," must be completed by checking the box immediately after the letter "a" below the words "**For Federal income tax purposes,**" in bold type. By checking that box, the co-owner who provided all the funds to purchase the Bond certifies that he will be treated as owner of the trust to which the Bond will be reissued. As grantor and owner of the trust, he will be responsible for reporting all the deferred interest on the Bond when it matures or is cashed by the trust.

If a husband and wife are registered as co-owners of a Bond and each contributed a portion of the purchase price of the Bond, the transfer (re-issuance) of the Bond to one spouse's revocable trust will be treated as a disposition of the other spouse's ownership interest in the Bond causing that spouse to report all of the previously unreported accrued interest attributable to that portion of the Bond. The transfer (re-issuance) will not cause the previously unreported interest attributable to the portion of the Bond owned by the spouse who is treated as the owner of the revocable trust to be included in gross income in the year of the transfer (re-issuance). That interest, as well as all of the interest that accrues after the Bond is transferred (re-issued) to the trust will be reportable by the owner of the trust when the Bond is cashed prior to maturity, re-issued in certain circumstances, or matures.

This letter has called your attention to certain tax consequences regarding the transfer of Bonds. It is intended for informational purposes only and does not constitute a ruling. See Rev. Proc. 2005-1, §2.04, 2005-1 IRB 7. If you have any additional questions, please contact _____ f this office at (202) 622-4960. We hope that this information proves helpful. We have enclosed a copy of Form PD F 1851 E and pages 8, 14-22, and 43-47 of IRS Publication 550, Investment Income, providing tax information on Bonds.

We regret that we are unable to issue a ruling in this particular situation. However, §15.10(2)(e) of Rev. Proc. 2005-1, 2005-1 I.R.B. 1, provides that a refund of the user fee is permitted if a letter ruling is not issued and taking into account all the facts and circumstances, including the Service's resources devoted to the request, the responsible Associate Chief Counsel in his sole discretion decides a refund is appropriate. We believe that a refund of the user fee is appropriate in this case and will recommend to the responsible Associate Chief Counsel that the user fee be refunded to you.

Sincerely,

Roy A. Hirschhorn
Assistant Branch Chief, Branch 5
(Income Tax & Accounting)

Enclosures: 4
Form PD F 1851 E
Pages 8, 14-22, and 42-47 of IRS Pub. 550