



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

OFFICE OF
CHIEF COUNSEL

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Dear _____ :

This letter responds to your request for information dated January 19, 2008 in which you requested information on the federal income tax consequences of the transfer of United States Series I savings bonds ("the Bonds") to a revocable trust. You asked for written clarification regarding the following questions:

Question 1:

Will you have to recognize and report interest earned on the Bonds as a result of their reissuance to a revocable trust?

Answer 1:

If the owner of savings bonds transfers them to a trust, and the transferor is considered the owner of the trust (i.e., a "grantor trust") for federal income tax purposes, the transferor may continue to defer reporting interest accrued each year. For example, a transferor is treated as the owner of the trust if the transferor can revoke the trust. The transferor must include the total interest accrued in her or her income when the bonds are redeemed or finally mature, whichever is earlier.

Question 2:

If the Bonds are reissued to a revocable trust, would your descendants still get the stepped up cost basis on your death?

Answer 2:

The federal estate tax consequences, generally, will not change because of the reissuance of the bonds to the revocable trust. At your death, your descendants will receive the Bonds with a basis equal to the fair market value as of the date of your death. The Internal Revenue Code provides a step-up in basis for the economic appreciation of an asset held at death,

but not to the untaxed earnings associated with the underlying asset. The earnings associated with the underlying asset (accrued interest in the case of the Bonds) falls within a special category of income referred to as "Income in Respect to a Decedent." Income in Respect to a Decedent, or IRD, will be taxed to the person receiving the accrued interest after your death in the same manner you would have been taxed if you would have survived to receive it yourself. Therefore, while the economic value of the Bonds received by your descendants includes the interest accrued up to the date of death, the basis in the Bonds will not reflect the accrued interest, regardless of whether the Bonds are held inside or outside your revocable trust.

For more information on the reissuance of United States Series I savings bonds and the tax consequences following the death of the owner, including IRD discussed above, please refer to the enclosed materials published by the Internal Revenue Service and the Bureau of Public Debt.

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. See Rev. Proc. 2009-1, §2.04, 2009-1 IRB 7 (Jan. 5, 2009). If you have any additional questions, please contact _____ in our office at _____.

Sincerely,

Bradford R. Poston
Senior Counsel, Branch 2
(Passthroughs & Special Industries)

Enclosures (3):

- Excerpts from IRS Publication 17 (Your Federal Income Tax)
- Excerpts from IRS Publication 550 (Investment Income & Expenses)
- Excerpt from the U.S. Savings Bond website maintained by U.S. Department of the Treasury, Bureau of the Public Debt, concerning the death of a Savings Bond Owner: http://www.treasurydirect.gov/indiv/research/indepth/ebonds/res_e_bonds_eedeath.htm