



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

OFFICE OF THE CHIEF COUNSEL

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Dear _____ :

This letter responds to your request for information dated October 19, 2011, regarding the federal income tax consequences of possible transfers of Series I United States savings bonds held by you and your wife.

In your letters and in a conversation with _____ of this office on January 20, 2012, you stated that you and your wife own Series I bonds in "husband or wife" form. You did not indicate the extent to which each spouse contributed to the purchase of the bonds. In 2011, the two of you established the _____ (the Trust), a revocable trust. The information in this letter is based solely upon the facts and representations made in your prior correspondence and in your conversation with _____. We have not examined the savings bonds and do not reach any conclusions regarding the Trust.

In general, the owner of Series I bonds may defer reporting the accrued interest on the bonds on the owner's federal income tax return, until the bonds mature or are disposed of. If the bonds are issued in the names of co-owners, the identity of the owner who must report the interest income is determined by the source of the funds used to purchase the bonds, not by the names or Social Security numbers on the bonds. Therefore, if one you contributed all of the money used to purchase the bonds, the interest income would be taxable to the contributor.

If the owner of Series I bonds contributes them to a trust which is treated for federal income tax purposes as owned by the transferor (a "grantor trust"), then the transferor does not have to report the accrued interest on his income tax return on the transfer. A trust which is revocable by the grantor of the trust is an example of a grantor trust. Therefore, because the Trust is a revocable trust, neither of you will have to report your respective shares of the accrued interest on the bonds upon the transfer to the Trust.

If the two of you transfer the bonds to the Trust, then at each of your deaths, the executor of the decedent spouse's estate must choose whether to include the interest deferred on that spouse's respective share of the bonds up to the date of death on the decedent spouse's final income tax return. If the executor does not elect to report the interest on the decedent spouse's final income tax return, then the person who acquires the bonds may continue to defer reporting the accrued interest (including both pre-death and post-death amounts) until the bonds mature or are disposed of.

Form PD F 1851 is used to reissue U.S. savings bonds (including Series I bonds) to a "personal trust," which would include a revocable trust such as your Trust. When the Form is filed, the bonds should be included with the Form as indicated by the Form instructions. Section 2 of Form PD F 1851 requests the names of the grantors, trustees, taxpayer identification number, 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 Form does not specify whether successor trustees must be identified as well as initial trustees; we suggest you contact the Bureau of Public Debt regarding this question. The taxpayer identification numbers in the case of a revocable trust created by husband and wife will generally be the husband and wife's Social Security numbers. The beneficiaries of a trust will generally include any living persons who may receive distributions from the trust. Depending on the terms of the Trust, the beneficiaries may include you and your wife, as well as your children or other persons named or described in the Trust.

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

We hope that our information proves helpful. We have included a copy of pages 7 through 10 of IRS Publication 550, Investment Income and Expenses, providing information on the tax treatment of U.S. savings bonds. We have highlighted those sections relevant to your questions. Please contact _____ at _____ (not a toll-free call) if you have any further questions about the matters addressed in this letter.

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. 2005-1, §2.04, 2005-1 IRB 7 (Jan. 3, 2005). If you have any additional questions, please contact our office at .

Sincerely,

Bradford R. Poston
Senior Counsel, Office of Chief Counsel Branch 2
(Passthroughs and Special Industries)

Enclosure (1):
IRS Publication 550, pp. 7-10