Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Person to Contact:
[redacted]
Telephone Number:
(202)622-3060
Refer Reply To:
CC:PSI:2-GENIN-161990-01
Date:
February 6, 2002

Dear Mr. [redacted] :

This letter responds to your letter dated October 31, 2001, requesting information on the federal income tax consequences of the transfer of United States Series E and EE savings bonds to a Family Living Trust.

Your letter indicates that the trust is a revocable inter vivos trust funded by husband and his wife. Both husband and wife are listed as beneficiaries of the trust. However, you indicate that wife died in 1999. It appears that husband currently has the power to revoke the trust and that husband proposes to transfer Series E and EE savings bonds to the trust. We assume that the bonds were issued in husband's name and were purchased with funds provided by husband. The bonds would be registered in the name of the trust, making the trust the legal owner of the bonds. You ask whether husband would still be treated as the owner of those bonds for federal income tax purposes and therefore continue to defer reporting the interest each year until the bonds are disposed of or until final maturity.

If the owner of savings bonds transfers them to a trust, and the transferor is treated as 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 his or her income when the bonds are cashed or finally mature, whichever is earlier. If, however, the owner of savings bonds transfers them to a trust and the transferor is not treated as the owner of the trust, then gross income must be reported, by the transferor, for the year of reissue for all interest earned on the bond and not previously recorded.

You indicate that husband has the power to revoke the trust. In that case, husband would be treated as the owner of any property he transfers to the trust. Accordingly, the transfer of any bonds he owns to the trust would not be a disposition of the bonds, and he could continue to defer reporting the interest each year until maturity or until the bonds are cashed.

This letter is intended as general information only, and does not constitute a ruling on any issue. This letter implies no opinion concerning any other federal tax issues in connection with the transfer of savings bonds into the trust, or any federal tax issues which may exist regarding the trust. If you wish to request a ruling please follow the procedures found in Rev. Proc. 2001-2, 2002-1 I.R.B. 1.

We hope that our information proves helpful. We have included a copy of pages 57 through 60 of IRS Publication 17, Your Federal Income Tax for Individuals, providing tax information on U.S. savings bonds. We have highlighted those sections relevant to your question. Please contact [redacted] at (202) 622-3060 if you have any further questions about the matters addressed in this letter. We apologize for the delay in answering your question, and hope that the delay has not caused you any inconvenience.

Sincerely yours,

J. THOMAS HINES
Chief, Branch 2
Office of the Assistant Chief Counsel
(Passthroughs and Special Industries)

Enclosures:
Pages 60 through 62, IRS Publication 17