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

CHIEF COUNSEL

Number: **INFO 2003-0117**
Release Date: 6/30/2003
UIL: 6049.00-00

CC:PA:APJP:B01
GENIN-107101-03

[redacted]

Re: Reporting Requirements for Series E Bond

Dear [redacted]:

[redacted]

In your letter you state that a taxpayer had a series E bond that reached final maturity in 1992. The taxpayer redeemed the series E bond in 2003, and the series E bond has not accumulated any additional interest since 1992. During a phone conversation, you stated that the taxpayer reported the accumulated bond interest on his 1992 income tax return. You express concern that a taxpayer could receive a Form 1099 from the Bank in the year of redemption, and inquire as to how a taxpayer should report the Form 1099 information on his redemption year tax return if the taxpayer reported the bond interest in the year of final maturity.

Generally, under § 454(c) of the Internal Revenue Code (Code) and § 1.454-1(c)(1) of the Income Tax Regulations (regulations), a taxpayer (other than a corporation) that holds a matured United States series E savings bond, is required to include the full amount of the increase in redemption value over the purchase price of the bond in income in the taxable year in which the bond is redeemed, disposed of, or reaches final maturity, whichever is earlier, but only to the extent that such increase in redemption value was not previously includible in income by that taxpayer or another taxpayer. Section 454(c) and § 1.454-1(c)(1) are not applicable for any taxable year in which either the taxpayer's taxable income is computed under an accrual method of accounting or an election under § 454(a) to include the increase in redemption price in income currently is in effect .

Section 6049(a) of the Code provides, in part, that every person who makes payments of interest aggregating $10 or more to any other person during any calendar year shall make a return setting forth the aggregate amount of such payments and the name and address of the person to whom paid.

Interest is defined in § 6049(b) of the Code as interest on any obligation issued in registered form, or of a type offered to the public, other than any obligation with a maturity (at issue) of not more than 1 year which is held by a corporation. Section 1.6049-4(f)(3) of the regulations provide that "obligations" include bonds, debentures, notes, certificates, and other evidences of indebtedness regardless of how denominated. Therefore, interest paid on bonds that exceeds $10 is subject to the reporting obligations in § 6049 of the Code.

In addition, the regulations impose the § 6049 reporting obligations on any person acting as a middleman. Section 1.6049-4(b)(3) of the regulations provide that in the case of interest payments, the middleman shall make an information return for the calendar year on Form 1099 and shall show the aggregate amount of the interest, the name, address, and taxpayer identification number of the person on whose behalf received, and such other information as required by the forms.

Section 1.6049-4(f)(4) of the regulations provide that a financial institution is a middleman. In accordance with § 1.6049-4(c)(1)(ii)(M) of the regulations, financial institutions include banks, mutual savings banks, savings and loan associations, building and loan associations, cooperative banks, homestead associations, credit unions, industrial loan associations or banks, or other similar organizations, whether organized in the United States or under the laws of a foreign country. Therefore, a bank is a middleman and must make an information return on Form 1099 showing the aggregate amount of interest paid to a taxpayer during the calendar year.

Publication 550 (2002), Investment Income and Expenses, offers guidance to taxpayers who have previously reported U.S. savings bond interest, but receive a Form 1099-INT for the current tax year. According to Publication 550, a taxpayer should report all the interest shown on the Form 1099-INT on line 1, Part I of Schedule B (Form 1040), or on line 1, Part I of Schedule 1 (Form 1040A). The taxpayer should then follow these steps:

1. Several lines above line 2, enter a subtotal of all interest listed on Form 1040 or Form 1040A line 1.

2. Below the subtotal write "U.S. Savings Bond Interest Previously Reported" and enter the amount of bond interest previously reported on the taxpayer's income tax return.

3. Subtract the amount in step 2 from the amount in step 1, and enter the result on line 2.

Publication 550 (2002) can be downloaded from the Internal Revenue Web site at http://www.irs.gov/pub/irs-pdf/p550.pdf.

This letter is a general information letter only and intended only to provide you with general guidance for determining how to comply with applicable law. It describes well established interpretations or principles of tax law without applying them to a specific set of facts. It is advisory only and has no binding effect. If you would like a ruling based on your specific facts, please submit a request pursuant to Rev. Proc. 2003-1, 2003-1 IRB 1.

If you need further assistance, please contact

Sincerely,

Pamela Wilson Fuller
Senior Technician Reviewer
Administrative Provisions & Judicial
Practice, Branch 1

Enclosure (1): Publication 550 (2002), Investment Income and Expenses, pp 7-17