

§ 351.8

31 CFR Ch. II (7-1-02 Edition)

of the Treasury Circular, Public Debt Series No. 750, will pay the current redemption value of a Series EE bond presented for payment by an individual whose name is inscribed on the bond as owner or coowner, provided:

(i) The bond is in order for payment; and

(ii) The presenter establishes his or her identity to the satisfaction of the agent, in accordance with Treasury instructions and identification guidelines, and signs and completes the request for payment.

(2) *Payment to beneficiary or legal representative.* A paying agent may (but is not required to) pay the current redemption value of a Series EE bond upon the request of a beneficiary, if he or she survives the owner, or a legal representative designated in the bond registration by name and capacity, or a court-appointed legal representative of the last-deceased registrant's estate provided:

(i) The bond is in order for payment; and

(ii) The presenter establishes his or her identity to the satisfaction of the agent in accordance with Treasury instructions and identification guidelines, and otherwise complies with evidentiary requirements.

(b) *Federal Reserve Banks and Branches.* A Federal Reserve Bank or Branch referred to in § 351.12 will pay the current redemption value of a Series EE bond presented for payment, provided the bond is in order for payment and the request for payment on the bond is properly signed and certified in accordance with Circular No. 3-80.

[55 FR 567, Jan. 5, 1990, as amended at 57 FR 14285, Apr. 17, 1992; 59 FR 10540, Mar. 4, 1994]

§ 351.8 Taxation.

(a) *General.* The increment in value, represented by the difference between the issue price of a Series EE bond and the redemption value received for it, is interest. This interest is subject to all taxes imposed under the Internal Revenue Code of 1954, as amended. The bonds are subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but are exempt from all other taxation now or hereafter imposed on the principal or inter-

est by any State, any possession of the United States or any local taxing authority.

(b) *Federal income tax on bonds.* An owner of Series EE bonds may use either of the following two methods for reporting the increase in the redemption value of the bond for Federal income tax purposes:

(1) *Cash basis.* Defer reporting the increase to the year of maturity, redemption, or other disposition, whichever is earlier; or

(2) *Accrual basis.* Elect to report the increase each year as it accrues, in which case the election applies to all Series EE bonds then owned by the taxpayer and those subsequently acquired as well as to any other obligations purchased on a discount basis, such as savings bonds of Series E.

(3) If the method in paragraph (b)(1) of this section is used, the taxpayer may change to the method in paragraph (b)(2) of this section without obtaining permission from the Internal Revenue Service. However, once the election to use the method in paragraph (b)(2) of this section is made, the taxpayer may not change the method of reporting unless he or she obtains permission from the Internal Revenue Service. For further information, the District Director of the taxpayer's district, or the Internal Revenue Service, Washington, DC 20224, should be consulted.

(c) *Tax-deferred exchanges.* Department of the Treasury Circular, Public Debt Series No. 2-80 (31 CFR part 352), authorizes the exchange of Series EE bonds for Series HH bonds, with a continuation of the tax-deferral privilege. The rules governing tax-deferred exchanges are contained in that circular.

(d) *Reissue.* A reissue that affects the rights of any of the persons named on a Series EE bond may have a tax consequence.

§ 351.9 Education savings bond program.

A bond owner or coowner may be able to exclude from income for Federal income tax purposes all or part of the interest received on the redemption of qualified U.S. Savings Bonds during the year if that owner or coowner paid qualified higher education expenses