

(a) *Securities* mean outstanding U.S. Savings Bonds of Series E and U.S. Savings Notes (freedom shares).

(b) *Owner* means an owner of securities, except a commercial bank in its own right (as distinguished from a representative or fiduciary capacity) and a nonresident alien who is a resident of an area with respect to which the Treasury Department restricts or regulates delivery of checks drawn against funds of the United States or any agency or instrumentality thereof. The term includes a registered owner, whether or not a natural person, either coowner (but only the *principal coowner* if Series H bonds are requested in a form of registration different from that on the securities submitted), a surviving beneficiary, or any other person who would be entitled to reissue under the regulation governing U.S. Savings Bonds,¹ such as, but not limited to, any person entitled to succeed to the estate of a deceased owner.

(c) *Commercial bank* means a bank accepting demand deposits.

(d) *Interest* means the increment in value on Series E savings bonds and on savings notes.

(e) *Principal coowner* means a coowner who purchased the securities submitted for exchange with his own funds or received them as a gift, legacy or inheritance or as a result of judicial proceedings and had them reissued in coownership form, provided he has received no contribution in money or money's worth from the other coowner for designating him on the securities.

§ 339.2 Denominations.

Series H bonds, available for use hereunder, are in denominations of \$500, \$1,000, \$5,000 and \$10,000.

§ 339.3 Exchanges with privilege of deferring reporting of interest for Federal income tax purposes.

(a) *Tax-deferred exchanges.* Pursuant to the provisions of section 1037(a) of the Internal Revenue Code of 1954, the Secretary of the Treasury hereby grants to owners who have not been re-

porting the interest on their securities on an accrual basis for Federal income tax purposes the privilege of exchanging such securities for Series H bonds and of continuing to defer reporting of the interest on the securities exchanged (except interest referred to in paragraph (b)(5) of this section) for Federal income tax purposes to the taxable year in which the Series H bonds received in exchange are disposed of, are redeemed, or have reached final maturity, whichever is earlier.²

(b) *Rules governing the exchange.* (1) Exchange subscription Form PD 3253, completed and executed in accordance with the instructions thereon, the securities, any cash difference (see paragraph (b)(3) of this section), and any supporting evidence which may be required under the governing regulations³ may be presented or forwarded to any authorized agency.⁴

(2) A Series H bond issued upon exchange will be registered in the name of the owner of the securities submitted in any authorized form of registration. However, the *principal coowner* must be named as owner or coowner.

(3) The total current redemption value of the securities submitted for exchange in any one transaction must amount to \$500 or more. If the total current redemption value is in an even multiple of \$500, Series H bonds must be requested in that exact amount. If

²The interest paid semiannually by check on all Series H bonds, whether issued in exchange under this or any other section, or otherwise, is subject to the Federal income tax for the taxable year in which it is received.

³For example, a beneficiary named on Series E bonds would have to submit proof of the death of the registered owner in order to exchange such bonds for Series H bonds.

⁴Agents authorized to pay Series E bonds and savings notes are authorized to accept and handle exchange subscriptions submitted by natural persons whose names are inscribed on the face of the bonds and notes as owners or coowners in their own right. However, as agents of subscribers they may forward any exchange subscription to a Federal Reserve Bank or Branch or the Bureau of the Public Debt, Washington, DC 20226, for acceptance and handling.

¹Department Circular No. 530, current revision (31 CFR part 315). Copies may be obtained from any Federal Reserve Bank or Branch or the Bureau of the Public Debt, Washington, DC 20220.

the total current redemption value exceeds \$500, but is not in an even multiple of \$500, the owner has the option of furnishing cash necessary to obtain Series H bonds of the next higher \$500 multiple, or of receiving payment of the difference between the total current redemption value and the next lower multiple of \$500. For example, under the rules prescribed in this circular, if the securities submitted for exchange in one transaction total \$4,253.33 current redemption value, the owner may elect to:

(i) Receive \$4,000 in Series H bonds and the amount of the difference, \$253.33, or

(ii) Pay the difference, \$246.67, necessary to obtain \$4,500 in Series H bonds.⁵

(4) Any amount paid to the owner as a cash adjustment (as in paragraph (3)(i) of this section) must be treated as income for Federal income tax purposes for the year in which it is received up to an amount not in excess of the total interest on the securities exchanged.⁶

(5) Each Series H bond issued under this section will be stamped "EX" or "EXCH" to show that it was issued upon exchange. Each bond also will bear a legend showing how much of its issue price represents interest on the securities exchanged. This interest must be treated as income for Federal income tax purposes for the year in which the Series H bond is redeemed, is disposed of, or finally matures, whichever is earlier.

(6) The Series H bonds will be dated as of the first day of the month in which the securities, the exchange subscription, any necessary cash dif-

⁵If a paying agent accepts a subscription solely for the purpose of forwarding it, or if the owner forwards it direct, to a Federal Reserve Bank or Branch or to the Bureau of the Public Debt, the remittance for the difference, by check or other form of exchange (which will be accepted subject to collection), must be drawn to the order of the Federal Reserve Bank or the United States Treasury, as the case may be. The remittance must accompany the subscription and the securities to be exchanged.

⁶The amount, if any, paid to the owner in excess of the interest is a repayment on account of the purchase price of the securities exchanged, not income.

ference and supporting evidence, if any, are accepted for exchange by an authorized agency.

§ 339.4 Exchanges without tax deferral.

Exchanges by owners who:

(a) Report the interest on all of their securities annually for Federal income tax purposes, or

(b) Who elect to report all such interest in the year of the exchange, or

(c) Who are tax-exempt under the provisions of the Internal Revenue Code of 1954 and the regulations issued thereunder,

Will be handled in the same manner and will be governed by the rules prescribed for exchanges under § 339.3. However, the Series H bonds will not bear the legend referred to in § 339.3(b)(5). Any part of the cash adjustment received which represents interest previously reported for Federal income tax purposes need not be accounted for. The Series H bonds may be registered in the name of the owner of the securities submitted in exchange in any authorized form of registration.

§ 339.5 Governing regulations.

All Series H bonds issued under this circular are subject to the regulations, now or hereafter prescribed, contained in Department Circular No. 530, current revision (part 315 of this chapter).

§ 339.6 Fiscal agents.

Federal Reserve Banks and Branches, as fiscal agents of the United States, are authorized to perform such services as may be requested of them in connection with exchanges under these regulations.

§ 339.7 Preservation of rights.

The provisions of Treasury Department Circulars Nos. 530, 653, and 905, as currently revised, are hereby modified and amended to the extent that they are not in accordance with this circular. However, nothing contained herein shall limit or restrict rights which owners of Series H bonds received in earlier exchanges have heretofore acquired.