

Interest Income Reporting for Marketable Treasury Securities



BACKGROUND

Like they say, taxes are a certainty and it's no different for marketable Treasury securities. But only Federal tax applies; your Treasury securities are exempt from state and/or local income taxes.

The Bureau of the Public Debt administers a direct access marketable securities program for investors. Marketable securities can be held in the centerpiece of this program – the TreasuryDirect® system. TreasuryDirect is an entirely online system that allows the greatest flexibility in buying and maintaining U.S. Treasury securities – bills, notes, bonds, and TIPS – as well as our non-

marketable savings bonds. Legacy Treasury Direct, the predecessor to TreasuryDirect, is being phased out. As of May 1, 2011, only 13-week and 26-week bills are available for purchase in the system.

INTEREST INCOME: WHAT WE REPORT TO THE IRS

We report annually to the IRS and you all interest earned on Treasury bills and all semiannual interest payments on Treasury notes and bonds. Specifically, we provide:

- A 1099-INT reporting the total amount of interest earned and the amount withheld and paid to the IRS for the previous calendar year. NOTE: it's reported using the taxpayer identification number (TIN) of the first-named owner. If the interest includes amounts that belong to someone else (other than a spouse), see IRS Publication 550, "Investment Income and Expenses."
- A 1099-OID reporting the total amount of original issue discount on TIPS (see Original Issue Discount [OID] and TIPS).
- A 1099-B, also known as a *Proceeds from Broker and Barter Exchange*, for notes and bonds that have matured while held in our systems and that were:
 - transferred into TreasuryDirect from the commercial book-entry system or from Legacy Treasury Direct.
 - transferred from one TreasuryDirect account to another.
 - transferred into Legacy Treasury Direct from the commercial book-entry system or from TreasuryDirect.
 - transferred from one Legacy Treasury Direct account to another.

We provide the 1099-B by January 31 of the year following the date of maturity.

BROKER REPORTING

Sometimes customers use a broker to buy Treasury securities and then transfer them into their Legacy Treasury Direct accounts. When this happens, brokers are required to report any interest income while the security was held in their system. Likewise, we're required to report any interest income while it's held in our system. For this reason, it is possible for customers to get more than one 1099 for the same security.

YOUR 1099 FORMS

You'll receive your 1099 forms differently, depending on which system you have invested through.

- If you invest online in the TreasuryDirect system, you will receive your 1099-INT electronically. You can print the form from your account. The 1099-INT is available after December 31 of the selected tax year and complies with all IRS regulations.
- If you invest in Legacy Treasury Direct, each year you'll receive a form 1099-INT during January (1042-S during March if you're a foreign investor) showing the interest you've earned.
- If you have registered securities, you'll also receive a 1099-INT through the mail in January.

Duplicate Forms. If you need duplicate 1099-INT forms, here's what to do for each of our securities programs:

- **TreasuryDirect.** Simply access your account and print them again.
- **Legacy Treasury Direct.** You may request the form for the previous year between February 1 and November 30 by visiting us at www.treasurydirect.gov under the Electronic Services for Treasury Bills, Notes and Bonds and requesting them online or by calling our toll-free phone service at 800-722-2678. (If you're outside the United States, call 304-480-6464.) To get duplicate forms from prior years you must contact us at Department of the Treasury, Bureau of the Public Debt, PO Box 426, Parkersburg, WV 26106-0426.
- **Definitive Registered Securities.** Write to us at the Department of the Treasury, Bureau of the Public Debt, PO Box 426, Parkersburg, WV 26106-0426 or call us at 304-480-7711. (If you have access to a computer, now might be a good time to convert your definitive paper securities to TreasuryDirect. Call 304-480-7711 for more information.)

INTEREST ON TREASURY BILLS

Treasury bills are short-term investment issues with maturities not exceeding one year. You buy bills at a discount from their face (par) value, and the difference between what you originally paid and what we pay you at maturity (or what you get if you sell the bill before it matures) is your interest. You don't get interest payments during the life of the bill.

Take note: Interest from your bill is reportable in the year you sell it or it matures, which is not necessarily the year you bought it!

For example, if you bought a 26-week bill in October 2004, it matured in April 2005. The interest is reported as earned in 2005—the year the bill matures.

INTEREST ON TREASURY NOTES and BONDS

Treasury notes and bonds pay interest every six months until they mature. We report the interest for the year earned. This includes December 31 payments unless that payment date is a non-business day (Saturday, Sunday, or a Federal banking holiday). In that case, we report it as being paid in the next tax year.

DISCOUNT ON TREASURY NOTES

When the purchase price of a Treasury note is less than its face value, the difference is called a discount. Discounts may or may not be reportable, depending on how much is involved. Refer to IRS Publication 550, under "U.S. Treasury Bills, Notes, and Bonds."

ORIGINAL ISSUE DISCOUNT (OID) and TIPS

If you're a U.S. citizen, not only do you get a Form 1099-INT for any TIPS you own, you also get a Form 1099-OID reporting how much your TIPS increased because of inflation. Even though you never physically received the money reported as OID income, the IRS requires us to report the increased value of the security as income.

If you see a negative amount on your Form 1099-OID, it means the inflation rate dropped after you bought your TIPS, which dropped the value of the security below what you paid for it (or below what it was during the last tax year). We report negative OID amounts only to investors, not to the IRS. (But remember, you'll never lose your original investment amount when you purchase TIPS.)

If you get two 1099-OID forms—one from us and one from your broker, it's probably because you transferred TIPS from the broker to Legacy Treasury Direct® or vice versa. Just like us, your broker must report the amount of OID you earned while it was maintained in their system. If you're a foreign investor, you'll get a 1099-OID at maturity for any TIPS you hold.

SECURITY TRANSFER

As of May 1, 2011, transfers to the Legacy Treasury Direct system no longer are accepted. Prior to that date, the purchase price used for bills transferred into Legacy Treasury Direct was shown on the transfer instructions and would have been recorded on your Legacy Treasury Direct *Statement of Account* under "Purchase Price/\$100 of Par." If the price shown was wrong, send documentation showing the correct price to the Department of the Treasury, Bureau of the Public Debt, P.O. Box 426, Parkersburg, WV 26106-0426. We must receive documentation at least 10 business days before the security matures. That way, you can be sure the correct price will show on your 1099-INT.

The interest income reported on notes and bonds transferred into Legacy Treasury Direct is for the entire interest period, even if the transfer occurred between interest payment dates. See IRS Publication 550, under "Bonds Sold Between Interest Dates," for securities transferred into Legacy Treasury Direct between interest payment dates.

PREMIUMS

A premium is the amount by which the auction price of a note is higher than its face value. If you pay the auction price by check, you'll receive an invoice for the difference. See IRS Publication 550, under "Bond Premium Amortization."

BACKUP WITHHOLDING

Payments you receive may be subject to backup withholding if:

- you don't provide a valid TIN
- you don't certify that you are not subject to backup withholding
- we are notified by IRS that you are subject to backup withholding due to under-reported interest income, or
- IRS tells us the TIN you provided is wrong.

We report any backup withholding on Form 1099-INT under "Federal Income Tax Withheld." Include that amount on your tax return as tax withheld.

VOLUNTARY WITHHOLDING

We can help you plan for your taxes, too. Treasury can withhold some of your interest payments to help defray your tax burden. We'll transfer your withholdings to the IRS and report the withheld amount on Form 1099-INT under "Federal Income Tax Withheld."

TreasuryDirect®. Simply access your account and schedule the percentage you want withheld.

Legacy Treasury Direct. Contact your Treasury Retail Securities Site at 800-722-2678 and furnish your Legacy Treasury Direct account number, taxpayer identification number, and the percentage you want withheld.

Definitive Registered Securities. Write to us at the Department of the Treasury, Bureau of the Public Debt, PO Box 426, Parkersburg, WV 26106-0426 and furnish us your taxpayer identification number and the percentage you want withheld from your definitive registered account.

FOREIGN REPORTING

We use IRS Form 1042-S to report income earned by nonresident alien individuals or fiduciaries, foreign partnerships, or foreign corporations. We mail it by March 15, the year after the income is earned.

FOREIGN WITHHOLDING

Securities issued on or after July 19, 1984, are not subject to withholding if you've filed a properly executed IRS Form W-8BEN or W-8ECI with us. (Generally, these forms are valid for three years.) Securities issued before July 19, 1984, are subject to withholding of 30 percent or the applicable treaty rate.

WHERE TO SUBMIT TAX FORMS AND OTHER CORRESPONDENCE

Send all your documents and forms to:

Department of the Treasury
Bureau of the Public Debt
P.O. Box 426
Parkersburg, WV 26106-0426

For more information or questions, call us at 800-722-2678. Outside the U.S. call 304-480-6464. These publications may also be helpful:

- For more information on **tax treatment of investment income**, see IRS Publication 550, "Investment Income and Expenses."
- For more information on **backup withholding**, see IRS Publication 550, "Investment Income and Expenses," and Form W-9, "Request for Taxpayer Identification Number and Certification."
- For more information about **foreign withholding**, see IRS Publication 515, "Withholding of Tax on Nonresident Aliens and Foreign Corporations," and Forms W-8BEN and W-8ECI.
- For **general tax information**, contact your local IRS Office. You can get IRS forms and publications from their website at www.irs.gov or from the IRS Distribution Center for your state.

**The information in this publication
does not apply to U.S. Savings Bonds.**



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