amount from the depository institution's account to an account that we designate.

(b) If no such BECCS or CUBES securities exist in the depository institution's account, we will instruct the depository institution as to how the adjustment will be made.

(c) If the depository institution fails to comply with our instructions within five (5) business days of receipt of the instructions, we reserve the right to debit the master account of the depository institution for the face value of the adjusted bearer corpora and detached bearer coupons. By the submission of the bearer corpora and detached bearer coupons, the depository institution is deemed to agree to this debit.

§ 358.16 Are BECCS and CUBES accounts maintained separately from the STRIPS program?

BECCS and CUBES accounts are maintained separately from accounts maintained in Treasury's STRIPS (Separate Trading of Registered Interest and Principal of Securities) program.

§ 358.17 Can BECCS and CUBES securities be reconstituted to physical form?

After bearer corpora and detached bearer coupons have been converted to book-entry form, reconversion to physical form is prohibited. The reconstitution of a BECCS security with CUBES securities or any combination of Treasury obligations is prohibited.

§ 358.18 What limitations exist on liability?

(a) Except as otherwise provided by regulation, circular, or written agreement, any fiscal agent designated to act on our behalf is liable for its action or omission only if it failed to exercise ordinary care.

(b) We do not assume any responsibility to any party except the sending and receiving depository institutions involved in a BECCS or CUBES transaction.

(c) We do not assume any responsibility in connection with a BECCS or CUBES transaction for the insolvency, neglect, misconduct, mistake, or default of another bank or person, including the immediate participants.

§ 358.19 Who is responsible for any loss resulting from the conversion of a bearer corpus missing callable coupons?

The submitting depository institution shall indemnify the United States against any loss resulting from the conversion of a bearer corpus that is missing one or more associated callable coupons.

§ 358.20 Can these regulations be waived?

We reserve the right to waive or modify any provision of the regulations in this part for the convenience of the United States or to relieve any person of unnecessary hardship, if such action is not inconsistent with law, does not impair existing rights, and does not subject the United States to any substantial expense or liability.

§ 358.21 Can these regulations be amended?

We may at any time supplement, amend, or revise the regulations in this part.

PART 359—OFFERING OF UNITED STATES SAVINGSBONDS, SERIES I

Sec.

AUTHORITY: 5 U.S.C. 301; 12 U.S.C. 391; 31 U.S.C. 3105.

SOURCE: 63 FR 38044, July 14, 1998, unless otherwise noted.

§ 359.0 Offering of bonds.

The Secretary of the Treasury offers for sale to the people of the United States, United States Savings Bonds of

Series I, hereinafter referred to as Series I bonds or bonds. This offer, effective September 1, 1998, will continue until terminated by the Secretary of the Treasury.

§ 359.1 Governing regulations.

Series I bonds are subject to the regulations of the Department of the Treasury, now or hereafter prescribed, governing United States Savings Bonds of Series I, contained in Department of the Treasury Circular, Public Debt Series No. 2–98 (31 CFR part 360), hereinafter referred to as Circular No. 2–98. Treasury expressly disclaims the effect of, and does not warrant the correctness of, any representations or warranties regarding Series I bonds, wherever made, that in any way conflict with the terms and conditions of Series I bonds, as set out in these regulations and other applicable law. The regulations in 31 CFR part 370 apply to transactions for the purchase of United States Savings Bonds issued through the Bureau of the Public Debt. The regulations in 31 CFR part 370 do not apply to transactions for the purchase of bonds through issuing agents generally, unless and to the extent otherwise directed by the Commissioner of the Bureau of the Public Debt or the Commissioner's designee.

§ 359.2 Description of bonds.

(a) *General.* Series I bonds are issued only in registered form (subject to § 359.11) and are non-transferable. The bonds may be either in book-entry or definitive form.

(b) *Denominations and prices.* Series I bonds are issued at par (face amount). The denominations and purchase prices are as follows:

Denomination	Purchase price
$ 50	$50.00
75	75.00
100	100.00
200	200.00
500	500.00
1,000	1,000.00
5,000	5,000.00
10,000	10,000.00

(c) *Term—maturity period.* The issue date of a Series I bond is the first day of the month in which the issue price is received by an authorized issuing agent. Series I bonds have a maturity period of 30 years, consisting of an original maturity period of 20 years and an automatic extension period of 10 years.

(d) *Redemption.* A Series I bond may be redeemed beginning six months after its issue date or at any time thereafter. The Secretary of the Treasury may not call a Series I bond for redemption prior to an original maturity period of 20 years and an automatic extension period of 10 years, for a total period of 30 years from its issue date.

(e) *Composite rates and redemption values.* (1) The following definitions apply for determining the composite rates and redemption values:

(i) *Rate announcements.* Rates applicable to Series I bonds will be furnished in rate announcements published each May 1 and November 1, or at any other date determined by the Secretary or the Secretary's designee. If the regularly scheduled date for the announcement (for example, May 1) is a day when the Treasury is not open for business, then the announcement is made on the next business day; however, the effective date of the rates remains the first day of the month of the announcement.

(ii) *Fixed rate of return.* Each May and November, or at any other date determined by the Secretary or the Secretary's designee, the Secretary shall establish the fixed rate of return for Series I bonds issue-dated during the six-month period, or any other period determined by the Secretary or the Secretary's designee, beginning on such date. Such fixed rate of return will be applicable for the life of the bond.

(iii) *Semiannual inflation rate.* Each May and November, or at any other date determined by the Secretary or the Secretary's designee, Treasury will announce a variable semiannual inflation rate for Series I bonds. The index used to determine this rate will be the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (''CPI–U'') published by the Bureau of Labor Statistics (''BLS'') of the U.S. Department of Labor. The semiannual inflation rate to be effective with the May announcement, and the rate that is effective for Series I bonds offered from September 1, 1998, through October 31, 1998, will reflect the rate of change in the CPI–U for the six-month period ending with the immediately preceding March 31. The rate of change over the six-month period will be expressed as a percentage, rounded to the nearest one-hundredth of one percent. More specifically, the semiannual inflation rate will reflect the CPI–U value for the most recent March less the value for the preceding September, that difference will then be divided by the CPI–U value for the preceding September, and the result will be multiplied by 100 to convert the rate to a percentage. The resulting rate will be rounded to the nearest one-hundredth of one percent. The semiannual inflation rate to be effective with the November announcement, reflecting the change in the CPI–U for the six-month period ending with the immediately preceding September, will be similarly determined. In certain deflationary conditions, the semiannual inflation rate may be negative to such an extent that it will offset the fixed rate of return. However, the redemption value of a Series I bond for any particular month will not be less than the value for the preceding month. (See § 359.3(b) for a discussion of the lag between when inflation is measured and when it is reflected in the value of a bond.)

(iv) *Index contingencies.* If a previously reported CPI–U is revised, Treasury will continue to use the previously reported CPI–U in calculating redemption values. If the CPI–U is rebased to a different year, Treasury will continue to use the CPI–U based on the base reference period in effect when the security was first issued, as long as that CPI continues to be published. If, while an inflation-indexed savings bond is outstanding, the applicable CPI–U is: discontinued, in the judgment of the Secretary, fundamentally altered in a manner materially adverse to the interests of an investor in the security, or in the judgment of the Secretary, altered by legislation or Executive Order in a manner materially adverse to the interests of an investor in the security, Treasury, after consulting with the Bureau of Labor Statistics (''BLS''), or any successor agency, will substitute an appropriate alternative index. Treasury will then notify the public of the substitute index and how it will be applied. Determinations of the Secretary in this regard will be final.

(v) *Composite rate.* (A) The fixed rate of return, FR, and the semiannual inflation rate, SIR, as determined in paragraphs (e)(1)(ii) and (iii) of this section are divided by 100 to remove the percentage format (*i.e.*, to convert to decimal form) and are then combined into a composite annual rate, CR, in accordance with the following formula:

$$CR = \{SIR + (FR \div 2) + [SIR \times (FR \div 2)]\} \times 2$$

(B) The resulting annual rate is converted to a percentage and is rounded to the nearest one-hundredth of one percent. The composite rates will be announced by Treasury each May and November, or at any other date determined by the Secretary or the Secretary's designee, and will be derived from the semiannual inflation rate announced on the same date and the fixed rates of return applicable to Series I savings bonds.

(vi) *Base denomination.* All value calculations are performed on a hypothetical denomination of $25 having a value at the beginning of the first semiannual rate period equal to the issue price of $25. Redemption values for bonds of greater denominations are in direct proportion according to the ratio of denominations. For example, if the value of a hypothetical $25 denomination is $41.20—*i.e.*, $25.00 issue price plus $16.20 accrued interest—on the same redemption date, the value of a $50 bond bearing the same issue date is $41.20 × (50/25) or $82.40.

(vii) *Issue date.* The issue date of a Series I bond is the first day of the month in which payment of the issue price is received by an authorized issuing agent.

(viii) *Redemption value.* The redemption value of a bond is that amount that will be paid when the bond is redeemed.

(ix) *Accrual date.* Earnings on a Series I bond, if any, accrue on the first day of each month. The redemption value of a bond does not change between these accrual dates.

(x) *Semiannual rate periods.* Semiannual rate periods are the six-month periods beginning on the date of issue and on each semiannual anniversary of the date of issue to maturity.

(xi) *Maturity.* Series I bonds have a maturity period of 30 years, consisting of an original period of 20 years and an automatic extension period of 10 years. The bonds have an interest paying life of 30 years after the date of issue and cease to increase in value as of that date.

(2) *Interest rates and monthly accruals.* Series I composite rates, defined in paragraph (e)(1)(v) of this section, apply to earnings during the first semiannual rate period beginning on or after the effective date of the rate. Interest, at the composite rate from the beginning of the semiannual rate period, accrues according to the formula specified in paragraph (e)(4)(ii) of this section. The following table shows, for any given month of issue with composite rates announced each May and November, the months making up the semiannual rate period during which interest is earned at the composite rate specified in the announcement:

Month of issuance	Semiannual rate period (1) begins	Announcement date of composite rate that applies during rate period (1)	Semiannual rate period (2) begins	Announcement date of composite rate that applies during rate period (2)
January	January 1	November 1 (announced 2 months prior to beginning of semiannual rate period).	July 1	May 1 (announced 2 months prior to beginning of semiannual rate period).
February	February 1	November 1 (announced 3 months prior to beginning of semiannual rate period).	August 1	May 1 (announced 3 months prior to beginning of semiannual rate period).
March	March 1	November 1 (announced 4 months prior to beginning of semiannual rate period).	September 1	May 1 (announced 4 months prior to beginning of semiannual rate period).
April	April 1	November 1 (announced 5 months prior to beginning of semiannual rate period).	October 1	May 1 (announced 5 months prior to beginning of semiannual rate period).
May	May 1	May 1	November 1	November 1.
June	June 1	May 1 (announced 1 month prior to beginning of semiannual rate period).	December 1	November 1 (announced 1 month prior to beginning of semiannual rate period).
July	July 1	May 1 (announced 2 months prior to beginning of semiannual rate period).	January 1	November 1 (announced 2 months prior to beginning of semiannual rate period).
August	August 1	May 1 (announced 3 months prior to beginning of semiannual rate period).	February 1	November 1 (announced 3 months prior to beginning of semiannual rate period).
September	September 1	May 1 (announced 4 months prior to beginning of semiannual rate period).	March 1	November 1 (announced 4 months prior to beginning of semiannual rate period).
October	October 1	May 1 (announced 5 months prior to beginning of semiannual rate period).	April 1	November 1 (announced 5 months prior to beginning of semiannual rate period).
November	November 1	November 1	May 1	May 1.
December	December 1	November 1 (announced 1 month prior to beginning of semiannual rate period).	June 1	May 1 (announced 1 month prior to beginning of semiannual rate period).

Notes: (1)Notwithstanding any consideration of the interest penalty for early redemption, interest earned during each month of a semiannual rate period accrues according to the formula specified in § 359.2(e)(4)(ii).

(2) Also, if the regularly scheduled date for a composite rate announcement is a day that Treasury is not open for business, the announcement will be made on the next business day; however, the effective date of the rate will be the first day of the month of the announcement.

(3) *Interest penalty for Series I bonds redeemed less than five years following the issue dates.* If a Series I bond is redeemed less than five years following the date of issue, the overall earning period from the date of issue will be reduced by three months. For example, if a bond issued January 1, 1999, is redeemed nine months later on October 1, 1999, the redemption value will be determined by applying the value calculation procedures described in paragraph (e)(4) of this section and the Series I bond composite rate for that bond as if the redemption date were three months earlier (July 1, 1999). The redemption value of a bond subject to the three-month interest penalty shall not be reduced below the issue price. This penalty does not apply to bonds redeemed five years or more after the date of issue.

(4) *Redemption value calculations.* (i) Interest on a bond accrues and becomes part of the redemption value which is paid when the bond is redeemed.

(ii) The redemption value of a bond for the accrual date (the first day of each month) is determined in accordance with this section and the following:

(A) Determine the composite rate as defined in paragraph (e)(1)(v) of this section. If the result of the composite rate calculation is a negative value, zero will be the assumed composite rate in the redemption value calculation. Redemption values are calculated using the following formula:

$$FV = PV \times \{[1 + (CR \div 2)]^{(m \div 6)}\}$$

Where:

FV (future value) = redemption value on the accrual date rounded to the nearest cent.

PV (present value) = value at the beginning of the semiannual rate period calculated without consideration of penalty. For bonds that are older than five years, PV will equal the redemption value at the start of the semiannual rate period.

CR = composite rate as defined in paragraph(e)(1)(v) of this section converted to decimal form by dividing by 100.

m = number of full calendar months elapsed during the semiannual rate period.

(B) The following hypothetical examples illustrate how this formula is applied:

(*1*) For a bond five years or older:

Example: i. Given a Series I bond composite rate of 5.02%, effective May 1, 2003, for a hypothetical bond denominated at $25, with an issue date of September 1, 1998, and a redemption value of $31.90 as of September 1, 2003, the February 1, 2004, redemption value is calculated as follows: bonds issue-dated in September have semiannual rate periods beginning each March 1 and September 1. The first semiannual rate period to begin on or after the date of the May 1, 2003, rate announcement composite rate would be the period beginning September 1, 2003. PV, the present value, $31.90, would be the redemption value of the bond at the beginning of the semiannual rate period (September 1, 2003). The composite rate, 5.02% converted to a decimal, would be 0.0502. The number of months, m, is five, since five full calendar months (September through January) have lapsed since the beginning of the semiannual rate period. FV, the redemption value (rounded to the nearest cent), is then the result of the formula:

$$FV = PV \text{ x } \{[1 + (CR \div 2)]^{(m \div 6)}\} \text{ where}$$
$$FV = 31.90 \text{ x } \{[1 + (0.0502 \div 2)]^{(5 \div 6)}\} = \$32.57$$

ii. The redemption value for the actual denomination of a Series I bond can be determined by applying the appropriate multiple, for example: $32.57 x ($100.00 ÷ $25.00) for a bond with a $100.00 face amount; or $32.57 x ($1000.00 ÷ $25.00) for a bond with a $1000.00 face amount.

(*2*) For a bond less than five years old:

Example: i. Assume a composite rate of 5.07% effective May 1, 2003, for a bond denominated at $25.00, with an issue date of December 1, 2000, a redemption date of February 1, 2004, and a value on June 1, 2003, of $28.45, without consideration of penalty. A three-month penalty is assessed since the redemption date is less than five years after the issue date. The penalty is accounted for by assuming that the redemption date is three months earlier (November 1, 2003). The February 1, 2004, redemption value is then calculated as follows: bonds issue-dated in December have semiannual rate periods that begin each June 1 and December 1. The first semiannual rate period to begin on or after the May 1, 2003, rate announcement composite rate would be the period beginning June 1, 2003. PV, the present value, $28.45, is the value of the bond at the beginning of the semiannual rate period (June 1, 2003), without consideration of penalty. The composite rate, 5.07%, converted to a decimal, would be 0.0507. The number of months, m, is five, since five full calendar months (June through October) have elapsed since the beginning of the semiannual rate period and the redemption date (as adjusted for penalty). FV, the redemption value (rounded to the nearest cent), is then the result of the formula:

$$FV = PV \times \{[1 + (CR \div 2)]^{(m \div 6)}\} \text{ where}$$
$$FV = \$28.45 \times \{[1 + (0.0507 \div 2)]^{(5 \div 6)}\} = \$29.05$$

ii. The redemption value for the actual denomination of a Series I bond can be determined by applying the appropriate multiple, for example: $29.05 x ($100.00 ÷ $25.00) for a bond with a $100.00 face amount; or $29.05 x ($1000.00 ÷ $25.00) for a bond with a $1000.00 face amount.

(5) *The Secretary's determination.* The determination by the Secretary of the Treasury, or the Secretary's designee, of fixed rates of return, semiannual inflation rates, composite rates, and savings bond redemption values shall be final and conclusive.

(6) *Tables of redemption values.* Tables of redemption values are made available in various formats and media, including on the Internet, by the Bureau of the Public Debt, Parkersburg, West Virginia 26106–1328. Treasury reserves the right to cease making the tables of redemption values available in any of these formats or media. Redemption values published in such tables reflect the three-month interest penalty applied to bonds redeemed prior to five years from the date of issue.

[63 FR 38044, July 14, 1998, as amended at 63 FR 45946, Aug. 28, 1998]

§ 359.3 Investment considerations.

(a) *Index contingencies.* (1) If a previously reported CPI is revised, Treasury will continue to use the previously reported CPI in calculating redemption values.

(2) If the CPI is rebased to a different year, Treasury will continue to use the CPI based on the base reference period in effect when the savings bond was first issued, as long as that CPI continues to be published.

(3) If, while a Series I savings bond is outstanding, the applicable CPI is discontinued, in the judgment of the Secretary, fundamentally altered in a manner materially adverse to the interests of an investor in the savings bond, or in the judgment of the Secretary, altered by legislation or Executive Order in a manner materially adverse to the interests of an investor in the savings bond, Treasury, after consulting with the Bureau of Labor Statistics, or any successor agency, will substitute an appropriate alternative index. Treasury will then notify the public of the substitute index and how it will be applied. Determinations of the Secretary in this regard will be final.

(4) If the CPI for a particular month is not reported by the last day of the following month, the Treasury will announce an index number based on the last 12-month change in the CPI available. Any calculations of the Treasury's payment obligations on the inflation-indexed savings bond that rely on that month's CPI will be based on the index number that Treasury has announced.

(b) *Inflation lag.* (1) The inflation rate component of investor earnings will be determined twice each year. This rate will be the percentage change in the CPI–U for the six months ending each March and September. The rate will be included in the composite rate that is announced each May and November. For Series I bonds offered from September 1, 1998, through October 31, 1998, the inflation rate component of investor earnings will be the percentage change in the CPI–U for the six months ending March 31, 1998. This rate will be included in the composite rate that is announced for Series I bonds offered effective from September 1, 1998, through October 31, 1998. In the event the Secretary, or the Secretary's designee, announces a composite rate at an effective date other than May 1 or November 1, the announcement will specify the period to be used to calculate the semiannual inflation rate. Each composite rate will be effective for the entirety of the applicable rate period that begins while the rate is in effect. Thus, an inflation rate may affect interest accruals from 3 to 13 months from the date that the CPI–U is measured.

(2) For example, the inflation rate determined from the CPI–U for the six-month period from October 1, 2003, through March 31, 2004, will be included in the composite rate announced on May 1, 2004. For a bond purchased in May 1999, this rate will go into effect immediately, since a new semiannual rate period for this bond will begin on May 1, 2004. Series I bonds issued in May begin new semiannual rate periods in the months of May and November.

In this example, the inflation rate will have its earliest impact in June 2004, when interest from May accrues, three months after the end of the six-month CPI–U period that ends March 31, 2004.

(3) As another example, the May 1, 2004, rate will apply similarly to a bond purchased in October 1999. Series I bonds issued in October begin new semiannual rate periods in the months of April and October. Thus, for this bond, the May 1, 2004, composite rate (which includes the inflation rate) will not go into effect until a new semiannual rate period begins on October 1, 2004. This rate, therefore, will determine the inflation-indexed portion of each interest accrual from November 2004 through April 2005. In this example, the inflation rate will have its latest impact in April 2005, 13 months following the six-month CPI-U period that ended March 31, 2004.

(c) *Liquidity.* A Series I bond may be redeemed beginning six months after its issue date or at any time thereafter. However, a bond redeemed less than five years from its issue date will be subject to a three-month interest penalty.

(d) *Early redemption penalty.* If a Series I bond is redeemed less than five years following the date of issue, the overall earning period from the date of issue will be reduced by three months. For example, if a bond issued January 1, 1999, is redeemed nine months later on October 1, 1999, the redemption value will be determined by applying the redemption value calculation procedures described in § 359.2(e)(4) and the Series I composite rate for that bond as if the redemption date were three months earlier (July 1, 1999). The redemption value of a bond subject to the three-month interest penalty shall not be reduced below the issue price. This penalty does not apply to bonds redeemed five years or more after the date of issue.

[63 FR 38044, July 14, 1998, as amended at 63 FR 45947, Aug. 28, 1998]

§ 359.4 Registration and issue.

(a) *Registration.* Bonds may be registered as set forth in 31 CFR part 360, subpart B, also published as Department of the Treasury Circular, Public Debt Series No. 2–98. Generally, bonds may be registered in the names of natural persons in single owner, coowner (for example: ''John Doe 123–45–6789 OR Mary Doe''), or beneficiary (''John Doe 123–45–6789 payable on death to (POD) Mary Doe'') forms of registration.

(b) *Validity of issue.* A bond is validly issued when it is registered as provided in Circular No. 2–98, and when it bears an issue date, as well as the validation indicia of an authorized issuing agent.

(c) *Taxpayer Identifying Number (TIN).* The inscription of a bond must include the TIN of the owner or first-named coowner. If the bond is being purchased as a gift or award and the owner's TIN is not known, the TIN of the purchaser must be included in the inscription on the bond.

(d) *Prohibition on chain letters.* The issuance of bonds in the furtherance of a chain letter or pyramid scheme is against the public interest and is prohibited. An issuing agent is authorized to refuse to issue a bond or accept a purchase order if there is reason to believe that a purchase is in connection with a chain letter. The agent's decision is final.

§ 359.5 Limitation on purchases.

The amount of Series I bonds which may be purchased in the name of any one person, in any one calendar year, is limited to $30,000 par value. Circular No. 2–98 (31 CFR part 360, subpart C) contains the rules governing the computation of amounts and the special limitation for employee plans.

§ 359.6 Purchase of bonds.

(a) *Payroll sales*—(1) *Payroll savings plans.* Bonds may be purchased through deductions from the pay of employees of organizations that maintain payroll savings plans. The bonds must be issued by an authorized issuing agent.

(2) *Employee thrift, savings, vacation, and similar plans.* Bonds registered in the names of employee plans may be purchased in book-entry form in authorized denominations through a designated Federal Reserve Bank after Bureau of the Public Debt approval of the plan as eligible for the special limitation under 31 CFR 360.13, also published as § 360.13 of Department of the Treasury Circular, Public Debt Series No. 2–98.

(b) *Over-the-counter sales*—(1) *Eligible issuing agents.* Bonds may be purchased through any issuing agent, except that an organization serving as an issuing agent because of its status as an employer or an organization operating an employer's payroll savings plan under 31 CFR 317.2(c) may sell bonds only through payroll savings plans.

(2) *Manner of sale.* An application for the purchase of a bond must be accompanied by a remittance to cover the issue price. The purchase application and remittance may be submitted to an issuing agent by any means acceptable to the issuing agent. An application may authorize purchases on a recurring basis. The issuing agent bears the burden of collection and the risk of loss for non-collection or return of the remittance.

§ 359.7 Delivery of bonds.

Issuing agents are authorized to arrange for the delivery of Series I bonds. Mail deliveries are made at the risk and expense of the United States to the address given by the purchaser, if it is within the United States, its territories or possessions, or the Commonwealth of Puerto Rico. No mail deliveries elsewhere will be made, except to residents of Mexico and Canada who participate in payroll saving plans. Bonds purchased by a citizen of the United States residing abroad will be delivered only to such address in the United States as the purchaser directs.

§ 359.8 Payment or redemption.

(a) *Incorporated banks, savings and loan associations and other financial institutions*—(1) *Payment in general.* A financial institution qualified as a paying agent under the provisions of 31 CFR part 321, also published as Department of the Treasury Circular No. 750, will pay the current redemption value of a Series I 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 I 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 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 § 359.14 will pay the current redemption value of a Series I 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. 2–98.

§ 359.9 Taxation.

(a) *General.* The increment in value, represented by the difference between the face (par amount) of a Series I bond and the redemption value received for it, is interest. This interest is subject to all taxes imposed under the Internal Revenue Code of 1986, 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 interest by any State, any possession of the United States or any local taxing authority.

(b) *Federal income tax on bonds.* (1) An owner of Series I 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:

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

(ii) *Accrual basis.* Elect to report the increase each year as it accrues, in which case the election applies to all Series I 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 or EE.

(2) If the method in paragraph (b)(1)(i) of this section is used, the taxpayer may change to the method in paragraph (b)(1)(ii) of this section without obtaining permission from the Internal Revenue Service. However, once the election to use the method in paragraph (b)(1)(ii) of this section is made, the taxpayer may change the method of reporting only by following the specific procedure prescribed by 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) *Reissue.* A reissue that affects the rights of any of the persons named on a Series I bond may have a tax consequence.

§ 359.10 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 savings bonds during the year, if that owner or coowner paid qualified higher education expenses during the same year and certain other conditions are satisfied. This exclusion is known as the Education Savings Bond Program, and authoritative information about the program can be found in Internal Revenue Service Publication 17, ''Your Federal Income Tax'', and Publication 550, ''Investment Income and Expenses.''

§ 359.11 Reservation as to book-entry bonds.

The Commissioner of the Public Debt, as designee of the Secretary of the Treasury, reserves the right: To convert at any time, in whole or in part, any definitive Series I savings bonds to book-entry Series I savings bonds; and to issue Series I savings bonds only in book-entry form. The Commissioner's action in any such respect is final.

§ 359.12 Reservation as to issue of bonds.

The Commissioner of the Public Debt, as designee of the Secretary of the Treasury, is authorized to reject any application for Series I bonds, in whole or in part, and to refuse to issue, or permit to be issued, any bonds in any case or class of cases, if the Commissioner deems the action to be in the public interest, and the Commissioner's action in any such respect is final.

§ 359.13 Waiver.

The Commissioner of the Public Debt, as designee of the Secretary of the Treasury, may waive or modify any provision of this Circular in any particular case or class of cases for the convenience of the United States or in order to relieve any person or persons of unnecessary hardship:

(a) If such action would not be inconsistent with law or equity;

(b) If it does not impair any material existing rights; and

(c) If he or she is satisfied that such action would not subject the United States to any substantial expense or liability.

§ 359.14 Fiscal agents.

(a) Federal Reserve Banks and Branches referred to below, as fiscal agents of the United States, are authorized to perform such services as may be requested of them by the Secretary of the Treasury, or his or her designee, in connection with the issue, servicing and redemption of Series I bonds. The Federal Reserve Banks and Branches, as fiscal agents of the United States, are subject to change (for example, due to consolidation), as determined by the Secretary of the Treasury, or his or her designee.

(b) The following Federal Reserve Offices have been designated to provide savings bond services:

Servicing office	Reserve district served	Geographic area served
Federal Reserve Bank, Buffalo Branch, 160 Delaware Avenue, Buffalo, NY 14202.	New York, Boston	Connecticut, Maine, Massachusetts, New Hampshire, New Jersey (northern half), New York, Rhode Island, Vermont, Puerto Rico, Virgin Islands.
Federal Reserve Bank, Pittsburgh Branch, 717 Grant Street, Pittsburgh, PA 15219.	Cleveland, Philadephia	Delaware, Kentucky (eastern half), New Jersey (southern half), Ohio, Pennsylvania, West Virginia (northern panhandle).
Federal Reserve Bank of Richmond, 701 East Byrd Street, Richmond, VA 23219.	Richmond, Atlanta	Alabama, District of Columbia, Florida, Georgia, Louisiana (southern half), Maryland, Mississippi (southern half), North Carolina, South Carolina, Tennessee (eastern half), Virginia, West Virginia (except northern panhandle).
Federal Reserve Bank of Minneapolis, 90 Hennepin Avenue, Minneapolis, MN 55401.	Minneapolis, Chicago	Illinois (northern half), Indiana (northern half), Iowa, Michigan, Minnesota, Montana, North Dakota, South Dakota, Wisconsin.
Federal Reserve Bank of Kansas City, 925 Grand Boulevard, Kansas City, MO 64106.	Dallas, Kansas City, St. Louis, San Francisco.	Alaska, Arizona, Arkansas, California, Colorado, Hawaii, Idaho, Illinois (southern half), Indiana (southern half), Kansas, Kentucky (western half), Louisiana (northern half), Mississippi (northern half), Missouri, Nebraska, Nevada, New Mexico, Oklahoma, Oregon, Tennessee (western half), Texas, Utah, Washington, Wyoming, Guam.

§ 359.15 Reservation as to terms of offer.

The Secretary of the Treasury may at any time or from time to time supplement or amend the terms of this offering of bonds.

PART 360—REGULATIONS GOVERNING UNITED STATES SAVINGS BONDS, SERIES I