

MEMO# 26834

January 4, 2013

Guidance Released on Tips and Bond Premium Carryforward

[26834]

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TO: 529 PLAN MEMBERS No. 1-13
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TRANSFER AGENT ADVISORY COMMITTEE No. 3-13
PENSION MEMBERS No. 3-13 RE: GUIDANCE RELEASED ON TIPS AND BOND PREMIUM CARRYFORWARD

The Treasury Department and IRS released guidance on:

- Treasury inflation-protected securities (TIPS) issued at a premium, [\[1\]](#) and
- Debt instruments with bond premium carryforwards in the holder's final accrual period, including Treasury bills acquired at a premium. [\[2\]](#)

This guidance generally resolves a character mismatch problem for funds that hold zero-coupon instruments (including especially Treasury bills acquired at a premium and having a negative-yield). Under the guidance, a deduction for the unamortized bond premium, rather than a capital loss, is allowed at maturity.

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endnotes

[\[1\]](#) See the Final Regulations provided by T.D. 9609, available at: http://www.ofr.gov/OFRUpload/OFRData/2012-31747_PI.pdf. These Final Regulations take the place of the Temporary Regulations that were issued in December 2011 and adopt those regulations “without substantive change.”

[\[2\]](#) See the Temporary Regulations provided by T.D. 9609, available at: http://www.ofr.gov/OFRUpload/OFRData/2012-31747_PI.pdf. These temporary regulations

were also issued as proposed regulations in REG-140437-12, available at:
http://www.ofr.gov/OFRUpload/OFRData/2012-31746_PI.pdf.

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