7625. What are Treasury Inflation-Protection Securities?

Treasury Inflation-Protection Securities (TIPS) are obligations of the federal government, the principal value of which is adjusted for inflation and deflation based on monthly changes in the nonseasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers (CPI-U). Treasury Inflation-Protection Securities are issued in minimum denominations of $100 with $100 increments thereafter. They provide for semiannual payments of interest and a payment of principal at maturity. The interest rate of Treasury Inflation-Protection Securities is fixed, although the amount of each interest payment will vary with changes in the value of the principal of the security as adjusted for inflation and deflation. Each semiannual interest payment is determined by multiplying the single fixed rate of interest by the inflation-adjusted principal amount (determined as explained below) of the security for the date of the interest payment.[[1]](http://nationalunderwriteradvancedmarkets.com/tax-facts/document/7625-00-TF2.aspx?search=(TIPS)&type=and" \l "_ftn1)

The inflation-adjusted principal amount of the security for the first day of any month is an amount equal to the principal amount at issuance multiplied by a ratio, the numerator of which is the value of the index for the adjustment date and the denominator of which is the value of the index for the issue date. The inflation-adjusted principal amount of the security for a day other than the first day of a month will be determined based on a straight-line interpolation between the inflation-adjusted principal amount for the first day of the month and the inflation-adjusted principal amount for the first day of the next month. The value of the index used to determine the adjustment for the first day of a particular month will be the value of the index reported for the third preceding month.[[2]](http://nationalunderwriteradvancedmarkets.com/tax-facts/document/7625-00-TF2.aspx?search=(TIPS)&type=and" \l "_ftn2)

A Treasury Inflation-Protection Security also provides for an additional payment at maturity if the security’s inflation-adjusted principal amount for the maturity date is less than the security’s principal amount at issuance. The additional amount payable will equal the excess of the security’s principal amount at issuance over the security’s inflation-adjusted principal amount for the maturity date.[[3]](http://nationalunderwriteradvancedmarkets.com/tax-facts/document/7625-00-TF2.aspx?search=(TIPS)&type=and" \l "_ftn3) This type of payment is referred to in regulations (see Q 7626) as a *minimum guarantee payment*.

Treasury Inflation-Protection Securities were first issued in January 1997 and are currently available in the form of 5-year, 10-year, and 30-year inflation-indexed notes. The Treasury Department is authorized to offer notes with maturities as short as one year.[[4]](http://nationalunderwriteradvancedmarkets.com/tax-facts/document/7625-00-TF2.aspx?search=(TIPS)&type=and" \l "_ftn4) Treasury Inflation Protection Securities (TIPS) are auctioned as follows: 5-year TIPS in April, with reopenings in October; 10-year TIPS in January and July, with reopenings in April and October; and 30-year TIPS in February, with reopenings in August.

Treasury Inflation-Protection Securities are taxed under the general rules applicable to inflation-indexed bonds. See Q 7626.