

Savings Bonds

7

things you need to know about...

1.

Basics

- Are very safe.
- They are issued by the Federal Government.
- You can buy them direct from the Treasury or thru your local bank. Go to <http://www.treasurydirect.gov>
- You can purchase, manage, and redeem electronic EE bonds – 24/7 over the internet.
- Go to <http://www.publicdebt.treas.gov> for complete details.

2.

How do they work?

- You can buy bonds for as little as \$25 for a \$50 bond.
- You pay ½ of the face amount.
- Bonds will mature in 20 years or sooner (based on the interest rate).
- They pay interest up to 30 years.
- You must hold them 1 year before you can cash them in.
- If you hold them less than 5 years; you will be penalized 3 months interest.
- An individual may only purchase up to \$30,000 per year.

3.

Interest

- On new bonds interest rates are set every 6 months in May and November (currently 3.7% to October 06).
- EE Bonds issued from May of 97 through April 2005 earn market rates

based on 90% of the average 5 year treasuries for the proceeding six months (currently 4.11 to Nov 06).

- EE Bonds issued between 1980 May 1997 earn semi-annual interest depending on the month of issue. See the website for exact rates.
- Bonds that are over 30 years old have stopped earning interest and should be cashed in.
- Bonds issued after May 1997 pay monthly interest and are compounded semi-annual.
- Older bonds only have the interest credited every 6 months so you need to be careful of when you cash them in.
- Interest on bonds grows tax deferred until redeemed.
- Because they are issued by the Federal Government they are exempt from state and local income tax.

4.

How to Title Bonds

- In single name – Mary Doe
- Co-ownership – Mary Doe or John Doe
- Beneficiary – Mary Doe P.O.D. (payable on death) John Doe
- Ownership is generally not transferable.

5.

What Happens when the Owner Dies?

If there is a co-owner or beneficiary they become the sole owner of the bond. This change of ownership is not a taxable event. If the co-owner or beneficiary is deceased then the bond goes to the estate of the last surviving person named on the bond.

6.

You can use Bonds for Education

- Eligible expenses include tuition and fees at an eligible educational institution.
- Beginning January 1, 1998 payments to a qualified state tuition program are included.
- Books and Room & Board are not eligible expenses.
- The amount of eligible expenses is reduced by the amount of fellowship, scholarships or employer paid assistance.
- Only applies to bonds issued after December 31st 1989.
- Taxpayer must be at least 24 years old.
- The bond must be in the taxpayer or spouses name not the dependent.
- There are income limits of \$63,100 for single and \$94,700 for married to get all the growth tax free (2006). It is phased out after \$78,100 if single and \$124,700 if married.

7.

Remember

- Keep your savings bonds in a safe place (not a shoe box in your closet).
- Make a record of serial numbers, issue date and face value of the bond.
- Review their interest rate and value from time to time.
- Be careful of when and how much you “cash in” at any time for tax planning purposes.