



United States Savings Bonds: Planning Considerations

Savings Bond Basics

Two general types of bonds are currently sold by the Savings Bond Division of the Department of Treasury: Series EE and Series I. Bonds traditionally have been purchased through financial institutions and employer-sponsored payroll savings plans and redeemed through financial institutions, but can also be purchased directly from the United States Treasury.

Series EE savings bonds (paper version, no longer issued) were bought at a discount (a \$100 bond cost \$50 initially) and guaranteed to double in value upon reaching original maturity – 20 years after the issue date. Electronic EE bonds are bought at face value. If insufficient interest has accumulated, the Treasury will make up the difference, in effect guaranteeing a minimum interest rate for bonds held 20 years. EE bonds are always free of state and local income taxes, and the interest accumulates free of federal income tax, as well, for cash-basis taxpayers who do not elect to report their bond interest annually as it accrues. Interest is credited monthly and compounded semiannually. The bonds continue to earn interest until final maturity – 30 years from the date of issue. Taxation generally occurs only when the bonds are cashed, reissued to another person or reach final maturity. But owners have the option to report interest as it accrues annually. Series E bonds, the predecessor to EEs, were issued until 1980 and are widely held, although all stopped earning interest after June 2010. Interest on college education savings bonds can be tax free if certain requirements are met.

Series I bonds are the newest variety and are purchased at face value (a \$1,000 bond costs \$1,000), earning interest at a rate that is indexed for inflation. Interest is credited monthly and compounded semiannually, but tax is generally deferred until redemption, in the same manner as Series EE bonds. I bonds earn interest until they reach final maturity at 30 years from the issue date.

Series H and HH bonds are current income securities that pay interest semiannually by direct deposit for a maximum of 20 years. Sale of Series HH bonds was discontinued in 2004. Series H bonds were issued prior to 1980 and generally had 30-year maturities. All H bonds have ceased paying interest.

Extensive consumer information about United States savings bonds is available at http://www.savingsbonds.gov/indiv/research/indepth/ebonds/res_e_bonds.htm.



Savings Bonds in Lifetime Giving

Bonds are often hidden assets for giving that people have simply forgotten about and likely would not miss if they gave them to The First Church of Christ, Scientist. Owners are often surprised to discover that some of their savings bonds have stopped earning interest, and may be interested in bringing new life to those bonds as planned gifts. Many donors would prefer to make gifts of bonds, whether they have stopped earning interest or not. But Treasury regulations rigidly restrict the lifetime reissue of bonds, limiting transfer to family members and personal estate trusts, such as revocable living trusts.

The tax results of cashing and contributing bonds are less favorable than giving securities or cash in a checking account. Donors would report interest income and receive contribution deductions that, theoretically, would reduce the donor's taxes, or at least keep the gift from increasing the donor's tax. The difficulty is that donors who give bond proceeds and use the standard deduction will report interest income but may be unable to use some or all of the charitable deduction.

Donors who plan to cash and contribute savings bonds need planning assistance, especially if they intend to keep some bonds but give others. They should retain bonds that are paying the highest rates of interest and cash the ones with low yields. Donors also need to be sure that they redeem bonds at the proper time. In many cases, bond interest is credited at six-month intervals. (Interest is credited monthly for bonds purchased after May 1, 1997, and for certain other issues.) Cashing a bond just before interest is credited could cost the donor and charity up to six months' interest. I bonds and EE bonds cashed before five years will result in a three-month interest penalty.

Figuring the interest rates on particular bonds and determining the best time to redeem bonds can be challenging. One source of help is the Treasury website mentioned earlier, which provides bond earnings reports, calculations of current redemption value, an online savings bond redemption calculator and a program called Savings Bond Wizard. Once donors decide which bonds to cash and when to cash them, the bonds can be redeemed at an authorized financial institution (40,000 paying agents are approved by the Treasury Department) upon furnishing proper identification. Unlimited amounts of E, EE or I bonds can be redeemed at an institution where the owner has had an account for more than six months or is well-known to staff. HH bonds must be sent to a Federal Reserve Bank for redemption, with assistance from the owner's financial institution. Bonds purchased after January 2003 cannot be redeemed until 12 months after issue. Donors can authorize charities to be attorneys-in-fact to redeem bonds on their behalf, so long as the power of attorney complies with state law.



Converting Bonds to Life Income Gifts

One way to offset tax liability when owners cash savings bonds is to create a gift annuity or other life income gift arrangement that will provide future support for the Church, lifetime income to the donor or another person, and a charitable deduction that may eliminate all taxes caused from cashing the bonds. Charitable remainder trusts – and especially charitable gift annuities – can offer significant benefits, including larger payments than the interest paid by HH bonds.

If the charitable deduction is insufficient to cover the donor's tax liability, the donor might consider accepting a lower gift annuity payout, which would increase the deduction. Alternatively, donors might defer the first payment for a few years (which also increases their deductions) or hold back part of the proceeds to pay any tax.

Annuity trusts and unitrusts offer flexibility to donors who own savings bonds in substantial quantities. Donors can select payouts and trust terms that leverage the charitable deduction so as to offset the interest reported from cashing bonds.

Savings Bonds: The Best Bequest

Bonds may be subject to heavy federal income taxes (income in respect of a decedent) and state and federal estate taxes. For example, heirs who receive \$100,000 in savings bonds from a decedent's estate may one day have to pay income tax on \$50,000 or more of built-up interest. Furthermore, the full \$100,000 could be subject to federal estate tax, leaving only a fraction of the bonds' value.

Charities usually do not pay income taxes and therefore keep every dollar of such tax-burdened bequests. Furthermore, a bequest of savings bonds to the Church can create both an estate tax charitable deduction and income tax savings for the estate. It's important, from a tax standpoint, for a donor's will or trust to make specific bequests of savings bonds to charity.

Bonds may be transferred to the Church at death in only two ways: under the terms of the donor's will or as a distribution from a revocable living trust. Why can't a church or charity be listed as a co-owner or death beneficiary on the bond itself? Treasury regulations state: "The issue or reissue of a bond in the name of an organization (charitable and others) as a co-owner or beneficiary is not permitted; such forms of registration are limited to natural persons. Reissue of a bond in the name of an organization to designate another organization as owner is not permitted, but a bond that an organization receives as a distributee of a decedent's estate may be reissued in its name." – *Legal Aspects of U.S. Savings Bonds*



Series EE, HH and I bonds may be issued or reissued in the name of a trustee of a revocable trust, if the donor is the lifetime (income) beneficiary and is considered the owner of the trust under the grantor trust rules. For example, an HH bond could be registered to: “The First Church of Christ, Scientist, trustee under agreement with Mary Jones, dated 12/1/95, 12-3456789.” Mary’s tax situation would be the same as if the trust never existed. But the Church could be the remainder beneficiary of the trust and thus receive the bonds at her death.

Bonds can be left to charity in a will or through a revocable living trust only if the bonds do not have a surviving co-owner or death beneficiary. Savings bonds registered in either co-ownership or beneficiary form become the sole property of the survivor, irrespective of the terms of any will. Donors must have these bonds reissued to them without inclusion of any death beneficiary or co-owner. (Removing death beneficiaries or co-owners who did not furnish funds for the bonds’ purchase will not be a taxable event.)

Savings bonds that are specifically bequeathed to the Church (or distributed from a revocable living trust) will avoid income taxes and also qualify for an estate tax charitable deduction. A few bequest options can provide favorable tax results:

1. “I bequeath the following United States savings bonds to The First Church of Christ, Scientist” (followed by bond descriptions, including denominations and serial numbers).
2. The will or trust states that “ALL my United States savings bonds are to pass to The First Church of Christ, Scientist.”
3. The bonds are part of the residue of the estate and pass to The First Church of Christ, Scientist as sole residuary beneficiary.

Bequests of Bonds to Charitable Remainder Trusts

Donors can establish charitable remainder trusts by will and specify that the trust will be funded with United States savings bonds. The trust would make payments for life or a term of years to family members or others selected by the donor. Such a plan should eliminate income taxes on the savings bonds when they are redeemed by the trustee of the trust, which is tax exempt. The interest on the bonds likely will be passed through to the trust beneficiaries as part of their annual trust payments, under the four-tier system, and taxed as ordinary income. But there would be no depletion of the trust corpus from tax. Furthermore, the donor’s estate becomes entitled to an estate tax charitable deduction.

Lifetime Gifts. Savings bonds cannot be transferred during life to the Church, but bonds can be redeemed at most financial institutions (40,000 paying agents are approved by the Treasury Department) upon furnishing proper identification. Bond proceeds can then be



given as cash contributions, although donors generally will be taxable on unreported interest. You may redeem up to \$1,000 worth of bonds at one time based on documentary identification alone. Unlimited amounts of E, EE or I bonds can be redeemed at an institution where the owner has had an account for more than six months or is well-known to staff. HH bonds must be sent to a Federal Reserve Bank for redemption, with assistance from the owner's financial institution. Bonds purchased after January 2003 cannot be redeemed until 12 months after issue. Donors can authorize the Church to be attorney-in-fact to redeem bonds on their behalf, so long as the power of attorney complies with state law.

Gift Annuity Option. Please contact our office if you are interested in cashing savings bonds and contributing the proceeds for a charitable gift annuity.

Gifts by Will or Living Trust. Talk to your attorney about adding a codicil to your will or an amendment to your revocable living trust that leaves some or all of your savings bonds to The First Church of Christ, Scientist. Remember that bonds can be left to the Church in a will or through a revocable living trust only if the bonds do not have a surviving co-owner or death beneficiary. Donors must have these bonds reissued to them without inclusion of any death beneficiary or co-owner. (Removing death beneficiaries or co-owners who did not furnish funds for the bonds' purchase will not be a taxable event.) Here are possible will or trust provisions:

1. "I bequeath the following United States savings bonds to The First Church of Christ, Scientist" (followed by bond descriptions, including denominations and serial numbers).
2. The will or trust states that "All my United States savings bonds are to pass to The First Church of Christ, Scientist."

Alternatively, the bonds can be part of the residue of your estate and pass to the Church as residuary beneficiary.

How to Proceed

If you are interested in leaving the Church savings bonds in your will or living trust, please e-mail, call or write our office.

We are pleased to advise you:

1. Our correct legal name, for use by your attorney in drafting our bequest
2. Suggested will clauses that enable you to include language making the Church a contingent beneficiary of a savings bond bequest, should your primary beneficiary die before you or disclaim part or all of a bequest



You will need to share with us:

1. The value of the bonds you intend to leave to the Church
2. Your wish to reserve lifetime income from your bequest for a family member

You can contact our office at philanthropy@cspcs.com, by phone at 1-800-288-7155, extension 3288, or write to us at the address below. We look forward to hearing from you.

The First Church of Christ, Scientist
Philanthropy, P05-10
210 Massachusetts Avenue
Boston, MA 02115-3195 USA