

LEGAL EASE



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The ABCs of U.S. savings bonds

United States Savings Bonds are registered securities issued by the United States Government for individual investors. Many investors possess Series E (introduced in 1941 and withdrawn from sale in 1980) or Series EE (introduced in 1980) savings bonds. Additionally, beginning December 2001, Series EE savings bonds purchased directly through financial institutions are printed with the words "Patriot Bond" on them. All of these types of United States Savings Bonds accrue interest, and all of them have a "final maturity" date beyond which this interest-accrual will cease.

At the time of purchase, a United States Savings Bond can be registered to a single person ("single ownership"), registered to two people ("co-ownership"), or can be registered to a primary owner and a beneficiary ("beneficiary") via a POD ("payable on death") designation. In the case of co-ownership, if one co-owner dies, the other automatically becomes the single owner. Similarly, in the case of beneficiary registration, when the primary owner dies, ownership passes to the beneficiary. Since they are registered securities, possession of a United States Savings Bond is of limited legal consequence, as ownership is determined by the names in the records of the Department of Treasury. Consequently, the Social Security Number printed on a United States Savings Bond does not establish ownership. It is used only to find records if the savings bond is lost, stolen, or destroyed, when the owner does not have a record of the serial number.

United States Savings Bonds are exempt from state and local income taxes. With regard to Federal income tax, although savings bonds may accrue interest over the life of the bond, that interest is typically not reported until redemption. Alternatively, cash-basis taxpayer/owners may choose to report the interest accrual each year, even though the interest payout will ultimately not be received until the bond is redeemed. A surviving co-owner or beneficiary of a United States Savings Bonds which has not yet reached maturity is generally required to include on his or her tax return the accrued interest in the year in which the bonds are redeemed or reach final maturity, whichever occurs first. Alternatively, he or she may elect to report all interest earned on the bonds until the date of death of the deceased co-owner / primary owner. This election can be valuable if the deceased co-owner / primary owner's income in her final tax year was nominal. Note that, should the election be made, interest earned on the bonds until the date of death of the deceased is reported on the decedent's final income tax return.

Lastly, readers should note a difference in death tax at the Federal and State levels. For Pennsylvania Inheritance Tax purposes, one-half of the date of death value of co-owned United States Savings Bonds must be reported, provided the bonds were registered jointly (i.e., co-owned) more than one (1) year prior to the death of the other co-owner. However, with respect to the Federal Estate Tax, under Section 2040 of the Federal Tax Code, the entire value of jointly-held property, including United States Savings Bonds registered in two names, is included in a decedent's Federal gross estate, except for the portion of the property for which the surviving joint tenant furnished payment. Accordingly, if a surviving co-owner did not contribute to the original purchase price, then the entire value of the co-owned bonds, together with interest accrued as of the date of death, is included in a decedent's Federal gross estate. Of course, because federal estate taxes are currently imposed upon estates that have a net value of \$2 million or more, this last fact may not apply to your particular situation, whereas the Pennsylvania Inheritance Tax likely will.