VALUATION OBSERVATIONS

Some practical observations from a practicing business appraiser.

VLC

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SAVINGS BONDS
Transferability and Taxability

What a great gift idea! Yes, we've all been know to give savings bonds as gifts for a variety of reasons. And some people accumulate a lot of them over their lifetime. So exactly what are these little gems, and why do we buy them?

They are considered a long term investment. EE Bonds are reliable, low-risk government-backed savings products that you can use toward financing education, supplemental retirement income, birthday and graduation gifts, and other special events. Series EE Bonds purchased on or after May 1, 2005, earn a fixed rate of retrn, letting you know what hte bonds are worth at all times. EE Bonds purchased between May 1997 and April 30, 2005, are based on 5-year Treasury seculrity yields and earn a variable market-based rate of return. E Bonds are the predecessor to EE Bonds and are no longer issued by the U.S. Treasury.

The question arose recently as to IF you can transfer ownership of these precious little gems, and if so, how does that work.

If the bonds are relatively new, you should first be aware of this - If you redeem EE/E Bonds in the first 5 years, you'll forfeit the 3 most-recent months' interest. If you redeem them after 5 years, you won't be penalized. This is important to know if you need to liquidate some assets, say due to a divorce. The better alternative is to transfer ownership. How does this work, you ask?

The Treasury Department allows transfer by re-issuing the bonds, and has a form on their website for this. They even have a fill-in form on their website, which is located at **http://www.treasurydirect.gov/forms/sav4000.pdf**

As for the tax implications: If the name of a living owner or principal co-owner of the bonds is eliminated from the registration, the owner or principal co-owner must include the interest earned and previously unreported on the bonds to the date of the transaction on his or her Federal income tax return for the year of the reissue. The principal co-owner is presumed to be responsible for reporting any interest for federal income tax purposes.

For taxable reissues, the person giving up ownership of the bonds will be sent an IRS Form 1099-INT shortly after the end of the tax year. This form will show the interest earned to the date of the reissue transaction. If the form shows interest earned and you have deferred reporting interest throughout the life of the bond, you report interest earned on those bonds as income on your taxes for the year the reissue occurs.

To determine the current redemption values and hence the reportable interest on reissue (as well as value for property division purposes), you can refer to the table the Treasury Department provides, which can be found at **http://www.treasurydirect.gov/forms/sav3600.pdf** The new owner or principal co-owner of the reissued bonds is responsible for interest earned after the date of the reissue transaction.

Other tidbits:

- Interest on savings bonds is subject to taxes imposed under the Internal Revenue Code of 1986. The bonds are exempt from taxation by any State or political subdivision of a State, except for estate or inheritance taxes.
- Interest earnings are subject to Federal income tax.
- Interest earnings may be excluded from Federal income tax when bonds are used to finance education. But certain restrictions apply to this exception.

I hope this helps you understand a little better how Savings Bonds work and what your options may be. If you would like additional information, or have a question, please do not hesitate to call.

Very truly yours,

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