

Advantages and Disadvantages of U.S. Savings Bonds for College Savings

Series EE bonds (may also be called Patriot bonds) issued January 1990 and later
Series I bonds

Advantages

- ▶ Interest earned is generally exempt from state income tax
- ▶ Interest earned may be exempt from federal income tax if bond proceeds are used to pay the beneficiary's qualified education expenses, provided certain other conditions are met*
- ▶ Bonds are backed by the federal government, so they offer a virtually guaranteed rate of return
- ▶ You retain control of the bonds as long as they are owned in your name
- ▶ Series EE bonds are purchased at half their face value, so you can begin investing with smaller amounts
- ▶ Bonds earn interest for up to 30 years
- ▶ Bonds are treated as a parental asset for federal financial aid purposes and assessed at a rate of 5.6 percent

Disadvantages

- ▶ Bond proceeds that are not used for the beneficiary's qualified higher education expenses will be taxed to the owner
- ▶ Qualified education expenses for purposes of U.S. savings bonds generally include tuition and fees only, not room and board
- ▶ The maximum annual purchase allowed is \$15,000 per individual for EE bonds (\$30,000 face value) and \$30,000 for I bonds (EE bonds may be purchased at half their face value; I bonds are purchased at full face value)
- ▶ Your income must be below a certain level at the time you redeem (cash in) the bonds for you to be eligible to exclude the interest earned from federal income tax (yet you must add the bond proceeds into your total income for the year when determining whether you meet this income threshold)*

*For the interest to be excluded from federal income tax, the following conditions must be met: (1) the owner must be at least 24 years old when the bonds are purchased (2) the beneficiary must be the owner, the owner's spouse, or the owner's dependent and (3) in 2009, the owner's modified adjusted gross income (MAGI) at the time the bonds are redeemed (cashed in) must be less than \$69,950 for a full exemption for single filers (a partial exemption is allowed for MAGI between \$69,950 and \$84,950) and less than \$104,900 for joint filers (a partial exemption is allowed for MAGI between \$104,900 and \$134,900).