

P+P TAX TIP: SAVINGS BONDS

Overview

Taxpayers can use part of a federal refund to purchase Series I U.S. Savings Bonds. Bonds are a long-term savings option that earns interest. Someone can purchase a bond in their own name and purchase bonds for up to two other people. This provides an easy way for taxpayers to use their refund to build their own savings or give the gift of savings to someone else.

Remember! Taxpayers who purchase a Savings Bond can enter the Save + Win savings contest for a chance to win a \$100 prize.

Requesting, receiving, and cashing bonds

Requesting bonds

Taxpayers can purchase Savings Bonds in increments of \$50 (up to \$5,000) when filing their federal tax return. The amount and name of the bond owner are reported on IRS Form 8888 (see page 2 for TaxSlayer data entry). When requesting a bond, taxpayers may also set a co-owner or beneficiary.

- Co-owners can cash a U.S. savings bond without permission of the other owner.
- Beneficiaries can only cash a U.S. savings bond after the primary owner dies.

Some taxpayers cannot purchase Savings Bonds. Taxpayers who expect to have their refund offset (recaptured for some past due debt), including joint filers who use an Injured Spouse Allocation form, cannot request bonds. Additionally, if the IRS corrects to a lower amount, a bond will not be issued. If taxpayers with these situations tried to request bonds, the remaining refund will instead be issued by direct deposit or check.

Receiving bonds

Bonds purchased with a tax refund are mailed to the taxpayer by the Department of the Treasury a few weeks after the return is accepted. If a bond is lost or damaged, a taxpayer can request that it be reissued as an electronic bond using the Treasury Direct website. The taxpayer will need to know the name of the bond owner and when the bond was issued.



Cashing bonds

Series I Savings Bonds continue to earn interest for up to 30 years, but the bond does not need to be held until it fully matures. Bonds must be held for at least 12 months. Bond owners who cash the bond before owning it for at least 5 years will lose the last three months of interest earned. After 5 years, bonds can be cashed with no penalty.

Most banks and credit unions can cash Savings Bonds, but some require that the bond owner is an account holder. Bond owners should call in advance to ensure they have all the required identity verification information to cash the bond. Bond owners can also convert paper bonds to electronic bonds on the Treasury Direct website. These bonds can be cashed online and then directly deposited into a checking or savings account.

The interest earned on Savings Bonds is reported as income in the year it is cashed. The interest is taxable on the federal return, but not taxable on the Minnesota return. The financial institution that cashed the bond will send Form 1099-INT to the bond owner.

Interest rates

Series I Savings Bond interest calculations are a little complicated! The bonds are designed to be a long-term investment that does not lose value, so growth varies based on current inflation rates. The rate is generally higher than a standards savings account.

These bonds have both a fixed interest rate and an inflation rate. The fixed rate is set for the life of the bond. The inflation rate is adjusted every six months, with new rates announced each May and November. A composite rate, based on the fixed and inflation rates is recalculated every six months. This determines how much interest the bond will earn during that period.

Series I Savings Bonds purchased during the 2024 tax season have these rates:

- Fixed rate of 1.3%
- Inflation rate of 1.97%
- **Composite rate of 5.27%** - this is the interest rate for the bond from its issue date through May 2024 when the next inflation rate is announced.

TaxSlayer data entry

Savings Bond details are entered in the direct deposit section of TaxSlayer below the checking and savings account entries. The details will transfer to IRS Form 8888. **Remember, amounts must be in \$50 increments.**

Savings Bond 1

This entry is for a bond issued in the taxpayer's name.

Savings Bond 2

This entry is for a bond issued in another person's name. If the taxpayer would like to add themselves or another person as a co-owner or beneficiary, that information is listed under the owner's name.

Savings Bond 2 can be entered even if the taxpayer does not choose to buy a bond for themselves in the Savings Bond 1 area.

Savings Bond 3

Entry is the same as Savings Bond 2. This entry is for a second bond for another person.

Paper Check Allocation

Select a portion of the refund to be issued as a paper check.

Savings Bonds

The taxpayer can purchase up to 3 savings bonds with their refund.

Savings Bond 1

Bond Amount *

Savings Bond 2

Bond Amount *

 The taxpayer does not wish to purchase this bond

Owner First Name *

Owner Last Name *

Co-Owner First Name *

Co-Owner Last Name *

 Co-Owner Is Beneficiary

Savings Bond 3