Savings Bonds Educational Plans

PLAN A

REGISTRATION: Bonds must be registered in the name of one or both parents as owner(s). The child's name can only appear as beneficiary—not as owner or co-owner. Bonds must be purchased after January 1, 1990.

AGE: Bonds can be purchased by anyone as long as the owner of the Bond is at least 24 years of age at the time of purchase.

USAGE: Bonds can be used for educational expenses of the Bond buyer, spouse, or children at qualified educational institutions. Qualified educational institutions are those that meet the standards for participation in Federal financial aid programs and include colleges, universities, and technical/vocational schools.

Bonds must be redeemed in the year that qualified educational expenses are paid.

INTEREST EXCLUSION: Interest is fully excluded only if qualified educational expenses are equal to or more than the Bond redemption proceeds, including principal and interest. If tuition and fees are less than the value of the Bonds redeemed, the amount you can exclude from income is proportional to the percentage of the value that is used for tuition and fees.

TAX REQUIREMENTS: Married taxpayers must file a joint Federal income tax return.

Full exclusion applies to single taxpayers with adjusted gross incomes up to and including $55,750; reduced tax benefits for incomes $55,751 - $70,750; no benefit for incomes over $70,750.

Full exclusion applies to married taxpayers with adjusted gross incomes up to and including $83,650; reduced tax benefits for incomes $83,651 - $113,650; no benefit for incomes over $113,650.

Income limits for single and married taxpayers are adjusted yearly for inflation. These income figures apply to bonds redeemed in 2001.

PLAN B

REGISTRATION: Bonds must be registered in the name of the child as owner. A parent may only be listed as a beneficiary.

AGE: Bonds can be purchased by anyone as long as the child has a Social Security number. Age does play a factor in the tax benefits. See TAX BENEFITS below.

USAGE: Bonds may be used for any expense including educational expenses of the bond owner.

TAX BENEFITS: Child has a minimum annual standard deduction of $750. Up to age 14, all unearned annual income up to $750 is exempt; from $751 - $1,500 unearned income is taxed at the child's rate. Unearned income over $1,500 is taxed at the parent(s) rate. After age 14, all income is taxed at the child's rate.

Another method to maximize tax benefits is to choose Annual Reporting. Under this method, file a tax return on behalf of the child reporting the total accrued interest through December 31, on all bonds registered to the child. No income tax is due on interest earned not exceeding $750 each year; no additional tax returns are necessary until the child's income exceeds $750 in a given year. With this approach, the tax liability on the bond interest is determined on an annual basis so that, when the bonds are redeemed, only the current year's accrual will be subject to Federal income tax. Make sure you keep complete records.