

# THE WILD ANIMAL Sanctuary TEXAS

## **Savings Bonds:**

### *[Charitable and Tax-Saving Strategies]*

*Many people have accumulated interest on U.S. savings bonds they purchased years ago, yet they are often reluctant to cash them in for fear of having to report large amounts of taxable interest income. Even giving the bonds to a child or other individual triggers taxation of the accumulated interest. Consequently, many people hold the bonds until death, at which time their estates or their beneficiaries must pay income tax on the accumulated interest.*

No matter how large or small the amount, savings bonds can be used as the basis for a charitable gift during your lifetime or upon your death. If you want to make a gift during your lifetime, you will first need to redeem the bonds for cash and then donate the cash as a gift; savings bonds cannot be given directly to The Wild Animal Sanctuary-TEXAS. The charitable tax deduction from the cash gift may reduce the income tax burden that occurs from cashing in the bonds. The deduction for cash gifts is limited to 50 percent of your adjusted gross income. You are allowed, however, to carry over any remaining amount for five subsequent years.

If you want to make a charitable bequest, savings bonds will produce more tax benefits than almost any other type of asset. If savings bonds are left to your estate or to your heirs, income tax will need to be paid on all of the accumulated interest. If the bonds are left to a charitable organization such as Wild Animal Sanctuary-TEXAS or to a charitable remainder trust, however, no income tax will be paid when the bonds are redeemed because Wild Animal Sanctuary-TEXAS and trust are tax-exempt. The charitable remainder trust provides for a tax-free redemption of the bonds and benefits the bond owner's descendants and his or her charitable intentions.

If your estate exceeds \$2 million, it could be subject to estate tax. Although the highest estate tax rate is 45 percent, the additional income tax assessed upon the redemption of the bond can easily raise the total tax bill on the accumulated interest up to 65 percent! Rather than have 65 percent of the interest paid to the government, you can make a charitable bequest of the bonds so that 100 percent of the value is dedicated to your selected charitable purpose.

### **Lifetime Gifts of Savings Bonds**

Savings bonds that accrue income, such as EE bonds, generally cannot be transferred to anyone during your lifetime without reporting the accumulated interest on your income tax return. The advantage of redeeming the bonds for cash, and in turn making a cash gift, is that you can claim a charitable income tax deduction, possibly offsetting the additional income tax in the year of the transfer.

### **Gift to Heir**

Example: Charles has, in his name, savings bonds worth \$5,000 that he purchased for \$1,000. He gives the bonds to his son by reissuing them in his son's name. Charles must recognize the entire \$4,000 of accumulated interest income on his income tax return in the year that the ownership was changed. He will not be able to claim an income tax deduction for a gift to his son.

## Gift to Charitable Organization

Example: Curtis has savings bonds worth \$5,000 that he purchased for \$1,000. He can make a gift to his favorite charitable organization by redeeming the bonds for cash and giving the cash. He must recognize the entire \$4,000 of accumulated interest income on his income tax return. He will be entitled, however, to an offsetting charitable income tax deduction of \$5,000--the full value of the bonds--up to 50 percent of his adjusted gross income, so he may not owe any income tax in the year he made the gift. In fact, he will have a net income tax deduction of \$1,000 (\$5,000 charitable deduction minus \$4,000 of income).



## Charitable Bequests of Savings Bonds

Savings bonds are a great asset to bequeath to The Wild Animal Sanctuary. When the organization redeems the bonds, it will be able to keep the entire value for charitable purposes. The accumulated interest income will never be taxed!

Example: Deborah has savings bonds worth \$12,000 that she purchased for \$2,000 (the untaxed, accumulated interest totals \$10,000). She also owns publicly traded stock worth \$12,000 that she purchased for \$2,000. She is considering a charitable bequest of \$12,000 to The Wild Animal Sanctuary. Her estate does not exceed \$2 million, so it will not be subject to estate tax.

Deborah's children will be better off if she bequeaths the savings bonds, rather than the stock, to Wild Animal Sanctuary. If she gives the children the stock, its cost basis will be "stepped up" to its value on the date of her death (i.e., \$12,000) so that they will have no taxable income if they subsequently sell the stock for \$12,000. By comparison, if she gives the stock to The Wild Animal Sanctuary and her children receive the savings bonds, they will have taxable interest income of \$10,000 when they cash in the bonds. After paying as much as \$3,500 of income tax (35 percent tax rate x \$10,000 interest), they will have less cash than if they had received the stock. Whether Deborah bequeaths the stock or the savings bonds, because it is tax-exempt, Wild Animal Sanctuary would have the same \$12,000.

## How to Make a Bequest of Savings Bonds

The best way to give savings bonds to a charitable organization is to have a provision in your will that states that your bonds shall become the organization's property after your death. The estate will distribute the bonds to the organization. Then the institution will report the interest income when it redeems the bonds. Because charitable organizations are tax-exempt, however, no tax will be due when the bonds are redeemed.

See your attorney and financial advisor to structure your charitable gifts in the most advantageous way.

## Types of Savings Bonds and How They Work

Series EE Bonds (Patriot Bonds). Series EE savings bonds, the most common type, are usually issued at a discount price of half of the bond's stated maturity value. Each bond grows in value because of the accumulated interest. It can be redeemed at the maturity date for the stated value, but often the owner continues to hold the bond, which accumulates interest. The owner



needs to pay close attention to the purchase date, as the Series EE bonds stop paying interest 30 years after that date.

The owner is usually not taxed until he or she redeems the bond. The amount of interest income that the owner must eventually report is the difference between the bond's redemption amount and the original purchase price.

Series HH Bonds. Series HH savings bonds, issued at the face amount, pay interest twice each year and stop paying interest after 20 years.

Series I Bonds. This newest form of savings bond pays a yield that is a fixed percentage above the rate of inflation. These bonds are issued at their face values.

## **Get the Most From Your Savings Bonds**

When making your estate plans, you want to ensure that the people and organizations important to you receive the most benefit. Making a gift of savings bonds to The Wild Animal Sanctuary-TEXAS may be your best avenue to put their full value to work. Feel free to call Casey Craig for a no-obligation discussion to see if this method of giving is right for you.

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