

How U.S. Savings Bonds Work

How to keep track of your savings bonds' maturity dates.

Provided by DSA Financial Group

Did you buy U.S. Savings Bonds decades ago? Or did your parents or grandparents purchase them for you? If they're collecting dust in a drawer, you may want to take a look at them to see if any of your bonds have matured. If your bonds have matured, that means they are no longer earning interest, and it also means you may want to consider cashing them in.¹

This article is for informational purposes only. It's not a replacement for real-life advice, so make sure to consult your tax professional when you're considering any move with a U.S. Savings Bond.

You want to keep track of the maturity dates, the yields and the interest rates on your bonds, as that will help you to figure out what bond to redeem when. Fortunately, you're able to check the maturity dates online now so it's relatively easy to determine if it's time to cash-in your bonds.²

Use savings bonds for educational purposes. If you've been holding onto Series EE or Series I savings bonds, the interest paid is tax-exempt, so long as the money is used to pay for qualified educational expenses. There are other considerations, so if you discover you have these types of bonds to cash in. A tax professional may be able to provide some guidance.³

Interest accumulated over the life of a U.S. Savings Bond must be reported on your 1040 form for the tax year in which you redeem the bond or it reaches final maturity. This must be done even if you (or the original bondholder) chose to have the interest on the bond accumulate tax-deferred until the final maturity date. Failure to report such interest may lead to a federal tax penalty.²

Remember, U.S. Savings Bonds are guaranteed by the federal government as to the payment of principal and interest. However, if you sell a savings bond prior to maturity, it could be worth more or less than the original price paid.

U.S. Savings Bonds are taxed in one of two ways. Bondholders choose to defer the tax until the bond matures. Once they redeem the bond, they report the interest through a 1099-INT form. Some choose to pay the tax annually prior to cashing the bond in, reporting the increase in the value of the bond as taxable interest each year.^{2,3}

What if you find out you have held a U.S. Savings Bond for too long? Another note about reporting interest: if a U.S. Savings Bond has matured and you have failed to redeem it, you will not find a Form 1099-INT for it in your records. Only redemption will bring that 1099-INT your way. (The accumulated interest for the bond should have been reported to the IRS regardless.) After you cash in that old bond, you will thereafter receive a 1099-INT. It will record that the interest on the bond was earned in the year of the bond's final maturity.²

Plan ahead & keep track. U.S. Savings Bonds were issued on paper for decades and were often purchased on behalf of children and grandchildren. Now, U.S. Savings Bonds are issued electronically. While the interest on U.S. Savings Bonds is taxed by the IRS, it is exempt from state and local taxes.^{1,2}

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Citations.

1. TreasuryDirect.gov, August 2, 2021
2. IRS.gov, April 1, 2021
3. BusinessInsider.com, Feb 12, 2021