



An Accountancy Corporation

Last Chance to Defer Accumulated Interest from Series E and EE Savings Bonds by exchanging them for Series HH Bonds

If you own Series E or Series EE U.S. savings bonds with significant amounts of accumulated interest, you may want to consider exchanging those bonds for newly issued Series HH U.S. savings bonds. By making the exchange, you can continue deferring taxes on the accumulated E and EE bond interest until you either cash in the HH bonds or they reach maturity. Since HH bonds have a life of 20 years, you could potentially benefit from many additional years of tax deferral.

However, the HH bond exchange privilege will come to an end on **August 31**. Why? Because the government has decided to stop issuing new HH bonds after that date. So if you want to take advantage of this tax deferral opportunity, you must **move very quickly**.

Before signing up for an exchange, however, it's important to understand the key differences between Series E and EE bonds and Series HH bonds.

- * HH bonds are issued at face value. In other words, an HH bond with a face value of \$500 will cost you \$500. HH bonds pay cash interest every six months. You can arrange for the interest payments to be automatically deposited in your bank or brokerage firm account. The interest is taxable as it is received.
- * E and EE bonds are zero coupon investments issued at a discount. The interest is paid at maturity when the coupons are redeemed for their full face value. For each year prior to maturity, the bond's redemption value increases. This annual increase in value represents the interest accrual for each year. The interest is not taxed until the bonds mature or, if earlier, when they are redeemed.
- * For at least the first 10 years after an HH bond's issue date, the interest rate is fixed at only 1.5%. Obviously, this is a very low rate.
- * Finally, it's important to remember that federal income taxes on HH bond interest payments cannot be deferred. The tax deferral benefit relates only to the accumulated interest from the E and EE bonds that you exchange for the HH bonds.

Obviously, given the low interest rate paid on Series HH bonds, a Series HH exchange is not for everyone. However, it is a strategy worth considering if you have Series E or EE bonds with significant amounts of deferred interest maturing in the near future and would otherwise reinvest the series E or EE redemptions proceeds in low-yielding investments such as money market accounts, money market mutual funds, and passbook savings accounts.

If you find the HH bond exchange idea attractive, personnel at your local bank should be able to help you fill out the necessary paperwork. **Don't forget the August 31 deadline**. We are available to answer any tax questions you may have. Please give us a call if you want more information.

For guidance that can help improve the chances of success for your venture, give us a call.

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