FS Publication 0051
Department of the Treasury
Bureau of the Fiscal Service
(Revised June 2022)

USING SAVINGS BONDS FOR EDUCATION

The Program

Question: **What is the Education Savings Bond Program?**

Answer: The Education Savings Bond Program permits qualified taxpayers to exclude from their gross income all or a portion of the interest earned on the redemption of eligible Series EE and Series I bonds issued after 1989. You must be at least 24 years old before the bond's issue date. To qualify for this exclusion, the taxpayer, the taxpayer's spouse, or the taxpayer's dependent at certain post-secondary educational institutions must incur tuition and other educational expenses. Persons with incomes above certain thresholds may not be eligible to participate. The tax exclusion is described in 26 U.S.C. 135 (see GPO.gov).

Question: **What qualifies as an eligible educational institution?**

Answer: Post-secondary institutions, including vocational schools that meet the standards for participation in federal assistance (such as guaranteed student loan programs), qualify for the program. Proprietary institutions, such as beautician or secretarial schools, generally do not qualify.

Question: **What educational expenses qualify for the interest exclusion?**

Answer: Eligible educational expenses include tuition and fees (such as lab fees and other required course expenses) required for the enrollment of or attendance by the taxpayer, or the taxpayer's spouse or dependent at an eligible educational institution. Payments to qualified state tuition programs are also eligible. However, expenses relating to any course or other education involving sports, games, or hobbies are eligible only if required as part of a degree or certificate-granting program. The costs of room and board, as well as books, aren't eligible expenses. The amount of eligible expenses is reduced by the amount of any scholarships, fellowships, employer-provided educational assistance, and other tuition reduction. Eligible expenses must be incurred during the same tax year in which eligible bonds are redeemed.

Question: **What if the amount of the bond redemption proceeds exceeds the amount of the qualified educational expenses?**

Answer: If the amount of the redemption proceeds from all eligible bonds redeemed during the year exceeds the amount of the qualified educational expenses paid during such year, the amount of excludable interest will be reduced *pro rata*. For example, if the bond proceeds amounted to $10,000 ($5,000 principal and $5,000 interest) and the qualified educational expenses are $8,000, the taxpayer would only be able to get an interest exclusion for 80 percent ($8,000/$10,000) of the interest earned, or $4,000.

Question: **Are there income limitations?**

Answer: Yes. The interest exclusion may be limited based on your modified adjusted gross income. You do not qualify for the interest exclusion if your modified adjusted gross income is equal to or more than the upper limit for your filing status. The income limits are indexed for inflation and then rounded to the nearest multiple of $50. For specific amounts, see IRS Publication 550.

Question: What is modified adjusted gross income?

Answer: For purposes of this program, modified adjusted gross income (AGI) means the sum of the taxpayer's adjusted gross income for the taxable year, including interest on U.S. Savings Bonds before exclusion, but taking into account the partial exclusion of social security and tier 1 railroad retirement benefits, adjustments for contributions of retirement savings, and adjustments for limitations on passive activity losses and credits. It also includes the gross income earned by citizens or residents of the U.S. living abroad and income from sources within Guam, American Samoa, the Northern Mariana Islands, and Puerto Rico.

Question: Can all outstanding bonds be used to qualify for the Education Savings Bond Program?

Answer: No. It applies only to Series EE and Series I bonds issued after December 31, 1989. (These bonds can be in paper or electronic form.) Savings bonds issued before that date and other series of bonds (e.g., Series HH) are not eligible.

Question: Will the educational institution be required to verify the educational expenses of the taxpayer, taxpayer's spouse, or the taxpayer's dependent?

Answer: Generally no, however, the taxpayer should retain receipts or canceled checks for educational expenses as part of the taxpayer's record to substantiate his or her claim to an interest exclusion from income of the bonds cashed.

Question: Can anyone take advantage of the interest exclusion by purchasing bonds as gifts?

Answer: No. The purpose of this program is to benefit the taxpayer(s) paying for qualified educational expenses of the taxpayer, taxpayer's spouse, or taxpayer's dependent within the meaning of Section 151 of the Internal Revenue Code. To exclude the bond interest from gross income, the bond must be in the name of the taxpayer, or in the name of the taxpayer and the taxpayer's spouse, and not in the name of the dependent. The designation of the dependent as beneficiary is permitted.

Question: Can anyone purchase these bonds and take advantage of the interest exclusion?

Answer: No. To exclude interest earnings on Series EE and Series I bonds issued after 1989, a taxpayer must be at least 24 years old before the bond's issue date. Since a bond's issue date is the first day of the month in which the taxpayer purchases the bond, the taxpayer must be 24 years old before the first day of the month in which the bond is purchased. Also, if the taxpayer is married, the taxpayer must file a joint return in order to exclude the bond interest from income.

Question: How does one exclude the interest income on the tax form?

Answer: IRS Form 8815 includes the necessary worksheet and instructions for taxpayers to use in connection with tax returns.

Question: To exclude the bond interest from gross income, does both the principal and interest from bonds redeemed during the year have to be used for qualified educational expenses?

Answer: Yes. Only if the taxpayer pays qualified education expenses equal to or greater than all proceeds (i.e., interest and principal) from bonds redeemed during the year can all interest accrued on such bonds be excluded from his or her gross income.

Purchasing/Registration

Question: **If I want to start taking advantage of this program now, how do I purchase these bonds and how should they be registered?**

Answer: Electronic Series EE and Series I bonds can be purchased in TreasuryDirect and should be registered either in the taxpayer's name alone, the taxpayer's name as primary owner with the taxpayer's spouse as secondary owner, or in the taxpayer's name as primary owner with the child as beneficiary.

Question: **If I choose to start buying bonds for education, is there a limitation on the number or amount of Series EE and/or Series I bonds I can buy?**

Answer: Yes. Bonds you buy for the Educational Savings Bond Program are subject to the limit of $10,000 face value (equal to the purchase price) per series per Social Security Number per year, just like any other purchase. There is no limit on the amount of bonds that you can accumulate over a lifetime.

Question: **Can a child be named as beneficiary on a paper or electronic bond for which the interest exclusion will be taken?**

Answer: Yes. Any person may be named as beneficiary without affecting the eligibility of the bond for exclusion. A child may not be a co-owner or secondary owner of such a bond.

Question: **Are paper bonds registered in the parent and child's names as co-owners, or electronic bonds registered in the parent's name as primary owner with the child as secondary owner, eligible for the interest exclusion?**

Answer: No. For purposes of eligibility for the interest exclusion only, the designation of a child as co-owner or secondary owner with his or her parent isn't permitted. Bonds must be in the name of the taxpayer, with or without a beneficiary, or in the name of the taxpayer and the taxpayer's spouse as co-owners or as primary and secondary owners to exclude the bond interest from the taxpayer's gross income.

Question: **In order to exclude all or part of the interest earned on my savings bonds from income, how should previously issued paper bonds be registered?**

Answer: Paper bonds that were issued after December 31, 1989, should be registered in the name of the taxpayer, with or without a beneficiary, or in the name of the taxpayer and the taxpayer's spouse as co-owners. The child should not be named as a coowner on these bonds.

Question: **I just realized that the paper savings bonds for our children's education are in the wrong names—theirs, not ours. As I understand it, this would not qualify for the interest exclusion. Can I change the names?**

Answer: You can change the names as long as the funds used to buy the bonds didn't belong to your children and the bonds are dated January 1990 or later. If Series I or Series EE bonds purchased January 1990 or later were bought to qualify for the Education Savings Bond Program, but were improperly registered when they were issued, the bonds may be reissued to qualify for the program. The purchaser would need to complete a FS Form 4000 to get the bonds reissued.

The signature on the form needs to be guaranteed or certified by an authorized certifying officer (available at many financial institutions). Mail the completed form, along with the bonds, to Treasury Retail Securities Services, P.O. Box 9150, Minneapolis, MN 55480-9150.

NOTE: When we reissue a Series EE or Series I savings bond, we no longer provide a paper bond. The reissued bond is in electronic form, in our online TreasuryDirect system. For information on opening an account in TreasuryDirect, go to www.treasurydirect.gov.

Question: **Not only are my paper savings bonds that we want to use for our children's education in the wrong name, so are the ones that we purchased through TreasuryDirect. How do I change the registration on these?**

Answer: You can change the names as long as the funds used to buy the electronic bonds didn't belong to your child. If the account is in your name and the bond is registered with your child as a secondary owner, you can correct the registration yourself by going to ManageDirect®, Manage My Securities. If the bonds are in a Minor Linked Account, you will need to complete an FS Form 5446 from within your account.

The signature on the form needs to be guaranteed or certified by an authorized certifying officer (available at many financial institutions). Mail the completed form to Treasury Retail Securities Services, P.O. Box 9150, Minneapolis, MN 55480-9150, along with a letter of explanation on how the error occurred.

Redemption

Question: **If I redeem paper bonds, does the paying agent keep record of the redemption transaction?**

Answer: It's the bond owner's responsibility to maintain a record of bond redemption transactions to support claims for exclusion from gross income in the year that qualified bonds are redeemed and qualifying educational expenses are incurred.

However, if an owner redeeming Series EE and/or Series I bonds issued after 1989 states his or her intention to exclude interest from gross income in accordance with the education exclusion, and is at the same time redeeming Series EE bonds issued prior to January 1, 1990, the paying agent should provide separate redemption values and accrued interest subtotals for bonds issued prior to January 1, 1990, and for those issued on or after January 1, 1990. If the bond owner hasn't made a record of the serial numbers, face amounts, and issue dates, the agent should advise the customer to do so before redeeming the bonds. An optional IRS Form 8818 provides instructions and space to record this information.

Question: **If I redeem my electronic bonds, where is this record kept?**

Answer: These records are kept in TreasuryDirect on the Taxable Transactions page, which is accessed through ManageDirect® under Manage My Taxes. This information is kept on the system for four years (current plus three prior years).

Question: **What happens if bonds dated before January 1, 1990, are redeemed and new bonds are bought with the proceeds?**

Answer: Accrued interest earnings on the bonds redeemed are taxable to the owner in the year of the redemption regardless of whether the proceeds are used to purchase new Series EE or Series I bonds.

Question: **Can one exchange Series E or EE bonds issued before January 1, 1990, for new Series EE bonds or Series I bonds to make them eligible?**

Answer: No. Outstanding savings bonds can't be exchanged for Series EE or Series I bonds.

Miscellaneous

Question: **I may not qualify for the Education Savings Bond Program. Are there any other options?**

Answer: Yes. There is another way to use savings bonds to pay for your children's education expenses. Interest income on paper bonds purchased in a child's name alone, or on electronic bonds purchased in a Minor Linked Account and with or without a parent as beneficiary (not co-owner or secondary owner), can be included in the child's income each year as it accrues or deferred until the bonds are redeemed. In either case, the child will be subject to any federal income tax on the interest.

The parent may file a federal income tax return in the child's name (the child will need to have a Social Security Number) reporting the total accrued interest on all bonds registered to the child. The intention to report savings bond interest annually, (i.e., on an accrual basis) must be noted on the return. The decision to report accrued interest income annually currently applies to all future years and can be changed only by filing IRS Form 3115 with the IRS and fulfilling other requirements outlined in IRS Publication 550, "Investment Income and Expenses."

No tax will be due unless the child has total income in a single year equal to the threshold amount that requires a return to be filed, and no further returns need to be filed until that annual income level has been reached. For children under the age of 18, unearned income (including dividends and interest) over a specified threshold amount for that age group will be taxed at the parent's rate. If the child is age 18 or older, income will be taxed at the child's rate.

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 when using this system.

For more information on this approach, see IRS Publication 929, "Tax Rules for Children and Dependents."

Question: **Does the interest exclusion affect savings bonds that have been or are being purchased by a parent and that are registered in the name of a child alone or in the child's name with the parent as beneficiary?**

Answer: No. The federal income tax rule that applies to such bonds remains the same. For a child under 18, see IRS Publication 929. If the child is 18 or older, all income is taxed at the child's rate. You may choose between annual or deferred reporting, taking into account your child's age and expected future earnings. However, interest earnings on such bonds don't qualify for the Education Savings Bond Program.

FOR MORE INFORMATION

For detailed information about the rules as well as information on income eligibility, check IRS Publication 550, "Investment Income and Expenses;" IRS Form 8815, "Exclusion of Interest From Series EE and I U.S. Savings Bonds Issued After 1989;" and IRS Form 8818, "Optional Form to Record Redemption of Series EE and I U.S. Savings Bonds Issued After 1989." You also may call 844-284-2676 (toll free).