

Biz Brain: Looking for tax freedom from E bonds



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Q. I have a bunch of old E savings bonds that I want to start cashing in. Is it possible to cash in the amount I need to fund my IRA contribution for the year and continue to postpone paying the taxes on the cash distribution from the bond sale?— Cashing out

A. It's admirable that you want to fund an IRA, but you won't receive any kind of tax advantage related to the taxes owed on the bonds.

There is a tax advantage if you cash in EE bonds to use for education funding, but before we get to that, let's clarify the kind of bonds you're talking about.

"'E' bonds were replaced by Series 'EE' bonds in 1980," said Kim Viscuso, a certified financial planner with Stonegate Wealth Management in Fair Lawn. "Some people refer to bonds as 'E' or 'EE' interchangeably, but in actuality, if the bonds you have are truly 'E' bonds, they would not qualify for the education exclusion since they would not be considered 'qualified' a result of being issued pre-1990."

In order to avoid paying federal taxes on the redemption of savings bonds, you must use the proceeds for higher education purposes. There are many restrictions regarding "qualified education expenses," and there are income limitations, too.

"The savings bond education tax exclusion permits qualified taxpayers to exclude from their gross income all or part of the interest paid upon the redemption of eligible Series EE or I bonds when the bond owner pays qualified higher education expenses at an eligible institution," Viscuso said.

In order to take advantage of this exclusion, you must pay qualified education expenses for yourself, your spouse or a dependent for whom you claim an exemption on your tax return. But, your modified adjusted gross income (MAGI) must be less than \$87,850 for 2012 for singles, or



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\$139,250 if you're married filing jointly or a qualifying widow(er) with a dependent child. Your filing status cannot be married filing separately, she said.

When you do cash them in, the interest that your savings bonds earn is subject to federal income tax, but not state or local income taxes, said Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains.

You can learn more about the education tax exclusion at [treasurydirect.gov](https://www.treasurydirect.gov).

E-mail your questions to askbiz@starledger.com

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