Dear Client,

Inflation this year has been a pain in the neck and our investment returns have been lousy. Here is an interesting idea that we want to share with you. Through October 2022, you can buy Series I bonds that pay 9.62 percent interest.

And you receive that rate for six months from the time of purchase.

What happens after that? On November 1, 2022, the U.S. Treasury Department sets a new six-month rate equal to the fixed rate (currently zero) plus the Consumer Price Index inflation rate.

The interest you earn for the first six months gets added to the principal, and you earn interest on that interest during the next six months (think compound interest).

Sounds too good to be true. There's a trick, right? Not really, but the government keeps your money, both your principal and your interest, for at least one year.

Mechanics

It works like this: You are buying a 30-year bond. The interest rate changes every six months. You can cash out anytime after one year, but if you cash out before five years, you have to forfeit three months of interest (no big deal).

You don't pay taxes on the interest until you cash out. You get the compounding effect tax-free. It's like a Roth IRA without age limits and penalties.

Key point. You can't lose the money you invest or the interest you earn, other than the three months' worth if you cash in before five years.

When you do cash in, you pay federal income taxes on the interest, but you don't pay state, county, or city income taxes.

It is possible (albeit unlikely for many of you) to avoid taxes on the interest altogether if you use the monies for qualified higher education expenses.

Okay, So What's the Downside?

You can't buy more than $10,000 per year, although if you buy from TreasuryDirect and also utilize your tax refund, you can acquire $15,000 of bonds per year.

If you're married, your spouse can do the same, so now you're up to $30,000 per year.

Now, let's add in your corporation or corporations. Such entities can purchase up to $10,000 of such bonds per calendar year.

Example. Don Corleone, his spouse, and his two corporations are hot for the 9.62 percent of tax-deferred interest. He has not yet filed his 2022 tax return, which shows a tax refund. With Don, his spouse, and his two corporations, Don can buy $50,000 of I bonds in calendar year 2022.

He can do the same during calendar year 2023.

The major downside to the bonds is that you cannot buy more than the annual limits above. There's no overall limit, just the annual limits.

Inflation and Deflation

The Series I bond is based on inflation. So if inflation drops to zero, cash out that bond. Meanwhile, inflation becomes our friend. And remember, your Series I bond cannot go down in value. If your $10,000 I bond earned $985 in interest, the new principal balance is $10,985 and that principal balance never does down. Deflation can't hurt it.

If you would like to discuss I bonds, please call us at 616-818-1976.