Estate of Mary Gowdy v. Commissioner of Internal Revenue, 21 T.C. 226 (1953)

For federal estate tax purposes, United States Series G savings bonds are valued at their par value, not their redemption value, because the right to redeem at par upon death is a significant feature of ownership, and par value reflects the actual cost and inherent value of the bonds.

Summary

The Tax Court addressed whether Series G United States savings bonds should be included in a decedent's gross estate at par value or redemption value. Mary Gowdy owned Series G bonds, some individually and some jointly. The Commissioner argued for par value, while the estate argued for the lower redemption value at the date of death. The court sided with the Commissioner, holding that the bonds should be valued at par. The court reasoned that the right to redeem at par upon death is a valuable feature of these bonds, and par value better reflects their inherent worth and the rights associated with ownership.

Facts

1. Mary Gowdy died on August 27, 1947, and her estate was valued as of the date of death.

2. At the time of her death, Gowdy owned two $1,000 Series G bonds individually, issued on December 1, 1941.

3. She also jointly owned Series G bonds with M. Louise Collins, totaling $64,800 in principal amount.

4. Series G bonds are "current income" bonds, sold at par, with interest paid semi-annually at 2.5%.

5. Redemption before maturity results in a value less than par, representing an interest adjustment for the shorter term.

6. However, Series G bonds can be redeemed at par upon the death of the owner or co-owner if redeemed within six months of death.

7. The estate tax return valued the bonds at their redemption value on the date of death, which was less than par value.

8. The Commissioner determined the bonds should be included in the gross estate at par value.

Procedural History

1. The Commissioner of Internal Revenue determined a deficiency in estate tax.

2. The Estate of Mary Gowdy petitioned the Tax Court to redetermine the deficiency.

3. The sole issue before the Tax Court was the valuation of the Series G bonds for estate tax purposes.

Issue(s)

1. Whether United States Series G savings bonds owned by the decedent should be included in her gross estate for federal estate tax purposes at their par value or their redemption value as of the date of death?

Holding

1. No. The Tax Court held that the Series G bonds should be included in the gross estate at their par value because the right to redeem at par upon death is a significant element of value and par value reflects the true value of the rights associated with these bonds.

Court's Reasoning

1. The court emphasized that the core issue is valuation, complicated by the bonds' non-marketable nature and redemption provisions.

2. The court found the "salient factor" in valuing Series G bonds is their par value, equating it to cost, which is "cogent evidence of value," citing *Guggenheim v. Rasquin*, 312 U.S. 254 (1941).

3. The decedent paid par for the bonds and could have purchased them at no less. They provided a 2.5% semi-annual interest if held to maturity, making it advantageous to hold them rather than redeem early at a reduced interest rate.

4. The court reasoned that the petitioner's argument overemphasized the redemption value, which is just one aspect of ownership. It ignored other valuable features designed to attract investors.

5. Analogizing to *Guggenheim v. Rasquin*, the court stated that just as cash surrender value isn't the sole determinant of life insurance policy value for gift tax, redemption value alone doesn't determine the value of Series G bonds for estate tax.

6. The court concluded that the decedent's ownership rights extended beyond the mere right to redeem at less than par before maturity. The value to the decedent was the price paid – par value.

7. The court agreed with the Commissioner's argument that "This right to redeem at par is the extent of the value of the property right which is transferred from the

dead to the living at the time of death, and therefore the face value of the bonds is properly includible in the gross estate."

Practical Implications

1. *Estate of Gowdy* establishes that for estate tax purposes, U.S. Series G bonds (and by extension, similar savings bonds with par redemption features at death) are valued at par value, not redemption value.

2. This case clarifies that the unique features of government bonds, especially the right to redeem at par upon death, are critical in valuation.

3. Legal practitioners should advise clients that the estate tax value of Series G bonds will likely be their par value, impacting estate tax calculations and planning.

4. This decision highlights the importance of considering all aspects of property rights when determining fair market value for estate tax purposes, not just immediate liquidation values.

5. Later cases and IRS rulings have consistently followed *Gowdy* in valuing similar government bonds at par value for estate tax purposes, reinforcing its precedent in estate tax valuation.

