



Flower Bonds



Between 1953 and 1963 the US Treasury issued certain, specifically designated bonds such that the estate of the beneficial owner of the bond could use its face value (the par amount due at maturity) to apply that portion of its face value, dollar-for-dollar, *for payment of the portion of federal estate taxes* equivalent to the maturity value of the Flower Bond. However, Flower Bonds could only be used to pay estate taxes so long as they were purchased before death of the beneficial owner. Because of their association with estate taxes and funerals, the bonds came to be called **Flower Bonds**.

Due to their typical “lower-than-market” interest rates many times these bonds sold in the market at substantial discounts (i.e., for less than face value) and became a sensible investment for someone

who was about to leave an estate on which substantial taxes would be levied.

“Off the Market” Yields ...

Flower Bonds included the 3½% Bonds due February 1990, the 3% Bonds due February 1995, and the 3 ½% Bonds due November 1998, the last Flower Bond to have matured. Due to the “estate tax put feature” Flower Bonds typically traded at higher relative prices or at relatively lower yields (i.e., at less of a discount) than comparable “current coupon” bonds. For example, in the late 1980s it was not unusual for Flower Bonds to yield 4.85% versus traditional US Treasury Notes or Bonds in the same maturity yielding 7.56%.

Gone But Not Forgotten ...

We are not able to ascertain if the Treasury Regulations allow continued or future use of Flower Bonds. But, current, more sophisticated estate tax avoidance planning and at market rates experienced over the past several years, the benefit to the Treasury or to the investor has become somewhat moot for the time being. In the meantime, **Flower Bonds** continues to be an oft-used term in current industry jargon.

