Instructions for Form 706

Department of the Treasury
Internal Revenue Service

(Rev. October 2006)

United States Estate (and Generation-Skipping Transfer) Tax Return

For decedents dying after December 31, 2005 and before January 1, 2007.

Section references are to the Internal Revenue Code unless otherwise noted.

Prior Revisions of Form 706

For Decedents Dying After	and Before	Use Revision of Form 706 Dated
October 8, 1990	January 1, 1998	April 1997
December 31, 1997	January 1, 1999	July 1998
December 31, 1998	January 1, 2001	July 1999
December 31, 2000	January 1, 2002	November 2001
December 31, 2001	January 1, 2003	August 2002
December 31, 2002	January 1, 2004	August 2003
December 31, 2003	January 1, 2005	August 2004
December 31, 2004	January 1, 2006	August 2005

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*** For Schedules A, A-1, C, D, E, F, J, and M, see instructions in the Form 706 itself.**

What's New

- Use this revision of Form 706 only for the estates of decedents dying in calendar year 2006.
- The maximum tax rate for the estates of decedents dying in 2006 has decreased to 46%.
- The executor must now file Form 706 at the Cincinnati Service Center, regardless of whether the decedent was a U.S. citizen residing in the U.S., a resident alien, or a nonresident U.S. citizen. See *Where To File* on page 2 for the address.
- The Pension Protection Act of 2006 (PPA) has amended the provisions used to determine substantial and gross misstatements of valuation of property. The PPA applies to returns filed after August 17, 2006. See *Penalties, Valuation understatement* on page 3 and section 6662 for more details.
- The state death tax credit has been repealed for estates of decedents dying after December 31, 2004. Beginning in 2005, the credit has been replaced with a state death tax deduction against the value of the gross federal estate. See *Line 3b. State Death Tax Deduction* on page 5 for details.
- Various dollar amounts and limitations relevant to Form 706 are indexed for inflation. For decedents dying in 2006, the following amounts have increased:

  (a) the annual exclusion for gifts of present interests made to a donee is $12,000;

  (b) the ceiling on special-use valuation is $900,000; and

  (c) the amount used in computing the 2% portion of estate tax payable in installments is $1,200,000.

  The IRS will publish amounts for future years in an annual revenue procedure.
- Beginning with the estates of decedent's dying and generation-skipping transfers occurring after December 31, 2003, the generation-skipping transfer (GST) exemption is equal to the applicable exclusion amount. For 2006, that amount is $2,000,000.
- You can request an automatic 6-month extension of time to file Form 706 by filing Form 4768, Application for Extension of Time To File a Return and/or Pay U.S. Estate (and Generation-Skipping Transfer) Taxes (Rev. January 2006). When asking for an automatic 6-month extension, you are not required to provide an explanation for your request. For additional information, see Form 4768 and its instructions.

General Instructions

Purpose of Form

The executor of a decedent's estate uses Form 706 to figure the estate tax imposed by Chapter 11 of the Internal Revenue Code. This tax is levied on the entire taxable estate, not just on the share received by a particular beneficiary. Form

Cat. No. 16779E

706 is also used to compute the generation-skipping transfer (GST) tax imposed by Chapter 13 on direct skips (transfers to skip persons of interests in property included in the decedent's gross estate).

Which Estates Must File

For decedents dying in 2006, Form 706 must be filed by the executor for the estate of every U.S. citizen or resident whose gross estate, plus adjusted taxable gifts and specific exemption, is more than $2,000,000.

To determine whether you must file a return for the estate, add:

1. The adjusted taxable gifts (under section 2001(b)) made by the decedent after December 31, 1976;
2. The total specific exemption allowed under section 2521 (as in effect before its repeal by the Tax Reform Act of 1976) for gifts made by the decedent after September 8, 1976; and
3. The decedent's gross estate valued at the date of death.

Gross Estate

The gross estate includes all property in which the decedent had an interest (including real property outside the United States). It also includes:

- Certain transfers made during the decedent's life without an adequate and full consideration in money or money's worth,
- Annuities,
- The includible portion of joint estates with right of survivorship (see the instructions on the back of Schedule E),
- The includible portion of tenancies by the entirety (see the instructions on the back of Schedule E),
- Certain life insurance proceeds (even though payable to beneficiaries other than the estate) (see the instructions on the back of Schedule D),
- Property over which the decedent possessed a general power of appointment,
- Dower or curtesy (or statutory estate) of the surviving spouse, and
- Community property to the extent of the decedent's interest as defined by applicable law.

For more specific information, see the instructions for Schedules A through I.

U. S. Citizens or Residents; Nonresident Noncitizens

File Form 706 for the estates of decedents who were either U.S. citizens or U.S. residents at the time of death. For estate tax purposes, a resident is someone who had a domicile in the United States at the time of death. A person acquires a domicile by living in a place for even a brief period of time, as long as the person had no intention of moving from that place.

File Form 706-NA, United States Estate (and Generation-Skipping Transfer) Tax Return, Estate of nonresident not a citizen of the United States, for the estates of nonresident alien decedents (decedents who were neither U.S. citizens nor residents at the time of death).

Residents of U. S. Possessions

All references to citizens of the United States are subject to the provisions of sections 2208 and 2209, relating to decedents who were U.S. citizens and residents of a U.S. possession on the date of death. If such a decedent became a U.S. citizen only because of his or her connection with a possession, then the decedent is considered a nonresident alien decedent for estate tax purposes, and you should file Form 706-NA. If such a decedent became a U.S. citizen wholly independently of his or her connection with a possession, then the decedent is considered a U.S. citizen for estate tax purposes, and you should file Form 706.

Executor

The term "executor" means the executor, personal representative, or administrator of the decedent's estate. If none of these is appointed, qualified, and acting in the United States, every person in actual or constructive possession of any property of the decedent is considered an executor and must file a return.

When To File

You must file Form 706 to report estate and/or generation-skipping transfer tax within 9 months after the date of the decedent's death unless you receive an extension of time to file. Use Form 4768 to apply for an automatic 6-month extension of time to file.

Private delivery services. You can use certain private delivery services designated by the IRS to meet the "timely mailing as timely filing/paying" rule for tax returns and payments. These private delivery services include only the following.

- DHL Express (DHL): DHL Same Day Service, DHL Next Day 10:30 am, DHL Next Day 12:00 pm, DHL Next Day 3:00 pm, and DHL 2nd Day Service.
- Federal Express (FedEx): FedEx Priority Overnight, FedEx Standard Overnight, FedEx 2Day, FedEx International Priority, FedEx International First.
- United Parcel Service (UPS): UPS Next Day Air, UPS Next Day Air Saver, UPS 2nd Day Air, UPS 2nd Day Air A.M., UPS Worldwide Express Plus, and UPS Worldwide Express.

The private delivery service can tell you how to get written proof of the mailing date.

Where To File

File Form 706 at the following address:

Internal Revenue Service Center
Cincinnati, OH 45999

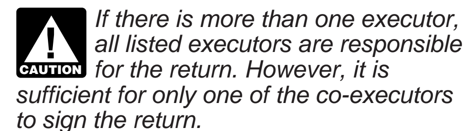
Paying the Tax

The estate and GST taxes are due within 9 months after the date of the decedent's death unless an extension of time for payment has been granted, or unless you have been granted an election under section 6166 to pay in installments, or under section 6163 to postpone the part of the tax attributable to a reversionary or remainder interest. These elections are made by checking lines 3 and 4 (respectively) of Part 3—Elections by the Executor, and attaching the required statements.

If the tax paid with the return is different from the balance due as figured on the return, explain the difference in an attached statement. If you have made prior payments to the IRS, attach a statement to Form 706 including these facts.

Paying by check. Make the check payable to the "United States Treasury." Please write the decedent's name, social security number, and "Form 706" on the check to assist us in posting it to the proper account.

Signature and Verification



If there is more than one executor, all listed executors are responsible for the return. However, it is sufficient for only one of the co-executors to sign the return.

All executors are responsible for the return as filed and are liable for penalties provided for erroneous or false returns.

If two or more persons are liable for filing the return, they should all join together in filing one complete return. However, if they are unable to join in making one complete return, each is required to file a return disclosing all the information the person has in the case, including the name of every person holding an interest in the property and a full description of the property. If the appointed, qualified, and acting executor is unable to make a complete return, then every person holding an interest in the property must, on notice from the IRS, make a return regarding that interest.

The executor who files the return must, in every case, sign the declaration on page 1 under penalties of perjury. If the return is prepared by someone other than the person who is filing the return, the preparer must also sign at the bottom of page 1.

Amending Form 706

If you find that you must change something on a return that has already been filed, you should:

- File another Form 706;
- Enter "Supplemental Information" across the top of page 1 of the form; and
- Attach a copy of pages 1, 2, and 3 of the original Form 706 that has already been filed.

If you have already been notified that the return has been selected for examination,

you should provide the additional information directly to the office conducting the examination.

Supplemental Documents

Note. You must attach the death certificate to the return.

If the decedent was a citizen or resident and died testate, attach a certified copy of the will to the return. If you cannot obtain a certified copy, attach a copy of the will and an explanation of why it is not certified. Other supplemental documents may be required as explained below. Examples include Forms 712, 709, and 706-CE, trust and power of appointment instruments, death certificate, and state certification of payment of death taxes. If you do not file these documents with the return, the processing of the return will be delayed.

If the decedent was a U.S. citizen but not a resident of the United States, you must attach the following documents to the return:

1. A copy of the inventory of property and the schedule of liabilities, claims against the estate, and expenses of administration filed with the foreign court of probate jurisdiction, certified by a proper official of the court;
2. A copy of the return filed under the foreign inheritance, estate, legacy, succession tax, or other death tax act, certified by a proper official of the foreign tax department, if the estate is subject to such a foreign tax; and
3. If the decedent died testate, a certified copy of the will.

Rounding Off to Whole Dollars

You may show the money items on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

Penalties

Late filing and late payment. Section 6651 provides for penalties for both late filing and for late payment unless there is reasonable cause for the delay. The law also provides for penalties for willful attempts to evade payment of tax. The late filing penalty will not be imposed if the taxpayer can show that the failure to file a timely return is due to reasonable cause. Executors filing late (after the due date, including extensions) should attach an explanation to the return to show reasonable cause.

Valuation understatement. Section 6662 provides a 20% penalty for the underpayment of estate tax that exceeds $5,000 when the underpayment is attributable to valuation understatements. A valuation understatement occurs when the value of property reported on Form 706 is 65% or less of the actual value of the property.

This penalty increases to 40% if there is a gross valuation understatement. A gross valuation understatement occurs if any property on the return is valued at 40% or less of the value determined to be correct.

These penalties also apply to late filing, late payment, and underpayment of GST taxes.

Obtaining Forms and Publications To File or Use

Internet. You can access the IRS website 24 hours a day, 7 days a week at *www.irs.gov* to:

- Download forms, instructions, and publications;
- Order IRS products online;
- Research your tax questions online;
- Search publications online by topic or keyword; and
- Sign up to receive local and national tax news by email.

IRS Tax Products CD. You can order Publication 1796, IRS Tax Products CD, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms, instructions, and publications.
- Bonus: Historical Tax Products DVD (Ships with the final release).
- Tax Map: An electronic research tool and finding aid.
- Tax law frequently asked questions (FAQs).
- Tax Topics from the IRS telephone response system.
- Fill-in, print, and save features for most tax forms.
- Internal Revenue Bulletins.
- Toll-free and email technical support.

The CD is released twice during the year: The first release will ship the beginning of January 2007. The final release will ship the beginning of March 2007.

Purchase the CD from National Technical Information Service at: *www.irs.gov/cdorders* for $25 (no handling fee) or call 1-877-CDFORMS (1-877-233-6767) toll-free to buy the CD for $25 (plus a $5 handling fee). Price is subject to change.

Forms and Publications to file or use.

- **Forms**. The title for forms to file or use are given within these instructions.
- **Publications**. Publication 910, Guide to Free Tax Services; and Publication 559, Survivors, Executors, and Administrators.

Specific Instructions

You must file the first three pages of Form 706 and all required schedules. File Schedules A through I, as appropriate, to support the entries in items 1 through 9 of Part 5—Recapitulation.

IF . . .	THEN . . .
you enter zero on any item of the Recapitulation,	you need not file the schedule (except for Schedule F) referred to on that item.
you claim an exclusion on item 11,	complete and attach Schedule U.
you claim any deductions on items 13 through 21 of the Recapitulation,	complete and attach the appropriate schedules to support the claimed deductions.
you claim the credits for foreign death taxes or tax on prior transfers,	complete and attach Schedule P or Q.
there is not enough space on a schedule to list all the items,	attach a Continuation Schedule (or additional sheets of the same size) to the back of the schedule; (see the Form 706 package for the Continuation Schedule); photocopy the blank schedule before completing it, if you will need more than one copy.

Also consider the following:

- Form 706 has 40 numbered pages. The pages are perforated so that you can remove them for copying and filing.
- Number the items you list on each schedule, beginning with the number “1” each time, or using the numbering convention as indicated on the schedule (for example, Schedule M).
- Total the items listed on the schedule and its attachments, Continuation Schedules, etc.
- Enter the total of all attachments, Continuation Schedules, etc., at the bottom of the printed schedule, but do not carry the totals forward from one schedule to the next.
- Enter the total, or totals, for each schedule on page 3, Part 5—Recapitulation.
- Do not complete the “Alternate valuation date” or “Alternate value” columns of any schedule unless you elected alternate valuation on line 1 of Part 3—Elections by the Executor.
- When you complete the return, staple all the required pages together in the proper order.

Part 1—Decedent and Executor (Page 1 of Form 706)

Line 2

Enter the social security number assigned specifically to the decedent. You cannot use the social security number assigned to the decedent’s spouse. If the decedent did not have a social security number, the executor should obtain one for the

Table A—Unified Rate Schedule

Column A Taxable amount over	Column B Taxable amount not over	Column C Tax on amount in column A	Column D Rate of tax on excess over amount in column A
			(Percent)
0	$10,000	0	18
$10,000	20,000	$1,800	20
20,000	40,000	3,800	22
40,000	60,000	8,200	24
60,000	80,000	13,000	26
80,000	100,000	18,200	28
100,000	150,000	23,800	30
150,000	250,000	38,800	32
250,000	500,000	70,800	34
500,000	750,000	155,800	37
750,000	1,000,000	248,300	39
1,000,000	1,250,000	345,800	41
1,250,000	1,500,000	448,300	43
1,500,000	2,000,000	555,800	45
2,000,000	- - - - - - - -	780,800	46

decedent by filing Form SS-5, Application for Social Security Card, with a local Social Security Administration office.

Line 6a. Name of Executor

If there is more than one executor, enter the name of the executor to be contacted by the IRS. List the other executors' names, addresses, and SSNs (if applicable) on an attached sheet.

Line 6b. Executor's Address

Use Form 8822, Change of Address, to report a change of the executor's address.

Line 6c. Executor's Social Security Number

Only individual executors should complete this line. If there is more than one individual executor, all should list their social security numbers on an attached sheet.

Part 2—Tax Computation (Page 1 of Form 706)

In general, the estate tax is figured by applying the unified rates shown in Table A on this page to the total of transfers both during life and at death, and then subtracting the gift taxes.

Note. You must complete Part 2—Tax Computation.

Line 1

If you elected alternate valuation on line 1, Part 3—Elections by the Executor, enter the amount you entered in the "Alternate value" column of item 12 of Part 5—Recapitulation. Otherwise, enter the amount from the "Value at date of death" column.

Worksheet TG—Taxable Gifts Reconciliation
(To be used for lines 4 and 7 of the Tax Computation)

Note. For the definition of a taxable gift, see section 2503. Follow Form 709. That is, include only the decedent's one-half of split gifts, whether the gifts were made by the decedent or the decedent's spouse. In addition to gifts reported on Form 709, you must include any taxable gifts in excess of the annual exclusion that were not reported on Form 709.

	a. Calendar year or calendar quarter	b. Total taxable gifts for period (see Note)	c. Taxable amount included in col. b for gifts included in the gross estate	d. Taxable amount included in col. b for gifts that qualify for "special treatment of split gifts" described on page 6	e. Gift tax paid by decedent on gifts in col. d	f. Gift tax paid by decedent's spouse on gifts in col. c
Gifts made after June 6, 1932, and before 1977						
	1. Total taxable gifts made before 1977					
Gifts made after 1976						
2. Totals for gifts made after 1976						

Line 4 Worksheet—Adjusted Taxable Gifts Made After 1976

1. Taxable gifts made after 1976. Enter the amount from line 2, column b, Worksheet TG		1	
2. Taxable gifts made after 1976 reportable on Schedule G. Enter the amount from line 2, column c, Worksheet TG	2		
3. Taxable gifts made after 1976 that qualify for "special treatment." Enter the amount from line 2, column d, Worksheet TG	3		
4. Add lines 2 and 3		4	
5. Adjusted taxable gifts. Subtract line 4 from line 1. Enter here and on line 4 of the Tax Computation of Form 706.		5	

Line 7 Worksheet—Gift Tax on Gifts Made After 1976

a. Calendar year or calendar quarter	b. Total taxable gifts for prior periods (from Form 709, Part 2, Tax Computation, line 2)	c. Taxable gifts for this period (from Form 709, Part 2, Tax Computation, line 1) (see below)	d. Tax payable using Table A (see below)	e. Unused unified credit (applicable credit amount) for this period (see below)	f. Tax payable for this period (subtract col. e from col. d)
Total pre-1977 taxable gifts. Enter the amount from line 1, Worksheet TG					

1. Total gift taxes payable on gifts made after 1976 (combine the amounts in column f)	1	
2. Gift taxes paid by the decedent on gifts that qualify for “special treatment.” Enter the amount from line 2, column e, Worksheet TG	2	
3. Subtract line 2 from line 1	3	
4. Gift tax paid by decedent’s spouse on split gifts included on Schedule G. Enter the amount from line 2, column f, Worksheet TG	4	
5. Add lines 3 and 4. Enter here and on line 7 of the Tax Computation of Form 706	5	

Columns b and c. In addition to gifts reported on Form 709, you must include in these columns any taxable gifts in excess of the annual exclusion that were not reported on Form 709.

Column d. To figure the “tax payable” for this column, you must use Table A in these instructions, as it applies to the year of the decedent’s death rather than to the year the gifts were actually made. To compute the entry for column d, you should figure the “tax payable” on the amount in column b and subtract it from the “tax payable” on the amounts in columns b and c added together. Enter the difference in column d.

“Tax payable” as used here is a hypothetical amount and does not necessarily reflect tax actually paid. Figure “tax payable” only on gifts made after 1976. Do not include any tax paid or payable on gifts made before 1977. However, if the decedent made taxable gifts before January 1, 1977, a special computation is required. The amount of gift tax payable (line 7) should be determined by applying the unified rate schedule, in effect at date of death, to the cumulative lifetime taxable transfers made both before January 1, 1977, and after December 31, 1976, and then subtracting the taxes payable on the lifetime transfers made before December 31, 1976.

To calculate the tax, enter the amount for the appropriate year from column c of the worksheet on line 1 of the Tax Computation of the Form 709. Enter the amount from column b on line 2 of the Tax Computation. Complete the Tax Computation through the tax due before any reduction for the unified credit (applicable credit amount) and enter that amount in column d, above.

Column e. To figure the unused unified credit, (applicable credit amount), use the unified credit (applicable credit amount) in effect for the year the gift was made. This amount should be on line 12 of the Tax Computation of the Form 709 filed for the gift.

Line 3b. State Death Tax Deduction

The estates of decedents dying after December 31, 2004 will be allowed a deduction for state death taxes, instead of a credit. The state death tax credit is repealed, effective January 1, 2005.

You may take a deduction on line 3b for estate, inheritance, legacy, or succession taxes paid as the result of the decedent’s death to any state or the District of Columbia.

You may claim an anticipated amount of deduction and figure the federal estate tax on the return before the state death taxes have been paid. However, the deduction cannot be finally allowed unless you pay the state death taxes and claim the deduction within 4 years after the return is filed, or later (see section 2058(b)) if:

- A petition is filed with the Tax Court of the United States,
- You have an extension of time to pay, or
- You file a claim for refund or credit of an overpayment which extends the deadline for claiming the deduction.

Note. The deduction is subject to no dollar limits.

If you make a section 6166 election to pay the federal estate tax in installments and make a similar election to pay the state death tax in installments, see section 2058(b) for exceptions and periods of limitation.

If you transfer property other than cash to the state in payment of state inheritance taxes, the amount you may claim as a deduction is the lesser of the state inheritance tax liability discharged or the fair market value of the property on the date of the transfer. For more information on the application of such transfers, see the principles discussed in Rev. Rul. 86-117, 1986-2 C.B. 157, prior to the repeal of section 2011.

You should send the following evidence to the IRS:

1. Certificate of the proper officer of the taxing state, or the District of Columbia, showing the:

a. Total amount of tax imposed (before adding interest and penalties and before allowing discount),

b. Amount of discount allowed,

c. Amount of penalties and interest imposed or charged,

d. Total amount actually paid in cash, and

e. Date of payment.

2. Any additional proof the IRS specifically requests.

You should file the evidence requested above with the return if possible. Otherwise, send it as soon after you file the return as possible.

Line 6

To figure the tentative tax on the amount on line 5, use Table A on page 4.

Lines 4 and 7

Three worksheets are provided to help you compute the entries for these lines. You need not file these worksheets with your return but should keep them for your records. Worksheet TG—Taxable Gifts Reconciliation, on page 4, allows you to reconcile the decedent’s lifetime taxable gifts to compute totals that will be used for

the line 4 worksheet on page 4 and the line 7 worksheet on page 5.

You must get all of the decedent's gift tax returns (Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return) before you complete Worksheet TG—Taxable Gifts Reconciliation. The amounts you will enter on Worksheet TG can usually be derived from these returns as filed. However, if any of the returns were audited by the IRS, you should use the amounts that were finally determined as a result of the audits.

In addition, you must include in column b of Worksheet TG any gifts in excess of the annual exclusion made by the decedent (or on behalf of the decedent under a power of attorney) but for which no Forms 709 were filed. You must make a reasonable inquiry as to the existence of any such gifts. The annual exclusion for 1977 through 1981 was $3,000 per donee per year, $10,000 for years 1981 through 2001, and $11,000 for years 2002 through 2005. For calendar year 2006, the annual exclusion for gifts of present interests is $12,000 per donee.

Note. In figuring the line 7 amount, do not include any tax paid or payable on gifts made before 1977. The line 7 amount is a hypothetical figure used to calculate the estate tax.

Special treatment of split gifts. These special rules apply only if:

- The decedent's spouse predeceased the decedent;
- The decedent's spouse made gifts that were "split" with the decedent under the rules of section 2513;
- The decedent was the "consenting spouse" for those split gifts, as that term is used on Form 709; and
- The split gifts were included in the decedent's spouse's gross estate under section 2035.

If all four conditions above are met, do not include these gifts on line 4 of the Tax Computation and do not include the gift taxes payable on these gifts on line 7 of the Tax Computation. These adjustments are incorporated into the worksheets.

Line 9. Maximum Unified Credit (applicable credit amount)

The applicable credit amount (formerly the unified credit), is $780,800 for the estates of decedents dying in 2006. The amount of the credit cannot exceed the amount of estate tax imposed.

Line 10. Adjustment to Unified Credit (applicable credit amount)

If the decedent made gifts (including gifts made by the decedent's spouse and treated as made by the decedent by reason of gift splitting) after September 8, 1976, and before January 1, 1977, for which the decedent claimed a specific exemption, the unified credit (applicable credit amount) on this estate tax return must be reduced. The reduction is figured by entering 20% of the specific exemption claimed for these gifts.

Note. The specific exemption was allowed by section 2521 for gifts made before January 1, 1977.

If the decedent did not make any gifts between September 8, 1976, and January 1, 1977, or if the decedent made gifts during that period but did not claim the specific exemption, enter zero.

Line 15. Total Credits

Generally, line 15 is used to report the total of credit for foreign death taxes (line 13) and credit for tax on prior transfers (line 14).

However, you may also use line 15 to report credit taken for federal gift taxes imposed by Chapter 12 of the Code, and the corresponding provisions of prior laws, on certain transfers the decedent made before January 1, 1977, that are included in the gross estate. The credit cannot be more than the amount figured by the following formula:

$$\frac{\text{Gross estate tax minus (the sum of the state death taxes and unified credit)}}{\text{Value of gross estate minus (the sum of the deductions for charitable, public, and similar gifts and bequests and marital deduction)}} \times \text{Value of included gift}$$

When taking the credit for pre-1977 federal gift taxes:

- Include the credit in the amount on line 15 and
- Identify and enter the amount of the credit you are taking on the dotted line to the left of the entry space for line 15 on page 1 of Form 706 with a notation "section 2012 credit."

For more information, see the regulations under section 2012. This computation may be made using Form 4808, Computation of Credit for Gift Tax. Attach a copy of a completed Form 4808 or the computation of the credit. Also attach all available copies of Forms 709 filed by the decedent to help verify the amounts entered on lines 4 and 7, and the amount of credit taken (on line 15) for pre-1977 federal gift taxes.

Canadian marital credit. In addition to using line 15 to report credit for federal gift taxes on pre-1977 gifts, you may also use line 15 to claim the Canadian marital credit, where applicable.

When taking the marital credit under the 1995 Canadian Protocol:

- Include the credit in the amount on line 15 and
- Identify and enter the amount of the credit you are taking on the dotted line to the left of the entry space for line 15 on page 1 of Form 706 with a notation "Canadian marital credit."

Also, attach a statement to the return that refers to the treaty, waives QDOT rights, and shows the computation of the marital credit. See the 1995 Canadian income tax treaty protocol for details on computing the credit.

Part 3—Elections by the Executor (Page 2 of Form 706)

Line 1. Alternate Valuation

TIP *See the example on page 12 showing the use of Schedule B where the alternate valuation is adopted.*

Unless you elect at the time you file the return to adopt alternate valuation as authorized by section 2032, you must value all property included in the gross estate on the date of the decedent's death. Alternate valuation cannot be applied to only a part of the property.

You may elect special-use valuation (line 2) in addition to alternate valuation.

You may not elect alternate valuation unless the election will decrease both the value of the gross estate and the sum (reduced by allowable credits) of the estate and GST taxes payable by reason of the decedent's death with respect to the property includible in the decedent's gross estate.

You elect alternate valuation by checking "Yes" on line 1 and filing Form 706. You may make a protective alternate valuation election by checking "Yes" on line 1, writing the word "protective," and filing Form 706 using regular values.

Once made, the election may not be revoked. The election may be made on a late filed Form 706 provided it is not filed later than 1 year after the due date (including extensions actually granted). Relief under sections 301.9100-1 and 301.9100-3 may be available to make an alternate valuation election or a protective alternate valuation election, provided a Form 706 is filed no later than 1 year after the due date of the return (including extensions actually granted).

If you elect alternate valuation, value the property that is included in the gross estate as of the applicable dates as follows.

- Any property distributed, sold, exchanged, or otherwise disposed of or separated or passed from the gross estate by any method within 6 months after the decedent's death is valued on the date of distribution, sale, exchange, or other disposition, whichever occurs first. Value this property on the date it ceases

to form a part of the gross estate; for example, on the date the title passes as the result of its sale, exchange, or other disposition.

- Any property not distributed, sold, exchanged, or otherwise disposed of within the 6-month period is valued on the date 6 months after the date of the decedent's death.
- Any property, interest, or estate that is "affected by mere lapse of time" is valued as of the date of decedent's death or on the date of its distribution, sale, exchange, or other disposition, whichever occurs first. However, you may change the date of death value to account for any change in value that is not due to a "mere lapse of time" on the date of its distribution, sale, exchange, or other disposition.

The property included in the alternate valuation and valued as of 6 months after the date of the decedent's death, or as of some intermediate date (as described above) is the property included in the gross estate on the date of the decedent's death. Therefore, you must first determine what property constituted the gross estate at the decedent's death.

Interest. Interest accrued to the date of the decedent's death on bonds, notes, and other interest-bearing obligations is property of the gross estate on the date of death and is included in the alternate valuation.

Rent. Rent accrued to the date of the decedent's death on leased real or personal property is property of the gross estate on the date of death and is included in the alternate valuation.

Dividends. Outstanding dividends that were declared to stockholders of record on or before the date of the decedent's death are considered property of the gross estate on the date of death, and are included in the alternate valuation. Ordinary dividends declared to stockholders of record after the date of the decedent's death are not property of the gross estate on the date of death and are not included in the alternate valuation. However, if dividends are declared to stockholders of record after the date of the decedent's death so that the shares of stock at the later valuation date do not reasonably represent the same property at the date of the decedent's death, include those dividends (except dividends paid from earnings of the corporation after the date of the decedent's death) in the alternate valuation.

As part of each Schedule A through I, you must show:

1. What property is included in the gross estate on the date of the decedent's death;
2. What property was distributed, sold, exchanged, or otherwise disposed of within the 6-month period after the decedent's death, and the dates of these distributions, etc.

(These two items should be entered in the "Description" column of each schedule. Briefly explain the status or disposition governing the alternate valuation date, such as: "Not disposed of within 6 months following death," "Distributed," "Sold," "Bond paid on maturity," etc. In this same column, describe each item of principal and includible income);

3. The date of death value, entered in the appropriate value column with items of principal and includible income shown separately; and
4. The alternate value, entered in the appropriate value column with items of principal and includible income shown separately.

(In the case of any interest or estate, the value of which is affected by lapse of time, such as patents, leaseholds, estates for the life of another, or remainder interests, the value shown under the heading "Alternate value" must be the adjusted value; for example, the value as of the date of death with an adjustment reflecting any difference in its value as of the later date not due to lapse of time.)

Distributions, sales, exchanges, and other dispositions of the property within the 6-month period after the decedent's death must be supported by evidence. If the court issued an order of distribution during that period, you must submit a certified copy of the order as part of the evidence. The IRS may require you to submit additional evidence, if necessary.

If the alternate valuation method is used, the values of life estates, remainders, and similar interests are figured using the age of the recipient on the date of the decedent's death and the value of the property on the alternate valuation date.

Line 2. Special-Use Valuation of Section 2032A

In general. Under section 2032A, you may elect to value certain farm and closely held business real property at its farm or business use value rather than its fair market value (FMV). You may elect both special-use valuation and alternate valuation.

To elect this valuation, you must check "Yes" on line 2 and complete and attach Schedule A-1 and its required additional statements. You must file Schedule A-1 and its required attachments with Form 706 for this election to be valid. You may make the election on a late filed return so long as it is the first return filed.

The total value of the property valued under section 2032A may not be decreased from FMV by more than $900,000 for decedents dying in 2006.

Real property may qualify for the section 2032A election if:

1. The decedent was a U.S. citizen or resident at the time of death;
2. The real property is located in the United States;
3. At the decedent's death, the real property was used by the decedent or a family member for farming or in a trade or business, or was rented for such use by either the surviving spouse or a lineal descendant of the decedent to a family member on a net cash basis;
4. The real property was acquired from or passed from the decedent to a qualified heir of the decedent;
5. The real property was owned and used in a qualified manner by the decedent or a member of the decedent's family during 5 of the 8 years before the decedent's death;
6. There was material participation by the decedent or a member of the decedent's family during 5 of the 8 years before the decedent's death; and
7. The qualified property meets the following percentage requirements:
   a. At least 50% of the adjusted value of the gross estate must consist of the adjusted value of real or personal property that was being used as a farm or in a closely held business and that was acquired from, or passed from, the decedent to a qualified heir of the decedent, and
   b. At least 25% of the adjusted value of the gross estate must consist of the adjusted value of qualified farm or closely held business real property.

For this purpose, adjusted value is the value of property determined without regard to its special-use value. The value is reduced for unpaid mortgages on the property or any indebtedness against the property, if the full value of the decedent's interest in the property (not reduced by such mortgage or indebtedness) is included in the value of the gross estate. The adjusted value of the qualified real and personal property used in different businesses may be combined to meet the 50% and 25% requirements.

Qualified Real Property

Qualified use. The term "qualified use" means the use of the property as a farm for farming purposes or the use of property in a trade or business other than farming. Trade or business applies only to the active conduct of a business. It does not apply to passive investment activities or the mere passive rental of property to a person other than a member of the decedent's family. Also, no trade or business is present in the case of activities not engaged in for profit.

Ownership. To qualify as special-use property, the decedent or a member of the decedent's family must have owned and used the property in a qualified use for 5 of the last 8 years before the decedent's death. Ownership may be direct or indirect through a corporation, a partnership, or a trust.

If the ownership is indirect, the business must qualify as a closely held business under section 6166. The ownership, when combined with periods of direct ownership, must meet the requirements of section 6166 on the date of the decedent's death and for a period of time that equals at least 5 of the 8 years preceding death.

If the property was leased by the decedent to a closely held business, it qualifies as long as the business entity to which it was rented was a closely held business with respect to the decedent on the date of the decedent's death and for sufficient time to meet the "5 in 8 years" test explained on page 7.

Structures and other real property improvements. Qualified real property includes residential buildings and other structures and real property improvements regularly occupied or used by the owner or lessee of real property (or by the employees of the owner or lessee) to operate the farm or business. A farm residence which the decedent had occupied is considered to have been occupied for the purpose of operating the farm even when a family member and not the decedent was the person materially participating in the operation of the farm.

Qualified real property also includes roads, buildings, and other structures and improvements functionally related to the qualified use.

Elements of value such as mineral rights that are not related to the farm or business use are not eligible for special-use valuation.

Property acquired from the decedent. Property is considered to have been acquired from or to have passed from the decedent if one of the following applies.

- The property is considered to have been acquired from or to have passed from the decedent under section 1014(b) (relating to basis of property acquired from a decedent);
- The property is acquired by any person from the estate; or
- The property is acquired by any person from a trust, to the extent the property is includible in the gross estate.

Qualified heir. A person is a *qualified heir* of property if he or she is a member of the decedent's family and acquired or received the property from the decedent. If a qualified heir disposes of any interest in qualified real property to any member of his or her family, that person will then be treated as the qualified heir with respect to that interest.

The term "member of the family" includes only:

- An ancestor (parent, grandparent, etc.) of the individual;
- The spouse of the individual;
- The lineal descendant (child, stepchild, grandchild, etc.) of the individual, the individual's spouse, or a parent of the individual; or
- The spouse, widow, or widower of any lineal descendant described above.

A legally adopted child of an individual is treated as a child of that individual by blood.

Material Participation

To elect special-use valuation, either the decedent or a member of his or her family must have materially participated in the operation of the farm or other business for at least 5 of the 8 years ending on the date of the decedent's death. The existence of material participation is a factual determination, but passively collecting rents, salaries, draws, dividends, or other income from the farm or other business does not constitute material participation. Neither does merely advancing capital and reviewing a crop plan and financial reports each season or business year.

In determining whether the required participation has occurred, disregard brief periods (that is, 30 days or less) during which there was no material participation, as long as such periods were both preceded and followed by substantial periods (more than 120 days) during which there was uninterrupted material participation.

Retirement or disability. If, on the date of death, the time period for material participation could not be met because the decedent had retired or was disabled, a substitute period may apply. The decedent must have retired on Social Security or been disabled for a continuous period ending with death. A person is disabled for this purpose if he or she was mentally or physically unable to materially participate in the operation of the farm or other business.

The substitute time period for material participation for these decedents is a period totaling at least 5 years out of the 8-year period that ended on the earlier of:

- The date the decedent began receiving social security benefits or
- The date the decedent became disabled.

Surviving spouse. A surviving spouse who received qualified real property from the predeceased spouse is considered to have materially participated if he or she was engaged in the active management of the farm or other business. If the surviving spouse died within 8 years of the first spouse's death, you may add the period of material participation of the predeceased spouse to the period of active management by the surviving spouse to determine if the surviving spouse's estate qualifies for special-use valuation. To qualify for this, the property must have been eligible for special-use valuation in the predeceased spouse's estate, though it does not have to have been elected by that estate.

For additional details regarding material participation, see Regulations section 20.2032A-3(e).

Valuation Methods

The primary method of valuing special-use value property that is used for farming purposes is the annual gross cash rental method. If comparable gross cash rentals are not available, you can substitute comparable average annual net share rentals. If neither of these are available, or if you so elect, you can use the method for valuing real property in a closely held business.

Average annual gross cash rental. Generally, the special-use value of property that is used for farming purposes is determined as follows:

1. Subtract the average annual state and local real estate taxes on actual tracts of comparable real property from the average annual gross cash rental for that same comparable property and
2. Divide the result in (1) by the average annual effective interest rate charged for all new Federal Land Bank loans.

The computation of each average annual amount is based on the 5 most recent calendar years ending before the date of the decedent's death. See *Effective interest rate* on page 9.

Gross cash rental. Generally, gross cash rental is the total amount of cash received in a calendar year for the use of actual tracts of comparable farm real property in the same locality as the property being specially valued. You may not use appraisals or other statements regarding rental value or areawide averages of rentals. You may not use rents that are paid wholly or partly in-kind, and the amount of rent may not be based on production. The rental must have resulted from an arm's-length transaction. Also, the amount of rent is not reduced by the amount of any expenses or liabilities associated with the farm operation or the lease.

Comparable property. Comparable property must be situated in the same locality as the specially valued property as determined by generally accepted real property valuation rules. The determination of comparability is based on all the facts and circumstances. It is often necessary to value land in segments where there are different uses or land characteristics included in the specially valued land.

The following list contains some of the factors considered in determining comparability.

- Similarity of soil;
- Whether the crops grown would deplete the soil in a similar manner;
- Types of soil conservation techniques that have been practiced on the 2 properties;
- Whether the 2 properties are subject to flooding;
- Slope of the land;
- For livestock operations, the carrying capacity of the land;
- For timbered land, whether the timber is comparable;
- Whether the property as a whole is unified or segmented. If segmented, the availability of the means necessary for movement among the different sections;
- Number, types, and conditions of all buildings and other fixed improvements located on the properties and their location as it affects efficient management, use, and value of the property; and
- Availability and type of transportation facilities in terms of costs and of proximity of the properties to local markets.

You must specifically identify on the return the property being used as comparable property. Use the type of descriptions used to list real property on Schedule A.

Effective interest rate. See Rev. Rul. 2006-32, 2006-26 I.R.B. 1170, for the average annual effective interest rates in effect for 2006.

Net share rental. You may use average annual net share rental from comparable land only if there is no comparable land from which average annual gross cash rental can be determined. Net share rental is the difference between the gross value of produce received by the lessor from the comparable land and the cash operating expenses (other than real estate taxes) of growing the produce that, under the lease, are paid by the lessor. The production of the produce must be the business purpose of the farming operation. For this purpose, produce includes livestock.

The gross value of the produce is generally the gross amount received if the produce was disposed of in an arm's-length transaction within the period established by the Department of Agriculture for its price support program. Otherwise, the value is the weighted average price for which the produce sold on the closest national or regional commodities market. The value is figured for the date or dates on which the lessor received (or constructively received) the produce.

Valuing a real property interest in closely held business. Use this method to determine the special-use valuation for qualifying real property used in a trade or business other than farming. You may also use this method for qualifying farm property if there is no comparable land or if you elect to use it. Under this method, the following factors are considered.

- The capitalization of income that the property can be expected to yield for farming or for closely held business purposes over a reasonable period of time with prudent management and traditional cropping patterns for the area, taking into account soil capacity, terrain configuration, and similar factors;
- The capitalization of the fair rental value of the land for farming or for closely held business purposes;
- The assessed land values in a state that provides a differential or use value assessment law for farmland or closely held business;
- Comparable sales of other farm or closely held business land in the same geographical area far enough removed from a metropolitan or resort area so that nonagricultural use is not a significant factor in the sales price; and
- Any other factor that fairly values the farm or closely held business value of the property.

Making the Election

Include the words "section 2032A valuation" in the "Description" column of any Form 706 schedule if section 2032A property is included in the decedent's gross estate.

An election under section 2032A need not include all the property in an estate that is eligible for special-use valuation, but sufficient property to satisfy the threshold requirements of section 2032A(b)(1)(B) must be specially valued under the election.

If joint or undivided interests (that is, interests as joint tenants or tenants in common) in the same property are received from a decedent by qualified heirs, an election with respect to one heir's joint or undivided interest need not include any other heir's interest in the same property if the electing heir's interest plus other property to be specially valued satisfies the requirements of section 2032A(b)(1)(B).

If successive interests (that is, life estates and remainder interests) are created by a decedent in otherwise qualified property, an election under section 2032A is available only with respect to that property (or part) in which qualified heirs of the decedent receive all of the successive interests, and such an election must include the interests of all of those heirs.

For example, if a surviving spouse receives a life estate in otherwise qualified property and the spouse's brother receives a remainder interest in fee, no part of the property may be valued under a section 2032A election.

Where successive interests in specially valued property are created, remainder interests are treated as being received by qualified heirs only if the remainder interests are not contingent on surviving a nonfamily member or are not subject to divestment in favor of a nonfamily member.

Protective Election

You may make a protective election to specially value qualified real property. Under this election, whether or not you may ultimately use special-use valuation depends upon values as finally determined (or agreed to following examination of the return) meeting the requirements of section 2032A.

To make a protective election, check "Yes" to line 2 and complete Schedule A-1 according to its instructions for "Protective Election."

If you make a protective election, you should complete this Form 706 by valuing all property at its fair market value. Do not use special-use valuation. Usually, this will result in higher estate and GST tax liabilities than will be ultimately determined if special-use valuation is allowed. The protective election does not extend the time to pay the taxes shown on the return. If you wish to extend the time to pay the taxes, you should file Form 4768 in adequate time before the return due date.

If it is found that the estate qualifies for special-use valuation based on the values as finally determined (or agreed to following examination of the return), you must file an amended Form 706 (with a complete section 2032A election) within 60 days after the date of this determination. Complete the amended return using special-use values under the rules of section 2032A, and complete Schedule A-1 and attach all of the required statements.

Additional information

For definitions and additional information, see section 2032A and the related regulations.

Line 3. Installment Payments

If the gross estate includes an interest in a closely held business, you may be able to elect to pay part of the estate tax in installments under section 6166.

The maximum amount that can be paid in installments is that part of the estate tax that is attributable to the closely held business. In general, that amount is the amount of tax that bears the same ratio to the total estate tax that the value of the closely held business included in the gross estate bears to the total gross estate.

Bond or lien required. The IRS requires that an estate furnish a surety bond as a prerequisite for granting the installment payment election. In the alternative, the executor may consent to elect the special lien provisions of section 6324A, in lieu of the bond.

If you elect the lien provisions, section 6324A requires that the lien be placed on property having a value equal to the total deferred tax plus four years of interest. The property must be expected to survive the deferral period.

To be eligible for the section 6166 election, you must agree to furnish a bond. Alternatively, the executor may consent to the special lien provisions of section 6324A, in lieu of the bond. The IRS will contact you regarding the specifics of furnishing the bond or electing the special lien.

Percentage requirements. To qualify for installment payments, the value of the interest in the closely held business that is included in the gross estate must be more than 35% of the adjusted gross estate (the gross estate less expenses, indebtedness, taxes, and losses).

Interests in two or more closely held businesses are treated as an interest in a single business if at least 20% of the total value of each business is included in the gross estate. For this purpose, include any interest held by the surviving spouse that represents the surviving spouse's interest in a business held jointly with the decedent as community property or as joint tenants, tenants by the entirety, or tenants in common.

Value. The value used for meeting the percentage requirements is the same value used for determining the gross estate. Therefore, if the estate is valued under alternate valuation or special-use valuation, you must use those values to meet the percentage requirements.

Transfers before death. Generally, gifts made before death are not included in the gross estate. However, the estate must meet the 35% requirement by both including in and excluding from the gross estate any gifts made by the decedent in the 3-year period ending on the date of death.

Passive assets. In determining the value of a closely held business and whether the 35% requirement is met, do not include the value of any passive assets held by the business. A passive asset is any asset not used in carrying on a trade or business. Any asset used in a qualifying lending and financing business is treated as an asset used in carrying on a trade or business; see section 6166(b)(10) for details. Stock in another corporation is a passive asset unless the stock is treated as held by the decedent because of the election to treat holding company stock as business company stock; see *Holding company stock* below.

If a corporation owns at least 20% in value of the voting stock of another corporation, or the other corporation had no more than 45 shareholders and at least 80% of the value of the assets of each corporation is attributable to assets used in carrying on a trade or business, then these corporations will be treated as a single corporation, and the stock will not be treated as a passive asset. Stock held in the other corporation is not taken into account in determining the 80% requirement.

Interest in closely held business. For purposes of the installment payment election, an *interest in a closely held business* means:

- Ownership of a trade or business carried on as a proprietorship,
- An interest as a partner in a partnership carrying on a trade or business if 20% or more of the total capital interest was included in the gross estate of the decedent or the partnership had no more than 45 partners, or
- Stock in a corporation carrying on a trade or business if 20% or more in value of the voting stock of the corporation is included in the gross estate of the decedent or the corporation had no more than 45 shareholders.

The partnership or corporation must be carrying on a trade or business at the time of the decedent's death. For further information on whether certain partnerships or corporations owning real property interests constitute a closely held business, see Rev. Rul. 2006-34, 2006-26 I.R.B. 1171.

In determining the number of partners or shareholders, a partnership or stock interest is treated as owned by one partner or shareholder if it is community property or held by a husband and wife as joint tenants, tenants in common, or as tenants by the entirety.

Property owned directly or indirectly by or for a corporation, partnership, estate, or trust is treated as owned proportionately by or for its shareholders, partners, or beneficiaries. For trusts, only beneficiaries with present interests are considered.

The interest in a closely held farm business includes the interest in the residential buildings and related improvements occupied regularly by the owners, lessees, and employees operating the farm.

Holding company stock. The executor may elect to treat as business company stock the portion of any holding company stock that represents direct ownership (or indirect ownership through one or more other holding companies) in a business company. A holding company is a corporation holding stock in another corporation. A business company is a corporation carrying on a trade or business.

In general, this election applies only to stock that is not readily tradable. However, the election can be made if the business company stock is readily tradable, as long as all of the stock of each holding company is not readily tradable.

For purposes of the 20% voting stock requirement, stock is treated as voting stock to the extent the holding company owns voting stock in the business company.

If the executor makes this election, the first installment payment is due when the estate tax return is filed. The 5-year deferral for payment of the tax, as discussed below under *Time for payment*, does not apply. In addition, the 2% interest rate, discussed below under *Interest computation*, will not apply. Also, if the business company stock is readily tradable, as explained above, the tax must be paid in 5 installments.

Time for payment. Under the installment method, the executor may elect to defer payment of the qualified estate tax, but not interest, for up to 5 years from the original payment due date. After the first installment of tax is paid, you must pay the remaining installments annually by the date 1 year after the due date of the preceding installment. There can be no more than 10 installment payments.

Interest on the unpaid portion of the tax is not deferred and must be paid annually. Interest must be paid at the same time as and as a part of each installment payment of the tax.

Acceleration of payments. If the estate fails to make payments of tax or interest within 6 months of the due date, the Service may terminate the right to make installment payments and force an acceleration of payment of the tax upon notice and demand.

Generally, if any portion of the interest in the closely held business which qualifies for installment payments is distributed, sold, exchanged, or otherwise disposed of, or money and other property attributable to such an interest is withdrawn, and the aggregate of those events equals or exceeds 50% of the value of the interest, then the right to make installment payments will be terminated, and the unpaid portion of the tax will be due upon notice and demand. See section 6166(g).

Interest computation. A special interest rate applies to installment payments. For decedents dying in 2006, the interest rate is 2% on the lesser of:

- $552,000, or
- The amount of the estate tax that is attributable to the closely held business and that is payable in installments.

2% portion. The *2% portion* is an amount equal to the amount of the tentative estate tax on ($1,000,000 plus the applicable exclusion amount in effect) minus the applicable credit amount in effect. However, if the amount of estate tax extended under section 6166 is less than the amount computed above, the 2% portion is the lesser amount.

Inflation adjustment. The $1,000,000 amount used to calculate the 2% portion is indexed for inflation for the estates of decedents dying in a calendar year after 1998. For an estate of a decedent dying in calendar year 2006, the dollar amount used to determine the "2% portion" of the estate tax payable in installments under section 6166 is $1,200,000.

Computation. Interest on the portion of the tax in excess of the 2% portion is figured at 45% of the annual rate of interest on underpayments. This rate is based on the federal short-term rate and is announced quarterly by the IRS in the Internal Revenue Bulletin.

If you elect installment payments and the estate tax due is more than the maximum amount to which the 2% interest rate applies, each installment payment is deemed to comprise both tax subject to the 2% interest rate and tax subject to 45% of the regular underpayment rate. The amount of each installment that is subject to the 2% rate is the same as the percentage of total tax payable in installments that is subject to the 2% rate.

The interest paid on installment payments is not deductible as an administrative expense of the estate.

Making the election. If you check this line to make a protective election, you should attach a notice of protective election as described in Regulations section 20.6166-1(d). If you check this line to make a final election, you should attach the notice of election described in Regulations section 20.6166-1(b).

In computing the adjusted gross estate under section 6166(b)(6) to determine whether an election may be made under

section 6166, the net amount of any real estate in a closely held business must be used.

You may also elect to pay GST taxes in installments. See section 6166(i).

Line 4. Reversionary or Remainder Interests

For details of this election, see section 6163 and the related regulations.

Part 4—General Information (Pages 2 and 3 of Form 706)

Authorization

Completing the authorization on page 2 of Form 706 will authorize one attorney, accountant, or enrolled agent to represent the estate and receive confidential tax information, but will not authorize the representative to enter into closing agreements for the estate.

Note. If you wish to represent the estate, you must complete and sign the authorization.

If you wish to authorize persons other than attorneys, accountants, and enrolled agents, or if you wish to authorize more than one person, to receive confidential information or represent the estate, you must complete and attach Form 2848, Power of Attorney and Declaration of Representative. You must also complete and attach Form 2848 if you wish to authorize someone to enter into closing agreements for the estate. Filing a completed Form 2848 with this return may expedite processing of the Form 706.

If you wish only to authorize someone to inspect and/or receive confidential tax information (but not to represent you before the IRS), complete and file Form 8821, Tax Information Authorization.

Line 4

Complete line 4 whether or not there is a surviving spouse and whether or not the surviving spouse received any benefits from the estate. If there was no surviving spouse on the date of decedent's death, enter "None" in line 4a and leave lines 4b and 4c blank. The value entered in line 4c need not be exact. See the instructions for "Amount" under line 5 below.

Line 5

Name. Enter the name of each individual, trust, or estate who received (or will receive) benefits of $5,000 or more from the estate directly as an heir, next-of-kin, devisee, or legatee; or indirectly (for example, as beneficiary of an annuity or insurance policy, shareholder of a corporation, or partner of a partnership that is an heir, etc.).

Identifying number. Enter the SSN of each individual beneficiary listed. If the number is unknown, or the individual has no number, please indicate "unknown" or "none." For trusts and other estates, enter the EIN.

Relationship. For each individual beneficiary, enter the relationship (if known) to the decedent by reason of blood, marriage, or adoption. For trust or estate beneficiaries, indicate "TRUST" or "ESTATE."

Amount. Enter the amount actually distributed (or to be distributed) to each beneficiary including transfers during the decedent's life from Schedule G required to be included in the gross estate. The value to be entered need not be exact. A reasonable estimate is sufficient. For example, where precise values cannot readily be determined, as with certain future interests, a reasonable approximation should be entered. The total of these distributions should approximate the amount of gross estate reduced by funeral and administrative expenses, debts and mortgages, bequests to surviving spouse, charitable bequests, and any federal and state estate and GST taxes paid (or payable) relating to the benefits received by the beneficiaries listed on lines 4 and 5.

All distributions of less than $5,000 to specific beneficiaries may be included with distributions to unascertainable beneficiaries on the line provided.

Line 6. Section 2044 Property

If you answered "Yes," these assets must be shown on Schedule F.

Section 2044 property is property for which a previous section 2056(b)(7) election (QTIP election) has been made, or for which a similar gift tax election (section 2523) has been made. For more information, see the instructions on the back of Schedule F.

Line 8. Insurance Not Included in the Gross Estate

If you answered "Yes" to either 8a or 8b, you must complete and attach Schedule D and attach a Form 712, Life Insurance Statement, for each policy and an explanation of why the policy or its proceeds are not includible in the gross estate.

Line 10. Partnership Interests and Stock in Close Corporations

If you answered "Yes" to line 10, you must include full details for partnerships and unincorporated businesses on Schedule F (Schedule E if the partnership interest is jointly owned). You must include full details for the stock of inactive or close corporations on Schedule B.

Value these interests using the rules of Regulations section 20.2031-2 (stocks) or 20.2031-3 (other business interests).

A *close corporation* is a corporation whose shares are owned by a limited number of shareholders. Often, one family holds the entire stock issue. As a result, little, if any, trading of the stock takes place. There is, therefore, no established market for the stock, and those sales that do occur are at irregular intervals and seldom reflect all the

Example showing use of Schedule B where the alternate valuation is not adopted; date of death, January 1, 2006

Item number	Description, including face amount of bonds or number of shares and par value where needed for identification. Give CUSIP number. If trust, partnership, or closely held entity, give EIN	CUSIP number or EIN, where applicable	Unit value	Alternate valuation date	Alternate value	Value at date of death
1	$60,000-Arkansas Railroad Co. first mortgage 4%, 20-year bonds, due 2008. Interest payable quarterly on Feb. 1, May 1, Aug. 1 and Nov. 1; N.Y. Exchange	XXXXXXXXX	100	- - - - - - -	$- - - - - - -	$ 60,000
	Interest coupons attached to bonds, item 1, due and payable on Nov. 1, 2005, but not cashed at date of death		- - - - - - -	- - - - - - -	- - - - - - -	600
	Interest accrued on item 1, from Nov. 1, 2005 to Jan. 1, 2006		- - - - - - -	- - - - - - -	- - - - - - -	400
2	500 shares Public Service Corp., common; N.Y. Exchange . . .	XXXXXXXXX	110	- - - - - - -	- - - - - - -	55,000
	Dividend on item 2 of $2 per share declared Dec. 10, 2005, payable on Jan. 10, 2006, to holders of record on Dec. 30, 2005		- - - - - - -	- - - - - - -	- - - - - - -	1,000

Item number	Description, including face amount of bonds or number of shares and par value where needed for identification. Give CUSIP number. If trust, partnership, or closely held entity, give EIN	CUSIP number or EIN, where applicable	Unit value	Alternate valuation date	Alternate value	Value at date of death
1	$60,000-Arkansas Railroad Co. first mortgage 4%, 20-year bonds, due 2008. Interest payable quarterly on Feb. 1, May 1, Aug. 1 and Nov. 1; N.Y. Exchange	XXXXXXXXX	100	------	$------	$ 60,000
	$30,000 of item 1 distributed to legatees on Apr. 1, 2006		99	4/1/06	29,700	------
	$30,000 of item 1 sold by executor on May 2, 2006		98	5/1/06	29,400	------
	Interest coupons attached to bonds, item 1, due and payable on Nov. 1, 2005, but not cashed at date of death. Cashed by executor on Feb. 1, 2006		------	2/1/06	600	600
	Interest accrued on item 1, from Nov. 1, 2005 to Jan. 1, 2006. Cashed by executor on Feb. 1, 2006		------	2/1/06	400	400
2	500 shares Public Service Corp., common; N.Y. Exchange	XXXXXXXXX	110	------	------	55,000
	Not disposed of within 6 months following death		90	7/1/06	45,000	------
	Dividend on item 2 of $2 per share declared Dec. 10, 2005, paid on Jan. 10, 2006, to holders of record on Dec. 30, 2005		------	1/10/06	1,000	1,000

Example showing use of Schedule B where the alternate valuation is adopted; date of death, January 1, 2006

elements of a representative transaction as defined by the term "fair market value" (FMV).

Line 12. Trusts

If you answered "Yes" to either 12a or 12b, you must attach a copy of the trust instrument for each trust.

You must complete Schedule G if you answered "Yes" to 12a and Schedule F if you answered "Yes" to 12b.

Line 14. Transitional Marital Deduction Computation

Check "Yes" if property passes to the surviving spouse under a maximum marital deduction formula provision that meets the requirements of section 403(e)(3) of the Economic Recovery Tax Act of 1981 (P.L. 97-34; 95 Stat. 305).

If you check "Yes" to line 14, compute the marital deduction under the rules that were in effect before the Economic Recovery Tax Act of 1981.

For a format for this computation, you should obtain the November 1981 revision of Form 706 and its instructions. The computation is items 19 through 26 of the Recapitulation. You should also apply the rules of Rev. Rul. 80-148, 1980-1 C.B. 207, if there is property that passes to the surviving spouse outside of the maximum marital deduction formula provision.

Part 5—Recapitulation (Page 3 of Form 706)

Gross Estate

Items 1 through 10. You must make an entry in each of items 1 through 9.

If the gross estate does not contain any assets of the type specified by a given item, enter zero for that item. Entering zero for any of items 1 through 9 is a statement by the executor, made under penalties of perjury, that the gross estate does not contain any includible assets covered by that item.

Do not enter any amounts in the "Alternate value" column unless you elected alternate valuation on line 1 of Part 3—Elections by the Executor on page 2 of the Form 706.

Which schedules to attach for items 1 through 9. You must attach:
- Schedule F to the return and answer its questions even if you report no assets on it;
- Schedules A, B, and C if the gross estate includes any (1) Real Estate, (2) Stocks and Bonds, or (3) Mortgages, Notes, and Cash, respectively;
- Schedule D if the gross estate includes any life insurance or if you answered "Yes" to question 8a of Part 4—General Information;
- Schedule E if the gross estate contains any jointly owned property or if you answered "Yes" to question 9 of Part 4;
- Schedule G if the decedent made any of the lifetime transfers to be listed on that schedule or if you answered "Yes" to question 11 or 12a of Part 4;
- Schedule H if you answered "Yes" to question 13 of Part 4; and
- Schedule I if you answered "Yes" to question 15 of Part 4.

Exclusion

Item 11. Conservation easement exclusion. You must complete and attach Schedule U (along with any required attachments) to claim the exclusion on this line.

Deductions

Items 13 through 21. You must attach the appropriate schedules for the deductions you claim.

Item 17. If item 16 is less than or equal to the value (at the time of the decedent's death) of the property subject to claims, enter the amount from item 16 on item 17.

If the amount on item 16 is more than the value of the property subject to claims, enter the greater of:
- The value of the property subject to claims or
- The amount actually paid at the time the return is filed.

In no event should you enter more on item 17 than the amount on item 16. See section 2053 and the related regulations for more information.

Schedule A—Real Estate

See the reverse side of Schedule A on Form 706.

Schedule A-1—Section 2032A Valuation

See Schedule A-1 on Form 706.

Schedule B—Stocks and Bonds

TIP *Before completing Schedule B, read the examples showing use of Schedule B where the alternate valuation is not adopted (see page 11) and adopted (see above).*

If the total gross estate contains any stocks or bonds, you must complete Schedule B and file it with the return.

On Schedule B, list the stocks and bonds included in the decedent's gross estate. Number each item in the left-hand column. Bonds that are exempt from federal income tax are not exempt from estate tax unless specifically exempted by an estate tax provision of the Code.

Therefore, you should list these bonds on Schedule B.

Public housing bonds includible in the gross estate must be included at their full value.

If you paid any estate, inheritance, legacy, or succession tax to a foreign country on any stocks or bonds included in this schedule, group those stocks and bonds together and label them “Subjected to Foreign Death Taxes.”

List interest and dividends on each stock or bond separately. Indicate as a separate item dividends that have not been collected at death, but which are payable to the decedent or the estate because the decedent was a stockholder of record on the date of death. However, if the stock is being traded on an exchange and is selling ex-dividend on the date of the decedent’s death, do not include the amount of the dividend as a separate item. Instead, add it to the ex-dividend quotation in determining the fair market value of the stock on the date of the decedent’s death. Dividends declared on shares of stock before the death of the decedent but payable to stockholders of record on a date after the decedent’s death are not includible in the gross estate for federal estate tax purposes.

Description

Stocks. For stocks, indicate:

- Number of shares;
- Whether common or preferred;
- Issue;
- Par value where needed for identification;
- Price per share;
- Exact name of corporation;
- Principal exchange upon which sold, if listed on an exchange; and
- Nine-digit CUSIP number.

Bonds. For bonds, indicate:

- Quantity and denomination;
- Name of obligor;
- Date of maturity;
- Interest rate;
- Interest due date;
- Principal exchange, if listed on an exchange; and
- Nine-digit CUSIP number.

If the stock or bond is unlisted, show the company’s principal business office.

If the gross estate includes any interest in a trust, partnership, or closely held entity, provide the employer identification number (EIN) of the entity in the description column on Schedules B, E, F, G, M, and O, where applicable. You must also provide the EIN of the estate (if any) in the description column on the above-noted schedules, where applicable.

The CUSIP (Committee on Uniform Security Identification Procedure) number is a nine-digit number that is assigned to all stocks and bonds traded on major exchanges and many unlisted securities. Usually, the CUSIP number is printed on the face of the stock certificate. If the CUSIP number is not printed on the certificate, it may be obtained through the company’s transfer agent.

Valuation

List the fair market value (FMV) of the stocks or bonds. The FMV of a stock or bond (whether listed or unlisted) is the mean between the highest and lowest selling prices quoted on the valuation date. If only the closing selling prices are available, then the FMV is the mean between the quoted closing selling price on the valuation date and on the trading day before the valuation date.

If there were no sales on the valuation date, figure the FMV as follows.

1. Find the mean between the highest and lowest selling prices on the nearest trading date before and the nearest trading date after the valuation date. Both trading dates must be reasonably close to the valuation date.

2. Prorate the difference between the mean prices to the valuation date.

3. Add or subtract (whichever applies) the prorated part of the difference to or from the mean price figured for the nearest trading date before the valuation date.

If no actual sales were made reasonably close to the valuation date, make the same computation using the mean between the *bona fide* bid and asked prices instead of sales prices. If actual sales prices or *bona fide* bid and asked prices are available within a reasonable period of time before the valuation date but not after the valuation date, or *vice versa*, use the mean between the highest and lowest sales prices or bid and asked prices as the FMV.

For example, assume that sales of stock nearest the valuation date (June 15) occurred 2 trading days before (June 13) and 3 trading days after (June 18). On those days, the mean sale prices per share were $10 and $15, respectively. Therefore, the price of $12 is considered the FMV of a share of stock on the valuation date. If, however, on June 13 and 18, the mean sale prices per share were $15 and $10, respectively, the FMV of a share of stock on the valuation date is $13.

If only closing prices for bonds are available, see Regulations section 20.2031-2(b).

Apply the rules in the section 2031 regulations to determine the value of inactive stock and stock in close corporations. Send with the schedule complete financial and other data used to determine value, including balance sheets (particularly the one nearest to the valuation date) and statements of the net earnings or operating results and dividends paid for each of the 5 years immediately before the valuation date.

Securities reported as of no value, nominal value, or obsolete should be listed last. Include the address of the company and the state and date of the incorporation. Attach copies of correspondence or statements used to determine the “no value.”

If the security was listed on more than one stock exchange, use either the records of the exchange where the security is principally traded or the composite listing of combined exchanges, if available, in a publication of general circulation. In valuing listed stocks and bonds, you should carefully check accurate records to obtain values for the applicable valuation date.

If you get quotations from brokers, or evidence of the sale of securities from the officers of the issuing companies, attach to the schedule copies of the letters furnishing these quotations or evidence of sale.

Schedule C—Mortgages, Notes, and Cash

See the reverse side of Schedule C on Form 706.

Schedule D—Insurance on the Decedent’s Life

See the reverse side of Schedule D on Form 706.

Schedule E—Jointly Owned Property

See the reverse side of Schedule E on Form 706.

Schedule F—Other Miscellaneous Property

See the reverse side of Schedule F on Form 706.

Schedule G—Transfers During Decedent’s Life

Complete Schedule G and file it with the return if the decedent made any of the transfers described in (1) through (5) on page 14, or if you answered “Yes” on line 11 or 12a of Part 4—General Information.

Report the following types of transfers on this schedule.

IF . . .	AND . . .	THEN . . .
the decedent made a transfer from a trust,	at the time of the transfer, the transfer was from a portion of the trust that was owned by the grantor under section 676 (other than by reason of section 672(e)) by reason of a power in the grantor,	for purposes of sections 2035 and 2038, treat the transfer as made directly by the decedent.
		Any such transfer within the annual gift tax exclusion is not includible in the gross estate.

1. **Certain gift taxes (section 2035(b)).** Enter at item A of Schedule G the total value of the gift taxes that were paid by the decedent or the estate on gifts made by the decedent or the decedent's spouse within 3 years of death.

The date of the gift, not the date of payment of the gift tax, determines whether a gift tax paid is included in the gross estate under this rule. Therefore, you should carefully examine the Forms 709 filed by the decedent and the decedent's spouse to determine what part of the total gift taxes reported on them was attributable to gifts made within 3 years of death.

For example, if the decedent died on July 10, 2006, you should examine gift tax returns for 2006, 2005, 2004, and 2003. However, the gift taxes on the 2003 return that are attributable to gifts made on or before July 10, 2003, are not included in the gross estate.

Attach an explanation of how you computed the includible gift taxes if you do not include in the gross estate the entire gift taxes shown on any Form 709 filed for gifts made within 3 years of death. Also attach copies of any pertinent gift tax returns filed by the decedent's spouse for gifts made within 3 years of death.

2. **Other transfers within 3 years of death (section 2035(a)).** These transfers include only the following:

- Any transfer by the decedent with respect to a life insurance policy within 3 years of death; or
- Any transfer within 3 years of death of a retained section 2036 life estate, section 2037 reversionary interest, or section 2038 power to revoke, etc., if the property subject to the life estate, interest, or power would have been included in the gross estate had the decedent continued to possess the life estate, interest, or power until death.

These transfers are reported on Schedule G, regardless of whether a gift tax return was required to be filed for them when they were made. However, the amount includible and the information required to be shown for the transfers are determined:

- For insurance on the life of the decedent using the instructions to Schedule D (attach Forms 712);
- For insurance on the life of another using the instructions to Schedule F (attach Forms 712); and
- For sections 2036, 2037, and 2038 transfers, using paragraphs (3), (4), and (5) of these instructions.

3. **Transfers with retained life estate (section 2036).** These are transfers by the decedent in which the decedent retained an interest in the transferred property. The transfer can be in trust or otherwise, but excludes *bona fide* sales for adequate and full consideration.

Interests or rights. Section 2036 applies to the following retained interests or rights:

- The right to income from the transferred property;
- The right to the possession or enjoyment of the property; and
- The right, either alone or with any person, to designate the persons who shall receive the income from, or possess or enjoy, the property.

Retained voting rights. Transfers with a retained life estate also include transfers of stock in a controlled corporation after June 22, 1976, if the decedent retained or acquired voting rights in the stock. If the decedent retained direct or indirect voting rights in a controlled corporation, the decedent is considered to have retained enjoyment of the transferred property. A corporation is a *controlled corporation* if the decedent owned (actually or constructively) or had the right (either alone or with any other person) to vote at least 20% of the total combined voting power of all classes of stock. See section 2036(b). If these voting rights ceased or were relinquished within 3 years of the decedent's death, the corporate interests are included in the gross estate as if the decedent had actually retained the voting rights until death.

The amount includible in the gross estate is the value of the transferred property at the time of the decedent's death. If the decedent kept or reserved an interest or right to only a part of the transferred property, the amount includible in the gross estate is a corresponding part of the entire value of the property.

A retained life estate does not have to be legally enforceable. What matters is that a substantial economic benefit was retained. For example, if a mother transferred title to her home to her daughter but with the informal understanding that she was to continue living there until her death, the value of the home would be includible in the mother's estate even if the agreement would not have been legally enforceable.

4. **Transfers taking effect at death (section 2037).** A transfer that takes effect at the decedent's death is one under which possession or enjoyment can be obtained only by surviving the decedent. A transfer is not treated as one that takes effect at the decedent's death unless the decedent retained a reversionary interest (defined below) in the property that immediately before the decedent's death had a value of more than 5% of the value of the transferred property. If the transfer was made before October 8, 1949, the reversionary interest must have arisen by the express terms of the instrument of transfer.

A *reversionary interest* is generally any right under which the transferred property will or may be returned to the decedent or the decedent's estate. It also includes the possibility that the transferred property may become subject to a power of disposition by the decedent. It does not matter if the right arises by the express terms of the instrument of transfer or by operation of law. For this purpose, reversionary interest does not include the possibility the income alone from the property may return to the decedent or become subject to the decedent's power of disposition.

5. **Revocable transfers (section 2038).** The gross estate includes the value of transferred property in which the enjoyment of the transferred property was subject at decedent's death to any change through the exercise of a power to alter, amend, revoke, or terminate. A decedent's power to change the beneficiaries and to hasten or increase any beneficiary's enjoyment of the property are examples of this.

It does not matter whether the power was reserved at the time of the transfer, whether it arose by operation of law, or was later created or conferred. The rule applies regardless of the source from which the power was acquired, and regardless of whether the power was exercisable by the decedent alone or with any person (and regardless of whether that person had a substantial adverse interest in the transferred property).

The capacity in which the decedent could use a power has no bearing. If the decedent gave property in trust and was the trustee with the power to revoke the trust, the property would be included in his or her gross estate. For transfers or additions to an irrevocable trust after October 28, 1979, the transferred property is includible if the decedent reserved the power to remove the trustee at will and appoint another trustee.

If the decedent relinquished within 3 years of death any of the includible powers described above, figure the gross estate as if the decedent had actually retained the powers until death.

Only the part of the transferred property that is subject to the decedent's power is included in the gross estate.

For more detailed information on which transfers are includible in the gross estate, see the Estate Tax Regulations.

Special Valuation Rules for Certain Lifetime Transfers

Code sections 2701 through 2704 provide rules for valuing certain transfers to family members.

Section 2701 deals with the transfer of an interest in a corporation or partnership while retaining certain distribution rights, or a liquidation, put, call, or conversion right.

Section 2702 deals with the transfer of an interest in a trust while retaining any interest other than a qualified interest. In general, a qualified interest is a right to receive certain distributions from the trust at least annually, or a noncontingent remainder interest if all of the other interests in the trust are distribution rights specified in section 2702.

Section 2703 provides rules for the valuation of property transferred to a family member but subject to an option, agreement, or other right to acquire or use the property at less than FMV. It also applies to transfers subject to restrictions on the right to sell or use the property.

Finally, section 2704 provides that in certain cases, the lapse of a voting or liquidation right in a family-owned corporation or partnership will result in a deemed transfer.

These rules have potential consequences for the valuation of property in an estate. If the decedent (or any member of his or her family) was involved in any such transactions, see Code sections 2701 through 2704 and the related regulations for additional details.

How To Complete Schedule G

All transfers (other than outright transfers not in trust and *bona fide* sales) made by the decedent at any time during life must be reported on the Schedule, regardless of whether you believe the transfers are subject to tax. If the decedent made any transfers not described in the instructions on page 14, the transfers should not be shown on Schedule G. Instead, attach a statement describing these transfers by listing:

- The date of the transfer,
- The amount or value of the transferred property, and
- The type of transfer.

Complete the schedule for each transfer that is included in the gross estate under sections 2035(a), 2036, 2037, and 2038 as described in the Instructions for Schedule G beginning on page 13.

In the “Item number” column, number each transfer consecutively beginning with “1.” In the “Description” column, list the name of the transferee, the date of the transfer, and give a complete description of the property. Transfers included in the gross estate should be valued on the date of the decedent’s death or, if alternate valuation is adopted, according to section 2032.

If only part of the property transferred meets the terms of section 2035(a), 2036, 2037, or 2038, then only a corresponding part of the value of the property should be included in the value of the gross estate. If the transferee makes additions or improvements to the property, the increased value of the property at the valuation date should not be included on Schedule G. However, if only a part of the value of the property is included, enter the value of the whole under the column headed “Description” and explain what part was included.

Attachments. If a transfer, by trust or otherwise, was made by a written instrument, attach a copy of the instrument to Schedule G. If the copy of the instrument is of public record, it should be certified; if not of public record, the copy should be verified.

Schedule H—Powers of Appointment

Complete Schedule H and file it with the return if you answered “Yes” to line 13 of Part 4—General Information.

On Schedule H, include in the gross estate:

- The value of property for which the decedent possessed a general power of appointment (defined below) on the date of his or her death and
- The value of property for which the decedent possessed a general power of appointment that he or she exercised or released before death by disposing of it in such a way that if it were a transfer of property owned by the decedent, the property would be includible in the decedent’s gross estate as a transfer with a retained life estate, a transfer taking effect at death, or a revocable transfer.

With the above exceptions, property subject to a power of appointment is not includible in the gross estate if the decedent released the power completely and the decedent held no interest in or control over the property.

If the failure to exercise a general power of appointment results in a lapse of the power, the lapse is treated as a release only to the extent that the value of the property that could have been appointed by the exercise of the lapsed power is more than the greater of $5,000 or 5% of the total value, at the time of the lapse, of the assets out of which, or the proceeds of which, the exercise of the lapsed power could have been satisfied.

Powers of Appointment

A *power of appointment* determines who will own or enjoy the property subject to the power and when they will own or enjoy it. The power must be created by someone other than the decedent. It does not include a power created or held on property transferred by the decedent.

A power of appointment includes all powers which are in substance and effect, powers of appointment regardless of how they are identified and regardless of local property laws. For example, if a settlor transfers property in trust for the life of his wife, with a power in the wife to appropriate or consume the principal of the trust, the wife has a power of appointment.

Some powers do not in themselves constitute a power of appointment. For example, a power to amend only administrative provisions of a trust that cannot substantially affect the beneficial enjoyment of the trust property or income is not a power of appointment. A power to manage, invest, or control assets, or to allocate receipts and disbursements, when exercised only in a fiduciary capacity, is not a power of appointment.

General power of appointment. A *general power of appointment* is a power that is exercisable in favor of the decedent, the decedent’s estate, the decedent’s creditors, or the creditors of the decedent’s estate, except:

1. A power to consume, invade, or appropriate property for the benefit of the decedent that is limited by an ascertainable standard relating to health, education, support, or maintenance of the decedent.
2. A power exercisable by the decedent only in conjunction with:
   a. the creator of the power or
   b. a person who has a substantial interest in the property subject to the power, which is adverse to the exercise of the power in favor of the decedent.

A part of a power is considered a general power of appointment if the power:

1. May only be exercised by the decedent in conjunction with another person and
2. Is also exercisable in favor of the other person (in addition to being exercisable in favor of the decedent, the decedent’s creditors, the decedent’s estate, or the creditors of the decedent’s estate).

The part to include in the gross estate as a general power of appointment is figured by dividing the value of the property by the number of persons (including the decedent) in favor of whom the power is exercisable.

Date power was created. Generally, a power of appointment created by will is considered created on the date of the testator’s death.

A power of appointment created by an *inter vivos* instrument is considered created on the date the instrument takes effect. If the holder of a power exercises it by creating a second power, the second power is considered as created at the time of the exercise of the first.

Attachments

If the decedent ever possessed a power of appointment, attach a certified or verified copy of the instrument granting the power and a certified or verified copy of any instrument by which the power was

exercised or released. You must file these copies even if you contend that the power was not a general power of appointment, and that the property is not otherwise includible in the gross estate.

Schedule I—Annuities

You must complete Schedule I and file it with the return if you answered “Yes” to question 15 of Part 4—General Information.

Enter on Schedule I every annuity that meets all of the conditions under *General,* below, and every annuity described in paragraphs (a) through (h) of *Annuities Under Approved Plans* below, even if the annuities are wholly or partially excluded from the gross estate.

See the instructions for line 3 of Schedule M for a discussion regarding the QTIP treatment of certain joint and survivor annuities.

General

In general, you must include in the gross estate all or part of the value of any annuity that meets the following requirements:

- It is receivable by a beneficiary following the death of the decedent and by reason of surviving the decedent;
- The annuity is under a contract or agreement entered into after March 3, 1931;
- The annuity was payable to the decedent (or the decedent possessed the right to receive the annuity) either alone or in conjunction with another, for the decedent's life or for any period not ascertainable without reference to the decedent's death or for any period that did not in fact end before the decedent's death; and
- The contract or agreement is not a policy of insurance on the life of the decedent.

These rules apply to all types of annuities, including pension plans, individual retirement arrangements, purchased commercial annuities, and private annuities.

Note. A *private annuity* is an annuity issued from a party not engaged in the business of writing annuity contracts, typically a junior generation family member or a family trust.

An annuity contract that provides periodic payments to a person for life and ceases at the person's death is not includible in the gross estate. Social Security benefits are not includible in the gross estate even if the surviving spouse receives benefits.

An annuity or other payment that is not includible in the decedent's or the survivor's gross estate as an annuity may still be includible under some other applicable provision of the law. For example, see *Powers of Appointment* on page 15.

If the decedent retired before January 1, 1985, see *Annuities Under Approved Plans* below for rules that allow the exclusion of part or all of certain annuities.

Part Includible

If the decedent contributed only part of the purchase price of the contract or agreement, include in the gross estate only that part of the value of the annuity receivable by the surviving beneficiary that the decedent's contribution to the purchase price of the annuity or agreement bears to the total purchase price.

For example, if the value of the survivor's annuity was $20,000 and the decedent had contributed three-fourths of the purchase price of the contract, the amount includible is $15,000 ($3/4 \times$ $20,000).

Except as provided under *Annuities Under Approved Plans* below, contributions made by the decedent's employer to the purchase price of the contract or agreement are considered made by the decedent if they were made by the employer because of the decedent's employment. For more information, see section 2039.

Definitions

Annuity. The term “annuity” includes one or more payments extending over any period of time. The payments may be equal or unequal, conditional or unconditional, periodic or sporadic.

Examples. The following are examples of contracts (but not necessarily the only forms of contracts) for annuities that must be included in the gross estate.

1. A contract under which the decedent immediately before death was receiving or was entitled to receive, for the duration of life, an annuity with payments to continue after death to a designated beneficiary, if surviving the decedent.
2. A contract under which the decedent immediately before death was receiving or was entitled to receive, together with another person, an annuity payable to the decedent and the other person for their joint lives, with payments to continue to the survivor following the death of either.
3. A contract or agreement entered into by the decedent and employer under which the decedent immediately before death and following retirement was receiving, or was entitled to receive, an annuity payable to the decedent for life and after the decedent's death to a designated beneficiary, if surviving the decedent, whether the payments after the decedent's death are fixed by the contract or subject to an option or election exercised or exercisable by the decedent. However, see *Annuities Under Approved Plans* below.
4. A contract or agreement entered into by the decedent and the decedent's employer under which at the decedent's death, before retirement, or before the expiration of a stated period of time, an annuity was payable to a designated beneficiary, if surviving the decedent. However, see *Annuities Under Approved Plans* below.
5. A contract or agreement under which the decedent immediately before death was receiving, or was entitled to receive, an annuity for a stated period of time, with the annuity to continue to a designated beneficiary, surviving the decedent, upon the decedent's death and before the expiration of that period of time.
6. An annuity contract or other arrangement providing for a series of substantially equal periodic payments to be made to a beneficiary for life or over a period of at least 36 months after the date of the decedent's death under an individual retirement account, annuity, or bond as described in section 2039(e) (before its repeal by P.L. 98-369).

Payable to the decedent. An annuity or other payment was payable to the decedent if, at the time of death, the decedent was in fact receiving an annuity or other payment, with or without an enforceable right to have the payments continued.

Right to receive an annuity. The decedent had the right to receive an annuity or other payment if, immediately before death, the decedent had an enforceable right to receive payments at some time in the future, whether or not at the time of death the decedent had a present right to receive payments.

Annuities Under Approved Plans

The following rules relate to whether part or all of an otherwise includible annuity may be excluded. These rules have been repealed and apply only if the decedent either:

- On December 31, 1984, was both a participant in the plan and in pay status (for example, had received at least one benefit payment on or before December 31, 1984) and had irrevocably elected the form of the benefit before July 18, 1984 or
- Had separated from service before January 1, 1985, and did not change the form of benefit before death.

The amount excluded cannot exceed $100,000 unless either of the following conditions is met:

- On December 31, 1982, the decedent was both a participant in the plan and in pay status (for example, had received at least one benefit payment on or before December 31, 1982) and the decedent irrevocably elected the form of the benefit before January 1, 1983 or
- The decedent separated from service before January 1, 1983, and did not change the form of benefit before death.

Approved Plans

Approved plans may be separated into two categories:

- Pension, profit-sharing, stock bonus, and other similar plans and

- Individual retirement arrangements (IRAs), and retirement bonds.

Different exclusion rules apply to the two categories of plans.

Pension, etc., plans. The following plans are approved plans for the exclusion rules:

a. An employees' trust (or under a contract purchased by an employees' trust) forming part of a pension, stock bonus, or profit-sharing plan that met all the requirements of section 401(a), either at the time of the decedent's separation from employment (whether by death or otherwise) or at the time of the termination of the plan (if earlier);

b. A retirement annuity contract purchased by the employer (but not by an employees' trust) under a plan that, at the time of the decedent's separation from employment (by death or otherwise), or at the time of the termination of the plan (if earlier), was a plan described in section 403(a);

c. A retirement annuity contract purchased for an employee by an employer that is an organization referred to in section 170(b)(1)(A)(ii) or (vi), or that is a religious organization (other than a trust), and that is exempt from tax under section 501(a);

d. Chapter 73 of Title 10 of the United States Code; or

e. A bond purchase plan described in section 405 (before its repeal by P.L. 98-369, effective for obligations issued after December 31, 1983).

Exclusion rules for pension, etc., plans. If an annuity under an "approved plan" described in (a) through (e) above is receivable by a beneficiary other than the executor and the decedent made no contributions under the plan toward the cost, no part of the value of the annuity, subject to the $100,000 limitation (if applicable), is includible in the gross estate.

If the decedent made a contribution under a plan described in (a) through (e) above toward the cost, include in the gross estate on this schedule that proportion of the value of the annuity which the amount of the decedent's contribution under the plan bears to the total amount of all contributions under the plan. The remaining value of the annuity is excludable from the gross estate subject to the $100,000 limitation (if applicable). For the rules to determine whether the decedent made contributions to the plan, see Regulations section 20.2039.

IRAs and retirement bonds. The following plans are approved plans for the exclusion rules:

f. An individual retirement account described in section 408(a),

g. An individual retirement annuity described in section 408(b), or

h. A retirement bond described in section 409(a) (before its repeal by P.L. 98-369).

Exclusion rules for IRAs and retirement bonds. These plans are approved plans only if they provide for a series of substantially equal periodic payments made to a beneficiary for life, or over a period of at least 36 months after the date of the decedent's death.

Subject to the $100,000 limitation, if applicable, if an annuity under a "plan" described in (f) through (h) above is receivable by a beneficiary other than the executor, the entire value of the annuity is excludable from the gross estate even if the decedent made a contribution under the plan.

However, if any payment to or for an account or annuity described in paragraph (f), (g), or (h) above was not allowable as an income tax deduction under section 219 (and was not a rollover contribution as described in section 2039(e) before its repeal by P.L. 98-369), include in the gross estate on this schedule that proportion of the value of the annuity which the amount not allowable as a deduction under section 219 and not a rollover contribution bears to the total amount paid to or for such account or annuity. For more information, see Regulations section 20.2039-5.

Rules applicable to all approved plans. The following rules apply to all approved plans described in paragraphs (a) through (h) above.

If any part of an annuity under a "plan" described in (a) through (h) above is receivable by the executor, it is generally includible in the gross estate on this schedule to the extent that it is receivable by the executor in that capacity. In general, the annuity is receivable by the executor if it is to be paid to the executor or if there is an agreement (expressed or implied) that it will be applied by the beneficiary for the benefit of the estate (such as in discharge of the estate's liability for death taxes or debts of the decedent, etc.) or that its distribution will be governed to any extent by the terms of the decedent's will or the laws of descent and distribution.

If data available to you does not indicate whether the plan satisfies the requirements of section 401(a), 403(a), 408(a), 408(b), or 409(a), you may obtain that information from the IRS where the employer's principal place of business is located.

Line A. Lump Sum Distribution Election

Note. The following rules have been repealed and apply only if the decedent:

- On December 31, 1984, was both a participant in the plan and in pay status (for example, had received at least one benefit payment on or before December 31, 1984) and had irrevocably elected the form of the benefit before July 18, 1984, or
- Had separated from service before January 1, 1985, and did not change the form of benefit before death.

Generally, the entire amount of any lump sum distribution is included in the decedent's gross estate. However, under this special rule, all or part of a lump sum distribution from a qualified (approved) plan will be excluded if the lump sum distribution is included in the recipient's income for income tax purposes.

If the decedent was born before 1936, the recipient may be eligible to elect special "10-year averaging" rules (under repealed section 402(e)) and capital gain treatment (under repealed section 402(a)(2)) in computing the income tax on the distribution. For more information, see Pub. 575, Pension and Annuity Income. If this option is available, the estate tax exclusion cannot be claimed unless the recipient elects to forego the "10-year averaging" and capital gain treatment in computing the income tax on the distribution. The recipient elects to forego this treatment by treating the distribution as taxable on his or her income tax return as described in Regulations section 20.2039-4(d). The election is irrevocable.

The amount excluded from the gross estate is the portion attributable to the employer contributions. The portion, if any, attributable to the employee-decedent's contributions is always includible. Also, you may not compute the gross estate in accordance with this election unless you check "Yes" to line A and attach the name, address, and identifying number of the recipients of the lump sum distributions. See Regulations section 20.2039-4.

How To Complete Schedule I

In describing an annuity, give the name and address of the grantor of the annuity. Specify if the annuity is under an approved plan.

IF . . .	THEN . . .
the annuity is under an approved plan,	state the ratio of the decedent's contribution to the total purchase price of the annuity.
the decedent was employed at the time of death and an annuity as described in *Definitions, Annuity, Example 4* on page 16, became payable to any beneficiary because the beneficiary survived the decedent,	state the ratio of the decedent's contribution to the total purchase price of the annuity.
an annuity under an individual retirement account or annuity became payable to any beneficiary because that beneficiary survived the decedent and is payable to the beneficiary for life or for at least 36 months following the decedent's death,	state the ratio of the amount paid for the individual retirement account or annuity that was not allowable as an income tax deduction under section 219 (other than a rollover contribution) to the total amount paid for the account or annuity.
the annuity is payable out of a trust or other fund,	the description should be sufficiently complete to fully identify it.
the annuity is payable for a term of years,	include the duration of the term and the date on which it began.
the annuity is payable for the life of a person other than the decedent,	include the date of birth of that person.
the annuity is wholly or partially excluded from the gross estate,	enter the amount excluded under "Description" and explain how you computed the exclusion.

Schedule J—Funeral Expenses and Expenses Incurred in Administering Property Subject to Claims

See the reverse side of Schedule J on Form 706.

Schedule K—Debts of the Decedent and Mortgages and Liens

You must complete and attach Schedule K if you claimed deductions on either item 14 or item 15 of Part 5—Recapitulation.

Income vs. estate tax deduction. Taxes, interest, and business expenses accrued at the date of the decedent's death are deductible both on Schedule K and as deductions in respect of the decedent on the income tax return of the estate.

If you choose to deduct medical expenses of the decedent only on the estate tax return, they are fully deductible as claims against the estate. If, however, they are claimed on the decedent's final income tax return under section 213(c), they may not also be claimed on the estate tax return. In this case, you also may not deduct on the estate tax return any amounts that were not deductible on the income tax return because of the percentage limitations.

Debts of the Decedent

List under "Debts of the Decedent" only valid debts the decedent owed at the time of death. List any indebtedness secured by a mortgage or other lien on property of the gross estate under the heading "Mortgages and Liens." If the amount of the debt is disputed or the subject of litigation, deduct only the amount the estate concedes to be a valid claim. Enter the amount in contest in the column provided.

Generally, if the claim against the estate is based on a promise or agreement, the deduction is limited to the extent that the liability was contracted *bona fide* and for an adequate and full consideration in money or money's worth. However, any enforceable claim based on a promise or agreement of the decedent to make a contribution or gift (such as a pledge or a subscription) to or for the use of a charitable, public, religious, etc., organization is deductible to the extent that the deduction would be allowed as a bequest under the statute that applies.

Certain claims of a former spouse against the estate based on the relinquishment of marital rights are deductible on Schedule K. For these claims to be deductible, all of the following conditions must be met.

- The decedent and the decedent's spouse must have entered into a written agreement relative to their marital and property rights.
- The decedent and the spouse must have been divorced before the decedent's death and the divorce must have occurred within the 3-year period beginning on the date 1 year before the agreement was entered into. It is not required that the agreement be approved by the divorce decree.
- The property or interest transferred under the agreement must be transferred to the decedent's spouse in settlement of the spouse's marital rights.

You may not deduct a claim made against the estate by a remainderman relating to section 2044 property. Section 2044 property is described in the instructions to line 6 of Part 4—General Information.

Include in this schedule notes unsecured by mortgage or other lien and give full details, including:

- Name of payee,
- Face and unpaid balance,
- Date and term of note,
- Interest rate, and
- Date to which interest was paid before death.

Include the exact nature of the claim as well as the name of the creditor. If the claim is for services performed over a period of time, state the period covered by the claim.

Example. Edison Electric Illuminating Co., for electric service during December 2005, $150.

If the amount of the claim is the unpaid balance due on a contract for the purchase of any property included in the gross estate, indicate the schedule and item number where you reported the property. If the claim represents a joint and separate liability, give full facts and explain the financial responsibility of the co-obligor.

Property and income taxes. The deduction for property taxes is limited to the taxes accrued before the date of the decedent's death. Federal taxes on income received during the decedent's lifetime are deductible, but taxes on income received after death are not deductible.

Keep all vouchers or original records for inspection by the IRS.

Allowable death taxes. If you elect to take a deduction under section 2053(d) rather than a credit under section 2014, the deduction is subject to the limitations described in section 2053(d) and its regulations. If you have difficulty figuring the deduction, you may request a computation of it. Send your request within a reasonable amount of time before the due date of the return to the Commissioner of Internal Revenue, Washington, DC 20224. Attach to your request a copy of the will and relevant documents, a statement showing the distribution of the estate under the decedent's will, and a computation of the state or foreign death tax showing any amount payable by a charitable organization.

Mortgages and Liens

List under "Mortgages and Liens" only obligations secured by mortgages or other liens on property that you included in the gross estate at its full value or at a value that was undiminished by the amount of the mortgage or lien. If the debt is enforceable against other property of the estate not subject to the mortgage or lien, or if the decedent was personally liable for the debt, you must include the full value of the property subject to the mortgage or lien in the gross estate under the appropriate schedule and may deduct the mortgage or lien on the property on this schedule.

However, if the decedent's estate is not liable, include in the gross estate only the value of the equity of redemption (or the value of the property less the amount of the debt), and do not deduct any portion of the indebtedness on this schedule.

Notes and other obligations secured by the deposit of collateral, such as

stocks, bonds, etc., also should be listed under “Mortgages and Liens.”

Description

Include under the “Description” column the particular schedule and item number where the property subject to the mortgage or lien is reported in the gross estate.

Include the name and address of the mortgagee, payee, or obligee, and the date and term of the mortgage, note, or other agreement by which the debt was established. Also include the face amount, the unpaid balance, the rate of interest, and date to which the interest was paid before the decedent’s death.

Schedule L—Net Losses During Administration and Expenses Incurred in Administering Property Not Subject to Claims

You must complete Schedule L and file it with the return if you claim deductions on either item 18 or item 19 of Part 5—Recapitulation.

Net Losses During Administration

You may deduct only those losses from thefts, fires, storms, shipwrecks, or other casualties that occurred during the settlement of the estate. You may deduct only the amount not reimbursed by insurance or otherwise.

Describe in detail the loss sustained and the cause. If you received insurance or other compensation for the loss, state the amount collected. Identify the property for which you are claiming the loss by indicating the particular schedule and item number where the property is included in the gross estate.

If you elect alternate valuation, do not deduct the amount by which you reduced the value of an item to include it in the gross estate.

Do not deduct losses claimed as a deduction on a federal income tax return or depreciation in the value of securities or other property.

Expenses Incurred in Administering Property Not Subject to Claims

You may deduct expenses incurred in administering property that is included in the gross estate but that is not subject to claims. You may only deduct these expenses if they were paid before the section 6501 period of limitations for assessment expired.

The expenses deductible on this schedule are usually expenses incurred in the administration of a trust established by the decedent before death. They may also be incurred in the collection of other assets or the transfer or clearance of title to other property included in the decedent’s gross estate for estate tax purposes, but not included in the decedent’s probate estate.

The expenses deductible on this schedule are limited to those that are the result of settling the decedent’s interest in the property or of vesting good title to the property in the beneficiaries. Expenses incurred on behalf of the transferees (except those described above) are not deductible. Examples of deductible and nondeductible expenses are provided in Regulations section 20.2053-8.

List the names and addresses of the persons to whom each expense was payable and the nature of the expense. Identify the property for which the expense was incurred by indicating the schedule and item number where the property is included in the gross estate. If you do not know the exact amount of the expense, you may deduct an estimate, provided that the amount may be verified with reasonable certainty and will be paid before the period of limitations for assessment (referred to above) expires. Keep all vouchers and receipts for inspection by the Internal Revenue Service.

Schedule M—Bequests, etc., to Surviving Spouse (Marital Deduction)

See the Form 706 itself for these instructions.

Schedule O—Charitable, Public, and Similar Gifts and Bequests

General

You must complete Schedule O and file it with the return if you claim a deduction on item 21 of Part 5—Recapitulation.

You can claim the charitable deduction allowed under section 2055 for the value of property in the decedent’s gross estate that was transferred by the decedent during life or by will to or for the use of any of the following:

- The United States, a state, a political subdivision of a state, or the District of Columbia, for exclusively public purposes;
- Any corporation or association organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art, or to foster national or international amateur sports competition (but only if none of its activities involve providing athletic facilities or equipment, unless the organization is a qualified amateur sports organization) and the prevention of cruelty to children and animals, as long as no part of the net earnings benefits any private individual and no substantial activity is undertaken to carry on propaganda, or otherwise attempt to influence legislation or participate in any political campaign on behalf of any candidate for public office;
- A trustee or a fraternal society, order or association operating under the lodge system, if the transferred property is to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals, and no substantial activity is undertaken to carry on propaganda or otherwise attempt to influence legislation, or participate in any political campaign on behalf of any candidate for public office;
- Any veterans organization incorporated by an Act of Congress or any of its departments, local chapters, or posts, for which none of the net earnings benefits any private individual; or
- A foreign government or its political subdivision when the use of such property is limited exclusively to charitable purposes.

For this purpose, certain Indian tribal governments are treated as states and transfers to them qualify as deductible charitable contributions. See Rev. Proc. 2002-64, 2002-42 I.R.B. 717, as modified and supplemented by subsequent Revenue Procedures, for a list of qualifying Indian tribal governments.

You may also claim a charitable contribution deduction for a qualifying conservation easement granted after the decedent’s death under the provisions of section 2031(c)(9).

The charitable deduction is allowed for amounts that are transferred to charitable organizations as a result of either a qualified disclaimer (see *Line 2. Qualified Disclaimer* on page 20) or the complete termination of a power to consume, invade, or appropriate property for the benefit of an individual. It does not matter whether termination occurs because of the death of the individual or in any other way. The termination must occur within the period of time (including extensions) for filing the decedent’s estate tax return and before the power has been exercised.

The deduction is limited to the amount actually available for charitable uses. Therefore, if under the terms of a will or the provisions of local law, or for any other reason, the federal estate tax, the federal GST tax, or any other estate, GST, succession, legacy, or inheritance tax is payable in whole or in part out of any bequest, legacy, or devise that would otherwise be allowed as a charitable deduction, the amount you may deduct is the amount of the bequest, legacy, or devise reduced by the total amount of the taxes.

If you elected to make installment payments of the estate tax, and the interest is payable out of property transferred to charity, you must reduce the charitable deduction by an estimate of the maximum amount of interest that will be paid on the deferred tax.

For split-interest trusts (or pooled income funds) enter in the “Amount” column the amount treated as passing to

the charity. Do not enter the entire amount that passes to the trust (fund).

If you are deducting the value of the residue or a part of the residue passing to charity under the decedent's will, attach a copy of the computation showing how you determined the value, including any reduction for the taxes described above.

Also include:

- A statement that shows the values of all specific and general legacies or devises for both charitable and noncharitable uses. For each legacy or devise, indicate the paragraph or section of the decedent's will or codicil that applies. If legacies are made to each member of a class (for example, $1,000 to each of the decedent's employees), show only the number of each class and the total value of property they received;
- The date of birth of all life tenants or annuitants, the length of whose lives may affect the value of the interest passing to charity under the decedent's will;
- A statement showing the value of all property that is included in the decedent's gross estate but does not pass under the will, such as transfers, jointly owned property that passed to the survivor on decedent's death, and insurance payable to specific beneficiaries; and
- Any other important information such as that relating to any claim, not arising under the will, to any part of the estate (that is, a spouse claiming dower or curtesy, or similar rights).

Line 2. Qualified Disclaimer

The charitable deduction is allowed for amounts that are transferred to charitable organizations as a result of a qualified disclaimer. To be a qualified disclaimer, a refusal to accept an interest in property must meet the conditions of section 2518. These are explained in Regulations sections 25.2518-1 through 25.2518-3. If property passes to a charitable beneficiary as the result of a qualified disclaimer, check the "Yes" box on line 2 and attach a copy of the written disclaimer required by section 2518(b).

Attachments

If the charitable transfer was made by will, attach a certified copy of the order admitting the will to probate, in addition to the copy of the will. If the charitable transfer was made by any other written instrument, attach a copy. If the instrument is of record, the copy should be certified; if not, the copy should be verified.

Value

The valuation dates used in determining the value of the gross estate apply also on Schedule O.

Schedule P—Credit for Foreign Death Taxes

General

If you claim a credit on line 13 of Part 2—Tax Computation, you must complete Schedule P and file it with the return. You must attach Form(s) 706-CE, Certificate of Payment of Foreign Death Tax, to support any credit you claim.

If the foreign government refuses to certify Form 706-CE, you must file it directly with the Internal Revenue Service as instructed on the Form 706-CE. See Form 706-CE for instructions on how to complete the form and for a description of the items that must be attached to the form when the foreign government refuses to certify it.

The credit for foreign death taxes is allowable only if the decedent was a citizen or resident of the United States. However, see section 2053(d) and the related regulations for exceptions and limitations if the executor has elected, in certain cases, to deduct these taxes from the value of the gross estate. For a resident, not a citizen, who was a citizen or subject of a foreign country for which the President has issued a proclamation under section 2014(h), the credit is allowable only if the country of which the decedent was a national allows a similar credit to decedents who were U.S. citizens residing in that country.

The credit is authorized either by statute or by treaty. If a credit is authorized by a treaty, whichever of the following is the most beneficial to the estate is allowed:

- The credit computed under the treaty;
- The credit computed under the statute; or
- The credit computed under the treaty, plus the credit computed under the statute for death taxes paid to each political subdivision or possession of the treaty country that are not directly or indirectly creditable under the treaty.

Under the statute, the credit is authorized for all death taxes (national and local) imposed in the foreign country. Whether local taxes are the basis for a credit under a treaty depends upon the provisions of the particular treaty.

If a credit for death taxes paid in more than one foreign country is allowable, a separate computation of the credit must be made for each foreign country. The copies of Schedule P on which the additional computations are made should be attached to the copy of Schedule P provided in the return.

The total credit allowable in respect to any property, whether subjected to tax by one or more than one foreign country, is limited to the amount of the federal estate tax attributable to the property. The anticipated amount of the credit may be computed on the return, but the credit cannot finally be allowed until the foreign tax has been paid and a Form 706-CE evidencing payment is filed. Section 2014(g) provides that for credits for foreign death taxes, each U.S. possession is deemed a foreign country.

Convert death taxes paid to the foreign country into U.S. dollars by using the rate of exchange in effect at the time each payment of foreign tax is made.

If a credit is claimed for any foreign death tax that is later recovered, see Regulations section 20.2016-1 for the notice required within 30 days.

Limitation Period

The credit for foreign death taxes is limited to those taxes that were actually paid and for which a credit was claimed within the later of the 4 years after the filing of the estate tax return, or before the date of expiration of any extension of time for payment of the federal estate tax, or 60 days after a final decision of the Tax Court on a timely filed petition for a redetermination of a deficiency.

Credit Under the Statute

For the credit allowed by the statute, the question of whether particular property is situated in the foreign country imposing the tax is determined by the same principles that would apply in determining whether similar property of a nonresident not a U.S. citizen is situated within the United States for purposes of the federal estate tax. See the instructions for Form 706-NA.

Computation of Credit Under the Statute

Item 1. Enter the amount of the estate, inheritance, legacy, and succession taxes paid to the foreign country and its possessions or political subdivisions, attributable to property that is:

- Situated in that country,
- Subjected to these taxes, and
- Included in the gross estate.

The amount entered at item 1 should not include any tax paid to the foreign country with respect to property not situated in that country and should not include any tax paid to the foreign country with respect to property not included in the gross estate. If only a part of the property subjected to foreign taxes is both situated in the foreign country and included in the gross estate, it will be necessary to determine the portion of the taxes attributable to that part of the property. Also attach the computation of the amount entered at item 1.

Item 2. Enter the value of the gross estate, less the total of the deductions on items 20 and 21 of Part 5—Recapitulation.

Item 3. Enter the value of the property situated in the foreign country that is subjected to the foreign taxes and included in the gross estate, less those portions of the deductions taken on Schedules M and O that are attributable to the property.

Item 4. Subtract any credit claimed on line 15 for federal gift taxes on pre-1977 gifts (section 2012) from line 12 of Part 2—Tax Computation, and enter the balance at item 4 of Schedule P.

Credit Under Treaties

If you are reporting any items on this return based on the provisions of a death tax treaty, you may have to attach a statement to this return disclosing the return position that is treaty based. See Regulations section 301.6114-1 for details.

In general. If the provisions of a treaty apply to the estate of a U.S. citizen or resident, a credit is authorized for payment of the foreign death tax or taxes specified in the treaty. Treaties with death tax conventions are in effect with the following countries: Australia, Austria, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, Norway, South Africa, Sweden, Switzerland, and the United Kingdom.

A credit claimed under a treaty is in general computed on Schedule P in the same manner as the credit is computed under the statute with the following principal exceptions:

- The *situs* rules contained in the treaty apply in determining whether property was situated in the foreign country;
- The credit may be allowed only for payment of the death tax or taxes specified in the treaty (but see the instructions above for credit under the statute for death taxes paid to each political subdivision or possession of the treaty country that are not directly or indirectly creditable under the treaty);
- If specifically provided, the credit is proportionately shared for the tax applicable to property situated outside both countries, or that was deemed in some instances situated within both countries; and
- The amount entered at item 4 of Schedule P is the amount shown on line 12 of Part 2—Tax Computation, less the total of the credits claimed for federal gift taxes on pre-1977 gifts (section 2012) and for tax on prior transfers (line 14 of Part 2—Tax Computation). (If a credit is claimed for tax on prior transfers, it will be necessary to complete Schedule Q before completing Schedule P.) For examples of computation of credits under the treaties, see the applicable regulations.

Computation of credit in cases where property is situated outside both countries or deemed situated within both countries. See the appropriate treaty for details.

Schedule Q—Credit for Tax on Prior Transfers

General

You must complete Schedule Q and file it with the return if you claim a credit on Part 2—Tax Computation, line 14.

The term “transferee” means the decedent for whose estate this return is filed. If the transferee received property from a transferor who died within 10 years before, or 2 years after, the transferee, a credit is allowable on this return for all or part of the federal estate tax paid by the transferor’s estate with respect to the transfer. There is no requirement that the property be identified in the estate of the transferee or that it exist on the date of the transferee’s death. It is sufficient for the allowance of the credit that the transfer of the property was subjected to federal estate tax in the estate of the transferor and that the specified period of time has not elapsed. A credit may be allowed with respect to property received as the result of the exercise or nonexercise of a power of appointment when the property is included in the gross estate of the donee of the power.

If the transferee was the transferor’s surviving spouse, no credit is allowed for property received from the transferor to the extent that a marital deduction was allowed to the transferor’s estate for the property. There is no credit for tax on prior transfers for federal gift taxes paid in connection with the transfer of the property to the transferee.

If you are claiming a credit for tax on prior transfers on Form 706-NA, you should first complete and attach Part 5—Recapitulation from Form 706 before computing the credit on Schedule Q from Form 706.

Section 2056(d)(3) contains specific rules for allowing a credit for certain transfers to a spouse who was not a U.S. citizen where the property passed outright to the spouse, or to a “qualified domestic trust.”

Property

The term “property” includes any interest (legal or equitable) of which the transferee received the beneficial ownership. The transferee is considered the beneficial owner of property over which the transferee received a general power of appointment. Property does not include interests to which the transferee received only a bare legal title, such as that of a trustee. Neither does it include an interest in property over which the transferee received a power of appointment that is not a general power of appointment. In addition to interests in which the transferee received the complete ownership, the credit may be allowed for annuities, life estates, terms for years, remainder interests (whether contingent or vested), and any other interest that is less than the complete ownership of the property, to the extent that the transferee became the beneficial owner of the interest.

Maximum Amount of the Credit

The maximum amount of the credit is the smaller of:

1. The amount of the estate tax of the transferor’s estate attributable to the transferred property or
2. The amount by which:

a. An estate tax on the transferee’s estate determined without the credit for tax on prior transfers, exceeds

b. An estate tax on the transferee’s estate determined by excluding from the gross estate the net value of the transfer.

If credit for a particular foreign death tax may be taken under either the statute or a death duty convention, and on this return the credit actually is taken under the convention, then no credit for that foreign death tax may be taken into consideration in computing estate tax (a) or estate tax (b), above.

Percent Allowable

Where transferee predeceased the transferor. If not more than 2 years elapsed between the dates of death, the credit allowed is 100% of the maximum amount. If more than 2 years elapsed between the dates of death, no credit is allowed.

Where transferor predeceased the transferee. The percent of the maximum amount that is allowed as a credit depends on the number of years that elapsed between dates of death. It is determined using the following table:

Period of Time Exceeding	Not Exceeding	Percent Allowable
- - - - -	2 years	100
2 years	4 years	80
4 years	6 years	60
6 years	8 years	40
8 years	10 years	20
10 years	- - - - -	none

How To Compute the Credit

A worksheet for Schedule Q is provided on page 29 of these instructions to allow you to compute the limits before completing Schedule Q. Transfer the appropriate amounts from the worksheet to Schedule Q as indicated on the schedule. You do not need to file the worksheet with your Form 706, but should keep it for your records.

Cases involving transfers from two or more transferors. Part I of the worksheet and Schedule Q enable you to compute the credit for as many as three transferors. The number of transferors is irrelevant to Part II of the worksheet. If you are computing the credit for more than three transferors, use more than one worksheet and Schedule Q, Part I, and combine the totals for the appropriate lines.

Section 2032A additional tax. If the transferor’s estate elected special-use valuation and the additional estate tax of section 2032A(c) was imposed at any time up to 2 years after the death of the decedent for whom you are filing this return, check the box on Schedule Q. On lines 1 and 9 of the worksheet, include the property subject to the additional estate tax at its FMV rather than its special-use value. On line 10 of the worksheet, include the additional estate tax paid as a federal estate tax paid.

How To Complete the Schedule Q Worksheet

Most of the information to complete Part I of the worksheet should be obtained from the transferor's Form 706.

Line 5. Enter on line 5 the applicable marital deduction claimed for the transferor's estate (from the transferor's Form 706).

Lines 10 through 18. Enter on these lines the appropriate taxes paid by the transferor's estate.

If the transferor's estate elected to pay the federal estate tax in installments, enter on line 10 only the total of the installments that have actually been paid at the time you file this Form 706. See Rev. Rul. 83-15, 1983-1 C.B. 224, for more details. Do not include as estate tax any tax attributable to section 4980A, before its repeal by the Taxpayer Relief Act of 1997.

Line 21. Add lines 11 (allowable unified credit) and 13 (foreign death taxes credit) of Part 2—Tax Computation to the amount of any credit taken (on line 15) for federal gift taxes on pre-1977 gifts (section 2012). Subtract this total from Part 2—Tax Computation, line 8. Enter the result on line 21 of the worksheet.

Line 26. If you computed the marital deduction on this Form 706 using the rules that were in effect before the Economic Recovery Tax Act of 1981 (as described in the instructions to line 14 of Part 4—General Information), enter on line 26 the lesser of:

- The marital deduction you claimed on line 20 of Part 5—Recapitulation or
- Fifty percent of the "reduced adjusted gross estate."

If you computed the marital deduction using the unlimited marital deduction in effect for decedents dying after 1981, for purposes of determining the marital deduction for the reduced gross estate, see Rev. Rul. 90-2, 1990-1 C.B. 169. To determine the "reduced adjusted gross estate," subtract the amount on line 25 of the Schedule Q Worksheet from the amount on line 24 of the worksheet. If community property is included in the amount on line 24 of the worksheet, compute the reduced adjusted gross estate using the rules of Regulations section 20.2056(c)-2 and Rev. Rul. 76-311, 1976-2 C.B. 261.

Schedules R and R-1—Generation-Skipping Transfer Tax

Introduction and Overview

Schedule R is used to compute the generation-skipping transfer (GST) tax that is payable by the estate. Schedule R-1 (Form 706) is used to compute the GST tax that is payable by certain trusts that are includible in the gross estate.

The GST tax that is to be reported on Form 706 is imposed only on "direct skips occurring at death." Unlike the estate tax, which is imposed on the value of the entire taxable estate regardless of who receives it, the GST tax is imposed only on the value of interests in property, wherever located, that actually pass to certain transferees, who are referred to as "skip persons."

For purposes of Form 706, the property interests transferred must be includible in the gross estate before they are subject to the GST tax. Therefore, the first step in computing the GST tax liability is to determine the property interests includible in the gross estate by completing Schedules A through I of Form 706.

The second step is to determine who the skip persons are. To do this, assign each transferee to a generation and determine whether each transferee is a "natural person" or a "trust" for GST purposes.

The third step is to determine which skip persons are transferees of "interests in property." If the skip person is a natural person, anything transferred is an interest in property. If the skip person is a trust, make this determination using the rules under *Interest in property* below. These first three steps are described in detail under the main heading, *Determining Which Transfers Are Direct Skips* below.

The fourth step is to determine whether to enter the transfer on Schedule R or on Schedule R-1. See the rules under the main heading, *Dividing Direct Skips Between Schedules R and R-1* on page 24.

The fifth step is to complete Schedules R and R-1 using the *How To Complete* instructions on page 24, for each schedule.

Determining Which Transfers Are Direct Skips

Effective dates. The rules below apply only for the purpose of determining if a transfer is a direct skip that should be reported on Schedule R or R-1 of Form 706.

In general. The GST tax is effective for the estates of decedents dying after October 22, 1986.

Irrevocable trusts. The GST tax will not apply to any transfer under a trust that was irrevocable on September 25, 1985, but only to the extent that the transfer was not made out of corpus added to the trust after September 25, 1985. An addition to the corpus after that date will cause a proportionate part of future income and appreciation to be subject to the GST tax. For more information, see Regulations section 26.2601-1(b)(1)(ii).

Mental disability. If, on October 22, 1986, the decedent was under a mental disability to change the disposition of his or her property and did not regain the competence to dispose of property before death, the GST tax will not apply to any property included in the gross estate (other than property transferred on behalf of the decedent during life and after October 21, 1986). The GST tax will also not apply to any transfer under a trust to the extent that the trust consists of property included in the gross estate (other than property transferred on behalf of the decedent during life and after October 21, 1986).

The term "mental disability" means the decedent's mental incompetence to execute an instrument governing the disposition of his or her property, whether or not there has been an adjudication of incompetence and whether or not there has been an appointment of any other person charged with the care of the person or property of the transferor.

If the decedent had been adjudged mentally incompetent, a copy of the judgment or decree must be filed with this return.

If the decedent had not been adjudged mentally incompetent, the executor must file with the return a certification from a qualified physician stating that in his opinion the decedent had been mentally incompetent at all times on and after October 22, 1986, and that the decedent had not regained the competence to modify or revoke the terms of the trust or will prior to his death or a statement as to why no such certification may be obtained from a physician.

Direct skip. The GST tax reported on Form 706 and Schedule R-1 (Form 706) is imposed only on direct skips. For purposes of Form 706, a *direct skip* is a transfer that is:

- Subject to the estate tax,
- Of an interest in property, and
- To a skip person.

All three requirements must be met before the transfer is subject to the GST tax. A transfer is subject to the estate tax if you are required to list it on any of Schedules A through I of Form 706. To determine if a transfer is of an interest in property and to a skip person, you must first determine if the transferee is a natural person or a trust as defined below.

Trust. For purposes of the GST tax, a trust includes not only an explicit trust (as defined in *Special rule for trusts other than explicit trusts* on page 24), but also any other arrangement (other than an estate) which, although not explicitly a trust, has substantially the same effect as a trust. For example, a trust includes life estates with remainders, terms for years, and insurance and annuity contracts.

Substantially separate and independent shares of different beneficiaries in a trust are treated as separate trusts.

Interest in property. If a transfer is made to a natural person, it is always considered a transfer of an interest in property for purposes of the GST tax.

If a transfer is made to a trust, a person will have an interest in the property transferred to the trust if that person either has a present right to

receive income or corpus from the trust (such as an income interest for life) or is a permissible current recipient of income or corpus from the trust (that is, may receive income or corpus at the discretion of the trustee).

Skip person. A transferee who is a natural person is a skip person if that transferee is assigned to a generation that is two or more generations below the generation assignment of the decedent. See *Determining the generation of a transferee* below.

A transferee who is a trust is a skip person if all the interests in the property (as defined above) transferred to the trust are held by skip persons. Thus, whenever a non-skip person has an interest in a trust, the trust will not be a skip person even though a skip person also has an interest in the trust.

A trust will also be a skip person if there are no interests in the property transferred to the trust held by any person, and future distributions or terminations from the trust can be made only to skip persons.

Non-skip person. A *non-skip person* is any transferee who is not a skip person.

Determining the generation of a transferee. Generally, a generation is determined along family lines as follows.

1. Where the beneficiary is a lineal descendant of a grandparent of the decedent (that is, the decedent's cousin, niece, nephew, etc.), the number of generations between the decedent and the beneficiary is determined by subtracting the number of generations between the grandparent and the decedent from the number of generations between the grandparent and the beneficiary.
2. Where the beneficiary is a lineal descendant of a grandparent of a spouse (or former spouse) of the decedent, the number of generations between the decedent and the beneficiary is determined by subtracting the number of generations between the grandparent and the spouse (or former spouse) from the number of generations between the grandparent and the beneficiary.
3. A person who at any time was married to a person described in (1) or (2) above is assigned to the generation of that person. A person who at any time was married to the decedent is assigned to the decedent's generation.
4. A relationship by adoption or half-blood is treated as a relationship by whole-blood.
5. A person who is not assigned to a generation according to (1), (2), (3), or (4) above is assigned to a generation based on his or her birth date, as follows:

a. A person who was born not more than $12\frac{1}{2}$ years after the decedent is in the decedent's generation.
b. A person born more than $12\frac{1}{2}$ years, but not more than $37\frac{1}{2}$ years, after the decedent is in the first generation younger than the decedent.
c. A similar rule applies for a new generation every 25 years.

If more than one of the rules for assigning generations applies to a transferee, that transferee is generally assigned to the youngest of the generations that would apply.

If an estate, trust, partnership, corporation, or other entity (other than certain charitable organizations and trusts described in sections 511(a)(2) and 511(b)(2)) is a transferee, then each person who indirectly receives the property interests through the entity is treated as a transferee and is assigned to a generation as explained in the above rules. However, this look-through rule does not apply for the purpose of determining whether a transfer to a trust is a direct skip.

Generation assignment where intervening parent is deceased. A special rule may apply in the case of the death of a parent of the transferee. For terminations, distributions, and transfers after December 31, 1997, the existing rule that applied to grandchildren of the decedent has been extended to apply to other lineal descendants.

If property is transferred to an individual who is a descendant of a parent of the transferor, and that individual's parent (who is a lineal descendant of the parent of the transferor) is deceased at the time the transfer is subject to gift or estate tax, then for purposes of generation assignment, the individual is treated as if he or she is a member of the generation that is one generation below the lower of:

- The transferor's generation or
- The generation assignment of the youngest living ancestor of the individual, who is also a descendant of the parent of the transferor.

The same rules apply to the generation assignment of any descendant of the individual.

This rule does not apply to a transfer to an individual who is not a lineal descendant of the transferor if the transferor has any living lineal descendants.

If any transfer of property to a trust would have been a direct skip except for this generation assignment rule, then the rule also applies to transfers from the trust attributable to such property.

Ninety-day rule. For purposes of determining if an individual's parent is deceased at the time of a testamentary transfer, an individual's parent who dies no later than ninety days after a transfer occurring by reason of the death of the transferor is treated as having predeceased the transferor. The ninety-day rule applies to transfers occurring on or after July 18, 2005. See Regulations section 26.2651-1, for more information.

Charitable organizations. Charitable organizations and trusts described in sections 511(a)(2) and 511(b)(2) are assigned to the decedent's generation. Transfers to such organizations are therefore not subject to the GST tax.

Charitable remainder trusts. Transfers to or in the form of charitable remainder annuity trusts, charitable remainder unitrusts, and pooled income funds are not considered made to skip persons and, therefore, are not direct skips even if all of the life beneficiaries are skip persons.

Estate tax value. Estate tax value is the value shown on Schedules A through I of this Form 706.

Examples. The rules above can be illustrated by the following examples:

1. Under the will, the decedent's house is transferred to the decedent's daughter for her life with the remainder passing to her children. This transfer is made to a "trust" even though there is no explicit trust instrument. The interest in the property transferred (the present right to use the house) is transferred to a non-skip person (the decedent's daughter). Therefore, the trust is not a skip person because there is an interest in the transferred property that is held by a non-skip person. The transfer is not a direct skip.
2. The will bequeaths $100,000 to the decedent's grandchild. This transfer is a direct skip that is not made in trust and should be shown on Schedule R.
3. The will establishes a trust that is required to accumulate income for 10 years and then pay its income to the decedent's grandchildren for the rest of their lives and, upon their deaths, distribute the corpus to the decedent's great-grandchildren. Because the trust has no current beneficiaries, there are no present interests in the property transferred to the trust. All of the persons to whom the trust can make future distributions (including distributions upon the termination of interests in property held in trust) are skip persons (for example, the decedent's grandchildren and great-grandchildren). Therefore, the trust itself is a skip person and you should show the transfer on Schedule R.
4. The will establishes a trust that is to pay all of its income to the decedent's grandchildren for 10 years. At the end of 10 years, the corpus is to be distributed to the decedent's children. All of the present interests in this trust are held by skip persons. Therefore, the trust is a skip person and you should show this transfer on Schedule R. You should show the estate tax value of all the property transferred to the trust even though the trust has some ultimate beneficiaries who are non-skip persons.

Dividing Direct Skips Between Schedules R and R-1

TIP *Report all generation-skipping transfers on Schedule R unless the rules below specifically provide that they are to be reported on Schedule R-1.*

Under section 2603(a)(2), the GST tax on direct skips from a trust (as defined for GST tax purposes on page 22) is to be paid by the trustee and not by the estate. Schedule R-1 serves as a notification from the executor to the trustee that a GST tax is due.

For a direct skip to be reportable on Schedule R-1, the trust must be includible in the decedent's gross estate.

If the decedent was the surviving spouse life beneficiary of a marital deduction power of appointment (or QTIP) trust created by the decedent's spouse, then transfers caused by reason of the decedent's death from that trust to skip persons are direct skips required to be reported on Schedule R-1.

If a direct skip is made "from a trust" under these rules, it is reportable on Schedule R-1 even if it is also made "to a trust" rather than to an individual.

Similarly, if property in a trust (as defined for GST tax purposes on page 22) is included in the decedent's gross estate under section 2035, 2036, 2037, 2038, 2039, 2041, or 2042 and such property is, by reason of the decedent's death, transferred to skip persons, the transfers are direct skips required to be reported on Schedule R-1.

Special rule for trusts other than explicit trusts. An *explicit trust* is a trust as defined in Regulations section 301.7701-4(a) as "an arrangement created by a will or by an *inter vivos* declaration whereby trustees take title to property for the purpose of protecting or conserving it for the beneficiaries under the ordinary rules applied in chancery or probate courts." Direct skips from explicit trusts are required to be reported on Schedule R-1 regardless of their size unless the executor is also a trustee (see *Executor as trustee* below).

Direct skips from trusts that are trusts for GST tax purposes but are not explicit trusts are to be shown on Schedule R-1 only if the total of all tentative maximum direct skips from the entity is $250,000 or more. If this total is less than $250,000, the skips should be shown on Schedule R. For purposes of the $250,000 limit, "tentative maximum direct skips" is the amount you would enter on line 5 of Schedule R-1 if you were to file that schedule.

A liquidating trust (such as a bankruptcy trust) under Regulations section 301.7701-4(d) is not treated as an explicit trust for the purposes of this special rule.

If the proceeds of a life insurance policy are includible in the gross estate and are payable to a beneficiary who is a skip person, the transfer is a direct skip from a trust that is not an explicit trust. It should be reported on Schedule R-1 if the total of all the tentative maximum direct skips from the company is $250,000 or more. Otherwise, it should be reported on Schedule R.

Similarly, if an annuity is includible on Schedule I and its survivor benefits are payable to a beneficiary who is a skip person, then the estate tax value of the annuity should be reported as a direct skip on Schedule R-1 if the total tentative maximum direct skips from the entity paying the annuity is $250,000 or more.

Executor as trustee. If any of the executors of the decedent's estate are trustees of the trust, then all direct skips with respect to that trust must be shown on Schedule R and not on Schedule R-1 even if they would otherwise have been required to be shown on Schedule R-1. This rule applies even if the trust has other trustees who are not executors of the decedent's estate.

How To Complete Schedules R and R-1

Valuation. Enter on Schedules R and R-1 the estate tax value of the property interests subject to the direct skips. If you elected alternate valuation (section 2032) and/or special-use valuation (section 2032A), you must use the alternate and/or special-use values on Schedules R and R-1.

How To Complete Schedule R

Part 1. GST exemption reconciliation

Part 1, line 6 of both Parts 2 and 3, and line 4 of Schedule R-1 are used to allocate the decedent's GST exemption. This allocation is made by filing Form 706. Once made, the allocation is irrevocable. You are not required to allocate all of the decedent's GST exemption. However, the portion of the exemption that you do not allocate will be allocated by the IRS under the deemed allocation at death rules of section 2632(e).

Beginning with transfers made in 2004, the GST exemption is equal to the amount of the estate tax applicable exclusion. For 2006, the exemption is $2 million.

The previous GST exemption amounts were as follows:

Year of transfer	GST exemption
Through 1998	$1,000,000
1999	1,010,000
2000	1,030,000
2001	1,060,000
2002	1,100,000
2003	1,120,000
2004–2005	1,500,000

The amount of each increase can only be allocated to transfers made (or appreciation that occurred) during or after the year of the increase. The following example shows the application of this rule:

Example. In 2002, G made a direct skip of $1,100,000 and applied her full $1,100,000 of GST exemption to the transfer. G made a $100,000 taxable direct skip in 2003 and another of $30,000 in 2004. For 2003, G can only apply $20,000 of exemption ($20,000 inflation adjustment from 2003) to the $100,000 transfer in 2003. For 2004, G can apply $30,000 of exemption to the 2004 transfer, but nothing to the transfer made in 2003. At the end of 2004, G would have $350,000 of unused exemption that she can apply to future transfers (or appreciation) starting in 2005.

Special QTIP election. In the case of property for which a marital deduction is allowed to the decedent's estate under section 2056(b)(7) (QTIP election), section 2652(a)(3) allows you to treat such property for purposes of the GST tax as if the election to be treated as qualified terminable interest property had not been made.

The 2652(a)(3) election must include the value of all property in the trust for which a QTIP election was allowed under section 2056(b)(7).

If a section 2652(a)(3) election is made, then the decedent will for GST tax purposes be treated as the transferor of all the property in the trust for which a marital deduction was allowed to the decedent's estate under section 2056(b)(7). In this case, the executor of the decedent's estate may allocate part or all of the decedent's GST exemption to the property.

You make the election simply by listing qualifying property on line 9 of Part 1.

Line 2. These allocations will have been made either on Forms 709 filed by the decedent or on Notices of Allocation made by the decedent for *inter vivos* transfers that were not direct skips but to which the decedent allocated the GST exemption. These allocations by the decedent are irrevocable.

Also include on this line allocations deemed to have been made by the decedent under the rules of section 2632. Unless the decedent elected out of the deemed allocation rules, allocations are deemed to have been made in the following order:

1. To *inter vivos* direct skips and
2. Beginning with transfers made after December 31, 2000, to lifetime transfers to certain trusts, by the decedent, that constituted indirect skips that were subject to the gift tax.

For more information, see section 2632.

Line 3. Make an entry on this line if you are filing Form(s) 709 for the decedent and wish to allocate any exemption.

Lines 4, 5, and 6. These lines represent your allocation of the GST exemption to direct skips made by reason of the decedent's death. Complete Parts 2 and 3 and Schedule R-1 before completing these lines.

Line 9. Line 9 is used to allocate the remaining unused GST exemption (from line 8) and to help you compute the trust's inclusion ratio. Line 9 is a Notice of Allocation for allocating the GST exemption to trusts as to which the decedent is the transferor and from which a generation-skipping transfer could occur after the decedent's death.

If line 9 is not completed, the deemed allocation at death rules will apply to allocate the decedent's remaining unused GST exemption, first to property that is the subject of a direct skip occurring at the decedent's death, and then to trusts as to which the decedent is the transferor. If you wish to avoid the application of the deemed allocation rules, you should enter on line 9 every trust (except certain trusts entered on Schedule R-1, as described below) to which you wish to allocate any part of the decedent's GST exemption. Unless you enter a trust on line 9, the unused GST exemption will be allocated to it under the deemed allocation rules.

If a trust is entered on Schedule R-1, the amount you entered on line 4 of Schedule R-1 serves as a Notice of Allocation and you need not enter the trust on line 9 unless you wish to allocate more than the Schedule R-1, line 4 amount to the trust. However, you must enter the trust on line 9 if you wish to allocate any of the unused GST exemption amount to it. Such an additional allocation would not ordinarily be appropriate in the case of a trust entered on Schedule R-1 when the trust property passes outright (rather than to another trust) at the decedent's death. However, where section 2032A property is involved, it may be appropriate to allocate additional exemption amounts to the property. See the instructions for line 10.

To avoid application of the deemed allocation rules, Form 706 and Schedule R should be filed to allocate the exemption to trusts that may later have taxable terminations or distributions under section 2612 even if the form is not required to be filed to report estate or GST tax.

Line 9, column C. Enter the GST exemption included on lines 2 through 6 of Part 1 of Schedule R, and discussed above, that was allocated to the trust.

Line 9, column D. Allocate the amount on line 8 of Part 1 of Schedule R in line 9, column D. This amount may be allocated to transfers into trusts that are not otherwise reported on Form 706. For example, the line 8 amount may be allocated to an *inter vivos* trust established by the decedent during his or her lifetime and not included in the gross estate. This allocation is made by identifying the trust on line 9 and making an allocation to it using column D. If the trust is not included in the gross estate, value the trust as of the date of death. You should inform the trustee of each trust listed on line 9 of the total GST exemption you allocated to the trust. The trustee will need this information to compute the GST tax on future distributions and terminations.

Line 9, column E. Trust's inclusion ratio. The trustee must know the trust's inclusion ratio to figure the trust's GST tax for future distributions and terminations. You are not required to inform the trustee of the inclusion ratio and may not have enough information to compute it. Therefore, you are not required to make an entry in column E. However, column E and the worksheet below are provided to assist you in computing the inclusion ratio for the trustee if you wish to do so.

You should inform the trustee of the amount of the GST exemption you allocated to the trust. Line 9, columns C and D may be used to compute this amount for each trust.

This worksheet will compute an accurate inclusion ratio only if the decedent was the only settlor of the trust. You should use a separate worksheet for each trust (or separate share of a trust that is treated as a separate trust).

WORKSHEET (inclusion ratio for trust):

1	Total estate and gift tax value of all of the property interests that passed to the trust	
2	Estate taxes, state death taxes, and other charges actually recovered from the trust	
3	GST taxes imposed on direct skips to skip persons other than this trust and borne by the property transferred to this trust	
4	GST taxes actually recovered from this trust (from Schedule R, Part 2, line 8 or Schedule R-1, line 6)	
5	Add lines 2 through 4	
6	Subtract line 5 from line 1	
7	Add columns C and D of line 9	
8	Divide line 7 by line 6	
9	Trust's inclusion ratio. Subtract line 8 from 1.000	

Line 10. Special-use allocation. For skip persons who receive an interest in section 2032A special-use property, you may allocate more GST exemption than the direct skip amount to reduce the additional GST tax that would be due when the interest is later disposed of or qualified use ceases. See Schedule A-1 of this Form 706 for more details about this additional GST tax.

Enter on line 10 the total additional GST exemption available to allocate to all skip persons who received any interest in section 2032A property. Attach a special-use allocation schedule listing each such skip person and the amount of the GST exemption allocated to that person.

If you do not allocate the GST exemption, it will be automatically allocated under the deemed allocation at death rules. To the extent any amount is not so allocated it will be automatically allocated to the earliest disposition or cessation that is subject to the GST tax. Under certain circumstances, post-death events may cause the decedent to be treated as a transferor for purposes of Chapter 13.

Line 10 may be used to set aside an exemption amount for such an event. You must attach a schedule listing each such event and the amount of exemption allocated to that event.

Parts 2 and 3

Use Part 2 to compute the GST tax on transfers in which the property interests transferred are to bear the GST tax on the transfers. Use Part 3 to report the GST tax on transfers in which the property interests transferred do not bear the GST tax on the transfers.

Section 2603(b) requires that unless the governing instrument provides otherwise, the GST tax is to be charged to the property constituting the transfer. Therefore, you will usually enter all of the direct skips on Part 2.

You may enter a transfer on Part 3 only if the will or trust instrument directs, by specific reference, that the GST tax is not to be paid from the transferred property interests.

Part 2, Line 3. Enter zero on this line unless the will or trust instrument specifies that the GST taxes will be paid by property other than that constituting the transfer (as described above). Enter on line 3 the total of the GST taxes shown on Part 3 and Schedule(s) R-1 that are payable out of the property interests shown on Part 2, line 1.

Part 2, Line 6. Do not enter more than the amount on line 5. Additional allocations may be made using Part 1.

Part 3, Line 3. See the instructions to Part 2, line 3 above. Enter only the total of the GST taxes shown on Schedule(s) R-1 that are payable out of the property interests shown on Part 3, line 1.

Part 3, Line 6. See the instructions to Part 2, line 6 above.

How To Complete Schedule R-1

Filing due date. Enter the due date of Schedule R, Form 706. You must send the copies of Schedule R-1 to the fiduciary by this date.

Line 4. Do not enter more than the amount on line 3. If you wish to allocate an additional GST exemption, you must use Schedule R, Part 1. Making an entry on line 4 constitutes a Notice of Allocation of the decedent's GST exemption to the trust.

Line 6. If the property interests entered on line 1 will not bear the GST tax, multiply line 6 by 46% (.46).

Signature. The executor(s) must sign Schedule R-1 in the same manner as Form 706. See *Signature and Verification*, on page 2.

Filing Schedule R-1. Attach to Form 706 one copy of each Schedule R-1 that you prepare. Send two copies of each Schedule R-1 to the fiduciary.

Schedule U—Qualified Conservation Easement Exclusion

If at the time of the contribution of the conservation easement, the value of the easement, the value of the land subject to the easement, or the value of any retained development right, was different than the estate tax value, you must complete a separate computation in addition to completing Schedule U.

Use a copy of Schedule U as a worksheet for this separate computation. Complete lines 4 through 14 of the worksheet Schedule U. However, the value you use on lines 4, 5, 7, and 10, of the worksheet is the value for these items as of the date of the contribution of the easement, not the estate tax value. If the date of contribution and the estate tax values are the same, you do not need to do a separate computation.

After completing the worksheet, enter the amount from line 14 of the worksheet on line 14 of Schedule U. Finish completing Schedule U by entering amounts on lines 4, 7, and 15 through 20, following the instructions below for those lines. At the top of Schedule U, enter ''worksheet attached.'' Attach the worksheet to the return.

Under section 2031(c), you may elect to exclude a portion of the value of land that is subject to a qualified conservation easement. You make the election by filing Schedule U with all of the required information and excluding the applicable value of the land that is subject to the easement on Part 5—Recapitulation, page 3, at item 11. To elect the exclusion, you must include on Schedule A, B, E, F, G, or H, as appropriate, the decedent's interest in the land that is subject to the exclusion. You must make the election on a timely filed Form 706, including extensions.

The exclusion is the lesser of:

- The applicable percentage of the value of land (after certain reductions) subject to a qualified conservation easement or
- $500,000.

Once made, the election is irrevocable.

General Requirements

Qualified Land

Land may qualify for the exclusion if all of the following requirements are met.

- The decedent or a member of the decedent's family must have owned the land for the 3-year period ending on the date of the decedent's death.
- No later than the date the election is made, a qualified conservation easement on the land has been made by the decedent, a member of the decedent's family, the executor of the decedent's estate, or the trustee of a trust that holds the land.
- The land is located in the United States or one of its possessions.

Member of Family

Members of the decedent's family include the decedent's spouse; ancestors; lineal descendants of the decedent, of the decedent's spouse, and of the parents of the decedent; and the spouse of any lineal descendant. A legally adopted child of an individual is considered a child of the individual by blood.

Indirect Ownership of Land

The qualified conservation easement exclusion applies if the land is owned indirectly through a partnership, corporation, or trust, if the decedent owned (directly or indirectly) at least 30% of the entity. For the rules on determining ownership of an entity, see *Ownership rules* below.

Ownership rules. An interest in property owned, directly or indirectly, by or for a corporation, partnership, or trust is considered proportionately owned by or for the entity's shareholders, partners, or beneficiaries. A person is the beneficiary of a trust only if he or she has a present interest in the trust. For additional information, see the ownership rules in section 2057(e)(3) (before its repeal by P.L. 107-16).

Qualified Conservation Easement

A *qualified conservation easement* is one that would qualify as a qualified conservation contribution under section 170(h). It must be a contribution:

- Of a qualified real property interest,
- To a qualified organization, and
- Exclusively for conservation purposes.

Qualified real property interest. The term "qualified real property interest" means any of the following:

- The entire interest of the donor, other than a qualified mineral interest;
- A remainder interest; or
- A restriction granted in perpetuity on the use that may be made of the real property. The restriction must include a prohibition on more than a *de minimis* use for commercial recreational activity.

Qualified organization. Qualified organizations include:

- The United States, a possession of the United States, a state (or the District of Columbia), or a political subdivision of them, as long as the gift is for exclusively public purposes;
- A domestic entity that meets the general requirements for qualifying as a charity under section 170(c)(2) and that generally receives a substantial amount of its support from a government unit or from the general public; or
- Any entity that qualifies under section 170(h)(3)(B).

Conservation purpose. The term "conservation purpose" means:

- The preservation of land areas for outdoor recreation by, or the education of, the public;
- The protection of a relatively natural habitat of fish, wildlife, or plants, or a similar ecosystem; or
- The preservation of open space (including farmland and forest land) where such preservation is for the scenic enjoyment of the general public, or under a clearly delineated federal, state, or local conservation policy and will yield a significant public benefit.

Specific Instructions

Line 1

If the land is reported as one or more item numbers on a Form 706 schedule, simply list the schedule and item numbers. If the land subject to the easement comprises only part of an item, however, list the schedule and item number and describe the part subject to the easement. See the Instructions for Schedule A—Real Estate, in the Form 706 itself, for information on how to describe the land.

Line 3

Using the general rules for describing real estate, provide enough information so the IRS can value the easement. Give the date the easement was granted and by whom it was granted.

Line 4

Enter on this line the gross value at which the land was reported on the applicable asset schedule on this Form 706. Do not reduce the value by the amount of any mortgage outstanding. Report the estate tax value even if the easement was granted by the decedent (or someone other than the decedent) prior to the decedent's death.

Note. If the value of the land reported on line 4 was different at the time the easement was contributed than that reported on Form 706, see the *Caution* at the beginning of the Schedule U Instructions.

Line 5

The amount on line 5 should be the date of death value of any qualifying conservation easements granted prior to the decedent's death, whether granted by the decedent or someone other than the decedent, for which the exclusion is being elected.

Note. If the value of the easement reported on line 5 was different at the time the easement was contributed than at the date of death, see the *Caution* at the beginning of the Schedule U Instructions.

Line 7

You must reduce the land value by the value of any development rights retained by the donor in the conveyance of the

easement. A development right is any right to use the land for any commercial purpose that is not subordinate to and directly supportive of the use of the land as a farm for farming purposes.

Note. If the value of the retained development rights reported on line 7 was different at the time the easement was contributed than at the date of death, see the *Caution* at the beginning of the Schedule U Instructions.

You do not have to make this reduction if everyone with an interest in the land (regardless of whether in possession) agrees to permanently extinguish the retained development right. The agreement must be filed with this return and must include the following information and terms:

1. A statement that the agreement is made under section 2031(c)(5);
2. A list of all persons in being holding an interest in the land that is subject to the qualified conservation easement. Include each person's name, address, tax identifying number, relationship to the decedent, and a description of their interest;
3. The items of real property shown on the estate tax return that are subject to the qualified conservation easement (identified by schedule and item number);
4. A description of the retained development right that is to be extinguished;
5. A clear statement of consent that is binding on all parties under applicable local law:

   a. To take whatever action is necessary to permanently extinguish the retained development rights listed in the agreement and

   b. To be personally liable for additional taxes under section 2031(c)(5)(C) if this agreement is not implemented by the earlier of:

   - The date that is 2 years after the date of the decedent's death or
   - The date of sale of the land subject to the qualified conservation easement,

6. A statement that in the event this agreement is not timely implemented, that they will report the additional tax on whatever return is required by the IRS and will file the return and pay the additional tax by the last day of the 6th month following the applicable date described above.

All parties to the agreement must sign the agreement.

For an example of an agreement containing some of the same terms, see Schedule A-1 (Form 706).

Line 10

Enter the total value of the qualified conservation easements on which the exclusion is based. This could include easements granted by the decedent (or someone other than the decedent) prior to the decedent's death, easements granted by the decedent that take effect at death, easements granted by the executor after the decedent's death, or some combination of these.

Use the value of the easement as of the date of death, even if the easement was granted prior to the date of death. But, if the value of the easement was different at the time the easement was contributed than at the date of death, see the Caution *at the beginning of the Schedule U Instructions.*

Explain how this value was determined and attach copies of any appraisals. Normally, the appropriate way to value a conservation easement is to determine the FMV of the land both before and after the granting of the easement, with the difference being the value of the easement.

You must reduce the reported value of the easement by the amount of any consideration received for the easement. If the date of death value of the easement is different from the value at the time the consideration was received, you must reduce the value of the easement by the same proportion that the consideration received bears to the value of the easement at the time it was granted. For example, assume the value of the easement at the time it was granted was $100,000 and $10,000 was received in consideration for the easement. If the easement was worth $150,000 at the date of death, you must reduce the value of the easement by $15,000 ($10,000/ $100,000 × $150,000) and report the value of the easement on line 10 as $135,000.

Line 15

If a charitable contribution deduction for this land has been taken on Schedule O, enter the amount of the deduction here. If the easement was granted after the decedent's death, a contribution deduction may be taken on Schedule O, if it otherwise qualifies, as long as no income tax deduction was or will be claimed for the contribution by any person or entity.

Line 16

You must reduce the value of the land by the amount of any acquisition indebtedness on the land at the date of the decedent's death. Acquisition indebtedness includes the unpaid amount of:

- Any indebtedness incurred by the donor in acquiring the property;
- Any indebtedness incurred before the acquisition if the indebtedness would not have been incurred but for the acquisition;
- Any indebtedness incurred after the acquisition if the indebtedness would not have been incurred but for the acquisition and the incurrence of the indebtedness was reasonably foreseeable at the time of the acquisition; and
- The extension, renewal, or refinancing of acquisition indebtedness.

Continuation Schedule

See instructions for Continuation Schedule on Form 706 itself.

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax. Section 6109 requires return preparers to provide their identifying numbers on the return.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential as required by section 6103. However, section 6103 allows or requires the Internal Revenue Service to disclose or give such information shown on your Form 706 to the Department of Justice to enforce the tax laws, both civil and criminal, and to cities, states, the District of Columbia, U.S. commonwealths or possessions, and certain foreign governments for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

The time needed to complete and file this form and related schedules will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to the IRS
706	1 hr., 25 min.	1 hr., 50 min.	3 hr., 42min.	48 min.
Schedule A	- - - -	15 min.	12 min.	20 min.
Schedule A-1	33 min.	31 min.	1 hr., 15 min.	1 hr., 3 min.
Schedule B	19 min.	9 min.	16 min.	20 min.
Schedule C	19 min.	1 min.	13 min.	20 min.
Schedule D	6 min.	6 min.	13 min.	20 min.
Schedule E	39 min.	6 min.	36 min.	20 min.
Schedule F	26 min.	8 min.	18 min.	20 min.
Schedule G	26 min.	21 min.	12 min.	13 min.
Schedule H	26 min.	6 min.	12 min.	13 min.
Schedule I	13 min.	30 min.	15 min.	20 min.
Schedule J	26 min.	6 min.	16 min.	20 min.
Schedule K	13 min.	9 min.	18 min.	20 min.
Schedule L	13 min.	4 min.	15 min.	20 min.
Schedule M	13 min.	34 min.	25 min.	20 min.
Schedule O	19 min.	12 min.	21 min.	20 min.
Schedule P	6 min.	15 min.	18 min.	13 min.
Schedule Q	- - - -	12 min.	15 min.	13 min.
Worksheet for Schedule Q	6 min.	6 min.	58 min.	20 min.
Schedule R	19 min.	45 min.	1 hr., 10 min.	48 min.
Schedule R-1	6 min.	46 min.	35 min.	20 min.
Schedule U	19 min.	26 min.	29 min.	20 min.
Continuation Schedule	19 min.	1 min.	13 min.	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6406, Washington, DC 20224. Do not send the tax form to this address. Instead, see *Where To File* on page 2.

Worksheet for Schedule Q—Credit for Tax on Prior Transfers

Part I **Transferor's tax on prior transfers**

Item	Transferor (From Schedule Q)			Total for all transfers *(line 8 only)*
	A	B	C	
1. Gross value of prior transfer to this transferee				
2. Death taxes payable from prior transfer				
3. Encumbrances allocable to prior transfer				
4. Obligations allocable to prior transfer				
5. Marital deduction applicable to line 1 above, as shown on transferor's Form 706				
6. **TOTAL.** Add lines 2, 3, 4, and 5				
7. **Net value of transfers.** Subtract line 6 from line 1				
8. **Net value of transfers.** Add columns A, B, and C of line 7				
9. Transferor's taxable estate				
10. Federal estate tax paid				
11. State death taxes paid				
12. Foreign death taxes paid				
13. Other death taxes paid				
14. **TOTAL taxes paid.** Add lines 10, 11, 12, and 13				
15. **Value of transferor's estate.** Subtract line 14 from line 9				
16. Net federal estate tax paid on transferor's estate				
17. Credit for gift tax paid on transferor's estate with respect to pre-1977 gifts (section 2012)				
18. Credit allowed transferor's estate for tax on prior transfers from prior transferor(s) who died within 10 years before death of decedent				
19. **Tax on transferor's estate.** Add lines 16, 17, and 18				
20. Transferor's tax on prior transfers ((line 7 ÷ line 15) × line 19 of respective estates)				

Part II **Transferee's tax on prior transfers**

Item				Amount
21. Transferee's actual tax before allowance of credit for prior transfers (see instructions)			21	
22. Total gross estate of transferee from line 1 of the Tax Computation, page 1, Form 706			22	
23. Net value of all transfers from line 8 of this worksheet			23	
24. Transferee's reduced gross estate. Subtract line 23 from line 22			24	
25. Total debts and deductions (not including marital and charitable deductions) (line 3b of Part 2—Tax Computation, page 1 and items 17, 18, and 19 of the Recapitulation, page 3, Form 706)		25		
26. Marital deduction from item 20, Recapitulation, page 3, Form 706 (see instructions)		26		
27. Charitable bequests from item 21, Recapitulation, page 3, Form 706		27		
28. Charitable deduction proportion ([line 23 ÷ (line 22 – line 25)] × line 27)		28		
29. Reduced charitable deduction. Subtract line 28 from line 27		29		
30. Transferee's deduction as adjusted. Add lines 25, 26, and 29			30	
31. (a) Transferee's reduced taxable estate. Subtract line 30 from line 24			31(a)	
(b) Adjusted taxable gifts			31(b)	
(c) Total reduced taxable estate. Add lines 31(a) and 31(b)			31(c)	
32. Tentative tax on reduced taxable estate		32		
33. (a) Post-1976 gift taxes paid	33(a)			
(b) Unified credit (applicable credit amount)	33(b)			
(c) Section 2012 gift tax credit	33(c)			
(d) Section 2014 foreign death tax credit	33(d)			
(e) Total credits. Add lines 33(a) through 33(d)		33(e)		
34. Net tax on reduced taxable estate. Subtract line 33(e) from line 32			34	
35. Transferee's tax on prior transfers. Subtract line 34 from line 21			35	

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Checklist for Completing Form 706

To ensure a complete return, review the following checklist before filing Form 706.

Attachments . . .

- [ ] Death certificate—you must attach.
- [ ] Certified copy of the will—if decedent died testate, you must attach. If not certified, explain why.
- [ ] Appraisals—attach any appraisals used to value property included on the return.
- [ ] Copies of all trust documents where the decedent was a grantor or a beneficiary.
- [ ] Form 2848 or 8821, if applicable.
- [ ] Copy of any Form(s) 709 filed by the decedent.
- [ ] Form 712, if filing Schedule D.
- [ ] Form 706-CE, if claiming a foreign death tax credit.
- [ ] Explanation of reasonable cause for late filing, if applicable.

Have you . . .

- [ ] Signed the return at the bottom of page 1?
- [ ] Had the preparer sign, if applicable?
- [ ] Obtained the signature of your authorized representative on Part 4, page 2?
- [ ] Entered a Total on all schedules filed?
- [ ] Made an entry on every line of the Recapitulation, even if it is a zero?
- [ ] Included the CUSIP number for all stocks and bonds?
- [ ] Included the EIN of trusts, partnerships, or closely held entities and the EIN of the estate?
- [ ] Included the first 3 pages of the return and all required schedules?
- [ ] Completed Schedule F? It must be filed with all returns.
- [ ] Completed Part 4, line 4, on page 2, if there is a surviving spouse?
- [ ] Completed and attached Schedule D to report insurance on the life of the decedent, even if its value is not included in the estate?
- [ ] Included any QTIP property received from a pre-deceased spouse?
- [ ] Entered the decedent’s name, SSN, and “Form 706” on your check or money order?