If an election is made to deduct qualified domestic trust property under section 2056A(d), provide the following information for each qualified domestic trust on an attachment to this schedule.

1. The name and address of every trustee.
2. A description of each transfer passing from the decedent that is the source of the property to be placed in trust.
3. The EIN for the trust.

The election must be made for an entire QDOT trust. In listing a trust for which you are making a QDOT election, **unless you specifically identify the trust as not subject to the election, the election will be considered made for the entire trust.**

The determination of whether a trust qualifies as a QDOT will be made as of the date the decedent's Form 706 is filed. If, however, judicial proceedings are brought before the Form 706's due date (including extensions) to have the trust revised to meet the QDOT requirements, then the determination will not be made until the court-ordered changes to the trust are made.

Election to deduct qualified domestic trust property under section 2056A. If a trust meets the requirement of a QDOT under section 2056A(a), the return is filed no later than 1 year after the time prescribed by law (including extensions), and the entire value of the trust or trust property is listed and entered as a deduction on Schedule M, then unless the executor specifically identifies the trust to be excluded from the election, the executor shall be deemed to have made an election to have the entire trust treated as qualified domestic trust property.

Note. For trusts with assets in excess of $2 million, see Regulations section 20.2056A-2(d) for additional requirements to ensure collection of the section 2056A estate tax.

Line 1

If property passes to the surviving spouse as the result of a qualified disclaimer, check "Yes" and attach a copy of the written disclaimer required by section 2518(b).

Line 3

Section 2056(b)(7)(C)(ii) creates an automatic QTIP election for certain joint and survivor annuities that are includible in the estate under section 2039. To qualify, only the surviving spouse can have the right to receive payments before the death of the surviving spouse.

The executor can elect out of QTIP treatment, however, by checking the "Yes" box on line 3. **Once made, the election is irrevocable.** If there is more than one such joint and survivor annuity, you are not required to make the election for all of them.

If you make the election out of QTIP treatment by checking "Yes" on line 3, you cannot deduct the amount of the annuity on Schedule M. If you do not elect out, you must list the joint and survivor annuities on Schedule M.

Listing Property Interests on Schedule M

List each property interest included in the gross estate that passes from the decedent to the surviving spouse and for which a marital deduction is claimed. This includes otherwise nondeductible terminable interest property for which you are making a QTIP election. Number each item in sequence and describe each item in detail. Describe the instrument (including any clause or paragraph number) or provision of law under which each item passed to the surviving spouse. Indicate the schedule and item number of each asset.

In listing otherwise nondeductible property for which you are making a QTIP election, unless you specifically identify a fractional portion of the trust or other property as not subject to the election, the election will be considered made for the entire interest.

Enter the value of each interest before taking into account the federal estate tax or any other death tax. The valuation dates used in determining the value of the gross estate also apply on Schedule M.

If Schedule M includes a bequest of the residue or a part of the residue of the decedent's estate, attach a copy of the computation showing how the value of the residue was determined. Include a statement showing the following.

- The value of all property that is included in the decedent's gross estate (Schedules A through I) but is not a part of the decedent's probate estate, such as lifetime transfers, jointly owned property that passed to the survivor on the decedent's death, and the insurance payable to specific beneficiaries.
- The values of all specific and general legacies or devises, with reference to the applicable clause or paragraph of the decedent's will or codicil. (If legacies are made to each member of a class, for example, $1,000 to each of the decedent's employees, only the number in each class and the total value of property received by them need be furnished.)
- The dates of birth of all persons, the length of whose lives may affect the value of the residuary interest passing to the surviving spouse.
- Any other important information such as that relating to any claim to any part of the estate not arising under the will.

Lines 5a, 5b, and 5c. The total of the values listed on Schedule M must be reduced by the amount of the federal estate tax, the federal GST tax, and the amount of state or other death and GST taxes paid out of the property interest involved. If you enter an amount for state or other death or GST taxes on line 5b or 5c, identify the taxes and attach your computation of them.

Attachments. If you list property interests passing by the decedent's will on Schedule M, attach a certified copy of the order admitting the will to probate. If, when you file the return, the court of probate jurisdiction has entered any decree interpreting the will or any of its provisions affecting any of the interests listed on Schedule M, or has entered any order of distribution, attach a copy of the decree or order. In addition, the IRS may request other evidence to support the marital deduction claimed.

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

CAUTION *If any assets to which the special rule of Regulations section 20.2010-2(a)(7)(ii) applies are reported on this schedule, do not enter any value in the last three columns. See the instructions for* Part 5—Recapitulation*, item 23, for information on how to estimate and report the value of these assets.*

General

You must complete Schedule O and file it with the return if you claim a deduction on item 22 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. No part of the net earnings may benefit any private individual and no substantial activity may be 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. No substantial activity may be 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.
- Employee stock ownership plans, if the transfer qualifies as a qualified gratuitous transfer of qualified employer securities within the meaning provided in section 664(g).

For this purpose, certain Indian tribal governments are treated as states and transfers to them qualify as deductible charitable contributions. See section 7871 and Rev. Proc. 2008-55, 2008-39 I.R.B. 768, available at *Rev. Proc. 2008-55*, 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,* later) 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, only the figure that is passing to the charity should be entered in the "Amount" column. Do not enter the entire amount that passes to the trust or 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 earlier.

Also include the following.

- 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 dates 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 the decedent's death, and insurance payable to specific beneficiaries.
- Any agreements with charitable beneficiaries, whether entered before or after the date of death of the decedent.
- Verification of the sale or purchase of property that is the subject of a charitable deduction.
- 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 also apply on Schedule O.

Schedule P—Credit for Foreign Death Taxes

General

If you claim a credit on *Part 2—Tax Computation*, line 13, complete Schedule P and file it with the return. Attach Form(s) 706-CE to Form 706 to support any credit you claim.

If the foreign government refuses to certify Form 706-CE, file it directly with the IRS as instructed on the Form 706-CE. See Form 706-CE for instructions on how to complete the form and 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 figured under the treaty.
- The credit figured under the statute.
- The credit figured under the treaty, plus the credit figured 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 for 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 figured 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 4 years after the filing of the estate tax return, 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 on item 1 should not include any tax paid to the foreign country for property not situated in that country and should not include any tax paid to the foreign country for 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 on item 1.

Item 2. Enter the value of the gross estate, less the total of the deductions on items 21 and 22 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 on 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, the Netherlands, South Africa, Switzerland, and the United Kingdom.

A credit claimed under a treaty is in general figured on Schedule P in the same manner as the credit is figured 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 earlier 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.
- The amount entered on 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 computations of credits under the treaties, see the applicable regulations.

Note. For 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

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 for 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 for 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 figuring 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 figuring estate tax (2a) or estate tax (2b) 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 Figure the Credit

A worksheet for Schedule Q is provided to allow you to figure 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 Form 706, but keep it for your records.

Cases involving transfers from two or more transferors. Part I of the worksheet and Schedule Q enable you to figure the credit for as many as three transferors. The number of transferors is irrelevant to Part II of the worksheet. If you are figuring 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.

Line 21. Add lines 11 (allowable applicable 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 figured 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 Worksheet for Schedule Q from the amount on line 24 of the worksheet. If community property is included in the amount on line 24 of the worksheet, figure 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.

Worksheet for Schedule Q—Credit for Tax on Prior Transfers

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

	Item	Transferor (From Schedule Q) A	B	C	Total for all transfers (line 8 only)
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 tentative taxable estate (see line 3a, page 1, Form 706)				
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 18, 19, and 20 of the Recapitulation, page 3, Form 706)	25.		
26.	Marital deduction from item 21, Recapitulation, page 3, Form 706 (see instructions)	26.		
27.	Charitable bequests from item 22, 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.	

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

Introduction and Overview

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

The GST tax reported on Form 706 is imposed on only 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 on only the value of interests in property, wherever located, that actually pass to certain transferees, who are referred to as *skip persons* (defined later).

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 figuring 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. See section 2613 and Regulations section 26.2612-1(d) for details.

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*, later. These first three steps are described in detail under *Determining Which Transfers Are Direct Skips*, later.

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

The fifth step is to complete Schedules R and R-1 using the *How To Complete* instructions 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).

Mental disability. If, on October 22, 1986, the decedent was under a mental disability to change the disposition of property owned 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).

Under a mental disability means the decedent lacked the competence to execute an instrument governing the disposition of property owned, regardless of whether there was an adjudication of incompetence or 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 the physician's 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 the decedent's 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 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 later.

Trust. For purposes of the GST tax, a *trust* includes not only an ordinary trust (as defined in *Special rule for trusts other than ordinary trusts,* later), 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,* later.

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 the birth date, as follows.
    a. A person who was born not more than 12½ years after the decedent is in the decedent's generation.
    b. A person born more than 12½ years, but not more than 37½ 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 the individual 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.

See the examples in Regulations section 26.2651-1(c).

Generation assignment under Notice 2017-15. Notice 2017-15 permits taxpayers to reduce their GST exemption allocated to transfers that were made to or for the benefit of transferees whose generation assignment is changed as a result of the *Windsor* decision. A taxpayer's GST exemption that was allocated to a transfer to (or to a trust for the sole benefit of) one or more transferees whose generation assignment should have been determined on the basis of a familial relationship as the result of the *Windsor* decision, and are non-skip persons, is deemed void. For additional information, go to *IRS.gov/Businesses/Small-Businesses-Self-Employed/Estate-and-Gift-Taxes*.

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 90 days after a transfer occurring by reason of the death of the transferor is treated as having predeceased the transferor. The 90-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 child for the child's life, with the remainder passing to the child's 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 child). 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) 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 a surviving spouse receiving lifetime benefits from 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) 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 ordinary trusts. An *ordinary trust* is 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 ordinary 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 ordinary 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 ordinary 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 ordinary 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 are $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 for 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 and attaching a completed Schedule R and/or R-1. 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 of unused GST exemption rules of section 2632(e).

For transfers made through 1998, the GST exemption was $1 million. The current GST exemption is $12,920,000. The exemption amounts for 1999 through 2023 are as follows.

Year of transfer	GST exemption
1999	$1,010,000
2000	$1,030,000
2001	$1,060,000
2002	$1,100,000
2003	$1,120,000
2004 and 2005	$1,500,000
2006, 2007, and 2008	$2,000,000
2009	$3,500,000
2010 and 2011	$5,000,000
2012	$5,120,000
2013	$5,250,000
2014	$5,340,000
2015	$5,430,000
2016	$5,450,000
2017	$5,490,000
2018	$11,180,000
2019	$11,400,000
2020	$11,580,000
2021	$11,700,000
2022	$12,060,000
2023	$12,920,000

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 2003, Alex made a direct skip of $1,120,000 and applied the full $1,120,000 of GST exemption to the transfer. Alex made a $450,000 taxable direct skip in 2004 and another of $90,000 in 2006. For 2004, Alex can only apply $380,000 of exemption ($380,000 inflation adjustment from 2004) to the $450,000 transfer in 2004. For 2006, Alex can apply $90,000 of exemption to the 2006 transfer, but nothing to the transfer made in 2004. At the end of 2006, Alex would have $410,000 of unused exemption that can apply to future transfers (or appreciation) starting in 2007.

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 section 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.
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 and related regulations.

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 figure 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. The exemption will first be allocated 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. 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 later) 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, later.

CAUTION *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 (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 the decedent's 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. 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 figure 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 figure it. Therefore, you are not required to make an entry in column E. However, column E and the worksheet later are provided to assist you in figuring the inclusion ratio for the trustee if you wish to do so.

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 figure this amount for each trust.

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

WORKSHEET (Inclusion Ratio)

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*, earlier, 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 statement 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 automatically be 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. Attach a statement listing each such event and the amount of exemption allocated to that event.

Parts 2 and 3

Use Part 2 to figure 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 for 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 for Part 2, line 6, above.

How To Complete Schedule R-1

Filing due date. Enter the due date of Form 706. You must send the copies of Schedule R-1 to the fiduciary before 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 40% (0.40).

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

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 from 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 later 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*, on item 12. To elect the exclusion, 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* next.

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 the person has a present interest in the trust. For additional information, see the ownership rules in section 2057(e)(3).

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. A *qualified real property interest* is any of the following.

- The entire interest of the donor, other than a qualified mineral interest.
- A remainder interest.
- 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. A *qualified organization* includes the following.

- Corporations and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or to foster national or international amateur sports competition, or for the prevention of cruelty to children or animals, without net earnings benefitting any individual shareholder and without activity with the purpose of influencing legislation or political campaigning, which:

  a. Receives more than one-third of its support from gifts, contributions, membership fees, or receipts from sales, admissions fees, or performance of services; or

  b. Is controlled by such an organization.
- Any entity that qualifies under section 170(b)(1)(A)(v) or (vi).

Conservation purpose. An easement has a *conservation purpose* if it is for:

- The preservation of land areas for outdoor recreation by, or for 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 is 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*, earlier, 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 from 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 or 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 all of 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, TIN, 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 Part 3 of Schedule A-1.

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.

CAUTION *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.

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, 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

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.

Schedule PC—Protective Claim for Refund

A *protective claim for refund* preserves the estate's right to a refund of tax paid on any amount included in the gross estate which would be deductible under section 2053 but has not been paid or otherwise will not meet the requirements of section 2053 until after the limitations period for filing the claim has passed. See section 6511(a).

CAUTION *Only use Schedule PC for section 2053 protective claims for refund being filed with Form 706. If the initial notice of the protective claim for refund is being submitted after Form 706 has been filed, use Form 843, Claim for Refund and Request for Abatement, to file the claim.*

Schedule PC may be used to file a section 2053 protective claim for refund by estates of decedents who died after December 31, 2011. It will also be used to inform the IRS when the contingency leading to the protective claim for refund is resolved and the refund due the estate is finalized. The estate must indicate whether the Schedule PC being filed is the initial notice of protective claim for refund, notice of partial claim for refund, or notice of the final resolution of the claim for refund.

Because each separate claim or expense requires a separate Schedule PC, more than one Schedule PC may be included with Form 706, if applicable. Two copies of each Schedule PC must be included with Form 706.

Note. Filing a section 2053 protective claim for refund on Schedule PC will not suspend the IRS's review and examination of Form 706, nor will it delay the issuance of a closing letter for the estate.

Initial Notice of Claim

The first Schedule PC to be filed is the initial notice of protective claim for refund. The estate will receive a written acknowledgment of receipt of the claim from the IRS. If the acknowledgment is not received within 180 days of filing the protective claim for refund on Schedule PC, the fiduciary should contact the IRS at 866-699-4083 to inquire about the receipt and processing of the claim. A certified mail receipt or other evidence of delivery is not sufficient to confirm receipt and processing of the protective claim for refund.

Note. The written acknowledgment of receipt does not constitute a determination that all requirements for a valid protective claim for refund have been met.

In general, the claim will not be subject to substantive review until the amount of the claim has been established. However, a claim can be disallowed at the time of filing. For example, the claim for refund will be rejected if:

- The claim was not timely filed,
- The claim was not filed by the fiduciary or other person with authority to act on behalf of the estate,
- The acknowledgment of the penalties of perjury statement (on page 1 of Form 706) was not signed, or
- The claim is not adequately described.

If the IRS does not raise such a defect when the claim is filed, it will not be precluded from doing so in the later substantive review.

The estate may be given an opportunity to cure any defects in the initial notice by filing a corrected and signed protective claim for refund before the expiration of the limitations period in section 6511(a) or within 45 days of notice of the defect, whichever is later.

Related Ancillary Expenses

If a section 2053 protective claim for refund has been adequately identified on Schedule PC, the IRS will presume that the claim includes certain expenses related to resolving, defending, or satisfying the claim. These ancillary expenses may include attorneys' fees, court costs, appraisal fees, and accounting fees. The estate is not required to separately identify or substantiate these expenses; however, each expense must meet the requirements of section 2053 to be deductible.

Notice of Final Resolution of Claim

When an expense that was the subject of a section 2053 protective claim for refund is finally determined, the estate must notify the IRS that the claim for refund is ready for consideration. The notification should provide facts and evidence substantiating the deduction under section 2053 and the resulting recomputation of the estate tax liability. A separate notice of final resolution must be filed with the IRS for each resolved section 2053 protective claim for refund.

There are two means by which the estate may notify the IRS of the resolution of the uncertainty that deprived the estate of the deduction when Form 706 was filed. The estate may file a supplemental Form 706 with an updated Schedule PC and include each schedule affected by the allowance of the deduction under section 2053. Page 1 of Form 706 should contain the notation "Supplemental Information—Notification of Consideration of Section 2053 Protective Claim(s) for Refund" and include the filing date of the initial notice of protective claim for refund. A copy of the initial notice of claim should also be submitted.

Alternatively, the estate may notify the IRS by filing an updated Form 843. Form 843 must contain the notation "Notification of Consideration of Section 2053 Protective Claim(s) for Refund," including the filing date of the initial notice of protective claim for refund, on page 1. A copy of the initial notice of claim must also be submitted.

The estate should notify the IRS of resolution within 90 days of the date the claim or expense is paid or the date on

which the amount of the claim becomes certain and no longer subject to contingency, whichever is later. Separate notifications must be submitted for every section 2053 protective claim for refund that was filed.

If the final section 2053 claim or expense involves multiple or recurring payments, the 90-day period begins on the date of the last payment. The estate may also notify the IRS (not more than annually) as payments are being made and possibly qualify for a partial refund based on the amounts paid through the date of the notice.

Specific Instructions

Part 1. General Information

Complete Part 1 by providing information that is correct and complete as of the time Schedule PC is filed. If filing an updated Schedule PC with a supplemental Form 706 or as notice of final resolution of the protective claim for refund, be sure to update the information from the original filing to ensure that it is accurate. Be particularly careful to verify that contact information (addresses and telephone numbers) and the reason for filing Schedule PC are indicated correctly. If the fiduciary is different from the executor identified on page 1 of Form 706 or has changed since the initial notice of protective claim for refund was filed, attach letters testamentary, letters of administration, or similar documentation evidencing the fiduciary's authority to file the protective claim for refund on behalf of the estate. Include a copy of Form 56, Notice Concerning Fiduciary Relationship, if it has been filed.

Part 2. Claim Information

For a protective claim for refund to be properly filed and considered, the claim or expense forming the basis of the potential section 2053 deduction must be clearly identified. Using the check boxes provided, indicate whether you are filing the initial claim for refund, a claim for partial refund, or a final claim.

On the chart in Part 2, give the Form 706 schedule and item number of the claim or expense. List any amounts claimed under exceptions for ascertainable amounts (Regulations section 20.2053-1(d)(4)), claims and counterclaims in related matters (Regulations section 20.2053-4(b)), or claims under $500,000 (Regulations section 20.2053-4(c)). Provide all relevant information as described, including, most importantly, an explanation of the reasons and contingencies delaying the actual payment to be made in satisfaction of the claim or expense. Complete columns E and F only if filing a notice of partial or final resolution. Show the amount of ancillary or related expenses to be included in the claim for refund and indicate whether this amount is estimated, agreed upon, or has been paid. Also show the amount being claimed for refund.

Note. If you made partial claims for a recurring expense, the amount presently claimed as a deduction under section 2053 will only include the amount presently claimed, not the cumulative amount.

Part 3. Other Schedules PC and Forms 843 Filed by the Estate

On the chart in Part 3, provide information on other protective claims for refund that have been previously filed on behalf of the estate (if any), whether on other Schedules PC or on Form 843. When the initial claim for refund is filed, only information from Form(s) 843 need be included in Part 3. However, when filing a partial or final claim for refund, complete Part 3 by including the status of all claims filed by or on behalf of the estate, including those filed on other Schedules PC with Form 706. For each such claim, give the place of filing, date of filing, and amount of the claim.

Continuation Schedule

When you need to list more assets or deductions than you have room for on one of the main schedules, use the Continuation Schedule at the end of Form 706. It provides a uniform format for listing additional assets from Schedules A through I and additional deductions from Schedules J, K, L, M, and O.

Please remember to do the following.

- Use a separate Continuation Schedule for each main schedule you are continuing. Do not combine assets or deductions from different schedules on one Continuation Schedule.
- Make copies of the blank schedule before completing it if you expect to need more than one.
- Use as many Continuation Schedules as needed to list all the assets or deductions.
- Enter the letter of the schedule you are continuing in the space at the top of the Continuation Schedule.
- Use the Unit value column **only** if continuing Schedule B, E, or G. For all other schedules, use this space to continue the description.
- Carry the total from the Continuation Schedules forward to the appropriate line on the main schedule.

If continuing	Report	Where on Continuation Schedule
Schedule E, Pt. 2	*Percentage includible*	*Alternate valuation date*
Schedules J, L, M	*Continued description of deduction*	*Alternate valuation date **and** Alternate value*
Schedule O	*Character of institution*	*Alternate valuation date **and** Alternate value*
Schedule O	*Amount of each deduction*	*Value at date of death or amount deductible*

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. Subtitle B and section 6109, and the regulations require you to provide this information.

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 information from this form in certain circumstances. For example, we may disclose information to the Department of Justice for civil or criminal litigation, and to cities, states, the District of Columbia, and U.S. commonwealths or possessions 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. Failure to provide this information, or providing false information, may subject you to penalties.

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
Form 706 & embedded schedules	6 hr., 46 min.	7 hr., 39 min.	13 hr., 8 min.	9 hr., 10 min.
Form Schedule R-1 (706)	6 min.	29 min.	24 min.	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making Form 706 simpler, we would be happy to hear from you. You can send us comments through *IRS.gov/FormComments*. Or you can write to:

Internal Revenue Service
Tax Forms and Publications Division
1111 Constitution Ave. NW, IR-6526
Washington, DC 20224

Do not send the tax form to this address. Instead, see *Where To File*, earlier.

Index

Checklists for Completing Form 706

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

Attachments . . .

- ☐ Death Certificate.
- ☐ Certified copy of the will—if decedent died testate, you must attach a certified copy of the will. 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, with "Exhibit to Estate Tax Return" entered across the top of the first page(s).
- ☐ Copy of Line 7 Worksheet, if applicable, with “Exhibit to Estate Tax Return” entered across the top of the page(s).
- ☐ Form 712, if any policies of life insurance are included on the return.
- ☐ Form 706-CE, if claiming a foreign death tax credit.

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—General Information*, 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, and closely held entities?
- ☐ Included the first 4 pages of the return and all required schedules?
- ☐ Completed Schedule F? It must be filed with all returns.
- ☐ Completed *Part 4—General Information*, 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 predeceased spouse?
- ☐ Entered the decedent's name, SSN, and “Form 706” on your check or money order?
- ☐ Completed Part 6, Section A, if the estate elects not to transfer any DSUE amount to the surviving spouse?
- ☐ Completed Part 6, Section C, if the estate elects portability of any DSUE amount?
- ☐ Completed Part 6, Section D, and included a copy of the Form 706, with “Exhibit to Estate Tax Return” entered across the top of the first page, of any predeceased spouse(s) from whom a DSUE amount was received and applied?