

Instructions for Form 706GS(D)

(February 1990)

Generation-Skipping Transfer Tax Return for Distributions

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

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. 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. You are required to give us this information.

The times needed to complete and file these forms 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 IRS
706GS(D)	7 min.	7 min.	16 min.	19 min.
Schedule A	7 min.	5 min.	11 min.	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making these forms more simple, we would be happy to hear from you. You can write to the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; or the **Office of Management and Budget**, Paperwork Reduction Project(1545-1144), Washington, DC 20503.

General Instructions

Purpose of Form

Form 706GS(D) is used by a skip-person distributee to calculate and report the tax due on distributions from a trust which are subject to the generation-skipping transfer (GST) tax.

Who Must File

In general, anyone who receives a taxable distribution from a trust made after October 22, 1986, must file Form 706GS(D). Under certain circumstances, the tax also applies to distributions made after September 25, 1985. Trustees are required to report taxable distributions to skip-person distributees on **Form 706GS(D-1)**, Notification of Distribution From a Generation-Skipping Trust.

Even if you receive a Form 706GS(D-1), however, you do not need to file Form 706GS(D) if the inclusion ratio found in column d, line 3, Part II of Form 706GS(D-1) is zero for all distributions reported to you. If you are required to file Form 706GS(D), you do not have to include any distributions which have an inclusion ratio of zero.

When To File

The generation-skipping transfer tax on distributions is computed and filed on a calendar year basis, regardless of your income tax accounting period. You must file Form 706GS(D) on or after January 1 but not later than April 15 of the year following the calendar year when the distributions were made.

For distributions occurring after September 25, 1985, and before January 1, 1990, the return must be filed on or before August 15, 1990.

If you are not able to file the return by the due date, you may request an extension of time to file by filing **Form 2758**, Application for Extension of Time To File Certain Excise, Income, Information, and Other Returns. This does not provide for an automatic extension, so be sure to file Form 2758 in adequate time to permit IRS to consider the application and to reply before the return's regular due date.

Where To File

File Form 706GS(D) at the Internal Revenue Service Center Philadelphia, PA 19255.

Penalties and Interest

Section 6651 provides for penalties for both late filing and late payment unless there is reasonable cause for the delay. The law also provides penalties for willful attempts to evade payment of tax.

Section 6662 provides a penalty for underpayment of GST taxes of \$5,000 or more that is attributable to valuation understatements.

Interest will be charged on taxes not paid by their due date, even if an extension of time to file is granted. Interest is also charged on any additions to tax imposed by section 6651 from the due date of the return (including any extensions) until the addition to tax is paid.

Signature

Form 706GS(D) must be signed by the distributee or by an authorized representative.

If you fill in your own return, the Paid Preparer's space should remain blank. If someone prepares your return and does not charge you, that person should not sign the return. Generally, anyone who is paid to prepare your return must sign it and fill in the other blanks in the Paid Preparer's Use Only area of the return.

Specific Instructions

Part I

Line 1a.—If the skip-person distributee is a trust, enter the name of the trust here.

Line 1b.—For skip-person distributees who are individuals, enter the distributee's social security number (SSN) here and leave line 1c blank. If the skip-person distributee is a trust, see the instructions for line 1c. DO NOT enter a number on both line 1b and line 1c.

Line 1c.—If the skip-person distributee is a trust, you must enter the trust's employer identification number (EIN) and leave line 1b blank. DO NOT enter a number on both line 1b and line 1c.

Line 2a.—If the skip-person distributee is a trust, enter the trustee's name here. If the skip-person distributee is a minor or is under some other disability which precludes the individual from filing the return, enter the name of the person who is legally responsible for conducting the affairs of the distributee, such as a parent or guardian. Also, include the title or relationship to the distributee.

Line 2b.—Enter the address at which you wish to receive correspondence from IRS regarding this return. If there is an entry on line 2a, the address entered here will normally be that of the person listed on line 2a, rather than the individual or trust listed on line 1a.

Schedule A

In General.—Report on Schedule A all of the taxable distributions whose inclusion ratio is greater than zero you received during the year. These distributions will be reported to you by the trustee on Form 706GS(D-1). Attach a copy of each Form 706GS(D-1) you received during the year to this return. Keep a copy for your records, also.

If you will need more than one Schedule A to report all of your distributions, make copies of the blank Schedule A before completing it. Number the schedules consecutively in the space provided at the top.

Line 2.—Column a.—List in each section of line 2 the distributions from a single Form 706GS(D-1). The item number you use in column a should be the same as the item number for the corresponding distribution on Form 706GS(D-1). If there is not enough space in any section to list all of the distributions from a single trust, continue them in the following section. Be certain to include the trust EIN even if you are continuing the previous section.

Column b.—Inclusion Ratio.—Enter the inclusion ratio directly from the corresponding item number in column d, line 3, Part II, of Form 706GS(D-1).

Column c.—Value.—*In General.*—If the trustee provided the value in column e of Form 706GS(D-1), use that value here unless you know or reasonably believe that it is incorrect. If the trustee has not provided the value, you must determine the value of the property distributed as of the date of the distribution. The date of distribution is listed in column c, line 3, of Form 706GS(D-1).

The value of a distribution is its fair market value on the date of distribution. Fair market value is the price at which the property would change hands between a willing buyer and a willing seller, when neither is forced to buy or to sell, and both have reasonable knowledge of all the relevant facts. Fair market value may not be determined by a forced sale price, nor by the sale price of the item in a market other than that in which the item is most commonly sold to the public. The location of the item must be taken into account whenever appropriate.

Stocks and Bonds.—The fair market value 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 fair market value is the mean between the quoted closing selling price on the valuation date and on the trading day before the valuation date. To figure the fair market value if there were no sales on the valuation date:

1. Find the mean between the highest and lowest selling prices on the nearest trading day before and the nearest trading day 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 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 fair market value.

Stock of close corporations or inactive stock must be valued on the basis of net worth, earnings, earning and dividend capacity, and other relevant factors. For such stock, attach balance sheets, particularly the one nearest the date of the distribution, and statements of net earnings or operating results and dividends paid for each of the five preceding years.

Real Estate.—Reduce the reported value of real estate by the amount of any outstanding lien against the property on the date of distribution. Attach copies of any such liens. Explain how the reported values were determined and attach copies of any appraisals.

Reduce the value of any property being reported on Schedule A by the amount of any consideration provided by the distributee.

Line 3.—If you are filing more than one Schedule A with this return, enter the total tentative transfers from line 2 of all of the additional schedules on line 3 of Schedule A No. 1 only.

Part II

Line 4.—You may deduct from the amount of the distribution received by you any adjusted allowable expenses incurred in connection with the preparation of this Form 706GS(D) or any other expenses incurred in connection with the determination, collection or refund of the GST tax reported or which should have been reported on this return.

“Adjusted allowable expenses” are equal to the total allowable expenses multiplied by the inclusion ratio. If you have more than one inclusion ratio to report on Schedule A, prorate the total expense among the inclusion ratios based on the relative value of each distribution made at the various inclusion ratios.

You may deduct an expense even though it has not been paid at the time the return is filed as long as the amount of the expense is clearly ascertainable at that time. If an additional allowable expense is incurred after the return is filed, file **Form 843, Claim**, to claim a refund.

Example.—The rules above can be illustrated by the following example:

You listed 3 distributions on Schedule A of Form 706GS(D). The value of the first distribution is \$10,000 and has an inclusion ratio of .25. The value of the second distribution is \$20,000 and has an inclusion ratio of .33. The value of the third distribution is \$30,000 and has an inclusion ratio of .50. You received the completed return from the preparer along with the bill for the preparer’s fee on April 14 and filed the return on April 15. You paid the preparer’s \$200 fee on April 20. The adjusted allowable expense you should report on line 4 of Part II is \$80, calculated as follows:

$$\frac{\$10,000}{\$60,000} \times 200 = 33.33 \times .25 = 8.(\text{rounded})$$

$$\frac{\$20,000}{\$60,000} \times 200 = 66.67 \times .33 = 22(\text{rounded})$$

$$\frac{\$30,000}{\$60,000} \times 200 = 100 \times .50 = 50$$

Adjusted allowable expense = 80

Line 7.—You can only claim a credit for state GST tax if the taxable distribution occurred at the same time as, and as a result of the death of an individual, and the distribution is also reported on this form. Enter on line 7 the state GST tax, if any, which meets these requirements.

Line 8.—The credit for state GST taxes cannot exceed 5% of the gross GST tax.