

Instructions for Form 706GS(T)

(February 1990)

Generation-Skipping Transfer Tax Return For Terminations

(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 time 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(T)	40 min.	26 min.	31 min.	20 min.
Schedule A	13 min.	15 min.	37 min.	20 min.
Schedule B	13 min.	4 min.	20 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 (1545-1145), Washington, DC 20503.

General Instructions

Purpose of Form

Form 706GS(T) is used by a trustee to calculate and report the tax due from certain trust terminations which are subject to the generation-skipping transfer (GST) tax.

When To File

Generally, the trustee must file Form 706GS(T) by the 15th day of the 4th month following the year in which the termination occurs. For terminations 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(T) at the Internal Revenue Service Center, Philadelphia, PA 19255.

Who Must File

In general, the trustee of any trust which has a taxable termination after October 22, 1986, must file Form 706GS(T).

Trusts.—*Non-Explicit Trusts.*—An arrangement that has substantially the same effect as a trust will be treated as a trust even though it is not an explicit trust. Examples of such arrangements are insurance and annuity contracts, arrangements involving life estates and remainders, and estates for years. "Non-explicit trusts" do not include decedents' estates.

In the case of a non-explicit trust, the person in actual or constructive possession of the property involved is considered the trustee and is liable for filing Form 706GS(T).

If you are filing this return for a non-explicit trust, be sure to see the instructions for line 1b on page 2.

Separate Trusts.—You must treat as separate trusts: (1) portions of a trust which are attributable to transfers from different transferors; and (2) substantially separate and independent shares of different beneficiaries in a trust.

If you have separate trusts as described above, you must file a single Form 706GS(T) but separate Schedules A for each separate trust, as that term is used here.

Terminations Subject to GST Tax

A termination may occur by reason of death, lapse of time, release of a power, or any other means.

In general, all "taxable terminations" are subject to the GST tax. A "taxable termination" is the termination of an interest in property held in trust unless:

1. Immediately after the termination a non-skip person has an interest in the property, or
2. At no time after the termination may a distribution be made from the trust to a skip person.

Medical and Educational Exclusion.—If all of the property to which the termination applied has been distributed and used for medical or educational expenses of the transferee such that if the transfer had been made inter vivos by an individual it would not have been subject to gift tax by reason of the medical and educational exclusion, then the termination is not a generation-skipping transfer, and you do not have to file this form to report the termination.

Effective Dates.—The rules below apply only for purposes of determining if a transfer is a "taxable termination" that must be reported on Form 706GS(T).

In General.—The GST tax is effective for all taxable terminations occurring after October 22, 1986.

Certain Terminations Deemed To Occur After October 22, 1986.—If an inter vivos transfer that was subject to gift tax was made to a trust after September 25, 1985, and before October 23, 1986, then any termination of an interest in such trust that occurred before October 23, 1986, will be deemed to have occurred after October 22, 1986.

Exceptions.—*Irrevocable Trusts.*—Except as described under "Additions to Irrevocable Trusts" below, the GST tax does not apply to any termination of an interest in a trust that was irrevocable on September 25, 1985. Any trust in existence on September 25, 1985, will be considered irrevocable unless:

1. On September 25, 1985, the settlor held a power with respect to such trust that would have caused the value of the trust to be included in the settlor's gross estate for Federal estate tax purposes by reason of section 2038 (regarding revocable transfers) if the settlor had died on September 25, 1985; or
2. Regarding a policy of life insurance that is treated as a trust under section 2652(b), the insured possessed an incident of ownership on September 25, 1985, that would have caused the insurance proceeds to be included in the insured's gross estate for Federal estate tax purposes if the insured had died on September 25, 1985.

For more information, see Temp. Regs. section 26.2601-1(b).

Trusts Containing Qualified Terminable Interest Property.—If an irrevocable trust in existence on September 25, 1985, holds qualified terminable interest property (QTIP) (as defined in section 2056(b)(7)) as a result of an election under section 2056(b)(7) or 2523(f), the trust will be treated for purposes of the GST tax as if the QTIP election had not been made. Thus, transfers from such a trust will not be subject to the GST tax.

Additions to Irrevocable Trusts.—If an addition has been made after September 25, 1985, to an irrevocable trust, the termination of any interest in the trust may be subject in part to the GST tax. Additions include constructive additions described in Temp. Regs. section 26.2601-1(b)(1)(v).

For purposes of computing the inclusion ratio (as defined on page 4) use only the value of the total additions made to the trust after September 25, 1985.

Terminations of Interests in Trusts to Which Additions Have Been Made.—As described on page 1, when an addition is made after September 25, 1985, to an irrevocable trust, only the portion of the trust resulting from the addition is subject to the GST tax. For terminations, this portion is the product of the allocation fraction and the value of the property subject to the termination (including accumulated income and appreciation).

The allocation fraction is a fraction, the numerator of which is the value of the addition as of the date it was made (regardless of whether it was subject to gift or estate tax). The denominator of the fraction is the fair market value of the entire trust immediately after the addition, less any trust amount that is similar to expenses, indebtedness, or taxes that would be allowable as a deduction under section 2053.

When there is more than one addition, the allocation fraction is revised after each addition. The numerator of the revised fraction is the sum of:

1. The value of the portion of the trust subject to the GST tax immediately before the last addition, and

2. The amount of the latest addition.

The denominator of the revised fraction is the total value of the entire trust immediately after the latest addition. If the addition results from a generation-skipping transfer, reduce both the numerator and denominator by the amount of any GST tax imposed on the transfer and recovered from the trust. Round off the allocation fraction to five decimal places.

Transition Rules for Revocable Trusts.—*In General.*—The GST tax will not apply to any termination of an interest in a revocable trust, provided:

1. The trust was executed before October 22, 1986;

2. The trust as it existed on October 21, 1986, was not amended after October 21, 1986, in any way that created or increased the amount of a generation-skipping transfer; and

3. The settlor died before January 1, 1987

A revocable trust is any trust which on October 22, 1986, was not an irrevocable trust, as defined above, and would not have been an irrevocable trust had it been created before September 25, 1985.

The instructions under "Irrevocable Trusts" on page 1 regarding qualified terminable interest property apply also to revocable trusts covered by these transition rules.

Amendments to Revocable Trusts.—An amendment to a revocable trust in existence on October 21, 1986, will not be considered to result in the creation of, or an increase in the amount of a generation-skipping transfer where: (1) the amendment is administrative or clarifying in nature, or (2) it is designed to perfect a marital or charitable deduction for an existing transfer, and it only incidentally increases the amount transferred to a skip person. See Temp. Regs. 26.2601-

1(b)(2)(vi) for examples demonstrating the operation of these rules.

Additions to Revocable Trusts.—*In General.*—If an addition (including a constructive addition) to a revocable trust is made after October 21, 1986, and before the death of the settlor, all subsequent terminations of interests in the trust will be subject to the GST tax if the other requirements of taxability are met. For settlors dying before January 1, 1987, any addition made to a revocable trust after the death of the settlor will be treated as made to an irrevocable trust.

Transition Rule in Case of Mental Disability.—If the settlor was under a mental disability on October 22, 1986, the GST tax may not apply. See Temp. Regs. 26.2601-1(b)(3) for a definition of mental disability and details on the application of this rule.

Exceptions to Additions Rule.—Do not treat as an addition to a trust any addition which is made pursuant to an instrument or arrangement that is covered by the transition rules discussed above. This also applies to inter vivos transfers if the same property would have been added to the trust by such an instrument. For examples illustrating this rule, see Temp. Regs. 26.2601-1(b)(4)(ii).

Skip-Persons.—For termination purposes, skip-person means a trust beneficiary who is either:

1. A natural person assigned to a generation which is two or more generations below the settlor's generation, or

2. A trust which meets the following conditions:

- a. all interests in the trust are held by skip persons, or

- b. no person holds an interest in the trust, and at no time after the transfer to the trust may a distribution be made to a nonskip-person.

Interest.—A person holds an "interest in the trust" if, at the time the determination is made, the person:

1. Has a current right to receive income or corpus from the trust, or

2. Is a permissible current recipient of income or corpus from the trust (other than charitable entities), or

3. Is a charitable or other entity described in section 2055(a) and the trust is a charitable remainder annuity trust, a charitable remainder unitrust, or a pooled income fund.

Any interest which is created primarily to postpone or avoid the GST tax is disregarded.

Nonskip-Person.—A nonskip-person is any person who is not a skip-person.

Generation Assignment.—The generation of a lineal descendent of the grandparent of the settlor (or a spouse or former spouse of the settlor) is determined by comparing the number of generations between that individual and the grandparent to the number of generations between the grandparent and the settlor (or the spouse or former spouse of the settlor).

For this purpose, a relationship by adoption is considered a blood relationship. A relationship by half-blood is considered a relationship by whole blood.

The spouse or former spouse of a settlor or lineal descendent is considered to belong to the same generation as the settlor or lineal descendent, as the case may be.

Any individual not described above is considered in the same generation as the settlor if born not more than 12½ years after the settlor. Individuals born more than 12½ but not more than 37½ years after the settlor are considered in succeeding generations, with a new generation every 25 years. If an entity such as a partnership, corporation, trust, or estate has an interest in property, each individual with a beneficial interest in the entity is treated as having an interest in the property. The individual is then assigned to a generation using the rules described above.

Governmental entities and certain charitable organizations are assigned to the settlor's generation. Terminations in favor of them will never be generation-skipping transfers. For more information, see section 2651(e)(3).

Multiple Skips.—If after a generation-skipping transfer the property transferred is held in trust, then for the purpose of determining the taxability of subsequent transfers from the trust involving that property, the settlor of the property is assigned to the first generation above the highest generation of any person who has an interest in the trust immediately after the initial transfer.

Penalties and Interest

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

Section 6662 provides penalties for underpayments of GST taxes of \$5,000 or more that are 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(T) must be signed by the trustee 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 in the Paid Preparer's Use Only area of the return.

Specific Instructions

Complete Form 706GS(T) in the following order: Parts I and II, Schedule A (through line 4), Schedule B, Schedule A (lines 5 through 13), Part III.

Part I

Line 1b—Employer Identification Number.—All trusts filing Form 706GS(T) must have an employer identification number (EIN). A non-explicit trust as

described on page 1 under "Who Must File" must have an EIN which is separate from any other entity's EIN and which will be used only by the non-explicit trust.

A trust or non-explicit trust which does not have an EIN should apply for one on **Form SS-4**, Application for Employer Identification Number. This form may be obtained from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center at which Form 706GS(T) is filed. If the EIN has not been received by the filing time for the GST form, write "Applied for" on line 1b. See **Pub. 583** for more information.

Part II

Line 4.—Whenever property is transferred into a pre-existing trust, the inclusion ratio must be recalculated. See the "Multiple Transfers" heading of the line 7 instructions on page 4 for the rule on how to recalculate the inclusion ratio.

Line 7.—If a qualified terminable interest property deduction was taken by the settlor as donor spouse or by the executor of a decedent settlor's estate for the transfer of any property into this trust, the donor spouse or the executor, as the case may be, may have made an election at that time to treat such transfer for the purpose of the GST tax as if it was not qualified terminable interest property. In this case, you must refer to the gift tax return of the donor spouse or the decedent's estate tax return for the information needed to compute the inclusion ratio.

Schedule A

Lines 1 through 4

Note *If you will need more than one Schedule A, make copies before completing it. Also, make a copy of Schedule B for each Schedule A you will file. If you need additional space to provide all of the required information for any given schedule, attach a separate sheet of the same size to that schedule.*

In General.—You may combine on a single Schedule A all terminations from a single trust which have the same inclusion ratio (as discussed on page 4). However, you must complete a separate Schedule A for each terminating interest which has a different inclusion ratio. Number each Schedule A consecutively in the space provided at the top.

Line 2.—If you are reporting separate trusts (as that term is described under "Who Must File" on page 1) on this Form 706GS(T), explain here the reason you are treating parts of the trust as separate trusts.

Line 3.—You may elect alternate valuation under section 2032 for all terminations in the same trust that occurred at the same time as and as a result of the death of an individual. If you elect alternate valuation, it must be used to value all property included in those terminations.

You may not elect alternate valuation unless the election will decrease both the total value of the property interests which were subject to the termination and the total net GST tax due after the allowable credit.

Check the box on line 3 of all the applicable Schedules A if you elect alternate valuation. Once made, the election cannot be revoked. You may make the election on a late filed Form 706GS(T) provided it is not filed later than 1 year after the due date (including extensions).

If you elect alternate valuation, value the property interest that has been terminated as follows:

1. Any property distributed or otherwise disposed of or separated from the trust within 6 months after the termination is valued on the date of distribution or other disposition. Value the property on the date it ceases to form a part of the trust, that is, on the date the title passes as a result of its distribution or other disposition.
2. Any property not distributed or otherwise disposed of within 6 months following the termination is valued on the date 6 months after the termination.
3. Any property or interest which is "affected by mere lapse of time" is valued as of the time of termination. However, you may change this date of termination value to the date of distribution or other disposition to account for any change that is not due to "mere lapse of time."

If the alternative valuation date falls after the initial due date of the return, you must request an extension to file on Form 2758. Indicate as the reason for the requested extension that you are going to elect alternate valuation and that the alternate valuation date falls after the initial due date of the return.

Line 4.—**Column a.**—Identify by separate item number all property in which an interest has terminated during the tax year. You may combine under the same item number all property which has the same termination date, valuation date, and unit value, such as stocks or bonds. Otherwise, assign a separate item number to each article of property.

Column b.—**Description of Property—Real Estate.**—Describe the real estate in enough detail so that IRS can easily locate it for inspection and valuation. For each parcel of real estate report the area and, if the parcel is improved, describe the improvements. For city or town property, report the street number, ward, subdivision, block and lot, etc. For rural property, report the township, range, landmarks, etc.

Stocks and Bonds.—For stocks indicate:

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

For bonds indicate:

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

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

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

Other Personal Property.—Any interest in personal property involved in a termination must be described in enough detail that its value can be ascertained by IRS.

Column d.—Unless you elected alternate valuation by checking the box on line 3 of Schedule A, the valuation date should be the same as the termination date.

Column e.—Reduce the value of any property being reported on Schedule A by the amount of any consideration provided by the skip-person.

Explain how the values reported in column e were determined and attach copies of any appraisals.

Schedules B(1) and B(2)

In General.—To determine the taxable amount for a taxable termination, you may deduct expenses similar to those deductible under section 2053 from the value of the property subject to the termination.

Schedule B(1).—Report here only those expenses related to the entire trust. Examples of expenses that might be related to the entire trust are trustee's fees, administrative expenses, financial advisor's fees, and accounting fees.

Column a.—Assign an item number to each separate expense. These will not necessarily correspond with the item numbers on Schedule A.

Column b.—List the names and addresses of persons to whom the expenses are payable and describe the nature of the expenses.

Column c.—Enter here the entire amount of the expense for the tax year for which the return is being filed.

Line 2.—Calculate the percentage of expense to allocate to the property involved in the termination as follows:

1. Divide the value of the interest which has been terminated by the total value of the trust at the time of the termination; and
2. Multiply the result by a fraction, the numerator of which is the number of days in the year through the date of the termination, and the denominator of which is the total number of days in the year (or, if the entire trust was terminated during the year, the total number of days the trust was in existence during the year).

If there is more than one termination during the year, you must reduce the total expense used in the allocation by the expense allocated to the prior terminations. For example, assume that the total administrative expense for the year was \$1,000 and \$300 was allocated to the first termination. The expense allocated to the second termination would be a percentage of \$700, not of the entire \$1,000.

Schedule B(2).—Report here only those expenses related solely to the interest that has terminated. Examples of these expenses are property tax on real estate, the cost of selling property, or attorney's fees for defending the title to property

Column a.—Assign an item number to each separate expense. This will not necessarily correspond with the item numbers on Schedule A.

Column b.—List the names and addresses of persons to whom the expenses are payable and describe the nature of the expense. List the item number(s) from Schedule A to which the expense pertains.

Column c.—If the expense relates to more property than that involved in the termination but less than the entire trust, enter in column c only the amount attributable to the property involved in the termination. Determine this amount by multiplying the total expense times a fraction. The numerator of the fraction is the value of the property involved in the termination and to which the expense pertains. The denominator is the total value of the property to which the expense pertains.

Schedule A.—Lines 5–13

Line 7.—Inclusion Ratio.—The trustee must calculate and provide the inclusion ratio for every termination. All terminations, or any parts of a single termination, that have different inclusion ratios must be shown on separate Schedules A. Also, identify the separate trusts by Schedule A number (#) when showing your inclusion ratio calculation.

In General.—The inclusion ratio is the excess of 1 over the “applicable fraction” determined for the trust from which the termination was made.

Applicable Fraction.—The applicable fraction is a fraction, the numerator of which is the amount of the GST exemption. The denominator of the fraction is:

1. The value of the property transferred to the trust, less
2. The sum of:
 - a. any Federal estate tax or state death tax actually recovered from the trust attributable to the property, and
 - b. any charitable deduction allowed under section 2055 or 2522 with respect to the property.

Numerator.—GST Exemption.—Every individual settlor is allowed a lifetime GST exemption of \$1,000,000 against property which the individual has transferred. The exemption may be allocated by the

individual settlor to inter vivos transfers or by an executor to transfers made by will. Once made, allocations are irrevocable.

Denominator —Valuation of trust assets.—In general, for an inter vivos transfer you should use the gift tax value in the denominator of the applicable fraction as long as the allocation of the \$1,000,000 exemption was made on a timely filed gift tax return or was deemed made under section 2632(b)(1).

If the allocation of the exemption to an inter vivos transfer is not made on a timely filed gift tax return and is not deemed made under section 2632(b)(1), the value for purposes of the applicable fraction is the value of the property transferred at the time the allocation under section 2632(a) is filed with IRS.

The value of a testamentary transfer is generally the estate tax value.

For qualified terminable interest property (QTIP) which is included in the estate of the surviving spouse of the settlor because of section 2044, if the surviving spouse is considered the transferor under section 2652(a) for GST purposes, the value is the estate tax value in the estate of the surviving spouse.

A special QTIP election allows property for which a QTIP election was made for estate or gift tax purposes to be treated for GST tax purposes as if the QTIP election had not been made. If the special QTIP election has been made, the predeceased settlor spouse is the transferor and the value is that spouse's estate or gift tax value under the rules described above. The settlor spouse or the executor of the predeceased settlor spouse's estate must have made the special QTIP election.

Multiple Transfers.—When a transfer is made to a pre-existing trust, the applicable fraction must be recomputed. The numerator of the new fraction is the sum of:

1. The exemption allocated to the current transfer and
2. The nontax portion of the trust immediately before the current transfer (the product of the applicable fraction and the value of all of the property in the trust immediately before the current transfer).

The denominator of the new fraction is the sum of:

1. The value of the current transfer (less any Federal estate tax or state death tax actually paid by the trust attributable to such property and any charitable deduction allowed with respect to such property), and

2. The value (determined under the rules described above) of all property in the trust immediately before the current transfer

Charitable Lead Annuity Trusts.—For terminations of interests in a charitable lead annuity trust after October 13, 1987 the numerator of the applicable fraction is the ‘adjusted GST exemption’ as defined below. The denominator is the value of the trust immediately after the termination of the charitable lead annuity interest. The ‘adjusted GST Exemption’ is the sum of:

1. The exemption allocated to the trust, and
2. Interest on the exemption determined at the interest rate used to figure the estate or gift deduction for the charitable lead annuity and for the actual period of the charitable lead annuity

Nontaxable Gifts.—In general, a direct skip which is not taxable as a gift by reason of section 2503(b) (the \$10,000 annual exclusion) or because it is a qualified medical or educational gift as defined in section 2503(e) has an inclusion ratio of zero. If such a transfer is to a trust for the benefit of an individual, however, the inclusion ratio will be zero only if the trust meets the following requirements:

1. During the life of the beneficiary, none of the corpus or income of the trust may be distributed to (or for the benefit of) anyone other than that individual, and
2. If the individual dies before the trust is terminated, the trust assets will be included in the gross estate of that individual.

Line 10.—If the taxable termination occurs at the same time as and as a result of the death of an individual, you are entitled to a credit for any generation-skipping transfer tax paid to a state in regard to any property which is also included in the termination(s) reported on this form. Enter on line 10 the total state GST tax, if any, which meets these requirements.

Line 11.—The credit for state GST taxes cannot exceed 5% of the gross GST tax.

Part III

Line 9b.—If you have more than 6 Schedules A attached to this form, enter on the line indicated the total net GST tax from all Schedules A in excess of 6.