

# Instructions for Form 706-NA

(Rev. January 2003)

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

Estate of nonresident not a citizen of the United States  
(To be filed for decedents dying after December 31, 2001.)

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



Department of the Treasury  
Internal Revenue Service

**Form 706.** In order to complete this return, you must obtain **Form 706**, United States Estate (and Generation-Skipping Transfer) Tax Return, and its separate instructions. You must attach schedules from Form 706 if you intend to claim a marital deduction, a charitable deduction, a qualified conservation easement exclusion or a credit for tax on prior transfers, or if you answer "Yes" to question 5, 7, 8, 9, or 11 in Part III. You will need the instructions to Form 706 to explain how to value stocks and bonds. Make sure that you obtain the revision of Form 706 that is applicable for the date of the decedent's death.

## General Instructions

### Purpose of Form

Form 706-NA is used to compute estate and generation-skipping transfer (GST) tax liability for nonresident alien decedents. The estate tax is imposed on the transfer of the decedent's taxable estate rather than on the receipt of any part of it.

**TIP** For information about transfer certificates for U.S. assets, write to the Internal Revenue Service, Estate Tax Group, S:C:15:T1, 950 L'Enfant Plaza, SW, Washington, DC 20024.

### Definitions

The following terms are used often in these instructions:

- The **United States** means the 50 states and the District of Columbia.
- A **nonresident alien decedent** means a decedent who is neither domiciled in nor a citizen of the United States at the time of death. For purposes of this form, a citizen of a U.S. possession is **not** a U.S. citizen.
- A **U.S. expatriate** generally is one who lost U.S. citizenship within 10 years before the date of death, and for whom a principle purpose in doing so was to avoid U.S. taxes. This also applies to certain long-term residents (as defined in section 877(e)) of the United States who lost residency on or

after February 6, 1995. If the decedent's average annual net income tax liability or net worth exceeds certain limits, the decedent is presumed to have a principle purpose of avoiding U.S. taxes (section 877(a)). The executor has the burden of proving otherwise. Be sure to see the instructions for and then to answer Question 6 of Part III.

### Who Must File

The executor must file Form 706-NA if the date of death value of the decedent's gross estate located in the United States under Internal Revenue Code situs rules exceeds the filing limit. The filing limit is \$60,000 reduced by the sum of: **(1)** the gift tax specific exemption (section 2521) allowed with respect to gifts made between September 9, 1976, and December 31, 1976, inclusive, and **(2)** the total taxable gifts made after December 1976, that are not included in the gross estate.

The **executor** is the personal representative, executor, executrix, administrator, or administratrix of the deceased person's estate. If no executor is appointed, qualified, and acting in the United States, every person in actual or constructive possession of any of the decedent's property must file a return. If more than one person must file, it is preferable that they join in filing one complete return. Otherwise, each must file as complete a return as possible, including a full description of the property and each person's name who holds an interest in it.

### When To File

File Form 706-NA within 9 months after the date of death unless an extension of time to file was granted. In that case, attach a copy of the approved **Form 4768**, Application for Extension of Time To File a Return and/or Pay U.S. Estate (and Generation-Skipping Transfer) Tax.

### Where To File

Form 706-NA **must** be filed at the Internal Revenue Service Center, Philadelphia, PA 19255.

### Penalties

The law provides for penalties for both late filing of returns and late payment of tax unless there is reasonable cause for the delay. There are also penalties for valuation understatements that cause an underpayment of tax and for a willful attempt to evade or defeat payment of tax.

### Death Tax Treaties

Death tax treaties are in effect with the following countries:

Australia	Italy
Austria	Japan
Canada*	Netherlands
Denmark	Norway
Finland	Republic of South Africa
France	Sweden
Germany	Switzerland
Greece	United Kingdom
Ireland	

\*Article XXIX B of the United States—Canada Income Tax Treaty

If you are reporting any items on this return based on the provisions of a death tax treaty or protocol, 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.

## Specific Instructions

### Attachments

If the decedent died testate, attach a certified copy of the will to Form 706-NA. If you are unable to obtain a certified copy, attach a copy of the will and explain why it could not be certified.

For closely held or inactive corporate stock, attach the balance sheets, particularly the one nearest the valuation date, and statements of the net earnings or operating results and

dividends paid for each of the 5 preceding years. Attach any other documents, such as appraisal lists, needed for explanation. Also attach copies of all available U.S. gift tax returns the decedent filed. Other documents may be required as explained in these instructions.

Attach an English translation to all documents in other languages.

## How To Complete Form 706-NA

First, enter the decedent's name and the other information called for in Part I. Then answer all of the questions in Part III.

The estate tax is imposed on the decedent's gross estate in the United States, reduced by allowable deductions. Compute the gross estate in the United States on Schedule A. Reduce the Schedule A total by the allowable deductions to derive the taxable estate on Schedule B, and figure the tax due using the Tax Computation schedule (Part II).

### Part III—General Information

**Question 6a.** If you answer "Yes," please attach a statement listing the citizenship of the decedent's parents; whether the decedent became a U.S. citizen through a naturalization proceeding in the United States; and when the decedent lost U.S. citizenship or residency.

**Question 6b.** If you answer "Yes," but maintain that avoiding U.S. taxes was not a principle purpose for the decedent's loss of citizenship or residency, attach documents to sustain your position. See **Definitions** on page 1.

**Question 9.** A general power of appointment means any power of appointment exercisable in favor of the decedent, the decedent's estate, the decedent's creditors, or the creditors of the decedent's estate, and includes the right of a beneficiary to appropriate or consume the principal of a trust. For a complete definition, see section 2041.

### Schedule A

Before you complete Schedule A, you must determine what assets are included in the decedent's entire gross estate, wherever located. However, list on Schedule A only those assets included in the entire gross estate that are located in the United States. (Enter the total value of assets located outside the United States on line 2 of Schedule B.)

The "entire gross estate" is figured the same way for a nonresident alien decedent as for a U.S. citizen or resident. It consists of all property the

decedent beneficially owned, wherever located, and includes the following property interests:

1. Generally, the full value of property the decedent owned at the time of death as a joint tenant with right of survivorship (but if the surviving spouse is a U.S. citizen, then only half the value of property held by the decedent and surviving spouse either as joint tenants with right of survivorship or as tenants by the entirety). For exceptions, see the instructions on the reverse side of Schedule E, Form 706.

2. Property the decedent and a surviving spouse owned as community property to the extent of the decedent's interest in the property under applicable state, possession, or foreign law.

3. A surviving spouse's dower or curtesy interest and all substitute interests created by statute.

4. Proceeds of insurance on the decedent's life, generally including proceeds receivable by beneficiaries other than the estate.

5. Several kinds of transfers the decedent made before death.

6. Property in which the decedent either held a general power of appointment at the time of death, or used or released this power in certain ways before death.

7. Certain annuities to surviving beneficiaries.

For additional information concerning joint tenancies, tenancies by the entirety, annuities, life insurance, transfers during life, and powers of appointment, see the Instructions for Form 706.

**Enter on Schedule A all of the assets that meet both the following tests:**

- They are included in the "entire gross estate" and
- They are located in the United States.

Unless a treaty provides otherwise (see **Death Tax Treaties** on page 1) use the following rules to determine whether assets are located in the United States:

1. Real estate and tangible personal property are located in the United States if they are physically located there. An exception is made for works of art imported into the United States solely for public exhibition.

2. No matter where stock certificates are physically located, stock of corporations organized in or under U.S. law is property located in the United States, and all other corporate stock is property located outside the United States.

3. Proceeds of insurance policies on the decedent's life are property located outside the United States.

4. Debt obligations are generally property located in the United States if they are debts of a U.S. citizen or resident, a domestic partnership or corporation, a domestic estate or trust, the United States, a state or state's political subdivision, or the District of Columbia.

5. The following debt obligations are generally treated as located outside the United States:

a. Debt obligations (whether registered or unregistered) issued after July 18, 1984, if the interest on them would be eligible for the exemption from tax under section 871(h)(1) were such interest received by the decedent at the time of his death. However, if the debt earns contingent interest, some or all of it may be considered property located in the United States (section 2105(b)).

b. A debt obligation of a domestic corporation if the interest from it (had it been received at the time of death) would have been treated as income from outside the United States because the corporation derived less than 20% of its gross income from sources in the United States during its 3 tax years before the decedent's death (section 861(a)(1)(A)).

c. Certain short-term original issue discount debt obligations. See section 2105(b)(4) for details.

6. The following deposits are treated as located outside the United States *if they are not effectively connected with conducting a trade or business within the United States:*

a. A deposit with a U.S. bank or a U.S. banking branch of a foreign corporation.

b. A deposit or withdrawable account with a savings and loan association chartered and supervised under Federal or state law.

c. An amount held by a U.S. insurance company under an agreement to pay interest.

d. A deposit in a foreign branch of a U.S. bank.

If an asset is included in the total gross estate because the decedent owned it at the time of death, apply these location rules as of the date of the decedent's death. However, if an asset is included in the decedent's total gross estate under one of the transfer provisions (sections 2035, 2036, 2037, and 2038), it is treated as located in the United States if it fulfills these rules either at the time of the transfer or at the time of death. For example, if an item of tangible personal property was physically located in the United States on the date of a section 2038 transfer but had been moved outside the United States at the time of the decedent's death, the item would be considered

still located in the United States and should be listed on Schedule A.

Describe the property on Schedule A in enough detail to enable the IRS to identify it. To determine the fair market value of stocks and bonds, use the rules in the instructions for Schedule B of Form 706.

In descriptions of stock, include:

- The corporation's name;
- The number of shares;
- Whether common or preferred (if preferred, what issue);
- The par value (when needed for identification);
- 9-digit CUSIP number; and
- The quotation at which reported.

Give the main exchange for listed stock; for unlisted stock, give the post office address of the main business office of the corporation, the state in which incorporated, and the incorporation date.

In bond descriptions, include:

- The quantity and denomination;
- Obligor's name;
- Maturity date;
- Interest rate;
- Each date when interest is payable;
- 9-digit CUSIP number; and
- Series number (if more than one issue).

Give the exchange where the bond is listed; if it is unlisted, give the corporation's main business office.

If you are required to file Schedule E, G, or H from Form 706, you need not enter the assets reported on those schedules on Schedule A of this Form 706-NA. Instead, attach the schedules to Form 706-NA, in column (b) enter "Total from Schedule \_\_\_\_\_, Form 706," and enter the total values from the attached schedules in either column (d) or (e).

If the decedent was a U.S. expatriate, the decedent is treated as owning a prorated share of the U.S. property held by a foreign corporation in which he or she directly owned at least 10% of the voting stock and, with related interests, controlled over 50% of it (section 2107(b)).

**Property valuation date.** Generally, property must be valued as of the date of death. Columns (c) and (d) do not apply in this case, and you may use the space to expand descriptions from column (b).

However, you may elect to use the alternate valuation date. To make this election, check the "Yes" box at the beginning of Schedule A. If you do so, the election applies to all property, and you will need to complete each column in Schedule A. Under this election, any property distributed, sold, exchanged, or otherwise disposed of within 6 months after the decedent's death is

valued as of the date of the disposition. Any property not disposed of during that period is valued as of the date 6 months after the decedent's death.

You may not elect alternate valuation unless the election will decrease both the value of the gross estate and the net estate tax due after application of all allowable credits.

### **Qualified Conservation Easement Exclusion**

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 attaching Schedule U of Form 706 with all the required information. To elect the exclusion, you must include on Schedule A:

1. The decedent's interest in the land that is subject to the exclusion, **and**
2. Exclude the applicable value of the land (amount from line 21, Schedule U) that is subject to the easement on Schedule A.

You must make the election on a timely filed Form 706-NA, including extensions. For more information, see the Instructions for Form 706.

### **Canadian Small Estate Relief**

If you are claiming a small estate exemption (worldwide estate of a Canadian resident decedent not more than \$1.2 million) from tax on U.S. securities or certain other U.S. situs property, under the 1995 Protocol to the Canadian income tax treaty, do not list the exempt assets on Schedule A. List those assets and their values in a statement attached to the return specifying that you are relying on the treaty. To determine initially whether the small estate exemption applies, however, you must include the exempt assets in the value of the entire gross estate wherever located on lines 2 and 3 of Schedule B.

### **Schedule B**

**For the line 5 deduction to be allowed, you must complete lines 1-4 and document the amounts you include on lines 2 and 4.**

To document the line 2 amount, attach a certified copy of the foreign death tax return; or if none was filed, a certified copy of the estate inventory and the schedule of debts and charges that were filed with the foreign probate court or as part of the estate's administration proceedings. Supplement these documents with attachments if they do not set forth the entire gross estate outside the United States. If more proof is needed, you will be notified.

To support the line 4 amount, attach an itemized schedule. For each expense or claim, specify the nature and amount and give the creditor's name. Describe other deductions fully and identify any particular property to which they relate.

**Line 2.** The amount on line 2 is the total value of the assets included in the entire gross estate that were located outside the United States. If you claim deductions on line 5 of Schedule B, you must also document the amount you enter on line 2. See the first paragraph under Schedule B, above. If you elected the alternate valuation date for property listed on Schedule A, use it also for the assets reported on line 2. Otherwise, value the amounts as of the date of death.

**Line 4.** You may deduct the following items whether or not they were incurred or paid in the United States: funeral expenses; administration expenses; claims against the estate; unpaid mortgages and other liens; and uncompensated losses that were incurred during settlement of the estate and that arose from theft or from casualties such as fires, storms, or shipwrecks. You may deduct only that part of a debt or mortgage that was contracted in good faith and for full value in money or money's worth. You may deduct mortgages only if you included the full value of the mortgaged property in the total gross estate on line 3. Do not deduct death taxes, tax on income received after death, or property taxes accrued after death.

On line 4, show the total of these deductible items. In general, the total is limited to the amount on line 3.

**Line 6.** Use line 6 to enter the following deductions:


- **Charitable deduction.** Unless a treaty allows otherwise, you may take a charitable deduction only if the transfer was to a domestic entity or for use in the United States as described in the Instructions for Form 706. Attach Schedule O of Form 706. If you claim the deduction under a treaty, specify the applicable treaty and attach a computation of the deduction.
- **Marital deduction.** Unless a treaty allows otherwise, you may only take a marital deduction if the surviving spouse is a U.S. citizen or if the property passes to a qualified domestic trust (QDOT) described in section 2056A and an election is made on Schedule M of Form 706. Attach Schedule M of Form 706, and a statement showing your computation of the marital deduction.

See section 2518 for the rules governing disclaimers of interests in property.

## Part II—Tax Computation

**Line 4 and Line 5.** To determine the tentative tax on the amount on line 2 and line 3 to be entered on line 4 and line 5, respectively, use Table A in the version of Form 706 that corresponds to the decedent's date of death. For decedents dying after December 31, 2001, and before January 1, 2003, use the August 2002 revision of Form 706.

**Line 7.** Enter the unified credit. The unified credit is allowed for the smaller of the line 6 amount or the maximum unified credit. In general, the maximum unified credit is \$13,000. For a citizen of a U.S. possession (section 2209) the maximum unified credit is the greater of: **(a)** \$13,000, or **(b)** the product of \$46,800 times a fraction. The numerator of the fraction is the part of the gross estate located in the United States (line 1 of Schedule B), and the denominator is the entire gross estate wherever located (line 3 of Schedule B). If the unified credit is affected by a treaty, see section 2102(c)(3)(A). (At the time this form went to print, treaties with Australia, Canada, Finland, Greece, Italy, Japan, Norway, and Switzerland contained provisions to which section 2102(c)(3)(A) applies.)

 *Any amount previously allowed as a unified credit against the gift tax will reduce, dollar for dollar, the unified credit allowed the estate (section 2102(c)(3)(B)).*

**Line 9.** You may take a credit for part of the death or inheritance taxes you paid to a state or the District of Columbia on property listed in Schedule A. Generally, you must claim this credit within 4 years of filing the return.

Figure your allowed credit using a four-step process.

**Step 1.** Using the line 1 amount (reduced by \$60,000), find the credit amount from Table B in the Form 706 instructions.

**Step 2.** Multiply the amount from step 1 by 75% and 25% for decedents dying in 2003 and 2004, respectively).

**Step 3.** Multiply the amount from step 2 by a fraction, the numerator of which is the value of the property you included in Schedule A and on which you paid the state tax, and the denominator of which is the value of all the property you reported in Schedule A.

**Step 4.** Enter on line 9 the smaller of the amount from step 3 or the taxes you actually paid.

For the credit to be allowed, you must file a certificate signed by the appropriate official of the taxing state. The certificate should show the total tax

charged; any discount allowed; any penalties and interest imposed; the tax actually paid; and each payment date. If possible, attach the certificate to this return; otherwise, please file it as soon as possible. See Regulations section 20.2011-1(c)(2) for more information about the certificate.

If you later recover any of the state tax for which you claim this credit, notify the Internal Revenue Service Center, Philadelphia, PA 19255 within 30 days of receiving any refund of state taxes.

**Line 11.** Use line 11 to enter the following credits:

- **Credit for Federal gift taxes.** See sections 2102 and 2012. Attach computation of credit.
- **Canadian marital credit.** In addition to the unified credit, a nonrefundable marital credit may be allowed if all applicable elections are made. The credit amount is generally limited to the lesser of:

1. The unified credit allowed to the estate (before reduction for any gift tax unified credit), or
2. The amount of estate tax that would otherwise be imposed by the United States on the transfer of qualifying property to the surviving spouse.

See the Canadian income tax treaty protocol for details on computing the credit. Also, attach a computation of the credit and on the dotted line to the left of the line 11 entry, write "Canadian marital credit."

**Line 15.** If you answered "Yes" to Question 11 of Part III, you must complete and attach Schedules R and/or R-1 from Form 706.

For the purposes of Form 706-NA, the GST tax is imposed only on transfers of interests in property that are part of the gross estate in the United States. Therefore, when completing Schedules R and/or R-1, you should enter only transfers of interests in property that you listed on Schedule A of Form 706-NA. Otherwise, complete Schedules R and/or R-1 according to their instructions and enter the total GST tax from Schedule R on line 15.

For details, see Regulations section 26.2663-2.

**Lines 17-18.** Attach an explanatory statement if earlier payments were made to the Internal Revenue Service or if payment is made by certain U.S. Treasury bonds that were issued before March 4, 1971, and redeemed at any Federal Reserve bank, the office of the Treasurer of the United States, or the Bureau of Public Debt. For details, see Rev. Proc. 69-18, 1969-2 C.B. 300.

**Line 20.** Pay the balance due within 9 months after the decedent's death unless an extension of time to pay was granted. In that case, attach a copy of the approved Form 4768 to Form 706-NA. Make the check or money order payable to the "United States Treasury" for the face value in U.S. dollars.

**Signature.** Form 706-NA must be signed. Each executor must verify and sign it. If another person prepares Form 706-NA for the executor, the preparer must also sign. The executor may use **Form 2848**, Power of Attorney and Declaration of Representative, to authorize another person to act for him or her before the Internal Revenue Service.

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### 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.

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.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

<b>Recordkeeping</b> . . . . .	1 hr., 38 min.
<b>Learning about the law or the form</b> . . . . .	40 min.
<b>Preparing the form</b> . . . . .	1 hr., 42 min.
<b>Copying, assembling, and sending the form to the IRS</b> . . . . .	34 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send the tax form to this address. Instead, see **Where To File** on page 1.

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