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Title Instructions for Form 706-A, United States Additional Estate Tax Return

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This is the 1st circulation of this product for your review and comments. This circulation can be used to support any necessary work requests.

Authority for changes that may impact a Unified Work Request (UWR) *(For changes, see Description of Major Changes below)*

Signature of Approving Official	Circulation signature date
Patrick Shaughness Digitally signed by Patrick Shaughness DN: c=US, o=U.S. Government, ou=Department of the Treasury, ou=Internal Revenue Service, ou=People, serialNumber= NSWMB, cn=Patrick Shaughness Date: 2016.06.22 10:27:02 -0400	06/22/2016

Description of major changes *(A description of changes to a form's instructions that may impact a UWR is also included, as applicable)*

Update revision year

Add paragraph under What's New about the consistent basis reporting requirement and filing Form 8971.

Comments: Comments are due 30 days after the date this circulation is signed and issued, unless a different date is specified here: ______ Comments should be sent via email to both the Tax Law Specialist and Reviewer listed below. We will accept comments after the due date, but may not be able to consider any comments (timely or not) for this revision if implementing the comments would require a late UWR. If we need to make significant changes based on comments or other new information received, we normally will issue a subsequent circulation of this product; otherwise, these changes are final unless indicated otherwise in the Description of Major Changes.

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Instructions for Form 706-A

(Rev. September 2016)

Department of the Treasury
Internal Revenue Service

United States Additional Estate Tax Return

To report dispositions or cessations of qualified use under section 2032A of the Internal Revenue Code

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

Future Developments

For the latest information about developments related to Form 706 and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/form706*.

What's New

Consistent basis reporting. On July 31, 2015, the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 (Public Law 114-41) was enacted. Section 2004 of the Act requires that certain estates report, both to the IRS and the recipient, the estate tax value of each asset included in the gross estate within 30 days of filing Form 706. Filing Form 706-A may trigger the consistent basis reporting requirement if specially valued assets undergo a taxable event and need to be assigned an estate tax basis equal to the fair market value. It also requires that the basis of certain assets when sold or otherwise disposed of must be consistent with the basis (estate tax value) of the asset when it was received by the beneficiary. Any person required to file Form 706-A may also be required to file Form 8971, Information Regarding Beneficiaries Acquiring Property From a Decedent, to satisfy the new consistent basis reporting requirement. Additional guidance and other information regarding consistent basis reporting are being developed. If you believe the new requirements impact this estate or its beneficiaries, please check www.irs.gov/form706 for additional information.

General Instructions

Purpose of Form

An heir must use Form 706-A to report the additional estate tax imposed by section 2032A(c) for an early disposition of specially valued property or for an early cessation of a qualified use of specially valued property.

The recapture tax is limited to the tax savings attributable to the property actually disposed of (or for which qualified use ceased) rather than to the tax savings attributable to all the specially valued property received by the heir.

Who Must File

The qualified heir must file Form 706-A if there was any taxable event (see *Taxable Events* later) with respect to the specially valued property even if no tax is ultimately due. Further, the qualified heir must file Form 706-A if there was any involuntary conversion or exchange of the specially valued property even if the conversion or exchange is nontaxable.

When To File and Pay

File Form 706-A and pay any additional taxes due within 6 months after the taxable disposition or cessation of the qualified use unless an extension of time has been granted.

Use Form 4768, Application for Extension of Time To File a Return and/or Pay U.S. Estate (and Generation-Skipping Transfer) Taxes, to apply for an automatic extension of time to file. Check the “Form 706-A” box in Part II of Form 4768.

Make the check or money order payable to the “United States Treasury” and write “Form 706-A” and the qualified heir's social security number on the check or money order.

If you are making an election to increase basis, see *Basis* on page 2 for information on paying interest.

Where To File

File Form 706-A at the following address.

Department of the Treasury
Internal Revenue Service Center
Cincinnati, OH 45999

Statute of Limitations

The additional estate tax may be assessed until 3 years after the IRS receives notice that the qualified heir disposed of the specially valued property or ceased to use it for the qualified use.

However, if the property was disposed of in an involuntary conversion or in an exchange, the tax may be assessed up to 3 years after the IRS receives notice that the property was replaced or will not be replaced. See section 2032A(f) for details.

Lien

If the estate elected special-use valuation, section 6324B establishes a special lien against the specially valued property equal to the adjusted tax difference attributable to the special-use valuation.

Penalties

Return preparer. The Small Business and Work Opportunity Tax Act of 2007 (Act) extends the application of return preparer penalties to preparers of estate tax returns. Under section 6694, as amended by the Act, and the transitional relief provided by Notice 2007-54, 2007-27 I.R.B. 12, and the final Regulations contain in Treasury Decision 9436; 2009-1 CB 268, estate tax return preparers, who prepare any return or claim for refund which reflects an understatement of tax liability due to willful or reckless conduct, are subject to a penalty of $5,000 or 50% of the income derived (or income to be derived), whichever is greater, for the preparation of each such return. See section 6694, T.D. 9436; 2009-3 I.R.B. 268, Notice 2008-11, 2008-3 I.R.B. 279; Notice 2008-13, 2008-3 I.R.B. 282; and Notice 2008-46, 2008-18 I.R.B. 868 for more details.

Definitions

Specially valued property. The term “specially valued property” means farm or closely held business property that the executor elected to value at actual use rather than fair market value (FMV) (defined on page 3). The executor makes the election on Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return, filed for the decedent. Specially valued property refers to the qualified real property described in section 2032A and includes qualified real property owned indirectly, such as interests in certain partnerships, corporations, and trusts as described in section 2032A.

If special valuation was elected on Form 706, each qualified heir consented in writing to his or her personal liability for the additional estate tax attributable to his or her interest in the specially valued property.

Qualified heir. The term "qualified heir" means, for any property, a member of the decedent's family who acquired the property (or to whom the property passes) from the decedent. If a qualified heir disposes of any interest in qualified real property to any member of his or her family, that member shall thereafter be treated as the qualified heir for the interest.

Taxable Events

The qualified heir causes a *taxable event* by disposing of any interest in the specially valued property or ceasing to use the specially valued property for its qualified use if:

- The disposition or cessation of qualified use was before the death of the qualified heir and
- The disposition or cessation was within 10 years after the decedent's death. (But see *Two-Year Grace Period—Commencement Date* on page 3.)

Only one additional estate tax will be imposed with respect to any one part of specially valued property. For example, if additional estate tax is imposed for early cessation of a qualified use, a second additional estate tax will not be imposed for a subsequent early disposition of the same part of the specially valued property.

Disposition to family member. A disposition of an interest in property to a family member of the qualified heir is a *taxable event* that must be reported on Form 706-A. If the transferee enters into an agreement to be personally liable for any additional tax under section 2032A(c), the disposition is nontaxable and you should enter it on Schedule C.

If the family member does not enter into the agreement, the disposition is taxable and you should enter it on Schedule A.

Disposition of timber. If the executor made a qualified woodlands election (section 2032A(e)(13)(A)), the disposition or severing of timber from the woodland is a disposition of a portion of the interest in the property. The disposition of a right to sever is treated as a disposition of the standing timber.

The additional estate tax on this disposition is the amount equal to the lesser of:

- The amount realized on the disposition (or, if other than a sale or exchange at arm's length, the FMV of the interest disposed of) or
- The amount of additional estate tax that would have been imposed if the entire interest of the qualified heir in the qualified woodland had been disposed of, minus any additional estate tax imposed on all earlier transactions involving the woodland.

Cessation of qualified use. The specially valued real property must be used as a farm for farming purposes, or used in a trade or business other than the trade or business of farming. For more details, see the Instructions for Form 706.

The qualified use ceases if the specially valued real property is not used for the qualified use described earlier. Use of the property as a farm or other business is also considered to cease if, during any 8-year period that ends after the decedent's death, there were periods totaling more than 3 years during which:

1. Neither the decedent nor any member of the decedent's family materially participated in the operation of the farm or other business (while the decedent held the property) and

2. Neither the qualified heir nor any member of the qualified heir's family materially participated in the operation of the farm or other business (while the heir held the property).

If the decedent was retired or disabled before death, there are special rules for applying the 8-year period to paragraph (1) above. See section 2032A(b)(4) and the Instructions for Form 706.

Member of family. The term "member of the family" includes only:

- An ancestor (parent, grandparent, etc.) of the individual (where individual refers to either the decedent or a qualified heir);
- The spouse of the individual;
- A lineal descendant (child, stepchild, grandchild, etc.) of the individual, the individual's spouse, or a parent of the individual; or
- The spouse, widow, or widower of any lineal descendant described above.

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

Period of material participation. To determine whether the material participation requirement is satisfied, include periods during which the decedent's estate held the property.

If a qualified heir dies before the required period has passed, any material participation requirement ends for that heir's portion of the property, provided the heir received a separate or other undivided interest from the decedent.

If qualified heirs receive successive interests in specially valued property (for example, a life estate and remainder interests), the material participation requirement does not end for any part of the property until the later of the expiration of the recapture period or the death of the last qualified heir.

In determining whether the required participation has occurred, disregard brief periods (30 days or less) during which there was no material participation. But you may disregard these periods only if they were both preceded and followed by substantial periods (more than 120 days) in which there was uninterrupted material participation.

Required activities for material participation. See the Instructions for Form 706.

Basis

See section 1014(a) for the basis of property acquired from a decedent.

Election to increase basis. A qualified heir may elect to increase the basis of specially valued property when a taxable event (as defined on page 1) occurs. If this election is made, the basis of the property shall increase to the excess of the FMV amount on the decedent's date of death (or alternate valuation date, if applicable) over the value amount determined under section 2032A. Once the election is made, it is irrevocable.

To make the election, the qualified heir must:

- Check the box on line 7 of Part I,
- Enter on line 20 of Part II the amount of interest being paid on the additional estate tax due, and

- File with Form 706-A, a statement that:

  a. Contains the name, address, and taxpayer identification number of the qualified heir and of the estate;
  b. Identifies the election as the election under section 1016(c); and
  c. Specifies the property with respect to which the election is made.

A qualified heir who makes this election must pay interest on the additional estate tax calculated from the date that is 9 months after the date of the decedent's death to the date of the payment of the additional estate tax.

Two-Year Grace Period—Commencement Date

For the two years immediately following the date of the decedent's death, the failure by the qualified heir to begin using the property in a qualified use will not be considered a cessation of qualified use and therefore will not trigger the additional estate tax. The date on which the qualified heir begins to use the property in a qualified use is the *commencement date.*

The 10-year recapture period is extended by the period after the decedent's death and before the commencement date.

For example, if the decedent died February 28, 2011, and the commencement date is August 1, 2012, the recapture period would begin August 1, 2012, and end July 31, 2022.

How To Complete Form 706-A

You may file Form 706-A for only one qualified heir. If a disposition, cessation, involuntary conversion, or exchange involves more than one qualified heir, each heir must file a separate Form 706-A.

Complete Form 706-A in this order:

1. Part I,
2. Schedules A and B,
3. Part II,
4. Schedule C.

Note. The qualified heir must sign the return.

Specific Instructions

Valuation

When computing the amounts to enter on Form 706-A, use the same values and estate tax that the executor reported on the Form 706 filed for the decedent. However, if the IRS has completed the audit of the estate tax return, use the agreed values and tax rather than the reported values and tax.

Schedule A. Disposition of Specially Valued Property or Cessation of Qualified Use

On Schedule A, list every specially valued property interest that the qualified heir disposed of or discontinued use of since the date of the decedent's death and for which a Form 706-A has not been previously filed. Do not list any interests that have already been reported on Schedule A or B of a previously filed Form 706-A. In general, do not list property interests disposed of to family members of the qualified heir. These interests should be listed on Schedule C.

Column A. Number and list the property interests in chronological order of disposition or cessation.

Column B. Use the same description in column B that the executor used for the specially valued property on the Form 706 filed for the decedent. Please include in column B the schedule and item number where the specially valued property was reported on the Form 706 filed for the decedent's estate.

Column C. Report in column C the date that the qualified heir disposed of the specially valued property or discontinued the qualified use.

Column D. If the qualified heir disposed of the specially valued property in an arm's length transaction, report in column D the amount realized.

Arm's length transaction. An *arm's length transaction* is a transaction where there is no bargain or gift element for affection or other reasons.

Amount realized. The *amount realized* is the sum of the money received plus the FMV of property (other than money) received. For the real property taxes that must be taken into account, see section 1001(b).

If the qualified heir owned only a part of the specially valued property, report in column D the *pro rata* share of the amount realized that is allocable to the part owned by the qualified heir.

If the specially valued property is disposed of by the qualified heir in other than an arm's length transaction, or if the qualified use is discontinued by the qualified heir, report in column D the FMV of the specially valued property as of the date of disposition or cessation of qualified use.

Fair market value. *Fair market value* (FMV) is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.

For additional information and examples, see Regulations section 20.2031-1(b). If the qualified heir owned only a part of the specially valued property, report in column D the *pro rata* share of the FMV allocable to the part owned by the qualified heir.

Column E. Report in column E the special-use value at the date of the decedent's death (or alternate valuation date) of the specially valued property that passed from the decedent to the qualified heir who disposed of the property or discontinued the qualified use. Use the same special-use value that the executor reported on the Form 706 filed for the decedent's estate. If the IRS has completed the audit of the estate tax return, use the agreed value rather than the reported value. If the qualified heir owned only a part of the specially valued property, report in column E the *pro rata* share of the special-use value allocable to the part owned by the qualified heir.

Schedule B. Involuntary Conversions or Exchanges

Involuntary conversions of qualified real property (under the rules of section 1033) and exchanges of qualified real property (under the rules of section 1031) are treated similarly when computing the additional estate tax on Form 706-A.

The rules later apply to all qualified heirs, whether or not they made an election, for involuntary conversions and exchanges occurring after 1981.

If you are reporting an involuntary conversion or exchange, you may not use the same Form 706-A to report any cessations or other dispositions that are not involuntary conversions or exchanges. Use a separate Form 706-A for the cessations or other dispositions.

You may report conversions and exchanges together on the same return.

Nontaxable Involuntary Conversions or Exchanges

If the qualified heir reinvests all of the involuntary conversion proceeds in qualified replacement property or if the qualified heir exchanges qualified real property solely for qualified exchange property, then there is no additional estate tax.

You should complete Form 706-A, even though there is no tax, to notify the IRS that the involuntary conversion or exchange took place. However, you must complete only Part I, Schedule B, and Schedule A. Write "nontaxable" on line 19 of Part II.

Partially Taxable Involuntary Conversions or Exchanges

If the cost of the qualified replacement property is less than the amount realized in the involuntary conversion or if other property in addition to qualified exchange property is received in the exchange, the conversion or exchange is partially taxable. You should complete all of Form 706-A and determine the tax using Part II.

List on Schedule A all specially valued property that the qualified heir disposed of or discontinued use of, regardless of whether he or she received replacement or exchange property for it. List on Schedule B only the replacement or exchange property the qualified heir actually received.

Qualified Replacement or Exchange Property

Qualified replacement property means any real property that is to be used for the qualified use and that:

- Was acquired in an exchange that qualified under section 1031,
- Was purchased by the qualified heir within the time specified by section 1033 to replace the qualified property, or
- Is real property into which the qualified real property has been converted.

Qualified exchange property means any real property that is to be used for the same qualified use that the property for which it was exchanged was used.

The period of the decedent's or family member's ownership, qualified use, or material participation with respect to replaced or exchanged property is treated as the period of ownership, qualified use, or material participation with respect to the qualified replacement or exchange property. This applies only to that part of the FMV of the replacement or exchange property (at the date of acquisition) that does not exceed the FMV of the replaced or exchanged property (at the date of disposition).

Note. The 10-year recapture period is extended under certain circumstances. See *Two-Year Grace Period—Commencement Date* earlier.

How To Complete Schedule B

Column A. Make one entry for each item of qualified replacement or exchange property.

Column B. Describe the qualified replacement property with enough detail so that the IRS can locate and value it. For more information, see the instructions to Schedule A of Form 706.

Column C. For an involuntary conversion, enter the cost of the replacement property. For an exchange, enter the FMV of the replacement property.

Part II—Tax Computation

Line 2

Enter the total value at the estate tax valuation date of all specially valued property that the executor elected, on the Form 706 filed for the decedent's estate, to value at actual use rather than FMV.

Line 3a

Enter the amount of the estate tax for the decedent's estate that is recomputed using FMV at the estate tax valuation date rather than actual use value. Attach a schedule showing the recomputed estate tax.

Schedule C. Dispositions to Family Members of the Qualified Heir

Agreement by transferee. You may enter a disposition to a family member of the qualified heir on Schedule C only if you file this Form 706-A on time (including extensions) and attach an agreement by the transferee to be personally liable for any additional estate tax under section 2032A(c) on the interest received. For a format of the agreement, see Form 706, Schedule A-1.

If you are not filing this Form 706-A on time, or if the transferee does not enter into the agreement, you must enter the disposition(s) on Schedule A instead of Schedule C.

How To Complete Schedule C

See the instructions for completing columns A, B, and C of Schedule A on page 3.

Signature(s)

Form 706-A must be signed. The taxpayer (or person filing on his or her behalf) must verify and sign the declaration on page 1 under penalties of perjury. The taxpayer 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.

Generally, anyone who is paid to prepare the return must sign the return in the space provided and fill in the *Paid Preparer's Use Only* area. See section 7701(a)(36)(B) for exceptions.

In addition to signing and completing the required information, the paid preparer must give a copy of the completed return to the taxpayer.

Note. A paid preparer may sign original or amended returns by rubber stamp, mechanical device, or computer software program.

Paid Preparer Authorization

If the organization wants to allow the IRS to discuss its 2013 tax return with the paid preparer who signed it, check the "Yes" box in the signature area of the return. This authorization applies only to the individual whose signature appears in the Paid Preparer Use Only section of the return. It does not apply to the firm, if any, shown in that section. If the "Yes" box is checked, the organization is authorizing the IRS to call the paid preparer to answer any questions that may arise during the processing of its return. The organization is also authorizing the paid preparer to:

- Give the IRS any information that is missing from its return,
- Call the IRS for information about the processing of its return or the status of any refund or payment(s), and
- Respond to certain IRS notices that the organization may have shared with the preparer about math errors, offsets, and return preparation.

The notices will not be sent to the preparer. The organization is not authorizing the paid preparer to receive any refund check, bind the organization to anything (including any additional tax liability), or otherwise represent it before the IRS. If the organization wants to expand the paid preparer's authorization, see Pub. 947, Practice Before the IRS and Power of Attorney. However, the authorization will automatically end no later than the due date (excluding extensions) for filing the 2013 tax return. If you want to revoke the authorization before it ends, see Pub. 947.

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. We need it to figure and collect the right amount of tax. Subtitle B, Estate and Gift Taxes, of the Internal Revenue Code, imposes a tax in some cases on qualified heirs who dispose of property valued under special valuation rules. This form is used to determine the amount of the taxes that you owe. Section 6011 requires you to provide the requested information if the tax is applicable to you. Section 6109 requires you to provide your identifying number.

Generally, tax returns and return information are confidential, as required by section 6103. However, section 6103 allows or requires the Internal Revenue Service to disclose or give such information shown on your Form 706-A to the Department of Justice to enforce the tax laws, both civil and criminal, and to cities, states, the District of Columbia, U.S. commonwealths or possessions, and certain foreign governments for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism. If you fail to provide this information in a timely manner, you may be subject to penalties and interest.

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.

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

Recordkeeping	3 hr., 17 min.
Learning about the law or the form	2 hr., 11 min.
Preparing the form	1 hr., 39 min.
Copying, assembling, and sending the form to the IRS	1 hr., 3 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 send your comments 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 office. Instead, see *Where To File*.