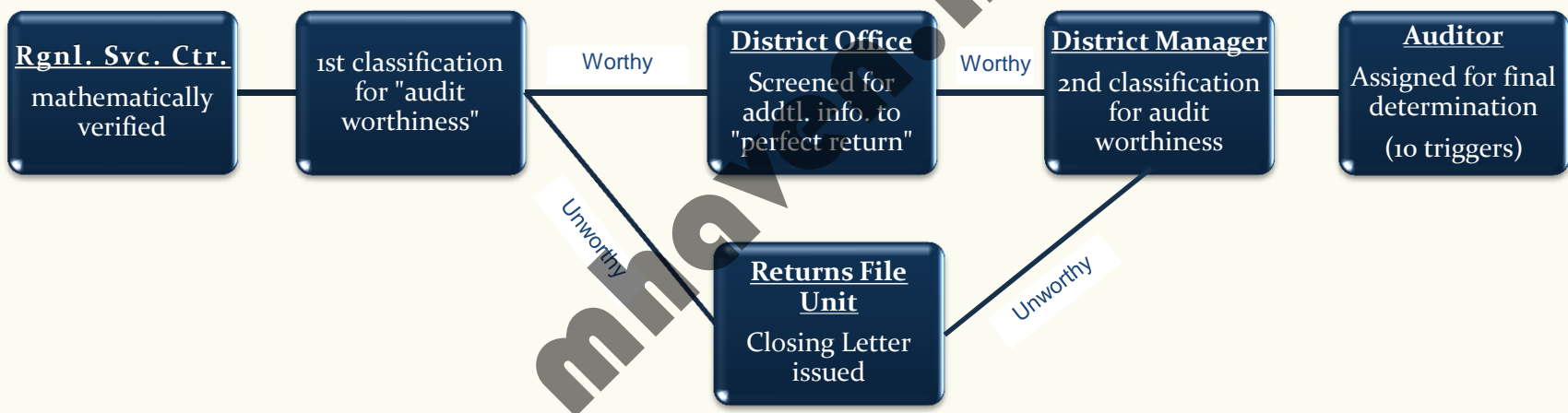




Form 706: A Detailed Look at the Schedules

© Monica Haven, EA, JD, LLM

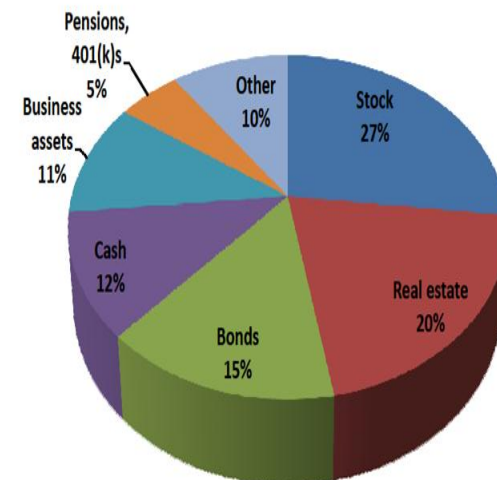
Classification of Estate Tax Returns



Top Ten Audit Triggers

10. Special use valuation
9. Alternate valuation
8. Marital deduction
7. Deathbed transfers
6. Missing (?) personal property
5. Joint assets
4. Excluded life insurance
3. Closely-held stock
2. Real estate holdings
1. **SIZE MATTERS!**

Assets as Percentage of Gross Estate (2010)



Audit Stats (2010 Returns)

Size of Gross Estate	Total Returns Filed	Returns Examined (%)	Returns Changed (%)	Average Addtl. Tax (\$)
< \$5 million	15,685	12.5	80	110,539
\$5 – 10 million	4,738	24.9	83	611,081
> \$5 million	2,591	40.3	83	573,950
	23,014	18.2	82	367,012

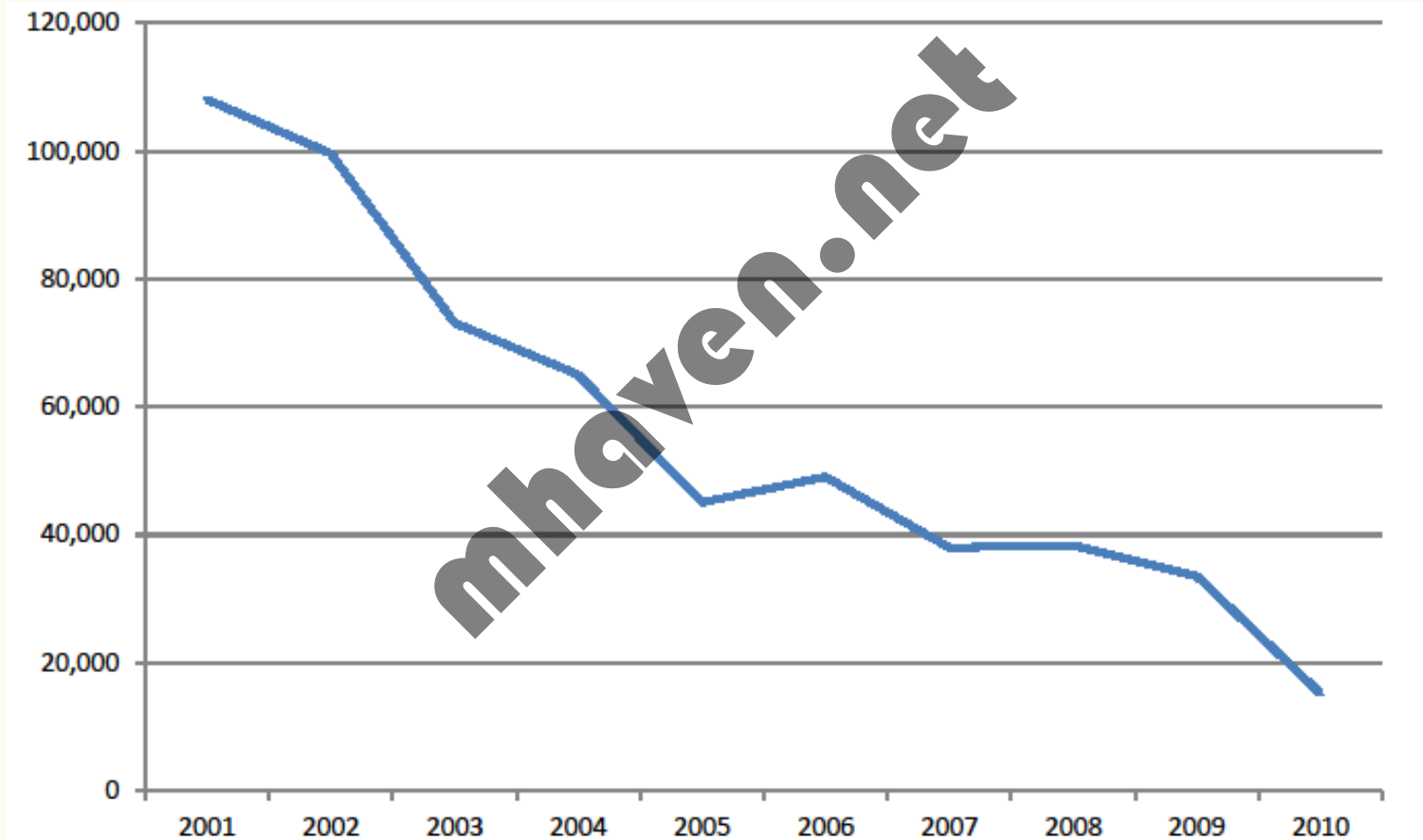


Audit Stats (2009 Returns)

Size of Gross Estate	Total Returns Filed	Returns Examined (%)	Returns Changed (%)	Average Addtl. Tax (\$)
< \$5 million	33,803	6.5	82	91,036
\$5 – 10 million	5,550	20.8	83	397,240
> \$5 million	3,013	30.8	86	804,067
	42,366	10.1	83	327,755



Estate Tax Returns Filed 2001 - 2010



The Bad News

- Audit rate will increase as fewer returns are filed due to rising estate tax exemption
- Number of auditors expected to remain constant at about 270
- “The odds that a taxable estate tax return will be audited are rising to almost 100%”

(available at <http://www.abramslaw.com>)



Gross Estate

Everything owned by decedent regardless of where situated, including:

- Cash & investments
- Retirement assets
- Tax-exempt assets
- Business assets
- Real and personal property
- Probate assets
- Jointly-held assets
- Non-taxable assets exempt from taxation under marital or charitable deductions
- Life insurance and annuities
- ½ of community property
- Previously transferred assets (?)



Estate Tax Return (Form 706) required if...

- Decedent's estate > Applicable Exclusion
 - \$5 million in 2011
 - \$5.12 million in 2012
 - \$1 million in 2013 (?)
- Exclusion is applied to individual (Husband & Wife must file separately)
- Exclusion is portable in 2011 & 2012 only



File 706 even if not required

- To obtain a closing letter from the IRS
- To establish cost basis for the surviving heirs
- To preclude claims by disgruntled heirs

mindovernet



Qualified Domestic Trust

- Marital deduction disallowed for transfer of estate to non-citizen spouse unless transferred in trust
 - Irrevocable election made on decedent's 706
 - All trust income must be paid out annually
 - Trustee must pay all tax due
 - Trustee must be US citizen or domestic bank
- 706 due April 15th of the calendar year following the date of distribution



Filing Requirements

- Due 9 months after Date of Death (DOD)
- Use Form 4768 to extend filing (not payment) 6 months
- Extensions to pay available for:
 - Reasonable cause (interest will accrue)
 - Pay over 10 years if >35% of estate in closely-held business or farm

(Interest = personal interest *not* deductible in 1041, but can be claimed as administration expense on Form 706)



Statute of Limitations

- 3 years; use Form 4810 to shorten SOL to 18 months
- Penalties: 20% for “substantial” valuation misstatements; 40% for “gross” misstatements
- Personal rep. may make written application to be released from liability of estate tax (use Form 5495 for release of liability from income and gift tax)



Estate Tax Calculation

Estate Tax	
Gross Estate	
- Allowable Deductions	
Tentative Taxable Estate	
+ Adjusted Taxable Gifts	
Tentative Tax Base	
x Tax Rate	
Tentative Tax	
- Gift Tax Paid	
Gross Estate Tax	
- Maximum Unified Credit	
Net Estate Tax Due	



Exempt Assets

- Do not include assets not yet received by decedent if there is no guarantee of payment (e.g. wage dividend paid to widow)
- Wrongful death recoveries (e.g. family sues drunk driver after DOD)
- Social Security or VA survivor benefits
- Workman's compensation



Income in Respect of Decedent (IRD)

- Income earned but not yet received by decedent
- Taxable to estate or beneficiary
 - Legal Enforceability Test: could decedent have enforced his right to income?
 - Economic Activities Test: have all requisite events to create income occurred?
- Examples: Deferred compensation, retirement plan distributions, annuity payments in excess of basis



Example of IRD

- Accrued but as-yet unreported interest income may be reported as:
 - Income on decedent's 1040, or
 - IRD on 1041, or
 - Income on beneficiary's 1040
- Accelerate income if decedent's marginal rate < estate's or decedent has offsetting deductions



Estate Tax Deduction (ETD)

- IRD is claimed as income on Form 1041 *and* as asset on 706
- To avoid double taxation, estate tax paid on IRD (Form 706) may be claimed as deductible expense allocated to fiduciary (Form 1041) or beneficiary (Form 1040) or both
- ETD associated with ordinary income deducted as miscellaneous itemized deduction *not* subject to the 2% AGI; ETD associated with capital gains is netted against fiduciary's beneficiaries' capital gain income
- There is no ETD if: no 706 required, no 706 liability, no net IRD



Allowable Deductions

- State Death Taxes [credit replaced with deduction in 2005]
- Expenses, if reasonable & necessary under federal & state law
 - Commission & fees
 - Non-recourse debt [assets are reported net of debt if recourse]



Deductions in Respect of Decedent (DRD)

- Decedent would have been entitled to these deductions if still alive
- Includes most Schedule A deductions that decedent would have claimed on his 1040, except:
 - Credit card charges (considered paid when charged) & checks written before DOD (if *sufficient* funds)
 - Medical expenses
 - Alimony payments
- Depreciation is *not* DRD; depletion *is* DRD
- Capital, passive & NOL carry-forwards are *not* DRD



Unified Credit

- Applicable Exclusion reduces size of taxable estate
- Unified Credit reduces tax liability due
- Based on current applicable tax rates:
 - \$5 million exclusion = \$1,730,800 credit
 - \$5.12 million exclsn = \$1,772,800 credit



Sample Calculation

- Decedent dies in early 2011
- His estate valued at \$6 million on DOD (no deductions)
- He previously made \$1.5M taxable gifts (2002 – 2005)

STEP 1

555,800	Gift Tax Liability On Previous Gifts
– <u>345,800</u>	Lifetime Credit Available In 2002 – 2005
210,000	Gift Tax Previously Paid [see Step 3]



Sample Calculation (cont'd.)

STEP 2

6,000,000	Gross Estate
- <u> 0</u>	Deductions
6,000,000	Taxable Estate
+ <u>1,000,000</u>	Previously-made Taxable Gifts
7,500,000	Tax Base



Sample Calculation (cont'd.)

STEP 3

2,605,800	Tentative Estate Tax Liability
- <u>1,730,800</u>	Applicable Credit
875,000	Tentative Tax
- <u>210,000</u>	Gift Tax Previously Paid [see Step 1]
<u>665,000</u>	Estate Tax Due



Tax Rates (2012)

Taxable Amount (\$)	Marginal Tax Rate (%)
0 – 10,000	18
10,001 – 20,000	20
20,001 – 40,000	22
40,001 – 60,000	24
60,001 – 80,000	26
80,001 – 100,000	28
100,001 – 150,000	30
150,001 – 250,000	32
250,001 – 500,000	34
> 500,000	35

The maximum tax rate will be automatically increased to 55% if current legislation is not extended.



Date of Valuation

- General Rule: Use DOD
- May use Alternate Valuation Date (AVD) if:
 - Valuation on AVD \leq Valuation of DOD and
 - Decrease estate tax liability
- Cannot use if 706 not filed or no estate tax due



AVD Rules

- Use value on date of disposition if sold or exchanged within 6 months after DOD – “disposition” does not include transfer of title to surviving spouse or beneficiary.
- Use Fair Market Value (FMV) on AVD for all remaining assets, except remainder and reversionary interests (must use DOD)
- Do not include interest earned after DOD but before AVD



Valuations

- Use FMV (willing buyer & willing seller agree at arm's length) if available
- Otherwise, follow IRS guidelines:
 - Automobiles: use retail (not trade-in) value
 - Household Items: Inventory on room-by-room basis and list individually if value > \$100
 - Uncashed checks: Excludable if written to charity; includable if written to individual
 - Publicly-traded securities: Average of high and low prices on DOD (use Friday + Monday average if weekend death)
 - Mutual funds: NAV on DOD (use prior day if weekend death)



Special Valuations

- Business interests: Consider following factors:
 - Company net worth, prospective earning power, dividend-paying capacity, goodwill
 - Industry's economic outlook
 - Value of comparable securities
 - Apply discount for minority interest or illiquidity
- Real property: May value based on *current* (not *best*) use if family farm for 5 of 8 years prior to DOD & for 10 years after DOD; and asset \geq 25% of gross estate



Appraisals

- “Qualified” if:
 - Prepared within 60 days of date of contribution
 - Signed by qualified appraiser [see below]
 - Contains: Description & condition of property; (expected) date of contribution; terms of use, sale or disposition of property; method, basis & justification used; fee arrangement, etc.
- Qualified Appraiser is:
 - Individual who holds himself out to public or performs appraisals on regular basis
 - Has expertise
 - Is not excluded individual (associated with donor or donee)
 - Does not charge prohibited fee (based on % of appraised value)
 - Is subject to penalties



Beneficiary's Basis

- Heir receives stepped-up (-down) basis equal to FMV on DOD (AVD0; if 706 is not filed, basis equals FMV on DOD)
- $\frac{1}{2}$ step-up for joint assets; full step-up for community property (even though only $\frac{1}{2}$ of FMV included on 706)
- No step-up for IRD, annuity payments, excludable life insurance proceeds, or property gifted to decedent within 1 year before death with reversion to donee at death



The 2010 Exception

- Applicable exclusion was unlimited; so no estate tax due & no basis step-up
- Beneficiary inherited decedent's basis, holding period & capital gain exposure
- Fiduciary could use Form 8939 to allocate up to \$1.3 million to heir's basis & additional \$3 million to surviving spouse or qualified terminable interest property (QTIP)
- 2010 Tax Relief Act offered retroactive option to treat estate under 2011 rules (with \$5 million exclusion & basis step-up)





Preparing the Return

- Avoid deficient appraisals
 - Must thoroughly substantiate valuation discounts
 - Must be clear & understandable
 - No arithmetic errors
- Include all supporting documentation
- Make it look good
 - Easy to read (spiral-bound, table of contents, lots of tabs)
 - No typos
 - Professional appearance





Schedule A Real Estate

- 3 years before death (§ 2035)
- Retained Life Estate (§ 2036)
- Transfers Effective at Death (§ 2037)
- Life Insurance (§ 2038)

Form 706 (Rev. 8-2011)

Powers of Appointment

Decedent's social security number

Estate of:

SCHEDULE A – Real Estate

- For jointly owned property that must be disclosed on Schedule E, see instructions.
- Real estate that is part of a sole proprietorship should be shown on Schedule F.
- Real estate that is included in the gross estate under section 2035, 2036, 2037, or 2038 should be shown on Schedule G.
- Real estate that is included in the gross estate under section 2041 should be shown on Schedule H.
- If you elect section 2032A valuation, you must complete Schedule A and Schedule A-1.

Item number	Description	Alternate valuation date	Alternate value	Value at date of death
1	Personal Residence: 1543 South Cardiff Street, Los Angeles, CA 90030, described as "TRACT # 7671 LOT 106" Parcel # APN 430601402. (Value based on sales price at the close of escrow on May 5, 2009).			895,000.

Special Use Valuation (for family-owned farms & businesses)



Schedule A (Notes)

- Report FMV of condo. on Sched. A, but FMV of coop. on Sched. B
- Report mortgage & property taxes on Sched. K (if estate liable); otherwise, report FMV of property net of mortgage on Sched. A
- If assets held in revocable grantor trust, make 2nd entry on Sched. A to subtract FMV & transfer to Schedule G

LESS: Value of Personal Residence held in revocable grantor trust entitled The Smith Family Trust DTD September 12, 1989.

[See Schedule G].





Schedule B Stocks & Bonds

Form 706 (Rev. 8-2011)

Estate of:	Decedent's social security number
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SCHEDULE B—Stocks and Bonds

(For jointly owned property that must be disclosed on Schedule E, see instructions.)

Item number	Description, including face amount of bonds or number of shares and par value for identification. Give CUSIP number. If trust, partnership, or closely held entity, give EIN	Unit value	Alternate valuation date	Alternate value	Value at date of death
1	7,737.097sh Franklin Income Fund, NASDAQ Symbol FKINX (valued at net asset value at market close on March 27, 2008).				18,724.

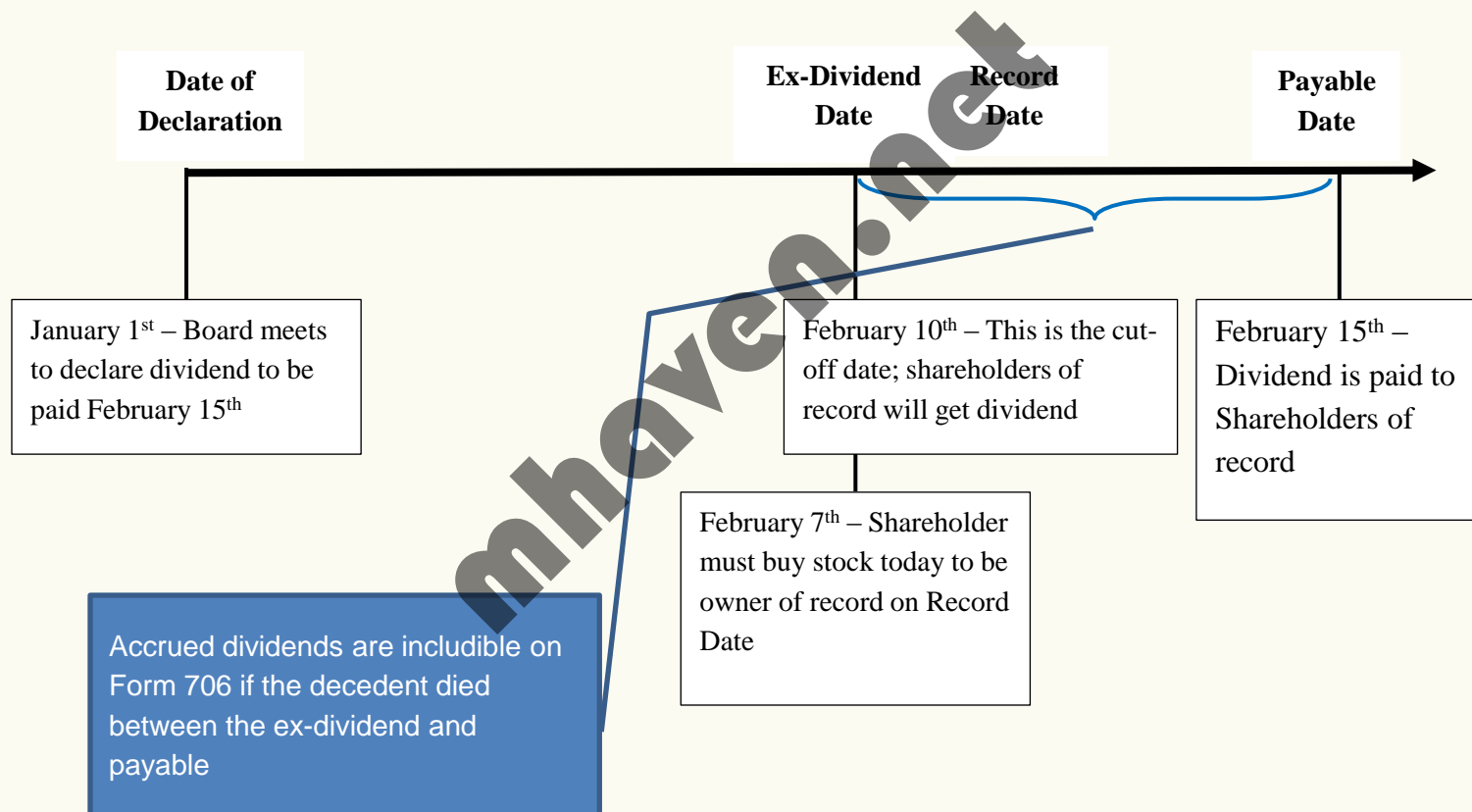


Schedule B (Notes)

- Report FMV of stocks, bonds, closely-held corps & coops; include worthless or bankrupt securities
- Use valuations provided by Estate Valuations & Pricing Systems, Inc. (EVP) – www.evpsys.com
- Accrued dividends are includible on Form 706 if the decedent died between the ex-dividend and payable dates. [Remember “DeRP”.]



“DeRP”



Schedule C

Mortgages, Notes & Cash

Form 706 (Rev. 8-2011)

Estate of: _____ Decedent's social security number _____

SCHEDULE C—Mortgages, Notes, and Cash

(For jointly owned property that must be disclosed on Schedule E, see instructions.)

Item number	Description	Alternate valuation date	Alternate value	Value at date of death
1	City National Bank, 9229 Sunset Boulevard, West Hollywood, CA, Senior Checking Account # 6517435 (\$80,527.42 balance on 3/20/08, less \$5,624.64 checks cleared prior to 3/27/08).			74,903.
1a	Accrued Interest: City National Bank.			15.
2	Federal income tax refund, 2007 Form 1040, received post-death (IRD).			5,856.
3	Credit for property taxes paid on personal residence [see Schedule A, Item # 1] rebated to buyer at close of escrow on May 14, 2008 (IRD).			1,332.

Reduce balance by amount of uncleared checks written before DOD





Schedule D Life Insurance

Form 706 (Rev. 8-2011)

Estate of:	Decedent's social security number
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SCHEDULE D—Insurance on the Decedent's Life

You must list all policies on the life of the decedent and attach a Form 712 for each policy.

Item number	Description	Alternate valuation date	Alternate value	Value at date of death
1	Improbable Life of America, P.O. Box 22, Hartford, CT 23234, Universal Life II Policy # 000-UW000836, policy proceeds to benefit Alice Alligator (50%) and Beverly Alligator Trust (50%), issued January 1, 1995, \$1,400,000 face value less \$258,024 policy loan.			1,141,976.

A detailed description of the policy as provided by the insurance company



Schedule D (Notes)

- Report all insurance policies on dependent's life
- Enter value at DOD (or AVD), if decedent owned the policy; enter description only if decedent did not own the policy
- Policy held by Irrevocable Life Insurance Trust (ILIT) is not includible since decedent had no incidents of ownership



Schedule E Joint Assets

Form 706 (Rev. 8-2011)

Estate of:

Decedent's social security number

SCHEDULE E—Jointly Owned Property

(If you elect section 2032A valuation, you must complete Schedule E and Schedule A-1.)

PART 1. Qualified Joint Interests—Interests Held by the Decedent and His or Her Spouse as the Only Joint Tenants (Section 2040(b)(2))

Item number	Description. For securities, give CUSIP number. If trust, partnership, or closely held entity, give EIN	Alternate valuation date	Alternate value	Value at date of death
1	<p style="text-align: center;">CUSIP number or EIN, where applicable</p>			

- Report property held by decedent and spouse in joint tenancy with right of survivorship (JTWROS) or tenants in common
- Community property assets are *not* reported here but must be listed on each appropriate schedule with a 2nd line entry removing the value of the spousal portion from the total FMV. The spouse's 1/2 share is then included on Schedule M.

Include the full amount of asset's FMV.





Schedule E (continued)

PART 2. All Other Joint Interests

2a State the name and address of each surviving co-tenant. If there are more than three surviving co-tenants, list the additional co-tenants on an attached sheet.

Name	Address (number and street, city, state, and ZIP code)
A.	
B.	
C.	

Item number	Enter letter for co-tenant	Description (including alternate valuation date if any). For securities, give CUSIP number. If trust, partnership, or closely held entity, give EIN	Percentage includible	Includible alternate value	Includible value at date of death
1		<div data-bbox="444 999 869 1213" style="border: 1px solid black; background-color: #4a7ebb; color: white; padding: 5px;"> Report decedent's property held jointly with non-spouse here </div>			<div data-bbox="1313 949 1767 1263" style="border: 1px solid black; background-color: #4a7ebb; color: white; padding: 5px;"> Include only a prorated share of FMV if joint tenant contributed to asset or gave consideration Beneficiary's basis = amount included on 706 </div>





Schedule F Miscellaneous Property

Form 706 (Rev. 8-2011)

Estate of:	Decedent's social security number
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SCHEDULE F – Other Miscellaneous Property Not Reportable Under Any Other Schedule
 (For jointly owned property that must be disclosed on Schedule E, see instructions)
 (If you elect section 2032A valuation, you must complete Schedule F and Schedule A-1.)

		Yes	No
1 Did the decedent own any works of art, items, or any collections whose artistic or collectible value at date of death exceeded \$3,000? If "Yes," submit full details on this schedule and attach appraisals.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Has the decedent's estate, spouse, or any other person received (or will receive) any bonus or award as a result of the decedent's employment or death? If "Yes," submit full details on this schedule.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Did the decedent at the time of death have, or have access to, a safe deposit box? If "Yes," state location, and if held jointly by decedent and another, state name and relationship of joint depositor.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If any of the contents of the safe deposit box are omitted from the schedules in this return, explain fully why omitted.

Item number	Description. For securities, give CUSIP number. If trust, partnership, or closely held entity, give EIN	Alternate valuation date	Alternate value	Value at date of death
1	Automobile: 1988 Mercedes Benz 300 SDL Turbo Diesel, 4-door sedan with custom interior (as appraised by Barney Oilfield & Company) Personal Property: Furniture, furnishings & artworks (as appraised by Sotherbee & Krispies) LESS: 1/2 of community property attributable to spouse (\$13,750)	CUSIP number or EIN, where applicable		

These questions must be answered – if "yes", additional information must be provided by attachment

Golden State Investment Company, 25% interest in a California general partnership (as appraised by Lawrence Lion).





Schedule G Lifetime Transfers

Form 706 (Rev. 8-2011)

Estate of:	Decedent's social security number
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SCHEDULE G – Transfers During Decedent's Life

(If you elect section 2032A valuation, you must complete Schedule G and Schedule A-1.)

Item number	Description. For securities, give CUSIP number. If trust, partnership, or closely held entity, give EIN	Alternate valuation date	Alternate value	Value at date of death
A.	Gift tax paid or payable by the decedent or the estate for all gifts made by the decedent or his or her spouse within 3 years before the decedent's death (section 2035(b))	X X X X		
B.	Transfers includible under section 2035(a), 2036, 2037, or 2038:			
1	Personal Residence. [See Schedule A for full description].			

The gift tax that was paid is reported on Line A; the assets that were transferred are reported on Line B

Cross-reference with Schedule A for ease of understanding.



Schedule G (Notes)

- IRC § 2035: Prevent deathbed transfers within 3 years before DOD
 - Both asset & gift tax paid are added back to gross estate for transfers
 - Applies to transfers of decedent's life insurance; interests whereby decedent retained right to income, possession or enjoyment of property; reversionary & revocable interests
 - Outright gifts – (even if made within 3 years of death) are not includible
- IRC § 2036: Decedent retained right to lifetime income or possession (e.g. dad gave house to daughter but continued to live in the home & pay for its upkeep)



Schedule G

(Notes continued)

- IRC § 2037: Includes transfers not effectuated until death & decedent maintained control

Taxpayer gifted 1/5 ranch to each of his 5 children but retained “full use, control, income and possession of the property for life.” At death, executor claimed 32% marketability & 16% minority-interest discounts, but disallowed since property was not truly split until *after* Taxpayer’s death.

- IRC § 2038: Revocable transfers including grantor trusts & custodial accounts where the donor is custodian (e.g. UTMA accounts)



Schedule H

Powers of Appointment

SCHEDULE H—Powers of Appointment

(Include "5 and 5 lapsing" powers (section 2041(b)(2)) held by the decedent.)
(If you elect section 2032A valuation, you must complete Schedule H and Schedule A-1.)

Item number	Description	Alternate valuation date	Alternate value	Value at date of death
1	<ul style="list-style-type: none"> Includible if general POA since grantor can exercise power in favor of himself; if power is exercised during grantor's life, gift tax liability will arise 			

- Not includible if POA limited by an ascertainable standard relating to the health, education, support, or maintenance of decedent
- A lapsed power is not includible if subject property > \$5,000 or 5% of all subject properties

Make sure to attach copy of instrument granting the POA to Form 706



Schedule I Annuities

Form 706 (Rev. 8-2011)

Estate of:	Decedent's social security number
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SCHEDULE I—Annuities

Note. Generally, no exclusion is allowed for the estates of decedents dying after December 31, 1984 (see instructions).

A Are you excluding from the decedent's gross estate the value of a lump-sum distribution described in section 2039(f)(2) (as in effect before its repeal by the Deficit Reduction Act of 1984)?	Yes	No
If "Yes," you must attach the information required by the instructions.	<input type="checkbox"/>	<input type="checkbox"/>

Item number	Description. Show the entire value of the annuity before any exclusions	Alternate valuation date	Includible alternate value	Includible value at date of death
1	Automatic Pilot Insurance Company, Hartford, CT, Individual Retirement Account # 4G-H-774567. (No Minimum Required Distributions or other withdrawals required--no reportable IRD.)			

Annuity is includible if income stream did not end before death, whether paid to decedent or beneficiary (e.g. pension & retirement plans)

Prior to 1985, the fiduciary could elect to exclude lump-sum annuity distributions that were previously included in the decedent's taxable wage income. This question should almost always be answered "no".





Schedule J

Form 706 (Rev. 8-2011)

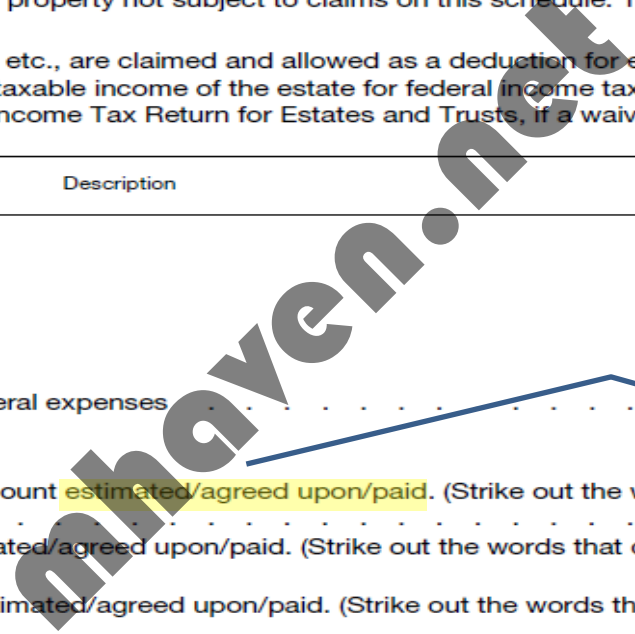
Estate of:	Decedent's social security number
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SCHEDULE J—Funeral Expenses and Expenses Incurred in Administering Property Subject to Claims

Note. Do not list expenses of administering property not subject to claims on this schedule. To report those expenses, see instructions.

If executors' commissions, attorney fees, etc., are claimed and allowed as a deduction for estate tax purposes, they are not allowable as a deduction in computing the taxable income of the estate for federal income tax purposes. They are allowable as an income tax deduction on Form 1041, U.S. Income Tax Return for Estates and Trusts, if a waiver is filed to waive the deduction on Form 706 (see Instructions for Form 1041).

Item number	Description	Expense amount	Total amount
1	A. Funeral expenses:		
	Total funeral expenses		
	B. Administration expenses:		
	1 Executors' commissions—amount estimated/agreed upon/paid. (Strike out the words that do not apply.)		
	2 Attorney fees—amount estimated/agreed upon/paid. (Strike out the words that do not apply.)		
	3 Accountant fees—amount estimated/agreed upon/paid. (Strike out the words that do not apply.)		
	4 Miscellaneous expenses:	Expense amount	
	A. Neptune Society, for transport, cremation and placement.		
	B. Probate Court Costs, certified copies, & appraisal fees.		



Must be substantiated.



Schedule J (Notes)

- Personal representative may elect to deduct *each* administrative expense on *either* Form 706 or 1041
- Funeral expenses deductible *only* on Form 706; reduce by death benefits received from SSA or VA





Schedule K Decedent's Debts

Form 706 (Rev. 8-2011)

Estate of:	Decedent's social security number
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SCHEDULE K—Debts of the Decedent, and Mortgages and Liens

Item number	Debts of the Decedent—Creditor and nature of claim, and allowable death taxes	Amount unpaid to date	Amount in contest	Amount claimed as a deduction
1	<p>Property taxes for 2006-07 tax year (ending July 1, 2006) on 1234 Pond Street, Los Angeles, CA accrued and unpaid prior to decedent's death. [See Schedule A.]</p> <p>Unpaid credit card bill paid after DOD - European Express Gold Card, for balance due July 31, 2006.</p>		<div style="border: 1px solid black; background-color: #4a7ebb; color: white; padding: 5px; width: fit-content; margin: 0 auto;"> May claim deduction for checks written before DOD but not yet cleared </div>	7,100.

GMAC purchase money mortgage secured by deed of trust on primary residence [see Schedule A], \$600,000 face amount, dated January 1, 1994, 30-year note due December 31, 2024, 8.5% annual interest accrued monthly, \$4,613.48 monthly installments, last paid August 1, 2006, balance due on date of death includes \$1,186 accrued interest.

Mortgages are entered in lower ½; all other obligations are entered in upper ½ of schedule



Schedule K (Notes)

- Enter decedent's unpaid obligations in upper part of schedule:
 - Property taxes if accrued before death (post-death accruals reported on 1041)
 - Medical expenses deductible *only* on 706; insurance reimbursements received after DOD included as income on 1041
 - Income taxes due on decedent's final 1040
 - Deduct decedent's Miscellaneous Itemized Deductions paid after DOD on 1041 subject to 2% AGI limitation
- Enter mortgages in lower part of schedule; claim only if estate is liable
- Expenses deductible only on 706 are forfeited if 706 not filed





Schedule L

NOLs

Form 706 (Rev. 8-2011)

Estate of:	Decedent's social security number
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SCHEDULE L – Net Losses During Administration and Expenses Incurred in Administering Property Not Subject to Claims

Item number	Net losses during administration (Note. Do not deduct losses claimed on a federal income tax return.)	Amount
1		





Schedule M Transfers to Surviving Spouse

Form 706 (Rev. 8-2011)

Estate of:	Decedent's social security number
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SCHEDULE M—Bequests, etc., to Surviving Spouse

		Yes	No
1 Did any property pass to the surviving spouse as a result of a qualified disclaimer? If "Yes," attach a copy of the written disclaimer required by section 2518(b).	1		
2a In what country was the surviving spouse born? _____			
b What is the surviving spouse's date of birth? _____			
c Is the surviving spouse a U.S. citizen?	2c		
d If the surviving spouse is a naturalized citizen, when did the surviving spouse acquire citizenship? _____			
e If the surviving spouse is not a U.S. citizen, of what country is the surviving spouse a citizen? _____			
3 Election Out of QTIP Treatment of Annuities. Do you elect under section 2056(b)(7)(C)(ii) not to treat as qualified terminable interest property any joint and survivor annuities that are included in the gross estate and would otherwise be treated as qualified terminable interest property under section 2056(b)(7)(C)? (see instructions)	3		

Item number	Description of property interests passing to surviving spouse. For securities, give CUSIP number. If trust, partnership, or closely held entity, give EIN	Amount
A1	<p>QTIP property:</p> <p>1/2 of the value of bank accounts: Marble Beach Checking (\$53,930) and Reptilian Mutual Savings (\$72,713), held as joint tenants with right of survivorship [See Schedule E, Part 1].</p> <p>Remaining property in excess of Decedent's Exemption (\$3,500,000) not allocated to The John Doe Decedent's Trust (EIN # 22-6410000) is hereby allocated to the surviving spouse as per Asset Allocation Statement. [See Supporting Documents attached.]</p>	

Surviving spouse receives *full* stepped-up basis



Schedule M (Notes)

- Property reported here is eligible for unlimited marital deduction:
 - Specific bequests to surviving spouse
 - Life insurance benefits
 - Survivor's statutory interest
 - Community property interest
 - Qualified Domestic Trust for non-citizen spouse
 - QTIP – surviving spouse receives income for life then property passes to 3rd party – eligible for marital deduction if spouse receives annual distributions of all income for life & no one has power to change income beneficiary

- Do not include property disclaimed by surviving spouse





Schedule 0

Charitable Bequests

Form 706 (Rev. 8-2011)

Estate of:	Decedent's social security number
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SCHEDULE O—Charitable, Public, and Similar Gifts and Bequests

		Yes	No
1a If the transfer was made by will, has any action been instituted to contest or have interpreted any of its provisions affecting the charitable deductions claimed in this schedule? If "Yes," full details must be submitted with this schedule.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b According to the information and belief of the person or persons filing this return, is any such action planned? If "Yes," full details must be submitted with this schedule.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Did any property pass to charity as the result of a qualified disclaimer? If "Yes," attach a copy of the written disclaimer required by section 2518(b).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Item number	Name and address of beneficiary	Character of institution	Amount
1	<ul style="list-style-type: none"> • A charitable deduction may be claimed for FMV of property that was transferred to a qualified organization by decedent during lifetime or after death by will (trust) 		

- Eligible transfers include direct contributions, charitable remainder trusts, pooled income funds & charitable lead trusts.



Call or e-mail...

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The information contained herein is for educational use only and should not be construed as tax, financial, or legal advice. Each individual's situation is unique and may require specialized treatment. It is, therefore, imperative that you consult with tax and legal professionals prior to implementation of any strategies discussed.

