



# Instructions for Form 706-GS(D)

(Rev. January 2003)

## Generation-Skipping Transfer Tax Return for Distributions

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

### Item To Note

You might be able to deduct on your Form 1040 the generation-skipping transfer tax you pay with this form. See the instructions for Part III, line 11, on page 3 for details.

## General Instructions

### Purpose of Form

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

### Who Must File

In general, anyone who receives a taxable distribution from a trust must file Form 706-GS(D). Trustees are required to report taxable distributions to skip person distributees on **Form 706-GS(D-1)**, Notification of Distribution From a Generation-Skipping Trust.

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

### When To File

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

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 allow the IRS to consider the application and to reply before the return's regular due date.

### Where To File

File Form 706-GS(D) at the Internal Revenue Service Center specified on your copy of Form 706-GS(D-1).

### Penalties and Interest

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

The late filing penalty will not be imposed if the taxpayer can show that the failure to file a timely return is due to reasonable cause. Taxpayers filing late (after the due date, including extensions) should attach an explanation to the return to show reasonable cause.

Section 6662 provides a penalty for underpayment of GST taxes of \$5,000 or more that is attributable to valuation understatements. A valuation understatement occurs when the reported value of property listed on Form 706-GS(D) is 50% or less of the actual value of the property.

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

Either the distributee or an authorized representative must sign Form 706-GS(D).

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

## Specific Instructions

### Part I

#### Line 1a

If the skip person distributee is a trust, enter the name of the trust here.

#### Line 1b

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

#### Line 1c

If the skip person distributee is a trust, enter the trust's employer identification number (EIN) and leave line 1b blank. **Do not** enter a number on both line 1b and line 1c.

#### Line 2a

If the skip person distributee is a trust, enter the trustee's name here. If the skip person distributee is a minor or is under some disability that precludes the individual from filing the return, enter the name of the person

who is legally responsible for conducting the affairs of the distributee, such as a parent or guardian. Also, include the title or relationship to the distributee.

## Line 2b

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

## Part II

Report all the taxable distributions with inclusion ratios greater than zero that you received during the year. The trustee will report these distributions to you on Form 706-GS(D-1). Attach to this return a copy of each Form 706-GS(D-1) you received during the year. You should also keep a copy for your records.

If you need more space than is provided in Part II, attach an additional sheet of the same size and use the same format that is used in Part II. Make sure that the total tentative transfers from the continuation sheet are included on line 3 of Part II.

### Column b

In column b, use the same item number that was used for the corresponding distribution on Form 706-GS(D-1). If you receive distributions from more than one trust, you may need to repeat item numbers.

### Column c

There may be instances when the trustee has either not completed columns **e** (value) and **f** (tentative transfer) of Form 706-GS(D-1) or when you disagree with the amounts the trustee entered. If this occurs, attach a statement to this return showing what you think are the correct amounts and how you figured them.

To figure the tentative transfer (col. **c** of this form), multiply the applicable inclusion ratio from Part II, col. **d**, of Form 706-GS(D-1) by the value of the distribution. Use the following guidelines to determine the value of

the distribution. See the instructions for **Form 706**, United States Estate (and Generation-Skipping Transfer) Tax Return, for more information. You can get Form 706, and other IRS forms and publications, by calling 1-800-TAX-FORM (1-800-829-3676) or by accessing the IRS Web Site at [www.irs.gov](http://www.irs.gov).

You must determine the value of the property distributed as of the date of the distribution. The date of distribution is listed in Part II, column **c**, of Form 706-GS(D-1).

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

Reduce the value of any property being reported in Part II by the amount of any consideration provided by the distributee.

Stock of close corporations or inactive stock must be valued on the basis of net worth, earnings, earning and dividend capacity, and other relevant factors. For such stock, attach balance sheets, particularly the one nearest the date of the distribution, and statements of net earnings or operating results and dividends paid for each of the 5 preceding years.

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

## Part III

### Line 4

You may deduct from the amount of the distribution you received any adjusted allowable expenses incurred in connection with the preparation of

this Form 706-GS(D) or any other expenses incurred in connection with the determination, collection, or refund of the GST tax reported or which should have been reported on this return.

Adjusted allowable expenses are equal to the total allowable expenses multiplied by the inclusion ratio. If you have more than one inclusion ratio in Part II, column **d**, of Form 706-GS(D-1), prorate the total expense among the inclusion ratios based on the relative value of each distribution made at the various inclusion ratios.

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

**Example.** The following example illustrates the rules above:

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

$$\begin{array}{r} \frac{\$10,000}{\$60,000} \times 200 = 33.33 \times .25 = 8(\text{rounded}) \\ \frac{\$20,000}{\$60,000} \times 200 = 66.67 \times .33 = 22(\text{rounded}) \\ \frac{\$30,000}{\$60,000} \times 200 = 100 \times .50 = 50 \\ \hline \text{Adjusted allowable expense} = 80 \end{array}$$

### Line 6

Enter, using the table on page 3, the maximum Federal estate tax rate in effect at the time the generation-skipping distribution occurred.

**Table of Maximum Tax Rates**

| If the generation-skipping transfer occurred . . . . . | The maximum tax rate is |
|--|-------------------------|
| Before January 1, 2002                                 | 55%                     |
| After December 31, 2001 but before January 1, 2003     | 50%                     |
| After December 31, 2002 but before January 1, 2004     | 49%                     |
| After December 31, 2003 but before January 1, 2005     | 48%                     |

**Line 8**

You can only claim a credit for state GST tax if the taxable distribution occurred at the same time as, and as a result of, the death of an individual, and the distribution is also reported on this form. Enter on line 8 the state GST tax, if any, that meets these requirements.

**Line 9**

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

**Line 11**

The generation-skipping transfer tax you pay on income distributions qualifies as a deductible tax for the purpose of Federal income tax. The tax is deductible on Schedule A (Form 1040) filed for the year in which the GST tax was paid. For example, you would deduct on your 2002 Schedule A (filed in 2003) the GST tax paid in 2002 on distributions made in 2001.

You can only deduct the taxes you paid on distributions that were both reported on Form 706-GS(D) and included in your income on Form 1040. These distributions will be reported to you by the trustee on **Schedule K-1 (Form 1041)**, Beneficiary's Share of Income, Deductions, Credits, etc.

To figure the deduction, first look at Part II, column **d**, of all Forms 706-GS(D-1) that you received for the year. If the inclusion ratio is the same for all items, compute a fraction, the numerator of which is the total of all income items from your Schedules

K-1 (Form 1041) whose values are included in column **e** of Form 706-GS(D-1). The denominator is the total of all the fair market values in column **e**. Multiply the amount on line 11, Form 706-GS(D), by this fraction. Enter the result on the applicable line of Schedule A (Form 1040) (or the applicable line of Form 1041 if the distribution was made to a trust).

If the distributions, whether from the same or from different trusts, have different inclusion ratios, the GST tax attributable to income distributions from each different inclusion ratio must be figured separately in the following manner.

**Step 1.** Figure the portion of the total GST tax that is attributable to distributions having the same inclusion ratio. To do this, multiply the total GST tax shown on line 11, Form 706-GS(D), by a fraction. The numerator of the fraction is the amount in Part II, column **c**, Form 706-GS(D), for all distributions that have the same inclusion ratio. The denominator is line 3 of Form 706-GS(D). Calculate this amount for each different inclusion ratio.

**Step 2.** Multiply the amount determined in Step 1 above by a different fraction. The numerator of this fraction is the income shown on Schedule K-1 (Form 1041) from distributions that both have the same inclusion ratios and are also included in column **e** of Form 706-GS(D-1). The denominator is the total amount shown in column **e** of Form 706-GS(D-1) for those same distributions.

**Line 13**

Make your check payable to the United States Treasury. Please write your SSN (or EIN), the year, and "Form 706-GS(D)" on the check to assist us in posting it to the proper account. Enclose, but do not attach, the payment with Form 706-GS(D).

**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 on certain distributions from a trust to a skip person. This form is used to determine the amount of the taxes that you owe. Section 6011 requires you to provide your taxpayer identification number (SSN, ITIN, or EIN). Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and to cities, states, and the District of Columbia for use in administering their tax laws. We may also disclose this information to Federal and state agencies to enforce Federal nontax criminal laws and 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. Generally, tax returns and return information are confidential, as required by Code section 6103.

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

- Recordkeeping . . . . .** 6 min.
- Learning about the law or the form . . . . .** 13 min.
- Preparing the form . . . . .** 24 min.
- Copying, assembling, and sending the form to the IRS . . . . .** 20 min.

If you have comments concerning the accuracy of these 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 form to this address. Instead, see **Where To File** on page 1.