

Instructions for Form 706-NA

(Revised September 1999)

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, 1997.)

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.

 For information about transfer certificates for U.S. assets, write to the Internal Revenue Service, Estate Tax Group, 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

Send Form 706-NA to 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 (or, for Canada, an income tax treaty protocol with death tax provisions) 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	

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 decedents 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. Use the chart and tax table below to determine the tentative tax. Enter the tentative tax on line 4, Part II.

IF the amount on line 3 of Part II is...	THEN, figure the tentative tax on line 3 using the...
\$10 million or less	Tax table below.
More than \$10 million	Worksheet on page 4.

Line 5. Use the chart and tax table below to determine the tentative tax. Enter the tentative tax on line 5, Part II.

IF the amount on line 2 of Part II is...	THEN, figure the tentative tax on line 2 using the...
\$10 million or less	Tax table below.
More than \$10 million	Worksheet on page 4.

Column A	Column B	Column C	Column D
Taxable amount over	Taxable amount not over	Tax on amount in column A	Rate of tax on excess over amount in column A
			Percent
0	\$10,000	0	18
\$10,000	20,000	\$1,800	20
20,000	40,000	3,800	22
40,000	60,000	8,200	24
60,000	80,000	13,000	26
80,000	100,000	18,200	28
100,000	150,000	23,800	30
150,000	250,000	38,800	32
250,000	500,000	70,800	34
500,000	750,000	155,800	37
750,000	1,000,000	248,300	39
1,000,000	1,250,000	345,800	41
1,250,000	1,500,000	448,300	43
1,500,000	2,000,000	555,800	45
2,000,000	2,500,000	780,800	49
2,500,000	3,000,000	1,025,800	53
3,000,000	— — — —	1,290,800	55

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,

