

# Instructions for Form 706-GS(T)

(Revised July 1999)

## Generation-Skipping Transfer Tax Return for Terminations

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



**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

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

Form	Recordkeeping	Learning about the law or the form	Preparing the form	Copying, assembling, and sending the form to the IRS
706-GS(T)	40 min.	29 min.	32 min.	20 min.
Schedule A	13 min.	17 min.	38 min.	20 min.
Schedule B	13 min.	4 min.	20 min.	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** below.

## General Instructions

### Purpose of Form

Form 706-GS(T) is used by a trustee to figure and report the tax due from certain trust terminations that are subject to the generation-skipping transfer (GST) tax.

### When To File

Generally, the trustee must file Form 706-GS(T) by April 15th of the year following the calendar year in which the termination occurs. If the due date falls on a Saturday, Sunday, or legal holiday, file on the next business day.

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 is not 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(T) at the Internal Revenue Service Center indicated below for the state where an estate or gift tax

return of the settlor must be filed to report the most recent transfer to the trust. If the settlor is (or was at death) a nonresident citizen or alien, mail it to the Internal Revenue Service Center, Philadelphia, PA 19255, U.S.A.

Florida, Georgia, South Carolina	Atlanta, GA 39901
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501

Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888

## Who Must File

In general, the trustee of any trust that has a taxable termination (defined on page 2) must file Form 706-GS(T) for the tax year in which the termination occurred.

## Trusts

**Nonexplicit trusts.** An arrangement that has substantially the same effect as a trust will be treated as a trust even though it is not an explicit trust. Examples of such arrangements are insurance and annuity contracts, arrangements involving life estates and remainders, and estates for years.

In general, a transfer of property in which the identity of the transferee is conditioned on the occurrence of an event is a transfer in trust. This rule does not apply to a testamentary trust, however, if the event is to occur within 6 months of the transferor's date of death.

Nonexplicit trusts do not include decedents' estates.

In the case of a nonexplicit trust, the person in actual or constructive possession of the property involved is considered the trustee and is liable for filing Form 706-GS(T).

If you are filing this return for a nonexplicit trust, see the instructions for line 1b on page 3.

**Separate trusts.** You must treat as separate trusts: (a) portions of a trust that are attributable to transfers from different transferors; and (b) substantially separate and independent shares of different beneficiaries in a trust.

If you are the trustee for separate trusts as described above, you must file a single Form 706-GS(T) but separate Schedules A for each separate trust, as that term is used here.

## Terminations Subject to GST Tax

A termination may occur by reason of death, lapse of time, release of a power, or any other means.

In general, all **taxable terminations** are subject to the GST tax. A taxable termination is the termination of an interest in property held in trust unless:

1. Immediately after the termination a non-skip person has an interest in the property, or
2. At no time after the termination may a distribution be made from the trust to a skip person.

## Effective Dates

The GST tax is effective for all taxable terminations occurring after October 22, 1986.

The rules below apply only for purposes of determining if a transfer is a taxable termination that must be reported on Form 706-GS(T).

## Exceptions

**Irrevocable Trusts.** Except as described under **Additions to irrevocable trusts** below, the GST tax does not apply to any termination of an interest in a trust that was irrevocable on September 25, 1985. Any trust in existence on September 25, 1985, will be considered irrevocable unless:

1. On September 25, 1985, the settlor held a power with respect to such trust that would have caused the value of the trust to be included in the settlor's gross estate for Federal estate tax purposes by reason of section 2038 (regarding revocable transfers) if the settlor had died on September 25, 1985; or
2. Regarding a policy of life insurance that is treated as a trust under section 2652(b), the insured possessed an incident of ownership on September 25, 1985, that would have caused the insurance proceeds to be included in the insured's gross estate for Federal estate tax purposes if the insured had died on September 25, 1985.

For more information, see Regs. section 26.2601-1(b).

**Trusts containing qualified terminable interest property.** Irrevocable trusts in existence on September 25, 1985, that hold qualified terminable interest property (QTIP) (as defined in section 2056(b)(7)) as a result of an election under section 2056(b)(7) or 2523(f), are treated for purposes of the GST tax as if the QTIP election had not been made. Thus, transfers from such a trust will not be subject to the GST tax.

**Additions to irrevocable trusts.** If an addition has been made after September 25, 1985, to an irrevocable trust, the termination of any interest in the trust may be subject in part to the GST tax. Additions include constructive additions described in Regs. section 26.2601-1(b)(1)(v).

**Medical and educational exclusion.** If all of the property to which the termination applied has been distributed and used for medical or educational expenses of the transferee such that if the transfer had been made inter vivos by an individual it would not have been subject to gift tax by reason of the medical and educational exclusion, then the termination is not a generation-skipping transfer, and you do not have to file this form to report the termination.

## Transition Rules for Revocable Trusts

The GST tax will not apply to any termination of an interest in a revocable trust, provided:

1. The trust was executed before October 22, 1986;
2. The trust as it existed on October 21, 1986, was not amended after October 21, 1986, in any way that created or increased the amount of a generation-skipping transfer;
3. Except as provided in **Exceptions to additions rule** below, no additions were made to the trust; and
4. The settlor died before January 1, 1987.

A revocable trust is any trust that on October 22, 1986, was not an irrevocable trust, as defined above, and would not have been an irrevocable trust had it been created before September 25, 1985.

The instructions under **Trusts containing qualified terminable interest property** above apply also to revocable trusts covered by these transition rules.

**Amendments to revocable trusts.** An amendment to a revocable trust in existence on October 21, 1986, will not be considered to result in the creation of, or an increase in the amount of, a generation-skipping transfer where **(a)** the amendment is administrative or clarifying in nature, or **(b)** it is designed to perfect a marital or charitable deduction for an existing transfer, and it only incidentally increases the amount transferred to a skip person. See Regs. section 26.2601-1(b)(2)(vii) for examples demonstrating these rules.

**Additions to revocable trusts.** If an addition (including a constructive addition) to a revocable trust is made after October 21, 1986, and before the death of the settlor, all subsequent terminations of interests in the trust will be subject to the GST tax if the other requirements of taxability are met. For settlors dying before January 1, 1987, any addition made to a revocable trust after the death of the settlor will be treated as made to an irrevocable trust.

## Transition Rule in Case of Mental Disability

If the settlor was under a mental disability on October 22, 1986, the GST tax may not apply. See Regs. section 26.2601-1(b)(3) for a definition of mental disability and additional details.

## Exceptions to Additions Rule

Do not treat as an addition to a trust any addition that is made pursuant to an instrument or arrangement that is covered by the transition rules discussed above under **Transition Rules for Revocable Trusts and Transition Rule in Case of Mental Disability**. This also applies to inter vivos transfers if the same property would have been added to the trust by such an instrument. For examples illustrating this rule, see Regs. section 26.2601-1(b)(4)(ii).

## Skip Persons

For termination purposes, skip person means a trust beneficiary who is either:

1. A natural person assigned to a generation that is two or more generations below the settlor's generation, or
2. A trust that meets either of the following conditions:
  - a. All interests in the trust are held by skip persons, or
  - b. No person holds an interest in the trust, and at no time after the transfer to the trust may a distribution be made to a non-skip person.

## Interest

A person holds an interest in the trust if, at the time the determination is made, the person:

1. Has a current right to receive income or corpus from the trust,
2. Is a permissible current recipient of income or corpus from the trust (other than charitable entities), or
3. Is a charitable or other entity described in section 2055(a) and the trust is a charitable remainder annuity trust, a charitable remainder unitrust, or a pooled income fund.

Any interest that is created primarily to postpone or avoid the GST tax is disregarded.

## Non-Skip Person

A non-skip person is any person who is not a skip person.

## Generation Assignment

A generation is determined along family lines as follows:

1. Where the beneficiary is a lineal descendent of a grandparent of the transferor (e.g., the donor's cousin, niece, nephew, etc.), the number of generations between the transferor and the descendent is determined by subtracting the number of generations between the grandparent and the transferor from the number of generations between the grandparent and the descendent.

2. Where the beneficiary is the lineal descendant of a grandparent of a spouse (or former spouse) of the transferor, the number of generations between the transferor and the descendant is determined by subtracting the number of generations between the grandparent and the spouse (or former spouse) from the number of generations between the grandparent and the descendant.

3. For this purpose, a relationship by adoption is considered a blood relationship. A relationship by half-blood is considered a relationship by whole blood.

4. The spouse or former spouse of a transferor or lineal descendant is considered to belong to the same generation as the transferor or lineal descendant, as the case may be.

5. A person who is not assigned to a generation according to the rules above is assigned to a generation based on his or her birth date as follows:

a. A person who was born not more than 12½ years after the transferor is in the transferor's generation;

b. A person born more than 12½ years, but not more than 37½ years, after the transferor is in the first generation younger than the transferor;

c. Similar rules apply for a new generation every 25 years.

If more than one of the rules for assigning generations applies to a beneficiary, the beneficiary is generally assigned to the youngest of the generations that apply.

If an entity such as a partnership, corporation, trust, or estate has an interest in property, each individual who has a beneficial interest in the entity (e.g., partners, shareholders, and beneficiaries) is treated as having an interest in the property. The individual is then assigned to a generation using the rules described above.

Government entities and certain charitable organizations are assigned to the transferor's generation. Terminations in their favor will never be generation-skipping transfers. For more information, see section 2651(f)(3).

### Generation Assignment Where Intervening Parent Is Dead

If you made a gift or bequest to your grandchild and at the time you made the gift or bequest, the grandchild's parent (who is your or your spouse's or your former spouse's child) is dead, then for purposes of generation assignment, your grandchild will be considered to be your child rather than your grandchild. Your grandchild's children will be treated as your grandchildren rather than your great-grandchildren.

This rule is also applied to your lineal descendants below the level of grandchild. For example, if your grandchild is dead, your great-grandchildren who are lineal descendants of the dead grandchild are

considered your grandchildren for purposes of the GST tax.

Beginning with terminations occurring in 1998, this special rule that applies to grandchildren of the decedent has been extended to apply to other lineal descendants.

If property is transferred to an individual who is a descendant of a parent of the transferor, and that individual's parent (who is a lineal descendant of the parent of the transferor) is dead at the time the transfer is subject to gift or estate tax, then for purposes of generation assignment, the individual is treated as if he or she is a member of the generation that is one generation below the lower of:

- the transferor's generation, or
- the generation assignment of the youngest living ancestor of the individual, who is also a descendant of the parent of the transferor.

The same rules apply to the generation assignment of any descendant of the individual.

This rule **does not** apply to a transfer to an individual who is not a lineal descendant of the transferor if the transferor has any living lineal descendants.

If any transfer of property to a trust would have been a direct skip except for this generation assignment rule, then the rule also applies to transfers from the trust attributable to such property.

### Multiple Skips

If after a generation-skipping transfer the property transferred is held in trust, then for the purpose of determining the taxability of subsequent transfers from the trust involving that property, the settlor of the property is assigned to the first generation above the highest generation of any person who has an interest in the trust immediately after the initial transfer.

### Penalties and Interest

Section 6651 provides for penalties for both late filing and for 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. Trustees filing late (after the due date, including extensions) should attach an explanation to the return to show reasonable cause.

Section 6662 provides penalties for underpayments of GST taxes of \$5,000 or more that are attributable to valuation understatements. A valuation understatement occurs when the value of property reported on Form 706-GS(T) 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

Form 706-GS(T) must be signed by the trustee or by an authorized representative.

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 in the Paid Preparer's Use Only area of the return.

## Specific Instructions

Complete Form 706-GS(T) in the following order: Parts I and II, Schedule A (through line 4), Schedule B, Schedule A (lines 5 through 14), Part III.

### Part I

#### Line 1b. Employer Identification Number

All trusts filing Form 706-GS(T) must have an employer identification number (EIN). A nonexplicit trust as described on page 1 under **Who Must File** must have an EIN that is separate from any other entity's EIN and that will be used only by the entity in its capacity as the nonexplicit trust.

A trust or nonexplicit trust that does not have an EIN should apply for one on **Form SS-4**, Application for Employer Identification Number. This form may be obtained from most IRS and Social Security Administration offices. IRS forms and publications may also be ordered by calling our toll-free number 1-800-TAX-FORM (1-800-829-3676).

Send Form SS-4 to the same Internal Revenue Service Center where Form 706-GS(T) is filed. If you do not receive the EIN by the filing time for the GST form, write "Applied for" on line 1b. See **Pub. 583**, Taxpayers Starting a Business, for more information.

### Part II

#### Line 4

Whenever property is transferred into a pre-existing trust, the inclusion ratio must be refigured. See **Multiple transfers** on page 5 for the rule on how to refigure the inclusion ratio.

#### Line 7

If a qualified terminable interest property deduction was taken by the settlor as donor spouse or by the executor of a decedent settlor's estate for the transfer of any property into this trust, the donor spouse or the executor, as the case may be, may have made an election at that time to treat such transfer for the purpose of the GST tax as if it was not qualified

terminable interest property. In this case, you must refer to the gift tax return (**Form 709**, United States Gift (and Generation-Skipping Transfer) Tax Return) of the donor spouse or the decedent's estate tax return (**Form 706**, United States Estate (and Generation-Skipping Transfer) Tax Return) for the information needed to figure the inclusion ratio.

## Schedule A (Lines 1–4)

**Note:** *If you need more than one Schedule A, make copies before completing it. Also, make a copy of Schedule B for each Schedule A you will file. If you need additional space to provide all the required information for any given schedule, attach a separate sheet of the same size to that schedule.*

Combine on a single Schedule A all terminations from a single trust that have the same inclusion ratio (as discussed on page 5). However, you must complete a separate Schedule A for each terminating interest that has a different inclusion ratio. Number each Schedule A consecutively in the space provided at the top.

### Line 2

If you are reporting separate trusts (as that term is described under **Who Must File** on page 1) on this Form 706-GS(T), explain why you are treating parts of the trust as separate trusts.

### Line 3

You may elect alternate valuation under section 2032 for all terminations in the same trust that occurred at the same time as and as a result of the death of an individual. If you elect alternate valuation, you must use it to value all property included in those terminations.

You may not elect alternate valuation unless the election will decrease both the total value of the property interests that were subject to the termination and the total net GST tax due after the allowable credit.

Check the box on line 3 of all the applicable Schedules A if you elect alternate valuation. Once made, the election cannot be revoked. You may make the election on a late filed Form 706-GS(T) provided it is not filed later than 1 year after the due date (including extensions).

If you elect alternate valuation, value the property interest that has been terminated as follows:

1. Any property distributed or otherwise disposed of or separated from the trust within 6 months after the termination is valued on the date of distribution or other disposition. Value the property on the date it ceases to form a part of the trust, that is, on the date the title passes as a result of its distribution or other disposition.

2. Any property not distributed or otherwise disposed of within 6 months following the termination is valued on the date 6 months after the termination.

3. Any property or interest that is affected by mere lapse of time is valued as of the time of termination. However, you may change this date of termination value to the date of distribution or other disposition to account for any change that is not due to mere lapse of time.

If the alternate valuation date falls after the initial due date of the return, you must request an extension to file on Form 2758. Indicate as the reason for the requested extension that you are going to elect alternate valuation and that the alternate valuation date falls after the initial due date of the return.

### Line 4

**Terminations of interests in trusts to which additions have been made.** As described on page 2, when an addition is made to an irrevocable trust after September 25, 1985, only the portion of the trust resulting from the addition is subject to the GST tax. For terminations, this portion is the product of the allocation fraction and the value of the property subject to the termination (including accumulated income and appreciation on that property).

The allocation fraction is a fraction, the numerator of which is the value of the addition as of the date it was made (regardless of whether it was subject to gift or estate tax). The denominator of the fraction is the fair market value of the entire trust immediately after the addition, less any trust amount that is similar to expenses, indebtedness, or taxes that would be allowable as a deduction under section 2053.

When there is more than one addition, the allocation fraction must be revised after each addition. The numerator of the revised fraction is the sum of:

1. The value of the portion of the trust subject to the GST tax immediately before the last addition, and

2. The amount of the latest addition.

The denominator of the revised fraction is the total value of the entire trust immediately after the latest addition.

If the addition results from a generation-skipping transfer, reduce both the numerator and denominator by the amount of any GST tax imposed on the transfer and recovered from the trust.

Round off the allocation fraction to five decimal places.

**Column a.** Identify by separate item number all property in which an interest has terminated during the tax year. You may combine under the same item number all property that has the same termination date, valuation date, and unit value, such as stocks or bonds. Otherwise, assign a separate item number to each article of property.

**Column b. (Description of property).** *Real estate.* Describe the real estate in enough detail so that the IRS can easily locate it for inspection and valuation. For each parcel of real estate report the area

and, if the parcel is improved, describe the improvements. For city or town property, report the street number, ward, subdivision, block and lot, etc. For rural property, report the township, range, landmarks, etc.

*Stocks and Bonds.* For stocks indicate:

- Number of shares
- Whether common or preferred
- Issue
- Par value where needed for valuation
- Price per share
- Exact name of corporation
- Principal exchange upon which sold, if listed on an exchange
- CUSIP number.

For bonds indicate:

- Quantity and denomination
- Name of obligor
- Date of maturity
- Principal exchange, if listed on an exchange
- Interest rate
- Interest due date
- CUSIP number.

If the stock or bond is unlisted, show the company's principal business office.

The CUSIP (Committee on Uniform Security Identification Procedure) number is a nine-digit number assigned to all stocks and bonds traded on major exchanges and many unlisted securities. Usually the CUSIP number is printed on the face of the stock certificate. If the CUSIP number is not printed on the certificate, it may be obtained through the company's transfer agent.

*Other personal property.* Any interest in personal property involved in a termination must be described in enough detail that the IRS can value it.

**Column d.** Unless you elected alternate valuation by checking the box on line 3 of Schedule A, the valuation date should be the same as the termination date.

**Column e.** Reduce the value of any property being reported on Schedule A by the amount of any consideration provided by the skip person.

Explain how the values reported in column e were determined and attach copies of any appraisals.

## Schedules B(1) and B(2)

To determine the taxable amount for a taxable termination, you may deduct expenses similar to those deductible under section 2053 from the value of the property subject to the termination.

### Schedule B(1)

Report here only those expenses related to the entire trust. Examples of such expenses are trustee's fees, administrative expenses, financial advisor's fees, and accounting fees.

**Column a.** Assign an item number to each separate expense. These will not necessarily correspond with the item numbers on Schedule A.

**Column b.** List the names and addresses of persons to whom the expenses are payable and describe the nature of the expenses.

**Column c.** Enter here the entire amount of the expense for the tax year for which the return is being filed.

**Line 2.** Figure the percentage of expense to allocate to the property involved in the termination as follows:

1. Divide the value of the interest that has been terminated by the total value of the trust at the time of the termination; and

2. Multiply the result by a fraction, the numerator of which is the number of days in the year through the date of the termination, and the denominator of which is the total number of days in the year (or, if the entire trust was terminated during the year, the total number of days the trust was in existence during the year).

If there is more than one termination during the year, you must reduce the total expense used in the allocation by the expense allocated to the prior terminations. For example, assume that the total administrative expense for the year was \$1,000 and \$300 was allocated to the first termination. The expense allocated to the second termination would be a percentage of \$700, not of the entire \$1,000.

## Schedule B(2)

Report here only those expenses related solely to the interest that has terminated. Examples of these expenses are property tax on real estate, the cost of selling property, or attorney's fees for defending the title to property.

**Column a.** Assign an item number to each separate expense. This will not necessarily correspond with the item numbers on Schedule A.

**Column b.** List the names and addresses of persons to whom the expenses are payable and describe the nature of the expense. List the item number(s) from Schedule A to which the expense relates.

**Column c.** If the expense relates to more property than that involved in the termination but less than the entire trust, enter in column **c** only the amount attributable to the property involved in the termination. Determine this amount by multiplying the total expense times a fraction. The numerator of the fraction is the value of the property involved in the termination and to which the expense relates. The denominator is the total value of the property to which the expense relates.

## Schedule A (Lines 5–14)

### Line 7. Inclusion Ratio

The trustee must figure the inclusion ratio for every termination. All terminations, or any parts of a single termination, that have different inclusion ratios must be shown on separate Schedules A. Identify

the separate trusts by Schedule A number when showing your inclusion ratio calculation.

The inclusion ratio is the excess of 1 over the "applicable fraction" determined for the trust in which the termination occurred.

**Applicable fraction.** The applicable fraction is a fraction, the numerator of which is the amount of the GST exemption. The denominator of the fraction is:

1. The value of the property transferred to the trust, minus

2. The sum of:

a. Any Federal estate tax or state death tax actually recovered from the trust attributable to the property, and

b. Any charitable deduction allowed under section 2055 or 2522 with respect to the property.

Round the applicable fraction to at least the nearest one-thousandth (e.g., .001).

**Numerator. GST exemption.** Every individual settlor is allowed a lifetime GST exemption against property that the individual has transferred. The amount of the exemption is indexed for inflation and is published annually by the IRS in a revenue procedure. For transfers made through 1998, the GST exemption is \$1 million. For transfers made in 1999, the exemption is \$1,010,000.

For existing trusts, transferors may allocate the additional GST exemption amount attributable to indexing adjustments if they otherwise qualify under the existing rules for late allocations. For more information, see section 2632(c) and **Multiple transfers** below.

Once made, allocations are irrevocable.

Allocation of the GST exemption is made by the settlor on Form 709, and/or on Form 706 by the executor of the settlor's estate. Therefore, you should obtain information regarding the allocation of the exemption to this trust from the settlor or the executor of the settlor's estate, as applicable.

If the settlor's entire GST exemption is not allocated by the due date (including extensions) of the settlor's estate tax return, the exemption is automatically allocated to the settlor's generation-skipping transfers under the rules of section 2632(c).

**Denominator. Valuation of trust assets.** In general, for an inter vivos transfer you should use the gift tax value in the denominator of the applicable fraction as long as the allocation of the GST exemption was made on a timely filed gift tax return or was deemed made under section 2632(b)(1).

If the allocation of the exemption to an inter vivos transfer is not made on a timely filed gift tax return and is not deemed made under section 2632(b)(1), the value for purposes of the applicable fraction is the value of the property transferred at the time the allocation under section 2632(a) is filed with the IRS.

The value of a testamentary transfer is generally the estate tax value.

For qualified terminable interest property (QTIP) that is included in the estate of the surviving spouse of the settlor because of section 2044, if the surviving spouse is considered the transferor under section 2652(a) for GST purposes, the value is the estate tax value in the estate of the surviving spouse.

A special QTIP election allows property for which a QTIP election was made for estate or gift tax purposes to be treated for GST tax purposes as if the QTIP election had not been made. If the special QTIP election has been made, the predeceased settlor spouse is the transferor and the value is that spouse's estate or gift tax value under the rules described above. The settlor spouse or the executor of the predeceased settlor spouse's estate must have made the special QTIP election.

**Transfers subject to an "estate tax inclusion period."** If a transferor made an inter vivos transfer, and the property transferred would have been includible in the transferor's estate if he or she had died immediately after the transfer (other than by reason of the transferor dying within 3 years of making the gift), for purposes of determining the inclusion ratio, the GST exemption cannot be allocated until the close of the estate tax inclusion period (ETIP).

The value of the property for the purpose of figuring the inclusion ratio is the estate tax value if the property is includible in the transferor's gross estate. Otherwise, the property is valued at the close of the ETIP, provided that the GST exemption is allocated on a timely filed gift tax return for the calendar year in which the ETIP closes.

The ETIP closes at the earliest of:

1. The time the transferred property would no longer be includible in the settlor's estate,

2. The date of a generation-skipping transfer of the property, or

3. The date of death of the settlor.

If the allocation is not made on a timely filed gift tax return, the property is valued at the time of the late allocation.

**Multiple transfers.** When a transfer is made to a pre-existing trust, the applicable fraction must be refigured. The numerator of the new fraction is the sum of:

1. The exemption allocated to the current transfer, and

2. The nontax portion of the trust immediately before the current transfer (the product of the applicable fraction and the value of all the property in the trust immediately before the current transfer).

The denominator of the new fraction is the sum of:

1. The value of the current transfer (minus any Federal estate tax or state death tax actually paid by the trust attributable to such property and any

charitable deduction allowed for such property), and

2. The value (determined under the rules described above) of all property in the trust immediately before the current transfer.

To figure the inclusion ratio, use only the value of the total additions made to the trust after September 25, 1985.

**Charitable lead annuity trusts.** For termination of an interest in a charitable lead annuity trust, the numerator of the applicable fraction is the adjusted GST exemption as defined below. The denominator is the value of the trust immediately after the termination of the charitable lead annuity interest.

The adjusted GST exemption is the sum of:

1. The exemption allocated to the trust, and

2. Interest on the exemption determined at the interest rate used to figure the estate or gift deduction for the charitable lead annuity and for the actual period of the charitable lead annuity.

In the case of a late allocation, the amount of interest accrued prior to the date of allocation is zero.

**Line 8**

Enter the maximum Federal estate tax rate in effect at the time the generation-skipping transfer occurred.

**Line 11**

If the taxable termination occurs at the same time as and as a result of the death of an individual, you are entitled to a credit for any generation-skipping transfer tax paid to a state in regard to any property that is also included in the termination(s) reported on this form. Enter on line 11 the

total state GST tax, if any, that meets these requirements.

**Line 12**

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

**Part III**

**Line 9b**

If you have more than six Schedules A attached to this form, enter on the line indicated the total net GST tax from all Schedules A in excess of six.

**Line 12**

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