

# GENERAL INSTRUCTIONS FOR IOWA INHERITANCE TAX RETURN (IA 706)

**RETURN REQUIRED:** An inheritance tax return must be filed by the fiduciary of any estate when the gross share subjected to tax without reduction for liabilities, of any beneficiary, heir, transferee, or surviving joint tenant exceeds the allowable exemption from such share, or if a federal return has been filed. See below for deaths on or after July 1, 2004. The term "estate" includes property held in trust or otherwise not subject to probate.

The return must provide for schedules listing the assets included in the gross estate, a listing of the liabilities deductible in computing the net estate and a computation of the tax due, if any, on each share of the net estate. When Iowa schedules are filed with the return, only those schedules that apply to the particular assets and liabilities of the estate are required. Iowa schedules A through I may be replaced with the Iowa Bar probate schedules. NOTE: Only the department's Inheritance Tax Return and the liabilities Schedules J and K will be accepted.

If the estate has filed a federal estate tax return a copy must be submitted with the Iowa return. If the federal estate tax return includes the schedules of assets and liabilities, the taxpayer may omit Iowa Schedules A through I from the return.

A return merely listing the assets and their values is not sufficient in estates that exceed \$25,000. (Even in nontaxable estates, the section showing computation of shares and tax must be completed before an inheritance tax clearance can be issued.)

When all of the property is held in joint tenancy with right of survivorship between husband and wife alone, an inheritance tax return is not required to be filed with the Department. In this situation, a "no inheritance tax due" certificate will not be issued. Effective for estates of decedents dying on or after July 1, 1997, when all property is jointly held by the decedent and a lineal ascendant or descendant alone, an Iowa inheritance tax return still must be filed.

Effective for estates of decedents dying on or after July 1, 1999, when all property is held in joint tenancy with right of survivorship solely by the decedent and lineal ascendants, descendants, surviving spouse, legally adopted children and/or stepchildren, an Iowa inheritance tax return need not be filed unless the estate has a federal estate tax obligation to file.

**Effective for estates of decedents dying on or after July 1, 2004,** when all assets of the decedent pass to a surviving spouse, lineal ascendants or descendants, legally-adopted children, and/or stepchildren, an Iowa inheritance tax return should **NOT** be filed unless the estate has a federal estate tax obligation to file. **A clearance will not be issued.**

Each individual should use his or her judgment on whether to file a short form probate inventory with the Clerk of the District Court, or whether filing a simple affidavit of the death of the joint tenant is sufficient for title purposes. Determination of the kind of filings that are required for title purposes is outside the Department's jurisdiction.

## **DATE FOR FILING:**

The tax must be paid to the Department on or before the last day of the ninth month after the death of the decedent.

The return must provide for schedules listing the assets included in the gross estate, a listing of the liabilities deductible in computing the net estate and a computation of the tax due, if any, on each share of the net estate.

The return must be filed and any tax due paid on all property coming

into present possession and enjoyment, within nine months after death for estates of decedents dying after June 30, 1981, and before July 1, 1984.

For future property interest created prior to July 1, 1981, a supplemental tax return must be filed and tax paid one year after death of the life tenant.

For future property interest created after July 1, 1981, but prior to July 1, 1984, a supplemental tax return must be filed and tax paid nine months after the death of the life tenant.

For future property interest created after July 1, 1984, a supplemental tax return must be filed and tax paid by the last day of the ninth month after the death of the life tenant.

**POWER OF ATTORNEY:** Completing the authorization on page 1 will authorize the person to represent the estate and receive confidential information.

**ALTERNATE VALUATION:** Alternate value may be used on the same terms and conditions that govern the alternate valuation for federal estate tax purposes. **NOTE:** The alternate value cannot be used for Iowa purposes unless used for federal estate tax purposes and a federal estate tax return is required to be filed, and the amount of federal estate tax owing has been reduced.

In general, the alternate valuation date is the date six months after the decedent's death. If the property is sold within the six-month period, the date of the sale is the alternate date for valuing the property sold.

If the election is made, all of the property included in the gross estate and not just a portion of the property must be valued at the alternate valuation.

If the alternate valuation is elected, the value established for federal estate tax purposes must also be the alternate value for inheritance tax purposes.

Failure to indicate on line 25 of the inheritance tax return the election of alternate valuation will be construed as a decision not to elect an alternate valuation date.

**SPECIAL USE VALUATION:** Real estate that has been valued at its special use value under 26 U.S.C. section 2032A for computing the federal estate tax is eligible to be valued for inheritance tax purposes at its special use value.

Real estate cannot be specially valued for inheritance tax purposes unless it is also eligible and is valued at its special use value for federal estate tax purposes. However, even though real estate is specially valued for federal estate tax purposes, the estate has the right to elect or not to elect to value real estate at its special use value for computing the inheritance tax. **NOTE:** The special use value cannot be used for Iowa purposes if a special use election for federal estate tax purposes has no effect on the federal tax.

The election to specially value real estate under provisions of Iowa Code chapter 450B must be made by the fiduciary for the estate or trust on the inheritance tax return. The election, once made, is irrevocable. Failure to make an election on the inheritance tax return will be construed as an election not to specially value real estate under Iowa Code chapter 450B.

A copy of the executed election for federal estate tax purposes must be timely filed with the Iowa Department of Revenue.

The agreement must be executed by all parties who have interest in the property to be valued at its special use as of the date of the decedent's death. In the agreement, the qualified heir must consent

to be personally liable for the additional inheritance tax imposed in the event of early disposition or cessation of the qualified use. A protective election may be made to specially value qualified real property for inheritance tax purposes. The protective election must be made on the inheritance tax return and must contain the same information required by Certified Federal Regulations (CFR) section 20.2032A-8(b).

If a protective election is made and it is found that the real estate qualifies for special use valuation as finally determined for federal estate tax purposes, an additional notice of election must be filed within 60 days after date of determination, along with an amended inheritance tax return. Failure to file the additional notice within 60 days will disqualify the real estate for special use valuation.

## COMPUTATION OF SHARES & TAX ON NET ESTATE

### PAGE 1

Line 1: Report total value of all real estate reported in Schedules A, E or E-1, and G.

Line 2: Report total value of all other property listed in Schedules B, C, D, E or E-1, F or F-1, G, H, and I.

Line 3: Add line 1 and line 2. **NOTE:** Total must equal line 36, page 2.

Line 4: Report total from line 41, page 2.

Line 5: Subtract line 4 from line 3.

Line 6: **Beneficiary** - List full name and current address of each beneficiary, heir, transferee or surviving joint tenant.

**Age** - Report age of the beneficiary, heir, transferee, or surviving joint tenant. The use of "legal" for age is not acceptable.

**Social Security Number** - Report the Social Security Number of each beneficiary, heir, transferee or surviving joint tenant.

**Relationship** - Report the legal relationship of each beneficiary, heir, transferee or surviving joint tenant to that of the decedent.

**Share** - Report the net share of each beneficiary, heir, transferee or surviving joint tenant. **NOTE:** The net share subject to tax is the gross share, less that portion of allowable liabilities deductible that are chargeable to the share under the law of abatement of shares. Attach a copy of your computation of shares.

Line 7: Must equal line 5.

Line 8: **Inheritance tax** - The tax is computed in accordance with the applicable rate schedule to the net share of each beneficiary, heir, transferee or surviving joint tenant.

Line 9: Report the maximum federal credit for state death taxes paid, which is allowable as a credit against federal estate tax for decedents dying prior to 1/1/05.

Line 10: Report the greater amount from line 8 or line 9.

Line 11: **Penalty for Failure to Timely File a Return or Deposit:**

A penalty of 10% will be added to the tax due for failure to timely file a return or deposit if at least 90% of the correct amount of tax is not paid by the due date. The penalty can only be waived under limited circumstances.

**GROSS ESTATE:** Includes all those items or interests in property passing by any method of transfer specified in Iowa Code section 450.3.

**INHERITANCE TAX CLEARANCE:** A full payment clearance will be issued only after the tax, penalty and interest have been paid in full. **NOTE:** Only an original inheritance tax clearance will be issued by the Department. The personal representative is required to designate on the return who is to receive the clearance. If the return fails to designate a recipient, the clearance will be sent to the Clerk of District Court designated on the return.

**Penalty for Failure to Timely Pay the Tax Due or**

**Penalty for Audit Deficiency:** A penalty of 5% will be added to the tax due if at least 90% of the correct amount of tax is not paid by the due date. The penalty can only be waived under limited circumstances.

Where the failure to file penalty and one of the other penalties are applicable, the failure to file penalty shall take precedence.

Line 12: Unpaid tax draws interest. See 701 Iowa Administrative Code 10.2 for the statutory interest rate commencing on or after January 1, 1982.

Line 13: **REFUND PER AMENDED**

Line 14: **TOTAL DUE:** Add lines 10, 11, 12.

**Signature:** Page 1 of the return must be signed under penalty of perjury by at least one of the fiduciaries of the estate or trust.

If completed by a paid preparer, the return must be signed by the preparer. Enter the preparer's SSN, FEIN, or PTIN.

### PAGE 2

#### Answer Questions 15 - 26.

Line 27: Report total value from Schedule A.

Line 28: Report total value from Schedule B.

Line 29: Report total value from Schedule C.

Line 30: Report total value from Schedule D that would be subject to inheritance tax. **NOTE:** If insurance is credit life or burial insurance, these are offsets against the debt and must be reported as taxable.

Line 31: Report total from Schedule E and/or Schedule E-1.

Line 32: Report total value from Schedule F and/or Schedule F-1.

Line 33: Report total from Schedule G, parts A and B.\*

Line 34: Report total from Schedule H.

Line 35: Report total from Schedule I.

Line 36: Add lines 27 through 35.

Line 37: Report total from Schedule J.

Line 38: Report total from Schedule K, Part I.

Line 39: Report total from Schedule K, Part II.

Line 40: Add lines 37 through 39.

\*Attach copies of the federal gift tax returns.