

Instructions for Form 706-NA

(Rev. September 2009)

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, 2008.)



Department of the Treasury
Internal Revenue Service

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

What's New

Public Law 110-343, Act section 207(a), Division C extended the provision for estates of nonresident aliens that may exempt a portion of the decedent's stock in a regulated investment company from U.S. estate tax. This provision will not apply to estates of nonresident alien decedents dying after December 31, 2009.

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 following address.

Internal Revenue Service
Cincinnati, OH 45999
Stop 824G

Note. 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, 9a, 9b, or 11 in Part III, *General Information*. You will need the instructions to Form 706 to explain how to value stocks and bonds. Make sure that you use the version of Form 706 that corresponds to the date of the decedent's death.

Definitions

The following definitions apply in these instructions.

United States. The United States means the 50 states and the District of Columbia.

Nonresident alien decedent.

A nonresident alien decedent is 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.

Long-term United States resident.

A long-term U.S. resident is an alien who is a lawful permanent resident of the U.S. in at least 8 of the last 15 taxable years ending with the taxable year in which U.S. residency is terminated.

Executor. An 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.

U.S. expatriate. Generally, a U.S. expatriate is one who, within 10 years before the date of death, lost U.S. citizenship or (in certain cases) ended long-term U.S. residency with the principal purpose of avoiding U.S. taxes. See the instructions for *Question 6a* and *Question 6b* on page 2. Also, see effective dates below for more information.

After June 3, 2004. A citizen or long-term resident who lost U.S. citizenship or residency after June 3, 2004, is subject to the alternative tax regime of section 877 when the individual:

- Has average annual net income tax in excess of \$145,000 for 2009 for the 5 taxable years preceding the loss of U.S. citizenship;
- Has a net worth of \$2,000,000 or more on the date of the loss of U.S. citizenship; or

- Fails to certify compliance with all federal tax obligations for the 5 preceding taxable years, unless he or she is a minor or a dual citizen without substantial contact with the United States. See sections 877(c)(2)(B) and (c)(3), for more information.

On or after February 6, 1995.

Under prior law, citizens or certain long-term residents (as defined in section 877(e)) who lost U.S. citizenship or residency on or after February 6, 1995, are presumed to have the principal purpose of avoiding U.S. taxes if the decedent's average annual net income tax liability or net worth exceeds certain limits. However, the executor has an opportunity to prove otherwise. See sections 877(a)(1), (2), and (c), before its amendment by P.L. 108-357, for more information.

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:

- The gift tax specific exemption (section 2521) allowed with respect to gifts made between September 9, 1976, and December 31, 1976, inclusive, and
- The total taxable gifts made after December 31, 1976, that are not included in the gross estate.

When To File

File Form 706-NA within 9 months after the date of death unless an extension of time to file was granted.

Use Form 4768, Application for Extension of Time To File a Return and/or Pay U.S. Estate (and Generation-Skipping Transfer) Taxes, to apply for an automatic 6-month extension of time to file. Check the "Form 706-NA" box in Part II of Form 4768.

Where To File

File Form 706-NA at the following address.

Department of the Treasury
Internal Revenue Service Center
Cincinnati, OH 45999

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 willful attempts to evade or defeat payment of tax.

The law also provides for penalties for valuation understatements that cause an underpayment of tax. See sections 6662(g) and (h) for more details.

Return preparer. The Small Business and Work Opportunity Tax Act of 2007 (Act) extends the application of return preparer penalties to preparers of estate tax returns. Under section 6694, as amended by the Act, estate tax return preparers who prepare any return or claim for refund that reflects an understatement of tax liability due to willful or reckless conduct are subject to a penalty of \$5,000 or 50% of the income derived (or income to be derived), whichever is greater, for the preparation of each such return. See section 6694, the regulations thereunder, and Ann. 2009-15, 2009-11 I.R.B. 687 for more information.

Death Tax Treaties

Death tax treaties are in effect with the following countries.

Australia	Ireland
Austria	Italy
Canada*	Japan
Denmark	Netherlands
Finland	Norway
France	South Africa
Germany	Switzerland
Greece	United Kingdom

*Article XXIX B of the United States—Canada Income Tax Treaty

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.

You must also attach a copy of the decedent's death certificate.

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. For item 2, enter the decedent's social security number (SSN) or individual taxpayer identification number (ITIN), whichever is applicable. 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 principal 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* is 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.

Entire gross estate. 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:

- 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;
- 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;
- A surviving spouse's dower or curtesy interest and all substitute interests created by statute;
- Proceeds of insurance on the decedent's life, generally including proceeds receivable by beneficiaries other than the estate;
- Several kinds of transfers the decedent made before death;
- 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; and
- 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. (See *Determining where assets are located* below.)

Determining where assets are located. Unless a treaty provides otherwise (see *Death Tax Treaties* on this page), use the following rules to determine whether assets are located in the United States.

Real estate and tangible personal property. Real estate and tangible personal property are located in the United States if they are physically located there.

Note. An exception is made for works of art that are owned by a nonresident alien (NA) and are located within the United States if on the date of death (of the NA-owner), the works of art are:

- Imported solely for public exhibition,
- On loan to a non-profit public gallery or museum, and
- On exhibition or en route to or from exhibition.

Stock. Generally, no matter where stock certificates are physically located, stock of corporations organized in or under U.S. law is properly located in the United States, and all other corporate stock is property located outside the United States.

Stock in a Regulated Investment Company (RIC). For a nonresident alien decedent who died after 2004, a portion of stock in a RIC is treated as property located outside the United States in the proportion of the RIC's qualifying assets in relation to the total assets owned by the RIC at the end of the quarter immediately preceding the decedent's death.

Qualifying assets are assets that, if owned directly by the decedent, would have been:

- Bank deposits and amounts described in section 871(i)(3),
- Portfolio debt obligations,
- Certain original issue discount obligations,
- Debt obligations of a U.S. corporation that are treated as giving rise to foreign source income, and
- Other property not within the United States.

See section 2105(d) for details.

Insurance proceeds. Proceeds of insurance policies on the decedent's life are property located outside the United States.

Debt obligations within U.S. 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.

Debt obligations outside U.S. The following debt obligations are generally treated as located outside the United States.

- Debt obligations (whether registered or unregistered) issued after July 18, 1984, if the interest on them would be eligible for tax exemption under section 871(h)(1) had such interest been 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 in the United States (section 2105(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)).
- Certain short-term original issue discount debt obligations. See section 2105(b)(4) for details.

Deposits. 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 deposit with a U.S. bank or a U.S. banking branch of a foreign corporation,
- A deposit or withdrawable account with a savings and loan association chartered and supervised under federal or state law,
- An amount held by a U.S. insurance company under an agreement to pay interest, and
- 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 the above 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 Form 706 under *Schedule B—Stocks and Bonds*.

Stocks. 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);
- Nine-digit CUSIP number (defined below); 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.

Bonds. In bond descriptions, include:

- The quantity and denomination,
- Obligor's name,
- Maturity date,
- Interest rate,
- Each date when interest is payable,
- Nine-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.

The CUSIP (Committee on Uniform Security Identification Procedure) number is a nine-digit number that is 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.

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 decedent's interest in the land that is subject to the exclusion and
2. Exclude the applicable value of the land (amount from line 20, 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.

Instead, 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. Taxable Estate



For the line 5 deduction to be allowed, you must complete lines 1 through 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 document 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 tax on income received after death or property taxes accrued after death. See *Line 7* below for details on deducting death taxes.

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.

Line 7. You may take a deduction on line 7 for death taxes (estate, inheritance, legacy, or succession taxes) you paid to any state or the District of Columbia on property listed in Schedule A. To calculate the deduction for state death taxes, use the formula below. Enter the result on line 7.

$$\frac{\text{Total value of assets in the gross estate subject to state death taxes}}{\text{Gross estate located in the U.S. (line 1 of Schedule B)}} \times \frac{\text{Total state death taxes paid}}{\text{Total state death taxes paid}}$$

Generally, you must claim this deduction within 4 years of filing the return. However, see section 2058(b) for exceptions and periods of limitations.

For the deduction to be allowed, you must file a certificate signed by the appropriate official of the taxing state. The certificate should show:

- The total tax charged,
- Any discount allowed,
- Any penalties and interest imposed,
- The tax actually paid, and
- Each payment date.

If possible, attach the certificate to this return; otherwise, please file it as soon as possible.

If you later recover any of the state tax for which you claim this deduction, you must notify the IRS at the following address within 30 days of receiving any refund of state taxes.

Department of the Treasury
Internal Revenue Service Center
Cincinnati, OH 45999

Part II. Tax Computation

Line 4 and Line 5. To determine the tentative tax on the amount on line 2 (to be entered on line 4) and the tentative tax on the amount on line 3 (to be entered on line 5), use Table A in the version of the Instructions for Form 706 that corresponds to the decedent's date of death.

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:

- \$13,000 or
- 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(b)(3)(A). (At the time this form went to print, treaties with Australia, Canada, Finland, France, Germany, Greece, Italy, Japan, Norway, and Switzerland contained provisions to which section 2102(b)(3)(A) applies.)



Any amount previously allowed as a unified credit against the gift tax will reduce, dollar for dollar, the unified credit allowed the estate (section 2102(b)(3)(B)).

Line 9. Use line 9 to enter the following credits.

Credit for federal gift taxes. See sections 2102 and 2012. Attach computation of credit.

Canadian marital credit. In addition to the unified credit, a nonrefundable marital credit may be allowed if the executor elects this treaty benefit and waives the benefit of any estate tax marital deduction allowable under U.S. law. The credit amount is generally limited to the lesser of:

- The unified credit allowed to the estate (before reduction for any gift tax unified credit) or
- The amount of estate tax that would otherwise be imposed by the United

States on the transfer of qualifying property to the surviving spouse.

See the 1995 Canadian income tax treaty protocol for details on computing the credit. Also, attach a computation of the credit and on the dotted line to the left of the line 9 entry, write "Canadian marital credit."

Line 13. If you answered "Yes" to Question 11 of Part III, you must complete and attach Schedules R and/or R-1 from Form 706.

For the purposes of Form 706-NA, the GST tax is imposed only on transfers of interests in property that are part of the gross estate in the United States. Therefore, when completing Schedules R and/or R-1, you should enter only transfers of interests in property that you listed on Schedule A of Form 706-NA. Otherwise, complete Schedules R and/or R-1 according to their instructions and enter the total GST tax from Schedule R on line 13.

For details, see Regulations section 26.2663-2.

Line 15. Attach an explanatory statement if earlier payments were made to the Internal Revenue Service.

Line 16. Pay the balance due within 9 months after the decedent's death unless an extension of time to pay was granted. Make the check or money

order payable to the "United States Treasury" for the face value in U.S. dollars.

Signature(s)



If there is more than one executor, all listed executors are responsible for the return. However, it is sufficient for only one of the co-executors to sign the return.

Form 706-NA must be signed. The executor must verify and sign the declaration on page 1 under penalties of perjury. The executor may use Form 2848, Power of Attorney and Declaration of Representative, to authorize another person to act for him or her before the Internal Revenue Service.

Generally, anyone who is paid to prepare the return must sign the return in the space provided and fill in the "Paid Preparer's Use Only" area. See section 7701(a)(36)(B) for exceptions.

In addition to signing and completing the required information, the paid preparer must give a copy of the completed return to the executor.

Note. A paid preparer may sign original or amended returns by rubber stamp, mechanical device, or computer software program.

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. 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. Subtitle B and section 6109, and the regulations, require you to provide this information.

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. However, section 6103 allows or requires the Internal Revenue Service to disclose information from this form in certain circumstances. For example, we may disclose information to the Department of Justice for civil or criminal litigation, and to cities, states, the District of Columbia, and U.S. commonwealths or possessions for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism. Failure to provide this information, or providing false information, may subject you to penalties.

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

Recordkeeping

1 hr., 25 min.

Learning about the law or the form

52 min.

Preparing the form

1 hr., 36 min.

Copying, assembling, and sending the form to the IRS

34 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Internal Revenue Service, Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:SP, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Do not send the tax form to this address. Instead, see *Where To File* on page 2.
