



SUPPLEMENT: ESTATES (706)

Drake Software User's Manual

Tax Year 2015

**Supplement: Estates
(706)**

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Estates (706)

The basics of data entry for an estate (706) return are the same as for the 1040. Navigation through data entry, field- and screen-level help, and keyboard shortcuts all function as they do in the 1040 program. See the *Drake Software User's Manual: Tax Year 2015* for the basics of using the program. (The manual is available on the installation CD and on the Drake Support website: Support.DrakeSoftware.com > **Training Tools > Manuals**.)

Drake programs its tax software according to the latest IRS rules and regulations. For a list of estate regulations for tax year 2015, see the form instructions.

NOTE A death certificate must be attached to a 706 return before submission.

What's New in Drake for Estate Returns

The IRS now requires Form 8971, Information Regarding Beneficiaries Acquiring Property from a Decedent, to be filed for any Form 706 filed as of July 2015 to report the basis of assets reported on Form 706 and who inherited the asset.

Drake now includes the new screen **8971** for that purpose.

For details on completing Form 8941, see “Form 8971, Information Regarding Beneficiaries” on page 13.

706 Forms Available in Drake

The following 706 forms can be completed using Drake tax software:

- Form 706, U.S. Estate Tax Return
- Form 706-A, U.S. Additional Estate Tax Return
- Form 706-QDT, Qualified Domestic Trust

These forms can also be printed as blank forms from **Tools > Blank Forms**.

Practice Management Tools

For details on additions and enhancements to Drake's practice management tools—such as the e-mail program, the letters and billing editor, and the Scheduler—see the *Drake Software User's Manual: Tax Year 2015*.

Opening an Estate Return for an Individual

The *Drake Software User's Manual: Tax Year 2015* provides details on how to create and open new returns for any package, including the 706 package. In some cases, however, you will need to create an estate return (706 or 706-A) for an individual who already has a 1040 return in the program. To assign a single SSN to multiple returns:

1. From the **Home** window of Drake, select **Tools > File Maintenance > Change File Type**.
2. In the **Convert Client Data File Type** dialog box, enter the SSN to be assigned to a new return type in the **Enter SSN/EIN to convert** text box.

NOTE An SSN must already be associated with a return in the software before it can be assigned to a second return type.

3. Click **Continue**. The available return types are displayed. In Figure 1, the selected return is a 1040, so that option is disabled. Note that the 706 and 706-A options are in the right-hand column.

Figure 1: Available return types are displayed.

4. Click an option to select it, and then click **Continue**.
5. When asked if you want to keep the original return in addition to the new return, click **Yes**.
6. Click **OK**.

The SSN is now applied to both the original return and the new 706 return. In the future, when you enter the SSN to open a return, you will be asked which return you wish to open. When you use other features of the program where SSNs are entered (such as in the **Client Selection** dialog box in **Tools > Letters > Letters**), you will be prompted to indicate which return the program should use.

Form 706

Form 706 is used to figure a decedent’s estate tax or to compute generation-skipping transfer (GST) tax on direct skips. Form 706 is not e-fileable, but the 706 package in Drake can be used for completing Form 706 and related forms.

Part 1: Decedent and Executor Information

Screen **DEMO** and screen **1** both contains fields for entering the general information that is printed in the top section of page 1 of Form 706 and 706-A. This information includes decedent data (**DEMO** screen) and decedent data, executor data, executor elections, and court and case information (screen **1**).

The **DEMO** screen also has fields for entering miscellaneous codes and a preparer’s alternative e-signature PIN, a drop list for selecting appropriate state returns, and fields for overriding preparation fees, firm, preparer, and data-entry operator information. (For more on using these fields, see *Drake Software User’s Manual: Tax Year 2015*.)

There is also a check box on the **DEMO** screen for indicating an amended return.

NOTES

Part I is not necessary for Form 706-A or Form 706-QDT. To access screens for completing the identifying information for the 706-A or 706-QDT, click the links on the **DEMO** screen or click the applicable tab (**Form 706-A** or **Form 706-QDT**) from the **Data Entry Menu**.

On screen **1**, item 7a, **Court**, allows up to 57 characters to account for the amount of space provided on the form. Item 7b, **Case number**, allows up to 16 characters (13 numbers + 3 dashes).

Part 2: Tax Computation

Most of the information that is printed in Part 2 of the return is calculated from entries made on other screens, as directed by Form 706. For example, the amount for line 13, “Credit for foreign death taxes,” is calculated from the information you enter on screen **CE** (Form 706-CE).

Flow of Data Table 1 shows the screens from which Part 2 amounts are calculated.

Table 1: Tax Computation Fields

Line & Label	Screen to Use in Drake	Additional Information
Line 1, Total gross estate	PROP, U , various Deduction screens	Amount includes stocks, bonds, annuities, insurance, & property in which the decedent had an interest. See “Gross Estate (Schedules A through I; Schedule U)” on page 5.
Line 2, Tentative total allowable deductions	PROP and various Deduction screens	See “Gross Estate (Schedules A through I; Schedule U)” on page 5 and “Deductions (Schedules J through M; Schedule O)” on page 14.

Table 1: Tax Computation Fields

Line & Label	Screen to Use in Drake	Additional Information
Line 4, Adjusted taxable gifts	709	See "Generation-Skipping Transfer (GST) Tax (Schedules R and R-1)" on page 17.
Line 7, Total gift tax paid	709	See "Generation-Skipping Transfer (GST) Tax (Schedules R and R-1)" on page 17.
Line 10, adjustment to applicable credit amount	709	See "Foreign Death Tax (Schedule P; Form 706-CE)" on page 17.
Line 13, Credit for foreign death taxes	CE	See "Foreign Death Tax (Schedule P; Form 706-CE)" on page 17.
Line 14, Credit for tax on prior transfers	Q	Calculated from Schedule Q; see "Credit for Tax on Prior Transfers (Schedule Q)" on page 18.
Line 17, GST taxes payable	R, R2	Calculated from Schedule R; see "Generation-Skipping Transfer (GST) Tax (Schedules R and R-1)" on page 17 for more information.

Direct-Entry Amounts

Enter amounts for the following lines directly onto screen 2:

- **Line 3b, State death tax deduction** — This is the amount of estate, inheritance, legacy, or succession taxes paid as a result of the decedent's death to any state or the District of Columbia.
- **Line 9, Maximum unified credit** — This field overrides the amount calculated for line 9a, "Basic exclusion amount," for Form 706.
- **Line 19, Prior payments** — Enter here any prior payments made of the estate taxes. (See Notes on page 5.)
- **Line 19, U.S. Treasury Bonds** — Enter here any U.S. Treasury bonds redeemed in payment of estate tax. (The executor may not use the treasury bonds to pay generation-skipping transfer taxes.)

The IRS requires that if the tax paid with the return is different from the balance due, you must explain the difference in an attached statement.

NOTES

If prior payments have been made to the IRS and an amount is entered on line 19, you must explain in an attached statement.

To include such a statement, go to the **SCH Attached Statement** screen (accessible from the **Supplemental Forms** tab), enter a **Title** (such as "Line 19 - Prior Payments") and then in the large text box, enter an explanation.

Part 3: Elections by the Executor

Use **Part 3** of screen 1 to complete Form 706, Part 3, "Elections by the Executor."

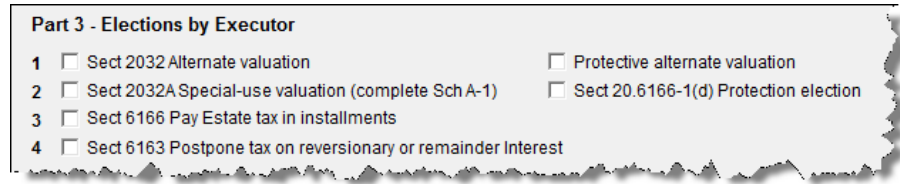


Figure 2: Use Part 3 of screen 1 to complete Part 3, Elections by Executor.

Mark a box to indicate a “Yes” answer; leave the box blank to indicate a “No” answer. (The “No” boxes on Form 706, page 2, Part 3, are marked by default.)

Part 4: General Information

Use screens 2 and 3 to complete Form 706, Part 4, “General Information.” Enter beneficiary information (other than for surviving spouse) on screen 3. Enter all other Part 4 information on screen 2.

Part 5: Recapitulation

Form 706, Part 5, is used to calculate the gross value of the estate. Data for Part 5 flows from various estate and deduction schedules. The type of assets owned by the estate determines which of the schedules should be filed with the return. The fields on screen 5 are override fields; enter data here only to override a calculate amount.

Gross Estate (Schedules A through I; Schedule U)

In Drake, total gross estate information flows primarily from data entered on the **PROP** (Estate Property) screen, the U (Schedule U) screen, and the various screens and schedules listed in the **Deductions** box under the **Form 706 Estate Forms** tab of the **Data Entry Menu**.

In some cases, information must be entered on both the **PROP** screen and one of the schedule screens. For instance, most data for Schedule F (Other Miscellaneous Property Not Reportable Under Any Other Schedule) is entered on the **PROP** screen, but data on the decedent’s safety deposit boxes must be entered on screen **F** (Sch F Other Miscellaneous Property).

The following sections cover the primary screens used for entering gross estate data.

Estate Property (PROP Screen)

Use the **PROP** screen to enter estate property data. This data should be applied, as applicable, to one of the following Form 706 schedules:

Sch. A, Real Estate	Sch. D, Insurance	Sch. G, Transfers
Sch. B, Stocks & Bonds	Sch. E, Jointly Owned Property	Sch. H, Powers of Appt.
Sch. C, Mortgages, Notes, & Cash	Sch. F, Other Misc Property	Sch. I, Annuities

Screen code:
PROP

To enter estate property information:

1. Go to the **PROP** screen, accessible from the **Property** section on the **Form 706 Estate Forms** tab of the **Data Entry Menu**.
2. From the **For Schedule** drop list, select the schedule to which the estate property information should be applied (Figure 3).

The screenshot shows the 'Estate Property' screen. At the top, there are fields for 'For Schedule', 'ST', and 'City'. The 'For Schedule' dropdown menu is open, showing a list of schedules: A Schedule A - Real Estate, B Schedule B - Stocks and Bonds (highlighted), C Schedule C - Mortgages, Notes, and Cash, D Schedule D - Insurance on the Decedent's Life, E Schedule E - Jointly Owned Property, F Schedule F - Other Miscellaneous Property Not Reportable, G Schedule G - Transfers During Decedent's Life, H Schedule H - Powers of Appointment, and I Schedule I - Annuities. Below the list is a section labeled 'If for Sch B:'.

Figure 3: In this example, the estate property information will be applied to Schedule B.

3. Complete the required **Description** and **Value** fields. The **Description** should be detailed enough to allow the IRS to easily locate the property for inspection and valuation. The **Value** should be the value of the property on the date of the decedent's death.
4. (as applicable) If alternate valuation is elected, complete the **Alternate Date** and **Alternate Value** fields.
5. (as applicable) Complete fields for Schedule B, E, F, or I, including the **CUSIP number for Schedules B, E, or F** field.

NOTE

To have all or part of the value flow to Schedule M (Bequests, Etc., to Surviving Spouse), mark the **Flow to Sch M** check box on the **PROP** screen. By default, the program sends the total to Schedule M. To send a different value, complete the **Amount to be carried to Sch M** field. A separate statement will be attached automatically. See "Schedule M (Bequests to Surviving Spouse)" on page 15 for more information on completing Schedule M.

To enter a second property description, press PAGE DOWN. A blank **PROP** screen is displayed.

Schedule A (Real Estate)

Use the **PROP** screen to enter information for Schedule A, Real Estate. Select **Schedule A** from the **For Schedule** drop list, as shown in Figure 3. See the IRS instructions or the Drake Help resources for specific instructions for each field. If any property is subject to a mortgage for which the estate is liable, report the full value of the property in the **Value** field and enter the amount of mortgage in the **Description** field. The unpaid amount of the mortgage may be deducted on Schedule K.

For more **PROP** screens, press PAGE DOWN.

2032A Valuation

If electing section 2032A valuation, Schedule A (**PROP** screen) and Schedule A-1 (**A1** screen) are required.

To complete Schedule A-1:

1. Open screen **A1**, accessible from the **Form 706 Estate Forms** tab.
2. Complete all applicable fields for Parts 1, 2, and 3.
3. Press PAGE DOWN to access fields for completing lines 2, 3, and 4 of Part 2, Notice of Election (Figure 4).

	A	B	C	D
Line	Schedule and Item Number	Full Value (w/o 2032A(b)(3)(B))	Adjusted Value (with 2032A(b)(3)(B))	Qualified Use Value (w/o 2032A(b)(3)(B))
<input type="checkbox"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="checkbox"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="checkbox"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="checkbox"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="checkbox"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Press PAGE DOWN for Schedule A-1, Part 2 - Notice of Election (continued).

Figure 4: Fields for completing lines 2, 3, and 4 of Schedule A-1, Part 2 (Notice of Election)

4. After selecting a **Line** and **Schedule and Item Number**, enter the applicable values.

NOTE Press F1 in a field to see and select the available options for **Line** and **Schedule and Item Number**.

5. Press PAGE DOWN to access fields for completing line 10 of Part 2, Notice of Election.

Other Notes on Real Estate

Be aware of the following information regarding real estate on Form 706:

- Schedule A should include any real property the decedent contracted to purchase. Report the full value of the property (not the equity).
- For jointly owned property that must be disclosed on Schedule E, select **Schedule E** from the **For Schedule** drop list on the **PROP** screen.
- For real estate that is part of a sole proprietorship, select **Schedule F** from the **For Schedule** drop list on the **PROP** screen. Use screen **F** to enter data on the joint depositor or to expand on information regarding safe deposit box contents.
- For real estate that is included in the gross estate under section 2035, 2036, 2037, or 2038, select **Schedule G** from the **For Schedule** drop list on the **PROP** screen.
- For real estate that is included in the gross estate under section 2041, select **Schedule H** from the **For Schedule** drop list on the **PROP** screen.
- If the executor elects to exclude any qualifying conservation easements from the gross estate, complete screen U (Schedule U, Qualified Conservation Easement Exclusion).

Schedule B (Stocks and Bonds)

Schedule B, Stocks and Bonds, is used if the total gross estate contains any stocks or bonds. Use the **PROP** screen to enter information for Schedule B. When in the **PROP** screen, select **Schedule B** from the **For Schedule** drop list.

General guidelines for completing the fields applicable to Schedule B are provided (following). For more specific instructions on each field, see the field-level help for the **Description** field, or the IRS instructions.

Description

For the **Description**, list the stocks and bonds that are included in the decedent's gross estate. Use a different **PROP** screen (press PAGE DOWN) for each stock or bond (or lot thereof). Note the following:

- Bonds exempt from federal income tax are not exempt from estate tax unless specifically exempted by an estate tax provision of the Code. These should be listed on Schedule B.
- Public housing bonds that are part of the gross estate must be included at their full value.
- If estate, inheritance, legacy, or succession tax was paid to a foreign country on any stocks or bonds included here, group those together in the **Description** box under the label "Subjected to Foreign Death Taxes."

Value

Enter the total value of the securities in the **Value** field. This amount should refer to the value of the asset on the date of death unless an alternate valuation date is elected.

Unit Value

Enter the unit value per share of each stock or bond at the time of the decedent's death in the **Unit value** field. The **Unit value** field is located below the **Description** field (Figure 5).

The screenshot shows a software interface titled "Estate Property". At the top, there are dropdown menus for "For Schedule" (set to "B") and "ST" (set to "City"). Below this is a "Description" text box containing "ABC bonds". At the bottom, there are two rows of input fields: "If for Sch B: Unit value....." with a value of "75" entered, and "If for Sch E: Co-tenant....." with an unchecked checkbox and "Percentage incl" partially visible.

Figure 5: For Schedule B, enter value in the **Unit value** field.

NOTE

Use the **Alternate Date** and **Alternate Value** fields if an alternate valuation is adopted.

CUSIP Number

A Committee on Uniform Security Identification Procedure (CUSIP) number is assigned to all stocks and bonds traded on major exchanges and many unlisted securities. This number is typically printed on the face of the stock certificate. Enter the CUSIP number from the stocks or bonds in the field labeled **CUSIP number for Schedules B, E, or F**.

Schedule C (Mortgages, Notes, Cash)

Schedule C, Mortgages, Notes, and Cash, is selected from the **For Schedule** drop list on the **PROP** screen if the total gross estate contains any mortgages, notes payable to the decedent at the time of death, or cash at the time of death.

General guidelines for completing the fields applicable to Schedule C are provided on page 9. For more specific instructions on each field, see the field-level help for the **Description** field, or the IRS instructions.

Order of Items

Use a separate **PROP** screen (press PAGE DOWN) for each item. List items in the following order:

- a. Mortgages
- b. Promissory notes
- c. Contracts by decedent to sell land
- d. Cash in possession
- e. Cash in banks, savings and loan associations, or other types of financial organizations.

Description

For mortgages, the **Description** should include face value, unpaid balance, date of mortgage, date of maturity, name of maker, property mortgaged, interest dates, and interest rate. List promissory notes in same manner as mortgages.

TIP

There is a limited amount of information that will be accepted in the **Description** field. Be as brief as possible and abbreviate where you can. If you still cannot fit everything in, go to the **SCH** screen (accessible from the **Supplement Forms** tab), enter a title referring to the Schedule C, and complete your description.

NOTE

If entering multiple items, use a new **PROP** screen for each description. While in the **PROP** screen, press PAGE DOWN to open a new screen.

See IRS instructions for entering contracts and cash.

Schedule D (Insurance on Decedent's Life)

If the estate is required to file Form 706 and there was any insurance on the decedent's life, whether or not it was included in the gross estate, you must complete Schedule D, Insurance on the Decedent's Life. Use the **PROP** screen to enter information for Schedule D. When in the **PROP** screen, select **Schedule D** from the **For Schedule** drop list.

Include insurance on the decedent's life receivable by or for the benefit of the estate, and insurance on the decedent's life receivable by beneficiaries other than the estate.

For specific instructions on each Schedule D field, see the field-level help in the **Description** field, or the IRS instructions.

If entering multiple items, use a new **PROP** screen for each description. While in the **PROP** screen, press PAGE DOWN to open a new screen.

NOTES

For every life insurance policy listed on Schedule D, Form 712 (Life Insurance Statement), must be requested from the policy issuer. This form is accessible under the **Supplemental Forms** tab in Drake; see “Supplemental Forms” on page 23.

Schedule E (Jointly Owned Property)

Schedule E, Jointly Owned Property, is used if the decedent owned joint property (real estate, personal property, or bank accounts) at the time of death, regardless of whether the decedent’s interest is includable in the gross estate. Use the **PROP** screen to enter information for Schedule E. When in the **PROP** screen, select **Schedule E** from the **For Schedule** drop list.

General guidelines for completing the fields applicable to Schedule E are provided below. For more specific instructions on each field, see the field-level help in the **Description** field, or the IRS instructions.

PROP Screen & E2 Screen

A joint interest is a “qualified” joint interest if the decedent and the surviving spouse held the interest as *either* of the following:

- Tenants by the entirety
- Joint tenants with right of survivorship if the decedent and the decedent’s spouse are the only joint tenants

Note that the **E2** screen might be needed for certain interests. Use the **PROP** screen to enter interests that meet either of the two requirements listed above. Use the **E2** screen to enter joint interests that do *not* meet either requirement. Data entered on the **E2** screen flows to Part 2 of Schedule E on the return.

CUSIP Number

A CUSIP number is assigned to all stocks and bonds traded on major exchanges and many unlisted securities. This number is typically printed on the face of the stock certificate. If stocks or bonds are part of the jointly owned property described on Schedule E, enter the CUSIP number in the field labeled **CUSIP number for Schedules B, E, or F**.

Schedule F (Other Misc Property)

Schedule F, Other Miscellaneous Property Not Reportable Under Any Other Schedule, is used for miscellaneous property that must be included in the gross estate but is not reported on any other schedule. Use the **PROP** screen to enter information for Schedule F. When in the **PROP** screen, select **Schedule F** from the **For Schedule** drop list.

General guidelines for completing the fields applicable to Schedule F are provided below. For more specific instructions on each field, see the field-level help in the **Description** field, or the IRS instructions.

NOTE

If entering multiple items, use a new **PROP** screen for each description. While in the **PROP** screen, press PAGE DOWN to open a new screen.

Schedule F Items

Specifically, the following types of items should be included on Schedule F:

- Debts due the decedent
- Insurance on life of another
- Claims, rights, royalties
- Reversionary interests
- Household goods, personal effects
- Farm product, growing crops
- Interests in business
- Section 2044 property
- Leaseholds, judgments
- Shares in trust funds
- Automobiles
- Livestock, farm machinery

Business Interest

If the decedent owned interest in a partnership or unincorporated business, attach a statement of assets and liabilities for the valuation date and for the five years before the valuation date, and attach statements of net earnings for the same five-year period.

NOTES

Report partnership interests on Schedule F unless the interest is jointly owned; use Schedule E for jointly owned partnerships (see “Schedule E (Jointly Owned Property)” on page 10).

If real estate is owned by sole proprietorship, use Schedule F (not Schedule A). Use the same degree of detail as if reporting on Schedule A (see “Schedule A (Real Estate)” on page 6).

CUSIP Number

A CUSIP number is assigned to all stocks and bonds traded on major exchanges and many unlisted securities. This number is typically printed on the face of the stock certificate. If applicable, enter the CUSIP number in the field labeled **CUSIP number for Schedules B, E, or F**.

Schedule F Check Boxes

Use the check boxes in the middle of the **PROP** screen to report art, collectibles, bonuses, awards, and access to a safe deposit box (Figure 6).

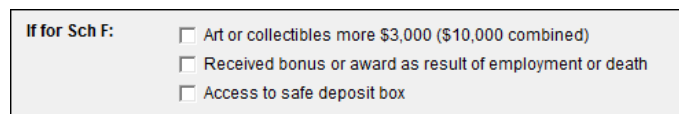


Figure 6: Schedule F Check Boxes on **PROP** screen

Safe Deposit Box

Select **Access to safe deposit box** if the decedent had access to a safe deposit box. If the decedent had a jointly held safe deposit box and the contents are not reported on any other schedules, use screen **F**, accessible from the **Form 706 Estate Forms** tab, to enter the following information:

- Name of the decedent
- Name and relationship of the joint owner
- Reason that the contents were not included on another schedule

Screen **F** should be used only for data regarding joint access to a safe deposit box. Data entered here is printed under question 3 (regarding safe deposit box) of Schedule F on the return.

Schedule G (Transfers)

If section 2032A valuation was elected (from the #2 check box on screen 1), both Schedule G (Transfers During Decedent's Life) and Schedule A-1 (Section 2032A Valuation), must be filed. If you answered "Yes" to questions 11b or 12 on screen 2, fill out Schedule F or G. If the decedent made any of the following transfers, complete Schedule G:

- Certain gift taxes (section 2035 (b))
- Other transfers within 3 years before death (section 2035(a))
- Transfers with retained life estate (section 2036)
- Transfers taking effect at death (section 2037)
- Revocable transfers (section 2038)

Schedule G also must be filed if any section 2035, 2036, 2037, or 2038 transfers were made.

Use the **PROP** screen for Schedule G, and use the **A1** screen, accessible from the **Form 706 Estate Forms** tab, for Schedule A-1. Complete screen **A1** for Schedule G using the steps outlined earlier for Schedule A. (See the steps in "2032A Valuation" on page 6.)

For specific instructions on each Schedule G field, see the field-level help in the **Description** field of the **PROP** screen, or the IRS instructions.

Schedule H (Powers of Appointment)

Schedule H, Powers of Appointment, must be submitted if question 14 of Form 706, Part 4, is answered "Yes." (In other words, if the decedent ever possessed, exercised, or released any general power of appointment and the line 14 check box on screen 2 is marked.) Use the **PROP** screen to enter information for Schedule H. When in the **PROP** screen, select **Schedule H** from the **For Schedule** drop list.

For specific instructions on each Schedule H field, see the field-level help in the **Description** field of the **PROP** screen, or the IRS instructions.

Schedule I (Annuities)

Schedule I, Annuities, must be submitted if the question 16 of Form 706, Part 4, is answered "Yes." (In other words, if the decedent was receiving an annuity at the time of death). (See line 16 on screen 2.) Use the **PROP** screen to enter data for Schedule I. When in the **PROP** screen, select **Schedule I** from the **For Schedule** drop list.

General guidelines for completing the fields applicable to Schedule I are provided below. For more specific instructions on each Schedule I field, see the IRS instructions.

Description

In describing an annuity, provide the grantor's name and address and specify if the annuity is under an approved plan. If it is under an approved plan, indicate the ratio of the decedent's contribution to the total purchase price of the annuity.

If the decedent was employed at the time of death and the annuity became payable to a surviving beneficiary, indicate the ratio of the decedent's contribution to the total purchase price of the annuity.

Excluding Lump-Sum Distribution

If lump sum distributions are being excluded from the list of annuities, mark the box in the **If for Sch I** line of the **PROP** screen (Figure 7).

The screenshot shows a software interface with several sections:

- If for Sch F:** Three unchecked checkboxes: 'Art or collectibles more \$3,000 (\$10,000 combined)', 'Received bonus or award as result of employment or death', and 'Access to safe deposit box'.
- If for Sch I:** One checked checkbox: 'Excluding lump-sum distribution (section 2039(f)(2))'. This checkbox is circled in red.
- Flow to Sch M:** One unchecked checkbox: 'Send this information to Schedule M - Bequests to Surviving Spouse'. Below it is a text field 'Amount to be carried to Sch M.....' followed by an equals sign and an empty input box.
- Two more unchecked checkboxes: 'Check if QTIP property' and 'Section 20.2010-2T(a)(7)(ii) applies'.

Figure 7: Check box indicating exclusion of lump-sum distribution

Schedule U (Qual. Cons. Easement Exclusion)

Schedule U is required if the executor elects to exclude any qualifying conservation easements from the gross estate. In Drake, use screen **U**, accessible from the **Property** section under **Form 706 Estate Forms** tab, to enter data for Schedule U. See the IRS instructions for details on completing this schedule.

NOTE

A worksheet is required if, at the time of the contribution of the conservation easement, the value of the land subject to the easement, or the value of any retained development right, was different from the estate tax value. To have the Drake program calculate this worksheet, mark the **Worksheet is required** box near the top of screen **U**.

Form 8971, Information Regarding Beneficiaries

New for 2015: The IRS now requires Form 8971, Information Regarding Beneficiaries Acquiring Property from a Decedent, to be filed for any Form 706 filed as of July 2015 to report the basis of assets reported on the Form 706 and who inherited the asset.

Screen **8971** is available from the **Supplemental Forms** tab of the Data Entry Menu.

On the screen, enter the ID number and contact information of the beneficiary, and the date the executor (or other person required) provided the beneficiary with Schedule A. If the executor made an election on the estate tax return to use alternate valuation under section 2032, provide that date. Answer the IRS question, then press **PAGE DOWN** to complete a Form 8971 for any other beneficiaries.

Close screen **8971** and open the **PROP** screen (accessible from the **Form 706 Estate Forms** tab of the Data Entry Menu (or by typing **PROP** in the selector field and pressing **ENTER**). Enter the information about any property inherited by the beneficiary at the top of the screen.

At the bottom of the **PROP** screen, in the new **Form 8971** section, answer the question, “Did this asset increase estate tax liability, then, in the **Beneficiary Information** fields, enter the taxpayer Identification Number (**TIN**) and name of the beneficiaries who received assets from the estate. For properties of which beneficiaries received a percentage, enter that percentage received by each beneficiary in the **Percentage** column.

When the return is calculated, Form 8971 will be produced, along with a Schedule A for each listed beneficiary. Supply each beneficiary with a copy of the beneficiary's Schedule A for filing with that person's or entity's tax return.

Deductions (Schedules J through M; Schedule O)

In Drake, total gross estate information flows primarily from data entered on the **PROP** (Estate Property) screen, the **U** (Schedule U) screen, and certain screens listed in the **Deductions** section on the **Form 706 Estate Forms** tab of the **Data Entry Menu**.

The following sections cover the following screens from the **Deductions** box:

- **Screen J** — Schedule J, Funeral & Administration Expenses
- **Screen K** — Schedule K, Debts, Mortgages, & Liens
- **Screen L** — Schedule L, Net Losses, Admin Expenses
- **Screen M** — Schedule M, Bequests to Surviving Spouse
- **Screen O** — Schedule O, Charitable, Public Gifts

Schedule J (Funeral & Other Expenses)

Funeral and certain other expenses are deductible. These expenses should be reported on Schedule J, Funeral Expenses and Expenses Incurred in Administering Property Subject to Claims. In Drake, use screen **J** to report these expenses.

Screen **J** has fields for up to two funeral expenses and up to two miscellaneous expenses. Press PAGE DOWN to open a blank screen **J** and enter additional expenses.

NOTE

Itemize funeral expenses in the top two **Description** and **Expense** fields. Exclude any amounts that were reimbursed (such as death benefits payable by the Social Security Administration or the Veterans Administration). Press PAGE DOWN for another Schedule J screen.

Mark the box to the right of a line if a protective claim has been filed for that expense.

See the IRS instructions for further guidance in completing Schedule J.

Schedule K (Debts, Mortgages, & Liens)

Debts, mortgages, and liens against the decedent are reported on Schedule K, Debts of the Decedent, and Mortgages and Liens. Use screen **K** to enter this data. Listed below are brief descriptions of the screen **K** fields. See the IRS instructions for more details, and for exceptions.

- **Debts** — List valid debts the decedent owed at the time of death.
- **Amount** — Enter the amount of the mortgage or lien.
- **Mortgages and Liens** — List only obligations secured by mortgages or other liens on property that is included in the gross estate at its full value. Include a description of the mortgage or lien.
- **Amount** — Enter the amount of the mortgage or lien.

If more screens are needed, press PAGE DOWN.

At the top of the **K** screen are two check boxes:

- If the taxpayer is aware of any actual or potential reimbursement to the estate for any debt of the decedent, mortgage, or lien claimed as a deduction on this schedule, mark the top check box.
- If any of the items on this schedule are deductible under Reg. section 20.2053-4(b) and Reg. section 20.2053-4(c), mark the second box.

Mark the box to the right of a line if a protective claim has been filed for that expense.

Schedule L (Net Losses & Expenses Incurred)

Schedule L is required in order to claim deductions for net losses during administration, and for expenses incurred during administration of estate property not subject to claims. Use screen **L** to report this information. Below are brief descriptions of the screen **L** fields. See IRS instructions for limitations and further explanations.

- **Net losses during administration** — Describe net losses during administration. Do not include losses claimed on a federal income tax return.
- **Expenses incurred for property not subject to claims** — Describe any expenses incurred in administering property that was not subject to claims. Indicate whether estimated, agreed upon, or paid.
- **Amount** — Enter the amount of the loss or expense.

Mark the box to the right of a line if a protective claim has been filed for that expense.

Schedule M (Bequests to Surviving Spouse)

Schedule M is required in order to claim a deduction for bequests to the surviving spouse. Generally, Schedule M can include all property interests passing from the decedent to the surviving spouse and that are included in the gross estate. (See the IRS instructions for explanations of terminable interests, nondeductible terminable interests, and QTIP elections.)

Using the PROP Screen for Sch. M

Use the **PROP** screen to enter most of the information for Schedule M:

1. Open the **PROP** screen and complete the applicable fields in the top section of the screen (**Description**, **Value**, etc.)
2. On the **Flow to Sch M** line, mark the **Send this information to Schedule M** box (Figure 8).
3. Enter the amount (if different from the value provided) to flow to Schedule M. A statement is generated with the return that lists the property and stated value.

NOTE

By default, the value entered in the **Value** field of the **PROP** screen is carried to Schedule M in the return. To have different amount flow to Schedule M, mark the check box and enter an amount in the **Amount to be carried to Sch M** override field. (See Figure 8.)

The screenshot shows a portion of the PROP screen. At the top, there is a checkbox for 'Access to safe deposit box'. Below that, there are two rows of options. The first row has a checkbox for 'Excluding lump-sum distribution (section 2039(f)(2))'. The second row has a checked checkbox for 'Send this information to Schedule M - Bequests to Surviving Spouse'. Below this checked checkbox is a text field labeled 'Amount to be carried to Sch M' followed by an equals sign and a small input box containing the number '12345'. Below this are two more unchecked checkboxes: 'Check if QTIP property' and 'Section 20.2010-2T(a)(7)(ii) applies'. A red circle is drawn around the checked checkbox and the amount field.

Figure 8: Schedule M section of the **PROP** screen

4. If applicable, mark the box to indicate a **QTIP property** and the **Section 20.2010-2T(a)(7)(ii)** check boxes regarding the amount in the override field. (There are **QTIP property** and **Section 20.2010-2T(a)(7)(ii)** check boxes on the **M** screen that affect amounts entered on the **M** screen.)

Using Screen M for Sch. M

Use screen **M** to report the following Schedule M information:

- **Qualified disclaimers** — To be a qualified disclaimer, a refusal to accept an interest in property must meet the conditions of section 2518. These are explained in Reg. sections 25.2518-1 through 25.2518-3. If property passes to a surviving spouse, place a check mark in box **1** of screen **M** and attach a copy of the written disclaimer required by section 2518(b).
- **Information about the surviving spouse** — Enter information on the surviving spouse's citizenship status and date of birth.
- **Sect. 2056(b)(7): QTIP** — Use the check box on line **3** to elect out of QTIP Treatment of Annuities. If you want an entry to be on both section A1 and section B1 of Schedule M, mark the line **3** check box on screen **M**. Press PAGE DOWN for a second screen **M**. Do not mark the line **3** check box on the second screen. The first entry will appear in B1 with additional entries listed on the statement. Only on the first item can you reference the QTIP property.
- **Description of the property in the bequest** — If you entered this information on the **PROP** screen and marked **Flow to Sch M**, you do not need to re-enter it here.
- **Information about estate taxes, other taxes, and GST taxes** — Enter the amount of federal state taxes, death taxes, and state and federal GST taxes payable out of property interests described in the **Description** fields.

If applicable, mark the box to indicate a **QTIP property** and the **Section 20.2010-2T(a)(7)(ii)** check boxes.

For more information on completing Schedule M, see Drake field-level helps and consult the IRS instructions.

Schedule O (Other Gifts & Bequests)

Schedule O, Charitable, Public, and Similar Gifts and Bequests, must be submitted if the estate contained gifts to charities, public gifts, or certain bequests. Use screen **O** to enter Schedule O information. Listed below are instructions for the item **2** fields on screen **O**.

- **Description** — Enter the name and address of the beneficiary of the gift or bequest.
- **Character** — If the beneficiary is an institution, enter the character of the institution.
- **Amount** — Enter the amount of the gift or bequest.

Enter in the fields on line **4a** any federal estate taxes, death taxes, and state and federal GST taxes payable out of property interests described in the **Description** fields.

If applicable, mark the **Section 20.2010-2T(a)(7)(ii)** check boxes.

For more information on Schedule O, and for information on what attachments may be required, consult the IRS instructions.

Generation-Skipping Transfer (GST) Tax (Schedules R and R-1)

Drake provides the following screens for completing forms related to GST tax:

- Screen **R** — For Schedule R, Generation-Skipping Transfer Tax, Part 1
- Screen **R2** — For Schedule R, Parts 2 and 3
- Screen **R1** — For Schedule R-1, Direct Skips From a Trust
- Screen **709** — For Schedule R, Part 1, lines 2 (“Total GST exemption allocated by the decedent”) and 3 (“Total GST exemption allocated by the executor”)

These screens are accessible from the **Form 706 Estate Forms** tab of the **Data Entry Menu**. The **R**, **R1**, and **R2** screens are located in the **Deductions** section, the **709** link is on the left side of the menu.

NOTE

Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return is filed using the 1040 program in Drake. For more information on completing and filing Form 709, see “Gift Tax Returns” in Chapter 5 of the *Drake Software User’s Manual: Tax Year 2015*.

For more information on providing Form 709 information, see the IRS instructions.

Schedule R Because some amounts printed on Part 1 of Schedule R are actually carried from Parts 2 and 3, screen **R** has fields for only item 9 of Part I (“Allocation of GST exemption to trusts”). The screen has space for entering data for up to two items. To add more items, press PAGE DOWN.

On screen **R2**, you can select whether to have the information printed on Schedule R, Part 2 or on Schedule R, Part 3, by marking the applicable box (Figure 9). (If both boxes are marked, the information flows to Part 2.)

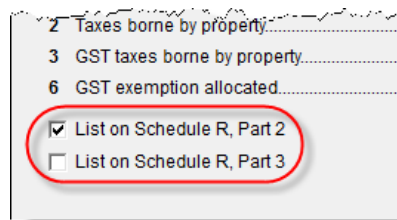


Figure 9: Select the box to have GST information printed in either Part 2 or Part 3 of Schedule R.

Foreign Death Tax (Schedule P; Form 706-CE)

Use the top section of screen **P** to enter data for Schedule P, Credit for Foreign Death Taxes. Use the bottom half of this screen to enter data for Form 706-CE, Certificate of Payment of Foreign Death Tax.

Note that fields for Schedule P and Form 706-CE are located on the same screen. This screen can also be accessed by clicking either **P** or **CE** under the **Form 706 Estate**

Forms tab in the **Data Entry Menu**, or by typing either P or CE in the selector field and pressing ENTER.

NOTE

If a foreign government refuses to certify Form 706-CE, the form must be filed directly with the IRS. See IRS instructions for completing Form 706-CE.

Credit for Tax on Prior Transfers (Schedule Q)

Schedule Q is required in order to claim a credit for tax on prior transfers. Use screen **Q** to enter data for Schedule Q. This data is calculated and carried to Form 706, Part 2, line 14 (“Credit for tax on prior transfers”).

Use the top section of screen **Q** to enter transferor information for Schedule Q. Use the rest of screen **Q** to complete the Schedule Q worksheet.

NOTE

To enter multiple transferors, press PAGE DOWN for a new screen **Q**. Transfer amounts from subsequently added transferors appear in columns B and C of the Schedule Q worksheet. A new Schedule Q and Schedule Q worksheet are generated if there are more than three transferors.

Form 706-NA Credit

To claim a credit for tax on prior transfers on Form 706-NA (for decedents who were neither U.S. citizens nor residents at the time of death), use the **PROP** screen (not screen **Q**) to fill out the property schedules. On the **PROP** screen, treat the prior transfer as any other property.

NOTE

Form 706-NA cannot be completed in Drake. Download Form 706-NA from the IRS website (*irs.gov*) and use the totals generated in Drake to manually complete the form.

Form 706-A

An heir is required to submit Form 706-A, U.S. Additional Estate Tax Return, to report certain additional estate tax imposed by section 2032A. Use the screens listed under the **Form 706-A** tab of the **Data Entry Menu** to enter most 706-A information.

NOTE

To file Form 706-A, the qualified heir and the tax preparer must both sign the return.

Part I: Heir and Decedent Information

To enter information for the heir and decedent on Form 706-A:

1. Open the 706-A return in Drake. (For information on creating a new return, or on creating a 706-A return for an existing client, see “Opening an Estate Return for an Individual” on page 2.) By default, the program displays the **DEMO** screen when a new 706 return is created.

- After verifying that the heir's name and SSN are correct, click the **Prepare Form 706-A** link at the top of the **DEMO** screen to open screen **706A**.

NOTE

A name can be corrected on screen **DEMO**. If the SSN is incorrect, however, you must go to **Tools > File Maintenance > Change SSNs on File** in order to correct it. See the *Drake Software User's Manual: Tax Year 2015* for more information on changing an SSN. (PPR users must use another return if changing an SSN, thus reducing the number of their returns.)

- Alternately, close the **DEMO** screen and go to the **Form 706-A** tab to access the menu listing all Form 706-A screens (Figure 10), and then click to open the **706A** screen.

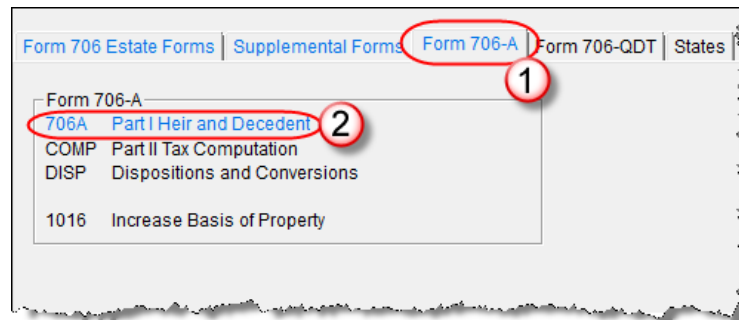


Figure 10: Click the **Form 706-A** tab from the **Data Entry Menu** (#1) and click the **706A** link (#2) to open the **706A** screen.

- Complete all applicable fields for the qualified heir and the decedent.

NOTES

The **706A** screen also has fields for entering miscellaneous codes and an invoice number, fields for overriding preparation fees, firm, preparer, and data-entry operator information, plus a field for entering a preparer's alternative e-signature PIN.

For more on using these fields, see *Drake Software User's Manual: Tax Year 2015*.

Part 2: Tax Computation

Use the **COMP** screen to enter data for Form 706-A, Part II, Tax Computation. See the IRS instructions for more information on completing this section of the form.

Form 706-A Schedules

Use the **DISP** screen to enter data for the Form 706-A schedules, listed below:

- Schedule A, Disposition of Specially Valued Property or Cessation of Qualified Use
- Schedule B, Involuntary Conversions or Exchanges
- Schedule C, Dispositions to Family Members of the Qualified Heir

To enter data for one of the Form 706-A schedules:

1. Open the **DISP** screen, accessible from the **Form 706-A** tab.
2. From the **For Schedule** drop list, select the schedule to which the screen should apply (Figure 11).

The image shows a software interface with a 'For Schedule' dropdown menu. The menu is open, displaying three options. The second option, 'B Schedule B - Involuntary Conversions or Exchanges', is highlighted in blue. Below the dropdown, there are several empty text input fields.

Figure 11: Select a schedule from the **For Schedule** drop list.

3. In the fields provided, enter the description, schedule letter, item number, and disposition date.
 - The **Description** should match that used on the Form 706 filed for the decedent.
 - The **Form 706 Sch** and **Item #** boxes should have the letter and item number used to report the property on the decedent's Form 706.
 - The **Disposition date** is the date of disposition or the date that qualified use ceased for the property.
4. Complete the remaining applicable fields. See the IRS instructions and Drake field helps for more information on specific fields on Schedules A, B, and C.

To enter additional dispositions, press PAGE DOWN.

Section 1016(c) Election

Use the **1016** screen, accessible from the **Form 706-A** tab, to have the heir elect Section 1016(c) to increase the basis of specially valued property. In the first box, enter the amount of interest to be paid on the additional estate tax due because of the Section 1016(c) election. In the other three boxes, enter the Form 706 schedule, item number, and description of the property to which the election is made.

Form 706-QDT

Screens for completing Form 706-QDT, U.S. Estate Tax Return for Qualified Domestic Trusts, can be accessed from the **Form 706-QDT** tab (see Figure 12 on page 21) of the **Data Entry Menu**, or via the link on the **DEMO** screen.

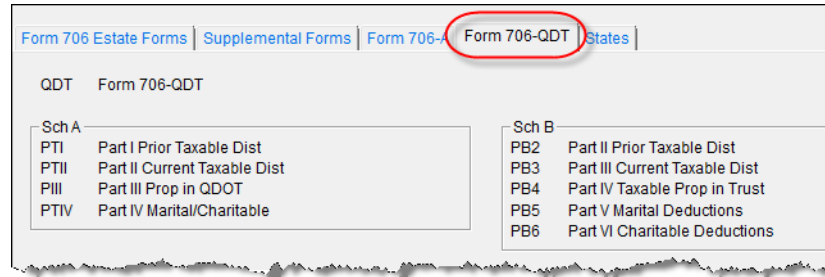


Figure 12: Form 706-QDT Data Entry Menu

NOTE

The **QDT** screen contains override fields for fee, firm, preparer, and data entry operator. It also has fields for assigning an invoice number and entering the preparer's alternative e-signature PIN. For more on using these fields, see *Drake Software User's Manual: Tax Year 2015*.

Parts I, II, and III

Use the **QDT** screen to enter data for Parts I, II, and III of Form 706-QDT. Use the top half of the screen for Part I, General Information. Use the fields in the **Part II Elections** section (at the lower left side of the screen) to complete Part II, Elections by the Trustee/Designated Filer. Use the fields in the **Part III Tax Computation Override** section (above Part II) to complete Part III, Tax Computation.

Schedule A

Schedule A of Form 706-QDT consists of four parts:

- Part I, Summary of Prior Taxable Distributions
- Part II, Summary of Current Taxable Distributions
- Part III, Summary of Property Remaining in QDOTs at Death of Surviving Spouse
- Part IV, Summary of Marital and Charitable Deductions

Use the **PTI**, **PTII**, **PIII**, and **PTIV** screens to enter data for Parts I, II, III, and IV, respectively. Press PAGE DOWN as needed for additional screens.

Schedule B

Schedule B of Form 706-QDT consists of six parts:

- Part I, General Information
- Part II, Taxable Distributions from Prior Years
- Part III, Current Taxable Distributions
- Part IV, Taxable Property in Trust at Death of Surviving Spouse
- Part V, Marital Deductions
- Part VI, Charitable Deductions

Part I information flows from the **Name of trust** and **Name of designated filer** fields on screen **QDT**. Use screens **PB2**, **PB3**, **PB4**, **PB5**, and **PB6** to enter data for Parts II, III, IV, V, and VI, respectively. Press PAGE DOWN as needed for additional screens.

Filing for Extensions (706 and 706-A)

Form 4768, Application for Extension of Time To File a Return and/or Pay U.S. Estate (and Generation-Skipping Transfer) Taxes, must be submitted in order to apply for an automatic six-month extension of time to file either Form 706 or Form 706-A. In Drake, enter all applicable extension request data on screen **EXT**, located under the **Supplemental Forms** tab.

On the top-left corner of the screen, mark the proper box to request an automatic extension or an additional extension (Figure 13).

Form 4768 - Application for Extension of Time to File

Name of filer other than executor.....

Part II - Automatic extension Form 706-A only - Date return is due..... =

Part II - Additional extension Extension date requested

Part III - Extension of Time to Pay (Section 6161)

Part IV - Taxes not determined Extension of time to pay

Request is for tax that will be due when Form 706 is filed

Request is for tax due to amended or supplemental 706

Request is for additional tax due as result of examination of 706

Request is for a section 6166 installment payment

Part IV 1. Amount of estate and GST taxes estimated to be due

Figure 13: Extension options on screen **4768**

If requesting an additional extension, enter the **Extension date requested**.

Executor Not Filing 4768

If someone other than the estate executor is filing Form 4768 for the estate return, enter that person's name in the text box at the top of the screen, and additional filer information in the **Signature and Verification** section in the lower half of the screen. Use Drake's field-level helps for more information on completing each field.

Form 706-A Due Date

On the **EXT** screen, the **Form 706-A only - Date return is due** box is used only to override the **Disposition date** from the **DISP** screen of the **Form 706-A** tab. The due date will be six months after this date.

NOTE

A date is required in either the **Form 706-A only - Date return is due** box on the **EXT** screen or in the **Disposition** date field of the **DISP** screen in order to file the extension. If there were no dispositions or conversions, enter the date on the **EXT** screen.

Extension Request & Amounts to Pay

Use **Part III** of screen **4768** to request an extension of time to pay estate taxes. After selecting the appropriate box on the left side of the screen, enter a date in the **Extension of time to pay** text box on the right side of the screen. Use **Part IV** to enter the estimated amount of estate and GST tax due and the amount of cash the estate is short of the required total.

Explanation

In the lower half of screen **EXT**, use the **Explanation** text box to enter an explanation for the extension request. This explanation is carried to a statement that is generated when Form 4768 is printed.

Filing after Extension

If the extension request has already been filed and your client is now ready to file the return, take the following steps:

1. (706 only) On screen **1**, mark the **Time to file this Form 706 was extended** box.
2. On screen **EXT**, select the **I have paper-filed...** box at the bottom of the screen. When the return is generated, the program produces a client results letter (telling the client that the return has been prepared and should be signed) rather than an Extension Letter (telling the client that an extension application has been prepared) with the return.

Amending a Return (706 Only)

To amend an estate (Form 706) return that has already been filed, file another Form 706 and attach a copy of pages 1, 2, and 3 of the original Form 706 that has already been filed. Go to screen **DEMO**, select **Amended return** in the lower right corner of the screen. The words “Supplemental Information” are automatically printed on the amended return. Attach pages 1, 2, and 3 of the original return before mailing.

Supplemental Forms

Various other screens may be needed for estate returns. To see these screens, open the **Supplemental Forms** tab from the **Data Entry Menu**.

Life Insurance

Use the **712** screen (Form 712, Life Insurance Statement), accessible from the **Supplemental Forms** tab, to enter information on any life insurance policies that covered the decedent. Note that the **712** screen actually consists of two screens. After entering the requested information about the policy, press **PAGE DOWN** to complete the additional fields.

A separate **712** screen must be filled out for each policy. For additional **712** screens, press **CTRL+SHIFT+PAGE DOWN**.

Election Options

Certain election options from the IRS code are available for 706 filers. Use the **ELEC** screen, accessible from the **Supplemental Forms** tab, to indicate election options.

Other Screens

For information on the other supplemental screens—such as the **BILL** screen, the **LTR (Letter)** screen, the **NOTE (Preparer's Notes)** screen, the **PAD (Preparer's Notepad)** screen, the **SCH (Attached Statement)** screen, or the **8822 (Change of Address)** screen—see the *Drake Software User's Manual: Tax Year 2015*.

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