

General Instructions for Iowa Inheritance Tax Return (IA 706)

Who Must File?

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.

Gross Estate

Gross estate includes all those items or interests in property passing by any method of transfer specified in Iowa Code section 450.3.

The return includes 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 Iowa 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.)

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 as defined in Iowa Code section 450.1(1)(e), an Iowa inheritance tax return should **not** be filed unless the estate has a federal estate tax requirement to file. The voluntary election to file a federal estate tax return does not create a requirement to file the

IA 706. 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.

Due Date of the Return

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

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 executor or trustee designated on the return.

Valuation

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 owed 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 it is not eligible for federal estate tax purposes.

The election to specially value real estate under 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 26 C.F.R. 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 and Tax on Net Estate

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 (SSN). 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 general order for abatement under Iowa Code section 633.436. Include 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.

Penalty

Note: Penalties can only be waived under limited circumstances, as described in Iowa Code section 421.27.

Failure to Timely File a Return

A penalty of 10% will be added to the tax due for failure to timely file a return if the return is filed after the original due date of the return and if at least 90% of the correct tax is not paid by the original due date of the return.

Failure to Timely Pay the Tax Due or Penalty for Audit Deficiency

A penalty of 5% will be added to the tax due if the return is filed by the original due date and at least 90% of the correct tax is not paid by the due date.

When the failure to file penalty and the failure to pay penalty are both applicable, only the failure to file penalty will apply.

Line 12: Unpaid tax accrues interest. See 701 Iowa Administrative Code 10.2 for the statutory interest rate.

Signature: The return must be signed 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.

Line 29: 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 32: Report total from Schedule G, parts A and B. Include copies of the federal gift tax returns.

Additional information can be found on the [Department website \(www.iowa.gov/tax\)](http://www.iowa.gov/tax).