APPRAISAL TODAY

Estate Appraising Special Report

Lender business has slowed down, as it always does in the inevitable boom and bust of lender appraising.

Most of my current appraisal work is for estates and trusts. Many are multiple appraisal assignments. A few years ago I completed a 13 property assignment with a $15,000 fee. What types of properties did I appraise? All were residential rentals, homes, 2-4 units, and apartment buildings. The estate had almost 100 properties. Over 80 of them were single family homes. I had previously appraised six of the properties two years ago, when the first spouse passed away.

Many appraisers are worried about their futures - will appraisers be needed 5, 10, or 20 years in the future? Most appraisals are done for lending purposes. Lending has been changing to placing much more emphasis on the credit worthiness of the borrower than the value of the collateral.

Even if there are problems in the future requiring appraisals, lending is a notoriously cyclical business. Why not try working for other types of clients who provide a more stable source of income?

An excellent option for both commercial and residential appraisers is appraisals for estate, trust, and gift purposes.

With the recent popularity of living trusts, and sophisticated tax avoidance methods such as family limited partnerships, appraisals are needed both for tax planning purposes prior to a property owner's death, and for settling an estate after death.

Why do I like estate and trust appraisals? I very seldom have turnaround pressure, value pressure, and payment problems.

Why do we have an estate tax in this country?

It was started to make sure we didn't have the inherited aristocracy of Europe, which controlled much of the wealth there until recently.

Many states have eliminated estate taxes as they are very unpopular.

Trust appraisals

Most trust appraisals are when a decedent owned property in a trust.

Sometimes, when a property is put into or taken out of a trust, or the trust is changed, appraisals are needed.

Attachments

1. Introduction to Estate and Gift taxes, IRS publication 950
2. Estate tax Q&As, IRS, general questions for taxpayers
3. Projected Estate Tax Returns to 2012. IRS.
4. Gift tax return, IRS form 709

Marital deduction - when appraisals are really needed for capital gain taxes

Most of my estate work is to establish a new capital gains basis as of the date of death. This is particularly important when the first spouse dies, as the real estate is a "pass through" to the surviving spouse and no taxes are due at that time. When the second spouse sells a property or dies, capital gains taxes are due, but only for an increase over the basis established when the first spouse dies.

Some of my work is for distributing the estate assets among the beneficiaries. I seldom do appraisals for estate tax purposes.

When one spouse dies, the joint assets pass through to the surviving spouse without any taxes are due. The real estate assets need to be appraised. Typically a real estate agent is used or the owner estimates the value.

With the recent significant price increases in real estate, many people have properties that have significantly increased in value. For example, the couple purchased a home for $100,000 in 1965. Now it is worth $500,000. If a new basis is not used when the property is sold or changes ownership, the capital gain is $400,000. If an appraisal as of the day the first spouse passed away, the new basis for capital gains taxation is $400,000.

Although relatively few such properties are appraised by licensed or certified appraisers, the minimal appraisal fees as compared with the real estate capital gains seems like a good idea.

My work has definitely increased over the past 10 years for marital deductions. Savvy attorneys are getting appraisals relatively soon after he date of death. If no appraisal was done when the first spouse died, some advisors are requesting appraisals from that prior date. The farther back in time I go, the higher my fee. But the estate is saving so much money, I am always surprised that so few people get them done.

When are appraisals needed?

Although we usually think of appraisals for estate taxes when someone dies, actually many appraisals are needed for other purposes.

As an overview, a non-exhaustive list of when an appraisal could be needed is:

1. Sale to a relative
2. Partitioning an estate among the heirs or beneficiaries
3. Sale to a non-relative
4. Prior to listing the home for sale
5. Partial interests
6. Alternate valuation date - estate tax purposes (if the property value declines after the date of death)
7. Gifts and gift trusts (to charities or children typically)
8. Determining the basis for capital gains tax
9. Family limited partnerships and other types of trusts/partnerships

What if you only do residential or commercial appraisals, not both?

You can hire another appraiser to do the appraisal types you don't do, or appraisals in a geographic area where you don't work. Or, you can refer the executor or attorney to another appraiser. I have done both. I usually take a very minimal fee, or no fee, for handling the appraisals done by other appraisers.

What if the estate ("death") tax is repealed?

If the estate tax is repealed, appraisals will still need to be done for establishing a new basis for capital gains.

The current federal estate tax law is set to expire in 2011, unless there is congressional action. Currently the estate tax exemption rises every year until 2009:

2007: Exemption is $2 million; top rate is 45 percent.

2008: Exemption is $2 million; top rate is 45 percent.

2009: Exemption is $3.5 million; top rate is 45 percent.

2010: No Estate Tax

2011: Exemption reverts to 2001 levels, $1 million and a top rate of 60 percent.

Whether or not the estate tax will be repealed or another law is passed is unknown. The bipartisan Joint Committee on Taxation estimates that a permanent repeal would cost $271 billion over 10 years.

Who orders the appraisals?

For residential appraisals (up to a few homes or small income properties) I am often called by the executor or administrator who gets my name from a real estate agent or out of the Yellow Pages. Often, the attorney or accountant asks the executor to obtain an appraisal. For larger estates, the appraisals are typically handled by attorneys.

Who orders appraisals:

1.Attorneys (estate distribution, tax issues)
2.Accountants and enrolled agents (tax returns)
3.Beneficiaries of gift trusts
4.Executors and administrators
5.Trustees

Appraisals for non-tax purposes

I regularly do estate-related appraisals for non-tax purposes.

The executor sometimes needs values to partition an estate. For example, the decedent has two children, one gets the house and the other gets the stocks, but the estate is to be divided equally between them.

Or, two or three properties are left to the children, but the will doesn't specify how they are to be divided up.

Sometimes the beneficiaries can't agree on 'how much they can get' from the property. One of them may not trust real estate agents and think they 'will try to list it low.' The executor gets an appraisal.

If a relative or a private party wants to purchase the property from the estate, the executor will probably want an appraisal as part of his or her fiduciary duty.

Who can do the valuations?

The IRS does not specify that a licensed appraiser has to do the appraisals. The owner can provide a value, a real estate agent, or just about anyone, except for gift returns (see below).

For larger estates, a licensed appraiser is preferred. If the return is challenged, the IRS will bring out their very qualified experts to refute the estate's valuation. An appraiser with superior credentials and methodology and local experience is preferred as the tax court and circuit courts often look to the best appraisal done by the most competent appraiser rather than "splitting the difference."

If there is no estate tax liability, for example, because of the marital deduction, sometimes a letter from a real estate agent is used. However, this "appraisal" will be used for establishing the basis for future taxes, and can be challenged by the IRS.

I always mention the possibility of an IRS challenge when the caller is reluctant to order an appraisal or is shopping for a low fee.

Appraisals for gifts

IRS rules for appraisals on gifts is much stricter than for estates, primarily due to issues with personal property valuation, such as paintings.

IRS Form 709, Noncash Charitable Contributions (over $500) requires that the appraiser sign a declaration, including "I declare that I hold myself out to the public as an appraiser or perform appraisals on a regular basis ... I understand that any false or fraudulent overstatement of the property value ... may subject me to the penalty under section 6701(a)."

When someone donates property to a charity, or gives a part annually to their children, an appraisal is required.

If you do an appraisal for gifting, be sure to take the time to make it as accurate and supportable as possible. I charge a higher fee for these.

Non-profit market - gifts

Organizations that administer gift trusts, such as hospitals, colleges, and other non-profit groups, need appraisals. Contact them directly. Many advertise in local newspapers or magazines.

Because of the IRS's very strict valuation rules on gifting, this may be a good source of work.

Appraisals for trusts and family limited partnerships

When one of the owners dies or trusts and partnerships are restructured, appraisals are needed. The appraisals are typically requested by the attorneys handling the trusts and partnerships.

Probate appraisals

When a person dies and the will is probated, appraisals of the decedent's assets are needed.

In many states, fee appraisers are

Some Definitions

- Administrator - person appointed to manage an estate if there is no will
- Alternate valuation date - for federal estate tax purposes, the value of the gross estate six months after the date of death, unless property is distributed, sold, exchanged, or otherwise disposed of within six months, when the value is as of the date of disposition
- Beneficiary - person or organization who is legally entitled to receive gifts made under legal documents such as a trust or will
- Death taxes - Taxes levied on the property of a person who died. Federal taxes are called Estate Taxes. State taxes are called by various names, such as Inheritance Taxes
- Decedent - the person who died
- Estate tax - tax imposed on the right of a person to transfer property at death (federal and some states)
- Executor - representative named by the deceased in his or her will to handle the decedent's affairs
- Gift - property transferred freely to a person or institution, before or after a death
- Gross estate - the total value of all property in which the decedent had an interest, and is included by the IRS code
- Heirs - persons who are entitled to receive your property if there is no will or other device (legal description)
- Inheritance tax - tax levied on the rights of the heirs to receive property from a deceased person (some states)
- Intestate - without a will
- Living trusts - set up while a person is alive and which remain under the control of that person until death - used to minimize probate
- Marital deduction - all property can be passed to a surviving spouse without any tax
- Probate - the process of proving the validity of the will and executing its provisions under the guidance of the appropriate public official
- Taxable estate - assets minus liabilities, excluding property left to a surviving spouse or charity for federal estate taxes
- Testate - a will or other transfer device such as a living trust is left by the decedent
- Trust - one person or institution (trustee) controls property given to another person (trustor) for the benefit of a third person (beneficiary)

appointed by the judge to appraise the real estate. To get these assignments takes some luck (right place at the right time) and persistence (keep trying to get appointed).

In California, probate referees are appointed by the probate court and perform real property, personal property, and business appraisals. There are only a few for each county. They must pass a test and be appointed. In the past, most were attorneys. Now most of them are experienced appraisers.

Check out your state's regulations.

Low vs. high values

As in other types of appraisals, such as divorce, I try to go in the mid-range of value. If nobody likes my value, it's probably okay.

I am usually hired by the executor. They often ask for a low value. But, if they are setting a basis for future sale, a high value is to their advantage. Or, they decide to use your low (or high) value to try to sell the property.

For example, a property is valued at $275,000, rather than $300,000, and is sold 10 years later for $400,000. The taxable gain would be $100,000 if previously appraised at $300,000 and $125,000 if previously appraised at $275,000.

What about IRS audits?

Every federal estate tax return is hand screened by experienced estate tax examiners to be classified for audit. The overall audit rate is approximately 20 percent for federal estate tax returns, almost 10 times the audit rate for income tax returns. The audit rate varies by the size of the return. For example, a $1 million return vs. a $10 million return.

A 20 percent estate tax penalty applies for estate gift tax understated valuations, if the value is 50 percent or less of the correct value. If 25 percent or less of the correct value, a 40 percent penalty applies.

The IRS examiner's handbook says that they should request copies of appraisals done within five years of the death and copies of listing information on the subject property within three years of the death.

What type of appraisal reporting format is used?

In my area, typically form reports are used for estate appraisals. Current Fannie Mae forms cannot be used for these appraisals as they are for lending purposes only. I am using the old Fannie Mae forms, which is awkward because the date of inspection and the effective date of appraisal are different.

See if your forms software has a non-lender form you can use.

Check to see what other local appraisers are doing.

Appraisal payment terms

Be sure to get paid in advance, at least 50%. I don't discuss the appraisal until I receive my final payment.

I almost always get 100% at the time of inspection if the estate only has one house.

What about out of the area appraisals in a multiple property estate?

I have received assignments to appraise multiple properties where some of the properties are in areas where I don't appraise. For those properties I referred them to local appraisers.

Some appraisers just do a "pass through" on the fee. For example, the appraiser charges $500 and you charge the client $500. Other appraisers charge a nominal administrative fee. It's your choice.

Rather than making the clients look for other appraisers, I find the appraisers for them, or at least provide a few pre-screened appraisers for them to call.

Date of value and retrospective appraisals

Always ask about the effective date of the appraisal. If the appraisal is for an estate, it is seldom today's date, unless the person died today. I have been requested to do appraisals as far back as 1955.

For trust purposes, where no one has died yet, the value is typically today's value.

If the property is held in joint tenancy and an estate tax return is not filed, an appraisal may not have been done at the time of the death of the first joint tenant. Later, when the surviving joint tenant (typically the spouse) dies, the estate needs to establish the basis as of the date of the death of the first joint tenant. This may be many years later.

How far back in time should you accept appraisals? My fee escalates the further back in time. Even doing an appraisal with a date two years ago can be tough. Maybe the property has been sold and there is a new owner, the market may have changed substantially, etc.

For example, I recently accepted an appraisal dated back to 1992 for a house. The property had been sold in 1998 and a major rehab was done about a year prior to the sale. It took quite a bit of research and many phone calls to find someone who had worked on the house and was familiar with what had been done. What was my fee? Fifty percent over my standard fee, and it was too low.

Every 3-4 months I am called about a value of a home 40 to 60 years ago. I tell the caller to go to the Assessor's office and pay whatever they charge to research their old records. My fee would be very, very high. I would use newspaper advertisements, assessment records, and deed recordings. It would definitely be an interesting challenge!

Appraisals done as close to the required date as possible are more accurate and reliable than those done sometime later. If challenged by the IRS, a current appraisal is more credible than one done at a later date. Be sure your fee is high enough to justify the amount of time you will have to spend.

Alternate valuation date

The executor can choose either the date of death, or a date six months later for the effective date of valuation (alternative valuation date) for estate tax purposes.

Let the executor know which would provide the lower if prices are declining. If the value is higher 6 months after death, the date of death value must be used.

What about sales verification and information?

Unfortunately, the farther back you go in time, the less the real estate agents remember about the sale.

If you really need to know the details, try contacting the owner.

What comps can be used?

Lender “rules” such as using old comps don’t apply.

Using comps (or listings that entered escrow) prior to the effective date of the appraisal is usually best.

The reviewing section of USPAP refers to not using comps that sold after the effective date of the appraisal when doing a retrospective review but this doesn’t apply to retrospective appraisals.

I have used expired listings and comps 6 months after the effective date. Time adjustments are one of the easiest adjustments to make.

Getting “tuned into” market conditions on the effective date of the appraisal

Getting out one of your old appraisals near the effective date can be very helpful.

It is hard to put yourself back in time so you can appraise it “as if” you did the appraisal on the effective date of the appraisal.

Tips on doing retrospective appraisals

My #1 tip is don't underbid! Although it would seem that being able to use old comps would be great, it is often difficult to get additional information from the listing and selling agents, as they are focused on the present, not the past.

Be sure to find out what has changed since the date of death. The more changes, the higher the fee as you will have to review repair bids, interview those who were in the house before it changed, etc.

The farther back in time, and the more the market has changed, the more difficult the appraisal. My market (San Francisco Bay Area) is very volatile and has experienced large declines and large increases in value. I review an appraisal I did during that time period to see what the market was like.

Although typically you don't go very far forward in time, I have gone forward as far as 6 months and made a negative time adjustment due to significant increases in value. I check the pending and listing dates to see how close they are to the effective date of the appraisal.

If the property has been sold and there is no interior access available, it can be very difficult to determine the condition on the effective date of the appraisal. I have interviewed neighbors and relatives, building department records, and sometimes contacted the current owners.

My most difficult retrospective appraisal was only 6 months in the past, but the home had been transformed from a crack house to a beautiful home by the heir. The work was done by a relative with very limited documentation. I interviewed lots of people.

Three dates

In your reports you will have three dates:

1. Effective date of the appraisal. (Usually date of death.)
2. Date of inspection.
3. Date of the report.

Be sure to include all three dates in the appraisal report. I put them in bold face type in the neighborhood section and the reconciliation sections on form reports and in the letter of transmittal and near the value conclusion on narrative reports.

I always include the statement: Appraisal assumes there have been no changes to the subject property between the effective date of the report and the date of inspection. Or, I discuss any changes between the two dates.

Undivided fractional interests

The use of fractional interests is increasing for tax planning purposes and for estates. Unfortunately, most of the fractional interests are valued by business appraisers or accountants, not real estate appraisers.

The value of the interest is usually less than its pro-rata share. For example, the decedent (or trust) owns a 10% interest in a shopping center worth $1,000,000. The value of the interest is less than $100,000 (1/10 of the total value), as they are very hard to sell, with a limited market.

Some appraisers charge a hefty fee for them, such as 50% to 100% of the cost of the real estate appraisal, and other appraisers only charge $1,000 or less. Methods used include sales of local partial interests, data services of partial interest sales, and court cases.

Most appraisers don't do partial interests and tell the attorney to get someone else. But many appraisers could do them if they took the time to learn how to do them. Partial interest on homes is fairly straight forward.

Obviously you wouldn't want to spend a lot of time for a low fee, such as a house appraisal. For house appraisals, often a short narrative report is used.

For multi-property trusts/estates and commercial properties longer reports are advised, using data from sources such as Property Profiles.

What about fees?

Executors have a fiduciary responsibility to spend money wisely. Many want to be sure they don't overpay for services such as appraisals.

When you receive a call, be sure not to just quote a fee. I always ask about their situation.

For example: What is the date of value? (I have been doing appraisals for over 25 years and am familiar with the past.) Do they plan on selling the home? (I can offer advice on fixing it up, the current market, good local agents, etc.) Are the heirs local or distant? (I can provide a report with lots of information for out of the area heirs, if needed.)

How many properties do they need appraised? (I can handle all of them and will find qualified appraisers to do the non-local appraisals.)

Do they need a partial interest appraised?

If the caller insists on lower fees, remember that your turnaround time can be long, so you can use the appraisals to fill in the slow periods.

I almost always require payment up front or 50% up front and 50% on completion. I will bill attorneys I have dealt with before who paid promptly.

Some problems with estate appraisals

Unfortunately, the anticipation of money (greed) from estates seems to bring out the worst in some people.

Problems I have encountered include:

• Difficulty getting income and expense information on rental properties. Typically, no one can find the records.
• Data availability when going far back in time.
• Obtaining accurate information on condition and improvements on the effective date of the appraisal.
• Not clear on effective date of the appraisal. (I call the accountant or attorney.)
• "Crazy" heir calling me night and day. (I returned the full fee. I was the third appraiser to do so.)
• No estate checkbook set up for payments. (The executor can be reimbursed from the estate.)
• Bounced check from estate checkbook. (I inquire when the account was set up and how money will be put into the account if it is recent.)
• Relative occupying the property who doesn't want to move out. (Similar to a tenant being evicted, but worse. I try to move as fast as possible during the inspection and try to get them to allow me to take interior photos.)
• Relatives fighting over jewelry, glassware, etc. during my inspection. (I just try to ignore them.)
• Insist on paying really low fees. (I tell them to call someone else.)

What geographic area is best for this work?

Areas with older populations are best, such as older subdivisions and older cities. Check the demographics of your local market.

If you work in an area with a primarily younger population, there will be some work from persons dying young. Or, consider working in another area with more older people.

I live in the San Francisco Bay Area, which is a prime market for estate and trust work. The population greatly increased after World War II and many of those who moved here are setting up trusts or passing away.

Home values have increased substantially in the past 10 years. Real estate prices are high, with the median price of homes at $569,000. More and more people are over the current estate tax exemption. Education levels are higher and more people are setting up trusts for their assets.

What if you're in an area with lower priced real estate? Your potential market will be smaller, but there are always out-of-state heirs who need to find out what their property is worth, charitable donations, etc.

If one spouse passes away today, it is safer to get an appraisal to establish a new basis, as the property and other assets could be much higher when the second spouse dies. Even if homes are selling for $80,000, establishing a new basis at $80,000 with an appraisal will really help if the property is ever sold.

Bank trust departments

In the past, banks handled many trusts. Appraisers sometimes had to work for lower fees, but they did regular reappraisals of the same properties.

Now, the bank share has dropped substantially, replaced by companies that specialize in trusts.

Accountant market

Accountants filing estate tax returns want to be sure there are no problems. They will often try to get the taxpayer to get an appraisal from a qualified appraiser for the marital deduction or if estate taxes are due and they think the estate will be over the current exemption.

Many accountants are aware of the stepped-up capital gains basis issues and will try to get a current value even if no estate tax return is filed. You need to persuade them that an appraisal is more credible to the IRS than a letter from a real estate agent or the owner's opinion of value.

Higher net worth people are more likely to need appraisals for tax planning and filing. Larger CPA firms with high income individuals are a possibility. Ask your accountant who handles that type of client. Enrolled agents (specialize in tax work) are another possibility.

You could try a mailing before tax lien dates. Or, advertise in a local accountant newsletter or state publication. Networking with local CPAs can also work.

Attorneys

Attorneys are the source of most estate and trust appraisal assignments, if only because they tell the executor to get an appraisal. For smaller estates you may be contacted by the executor instead of the attorney.

Marketing to attorneys is primarily by referrals, but you can also send brochures and letters to attorneys who specialize in this work. Get a copy of your local Bar association's directory to see who specializes in estate, trusts, and probate.

Contact any attorneys you know and tell them you're interested in doing appraisals for estates and trusts. Ask them which attorneys specialize in that market.

Join a local chapter or group of attorneys specializing in this type of work. You will get more work if you are active.

Once you get work from an attorney, you can form a relationship for future work and referrals.

Yellow Page advertising

I am always surprised by how many active appraisers aren't listed in the Yellow Pages, only want lender work, aren't members of the local chamber of commerce, aren't active in their local appraisal or real estate groups, don't want one time clients, etc.

For me, Yellow Page ads works well. I advertise in two local city directories, and the phone company directory. Five years ago, I eliminated all ad copy except for "Estate and Trust" for my three space ads. My estate/trust work has quadrupled.

About two years ago I changed the top line on the home page of www.appraisaltoday.com to read: "Looking for a commercial or residential appraiser for Estate and Trust appraisals in Alameda County CA? Go to About Us!" My work has significantly increased since then.

Referral sources

Referrals for estate, trust, and gift appraisals can come from just about anywhere. Most of my referrals come from real estate agents. Some come from local accountants, a neighbor, Chamber of Commerce members, etc.

For more information on referrals, go to my referral article at www.appraisaltoday.com/client.htm.

Handling multiple property estates

Don't underbid on these assignments. Appraising 3-4 homes and/or 3-5 two to four unit properties can be very difficult as it is very easy to get confused when writing up the appraisal reports. Although this must seem odd, almost all appraisers have difficulty when doing multiple appraisals on the same property type.

Should you do this type of work?

I don't really know why so few appraisers work for estates and trusts. There is seldom much turnaround pressure, few or no payment problems, and reasonable fees. Any value pressures, if any, are typically much less than for lenders.

If you are in an area with a younger population, doing appraisals for estate and probate purposes may not give you a lot of work, but does provide an excellent diversification opportunity. Also, sometimes there are multiple properties to appraise.

Many appraisers don't like to do litigation and/or divorce work because of the hassles and court testimony. Appearing in court is very unlikely for this type of work, unless it's a very complicated and large estate and it ends up in tax court. Even if you do have to testify, it won't be in front of a jury, just a judge.

In the past, many residential appraisers didn't like to do work for one-time non-lender clients. But the market has changed, and non-lender work can keep you going when the lender market is down.

Most of the business is by referral, so you need to get your name well known in the legal, accounting, and real estate communities.

Where to get more information

The IRS Web site at www.irs.gov is a "gold mine" of information. Search for estate tax (upper right) of home page. Scroll down the screen if necessary.

In this brief article I can only touch on some of the most important points. Being knowledgeable about estate, trust, and tax issues makes your appraisal services more marketable and convincing.

The tax laws and issues are complicated and keep changing. Classes and seminars are available in many communities. Check at your local adult school or college.

Many books have been written for the general public on estate planning, probate, and trusts. Check at your local library or book store. Books published by Nolo Press are well written.

Be sure to find out about the laws in your state. Each state is different. Check at your local library or ask an attorney where to get more information. Some states have inheritance taxes.

Department of the Treasury
Internal Revenue Service

Publication 950
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Introduction to Estate and Gift Taxes

Get forms and other information faster and easier by:

Internet • www.irs.gov

Form **709**

Department of the Treasury
Internal Revenue Service

United States Gift (and Generation-Skipping Transfer) Tax Return

(For gifts made during calendar year 2006)

▶ **See separate instructions.**

OMB No. 1545-0020

2006

Part 1—General Information

1 Donor's first name and middle initial	2 Donor's last name	3 **Donor's social security number**
4 Address (number, street, and apartment number)		5 Legal residence (domicile) (county and state)
6 City, state, and ZIP code		7 Citizenship

		Yes	No
8	If the donor died during the year, check here ▶ ☐ and enter date of death ______, ______		
9	If you extended the time to file this Form 709, check here ▶ ☐		
10	Enter the total number of donees listed on Schedule A. Count each person only once. ▶		
11a	Have you (the donor) previously filed a Form 709 (or 709-A) for any other year? If "No," skip line 11b		
11b	If the answer to line 11a is "Yes," has your address changed since you last filed Form 709 (or 709-A)?		
12	**Gifts by husband or wife to third parties.** Do you consent to have the gifts (including generation-skipping transfers) made by you and by your spouse to third parties during the calendar year considered as made one-half by each of you? (See instructions.) (If the answer is "Yes," the following information must be furnished and your spouse must sign the consent shown below. **If the answer is "No," skip lines 13–18 and go to Schedule A.**)		
13	Name of consenting spouse — 14 SSN		
15	Were you married to one another during the entire calendar year? (see instructions)		
16	If 15 is "No," check whether ☐ married ☐ divorced or ☐ widowed/deceased, and give date (see instructions) ▶		
17	Will a gift tax return for this year be filed by your spouse? (If "Yes," mail both returns in the same envelope.)		
18	**Consent of Spouse.** I consent to have the gifts (and generation-skipping transfers) made by me and by my spouse to third parties during the calendar year considered as made one-half by each of us. We are both aware of the joint and several liability for tax created by the execution of this consent.		

Consenting spouse's signature ▶ **Date** ▶

Part 2—Tax Computation

1	Enter the amount from Schedule A, Part 4, line 11	1		
2	Enter the amount from Schedule B, line 3	2		
3	Total taxable gifts. Add lines 1 and 2	3		
4	Tax computed on amount on line 3 (see *Table for Computing Gift Tax* in separate instructions)	4		
5	Tax computed on amount on line 2 (see *Table for Computing Gift Tax* in separate instructions)	5		
6	Balance. Subtract line 5 from line 4	6		
7	Maximum unified credit (nonresident aliens, see instructions)	7	345,800	00
8	Enter the unified credit against tax allowable for all prior periods (from Sch. B, line 1, col. C)	8		
9	Balance. Subtract line 8 from line 7	9		
10	Enter 20% (.20) of the amount allowed as a specific exemption for gifts made after September 8, 1976, and before January 1, 1977 (see instructions)	10		
11	Balance. Subtract line 10 from line 9	11		
12	Unified credit. Enter the smaller of line 6 or line 11	12		
13	Credit for foreign gift taxes (see instructions)	13		
14	Total credits. Add lines 12 and 13	14		
15	Balance. Subtract line 14 from line 6. Do not enter less than zero	15		
16	Generation-skipping transfer taxes (from Schedule C, Part 3, col. H, Total)	16		
17	Total tax. Add lines 15 and 16	17		
18	Gift and generation-skipping transfer taxes prepaid with extension of time to file	18		
19	If line 18 is less than line 17, enter **balance due** (see instructions)	19		
20	If line 18 is greater than line 17, enter **amount to be refunded**	20		

Attach check or money order here.

Sign Here

Under penalties of perjury, I declare that I have examined this return, including any accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than donor) is based on all information of which preparer has any knowledge.

Signature of donor — Date

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐
Firm's name (or yours if self-employed), address, and ZIP code ▶	Phone no. ▶ ( )	

SCHEDULE A Computation of Taxable Gifts (Including transfers in trust) (see instructions)

A Does the value of any item listed on Schedule A reflect any valuation discount? If "Yes," attach explanation . . . . . . Yes ☐ No ☐

B ☐ ◄ Check here if you elect under section 529(c)(2)(B) to treat any transfers made this year to a qualified tuition program as made ratably over a 5-year period beginning this year. See instructions. Attach explanation.

Part 1—Gifts Subject Only to Gift Tax. Gifts less political organization, medical, and educational exclusions. See instructions.

A Item number	B • Donee's name and address • Relationship to donor (if any) • Description of gift • If the gift was of securities, give CUSIP no. • If closely held entity, give EIN	C	D Donor's adjusted basis of gift	E Date of gift	F Value at date of gift	G For split gifts, enter ½ of column F	H Net transfer (subtract col. G from col. F)
1							
Gifts made by spouse—*complete **only** if you are splitting gifts with your spouse and he/she also made gifts.*							
Total of Part 1. Add amounts from Part 1, column H . . . . ►							

Part 2—Direct Skips. Gifts that are direct skips and are subject to both gift tax and generation-skipping transfer tax. You must list the gifts in chronological order.

A Item number	B • Donee's name and address • Relationship to donor (if any) • Description of gift • If the gift was of securities, give CUSIP no. • If closely held entity, give EIN	C 2632(b) election out	D Donor's adjusted basis of gift	E Date of gift	F Value at date of gift	G For split gifts, enter ½ of column F	H Net transfer (subtract col. G from col. F)
1							
Gifts made by spouse—*complete **only** if you are splitting gifts with your spouse and he/she also made gifts.*							
Total of Part 2. Add amounts from Part 2, column H . . . . ►							

Part 3—Indirect Skips. Gifts to trusts that are currently subject to gift tax and may later be subject to generation-skipping transfer tax. You must list these gifts in chronological order.

A Item number	B • Donee's name and address • Relationship to donor (if any) • Description of gift • If the gift was of securities, give CUSIP no. • If closely held entity, give EIN	C 2632(c) election	D Donor's adjusted basis of gift	E Date of gift	F Value at date of gift	G For split gifts, enter ½ of column F	H Net transfer (subtract col. G from col. F)
1							
Gifts made by spouse—*complete **only** if you are splitting gifts with your spouse and he/she also made gifts.*							
Total of Part 3. Add amounts from Part 3, column H . . . . ►							

(If more space is needed, attach additional sheets of same size.)

Part 4—Taxable Gift Reconciliation

1	Total value of gifts of donor. Add totals from column H of Parts 1, 2, and 3	1	
2	Total annual exclusions for gifts listed on line 1 (see instructions)	2	
3	Total included amount of gifts. Subtract line 2 from line 1	3	
	Deductions (see instructions)		
4	Gifts of interests to spouse for which a marital deduction will be claimed, based on item numbers ______ of Schedule A — 4		
5	Exclusions attributable to gifts on line 4 — 5		
6	Marital deduction. Subtract line 5 from line 4 — 6		
7	Charitable deduction, based on item nos. ______ less exclusions — 7		
8	Total deductions. Add lines 6 and 7	8	
9	Subtract line 8 from line 3	9	
10	Generation-skipping transfer taxes payable with this Form 709 (from Schedule C, Part 3, col. H, Total)	10	
11	**Taxable gifts.** Add lines 9 and 10. Enter here and on page 1, Part 2—Tax Computation, line 1	11	

Terminable Interest (QTIP) Marital Deduction. (See instructions for Schedule A, Part 4, line 4.)

If a trust (or other property) meets the requirements of qualified terminable interest property under section 2523(f), and:

a. The trust (or other property) is listed on Schedule A, and

b. The value of the trust (or other property) is entered in whole or in part as a deduction on Schedule A, Part 4, line 4, then the donor shall be deemed to have made an election to have such trust (or other property) treated as qualified terminable interest property under section 2523(f).

If less than the entire value of the trust (or other property) that the donor has included in Parts 1 and 3 of Schedule A is entered as a deduction on line 4, the donor shall be considered to have made an election only as to a fraction of the trust (or other property). The numerator of this fraction is equal to the amount of the trust (or other property) deducted on Schedule A, Part 4, line 6. The denominator is equal to the total value of the trust (or other property) listed in Parts 1 and 3 of Schedule A.

If you make the QTIP election, the terminable interest property involved will be included in your spouse's gross estate upon his or her death (section 2044). See instructions for line 4 of Schedule A. If your spouse disposes (by gift or otherwise) of all or part of the qualifying life income interest, he or she will be considered to have made a transfer of the entire property that is subject to the gift tax. See *Transfer of Certain Life Estates Received From Spouse* on page 4 of the instructions.

12 Election Out of QTIP Treatment of Annuities

☐ ◀ Check here if you elect under section 2523(f)(6) **not** to treat as qualified terminable interest property any joint and survivor annuities that are reported on Schedule A and would otherwise be treated as qualified terminable interest property under section 2523(f). See instructions. Enter the item numbers from Schedule A for the annuities for which you are making this election ▶ ______

SCHEDULE B Gifts From Prior Periods

If you answered "Yes" on line 11a of page 1, Part 1, see the instructions for completing Schedule B. If you answered "No," skip to the Tax Computation on page 1 (or Schedule C, if applicable).

A Calendar year or calendar quarter (see instructions)	B Internal Revenue office where prior return was filed	C Amount of unified credit against gift tax for periods after December 31, 1976	D Amount of specific exemption for prior periods ending before January 1, 1977	E Amount of taxable gifts
1 Totals for prior periods	1			

2	Amount, if any, by which total specific exemption, line 1, column D, is more than $30,000	2	
3	Total amount of taxable gifts for prior periods. Add amount on line 1, column E and amount, if any, on line 2. Enter here and on page 1, Part 2—Tax Computation, line 2	3	

(If more space is needed, attach additional sheets of same size.)

SCHEDULE C Computation of Generation-Skipping Transfer Tax

Note. Inter vivos direct skips that are completely excluded by the GST exemption must still be fully reported (including value and exemptions claimed) on Schedule C.

Part 1—Generation-Skipping Transfers

A Item No. (from Schedule A, Part 2, col. A)	B Value (from Schedule A, Part 2, col. H)	C Nontaxable portion of transfer	D Net Transfer (subtract col. C from col. B)
1			
Gifts made by spouse (for gift splitting only)			

Part 2—GST Exemption Reconciliation (Section 2631) and Section 2652(a)(3) Election

Check here ▶ ☐ if you are making a section 2652(a)(3) (special QTIP) election (see instructions)

Enter the item numbers from Schedule A of the gifts for which you are making this election ▶ ....

1	Maximum allowable exemption (see instructions)	1	
2	Total exemption used for periods before filing this return	2	
3	Exemption available for this return. Subtract line 2 from line 1	3	
4	Exemption claimed on this return from Part 3, column C total, below	4	
5	Automatic allocation of exemption to transfers reported on Schedule A, Part 3 (see instructions)	5	
6	Exemption allocated to transfers not shown on line 4 or 5, above. **You must attach a Notice of Allocation.** (see instructions)	6	
7	Add lines 4, 5, and 6	7	
8	Exemption available for future transfers. Subtract line 7 from line 3	8	

Part 3—Tax Computation

A Item No. (from Schedule C, Part 1)	B Net transfer (from Schedule C, Part 1, col. D)	C GST Exemption Allocated	D Divide col. C by col. B	E Inclusion Ratio (subtract col. D from 1.000)	F Maximum Estate Tax Rate	G Applicable Rate (multiply col. E by col. F)	H Generation-Skipping Transfer Tax (multiply col. B by col. G)
1					46% (.46)		
					46% (.46)		
					46% (.46)		
					46% (.46)		
					46% (.46)		
					46% (.46)		
Gifts made by spouse (for gift splitting only)							
					46% (.46)		
					46% (.46)		
					46% (.46)		
					46% (.46)		
					46% (.46)		
					46% (.46)		
Total exemption claimed. Enter here and on Part 2, line 4, above. May not exceed Part 2, line 3, above		**Total generation-skipping transfer tax.** Enter here; on page 3, Schedule A, Part 4, line 10; and on page 1, Part 2—Tax Computation, line 16					

(If more space is needed, attach additional sheets of same size.)

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Projections of Federal Tax Return Filings: Calendar Years 2005-2012

by Taukir Hussain

Taxpayers are expected to file a grand total of 229.3 million tax returns with the Internal Revenue Service (IRS) during Calendar Year (CY) 2006. That projected level reflects a modest increase of only 0.1 percent over the estimated CY 2005 filings of 229.0 million. However, the small growth in grand total return filings in 2006 is a net effect that masks some rather dramatic shifts among certain return volumes. In particular, IRS efforts to reduce taxpayer burden will result in a noticeable decrease in filings of Form 941 and Form 2688 returns during 2006. These drops, in turn, will serve to suppress the growth in total filings for 2006.

After 2006, however, grand total return filings are projected to grow at a more typical average annual rate of 1.2 percent and to reach 246.8 million by the year 2012. That more common rate of growth is driven primarily by the projected trends for the major return categories that comprise grand total filings, including individual income tax returns, employment tax returns, and estimated tax payments by individuals.

Furthermore, over the forecast horizon, IRS is projected to continue to make solid gains in the share of total returns filed electronically. This growth of electronic filing furthers IRS's strategic goal to improve taxpayer service. For example, under current trends, total individual electronic returns are estimated to be 51 percent of all individual income tax returns in 2005 and are projected to constitute 55 percent of all returns in 2006, and 70 percent in 2012.

Trend in Grand Total Returns

Table 1 provides a complete list of the most current yearly filing projections by major form type for CY's 2006 to 2012. In developing these forecasts, in most cases, partial-year data through the first 8 months of 2005 were used to produce estimates for the year. As a point of reference, the actual number of forms filed in 2004 (the most current year for which complete data are available) is included too. In all cases applicable, the number of returns filed is broken down by medium of filing--paper or electronic. The "grand total" is comprised of a wide range of tax forms. This includes individual, fiduciary, corporation, employment, partnership, exempt organization, government entity, political organization, estate, gift, excise, estimated tax vouchers, and various other forms as delineated in Table 1 [1, 2].

In 2004, the 3 largest tax return categories accounted for the bulk of the forms handled by the IRS submissions processing operations. Individual income tax returns made up 58.5 percent of the grand total. Employment tax returns made up 13.6 percent, while individual estimated tax payment vouchers accounted for another 12.3 percent. Together, these three form types constituted almost 85 percent of the grand total of return filings in 2004.

Figure A shows the growth rate of selected tax forms year-over-year from 2005 to 2006 and the average annual change over the period from 2006 to 2012. As mentioned earlier, a total of 229.3 million returns are projected to be filed in 2006, which is a 0.1-percent increase over the estimated 2005 filings of 229.0 million. However, over the period 2006-2012, the grand total will increase at an average rate of 1.2 percent to reach 246.8 million. Under current trends, paper filings will decline at a 2.5-percent rate to a total of 124.5 million by 2012. Simultaneously, electronic filings or "e-file" will increase at a rate of 6.1 percent to equal 122.3 million by the same time, thus attaining near parity with paper return volumes as seen in Figure B.

Changes in Forms 941, 944, 2688, and 7004 and their Impact on Grand Total

Figure A shows an estimated total of 24.4 million Form 941, *Employer's Quarterly Federal Tax Return*, returns will be filed in 2005. However, the total will drop to 21.9 million in 2006, a reduction of roughly 2.5 million. Additionally, in 2005, an estimated 3.6 million Form 2688, *Application for Additional Extension of Time To File U.S. Individual Income Tax Return*, returns will be filed, followed by its elimination in 2006 and beyond. Together, these two forms will be responsible for a total reduction of 6.1 million filings in 2006 as part of IRS initiatives to mitigate taxpayer burden. The combined effect contributes to the slow growth of grand total filings in 2006 as observed earlier.

Taukir Hussain is a statistician with the Projections and Forecasting Group, Office of Research. This article was prepared under the direction of Russell Geiman, Chief.

Projections of Federal Tax Return Filings: Calendar Years 2005-2012

Figure A

Projected Increase (Decrease) in Selected Tax Return Filings: Calendar Years 2005-2012

Type of return	Estimated 2005	Projected 2006	Percentage increase over 2005	Projected 2012	Average annual percentage increase 2006-2012
	(1)	(2)	(3)	(4)	(5)
Grand total	**228,985,300**	**229,270,000**	**0.1**	**246,826,400**	**1.2**
Paper grand total	151,150,200	144,638,900	-4.3	124,548,700	-2.5
Electronic grand total	77,835,100	84,631,200	8.7	122,277,600	6.1
Individual, total	**132,766,200**	**134,901,700**	**1.6**	**143,903,300**	**1.1**
Forms 1040, 1040A, and 1040EZ	132,022,400	134,134,600	1.6	142,961,500	1.1
Total individual paper returns	63,866,500	59,928,300	-6.2	41,744,600	-6.0
Form 1040	45,249,300	42,885,900	-5.2	28,718,000	-6.7
Form 1040A	10,187,000	8,456,800	-17.0	6,411,000	-4.6
Form 1040EZ	8,430,200	8,585,600	1.8	6,615,700	-4.3
Total individual electronic returns	68,155,900	74,206,300	8.9	101,216,900	5.2
Online filing	17,076,100	21,003,600	23.0	26,630,100	4.0
Practitioner electronic filing	47,786,200	53,202,700	11.3	74,586,800	5.6
TeleFile	3,293,600	--	--	--	--
Form 1040NR	628,200	649,000	3.3	809,100	3.7
Forms 1040PR and 1040SS	115,700	118,100	2.1	132,800	2.0
Individual estimated tax, Form 1040-ES, total	**29,022,900**	**29,548,300**	**1.8**	**30,330,900**	**0.4**
Form 1040-ES, paper	28,959,300	29,473,600	1.8	30,195,500	0.4
Form 1040-ES, electronic (credit card)	63,600	74,700	17.5	135,400	9.9
Corporation, total	**6,147,300**	**6,290,000**	**2.3**	**7,322,200**	**2.5**
Paper corporation returns, total	5,934,400	5,842,900	-1.5	4,592,700	-4.0
Electronic corporation returns, total	212,900	447,000	110.0	2,729,500	30.2
Form 1120, total	2,055,600	2,041,800	-0.7	1,973,600	-0.6
Form 1120, electronic	57,900	139,200	140.4	815,800	29.5
Form 1120A, total	208,600	201,000	-3.6	158,200	-4.0
Form 1120F, total	26,700	27,500	3.0	33,300	3.2
Form 1120FSC, total	1,000	--	--	--	--
Form 1120H, total	170,400	176,200	3.4	210,400	3.0
Form 1120RIC, total	11,900	12,300	3.4	14,000	2.2
Form 1120S, total	3,663,200	3,821,000	4.3	4,919,900	4.2
Form 1120S, electronic	155,000	307,800	98.6	1,913,700	30.5
Forms 1120L/PC/REIT/SF, total	9,700	10,200	5.2	12,900	3.9
Employment, total	**30,634,400**	**28,108,000**	**-8.2**	**29,692,000**	**0.9**
Paper employment returns	24,652,200	22,261,200	-9.7	21,067,300	-0.9
Magnetic tape employment returns	--	--	--	--	--
Electronic employment returns	5,982,200	5,846,800	-2.3	8,624,700	6.5
Forms 940, 940EZ, and 940PR, total	5,795,300	5,816,300	0.4	5,964,900	0.4
Forms 940, 940EZ, and 940PR, paper	4,843,400	4,802,300	-0.8	4,558,200	-0.9
Form 940, magnetic tape	--	--	--	--	--
Form 940, e-file/online/XML	951,900	1,014,000	6.5	1,406,700	5.5
Forms 941, 941PR/SS/E, total	24,422,400	21,887,000	-10.4	22,412,000	0.4
Forms 941, 941PR/SS/E, paper	19,392,100	17,054,200	-12.1	15,226,600	-1.9
Form 941, magnetic tape	--	--	--	--	--
Form 941, e-file/online/XML	4,393,200	4,832,800	10.0	7,185,500	6.6
Form 941 TEL	637,100	--	--	--	--
Forms 943 and 943 PR	263,200	256,700	-2.5	220,900	-2.5
Form 944, total	--	--	--	976,200	--
Form 944 e-file	--	--	--	32,600	--
Form 945	151,600	146,000	-3.7	116,100	-3.8
Form CT-1	1,900	1,900	--	1,900	--
Exempt organization, total	**853,500**	**863,100**	**1.1**	**1,023,900**	**2.8**
Paper exempt organization, total	848,700	851,100	0.3	891,000	0.8
Electronic exempt organization, total	4,800	12,000	150.0	132,900	40.1
Form 990, total	430,000	430,000	--	534,000	3.6
Form 990, electronic	3,400	8,600	152.9	91,700	39.4
Form 990EZ, total	146,600	149,400	1.9	169,200	2.1
Form 990EZ, electronic	1,300	2,700	107.7	26,000	37.7

Footnotes at end of figure.

Projections of Federal Tax Return Filings: Calendar Years 2005-2012

Figure A--Continued

Projected Increase (Decrease) in Selected Tax Return Filings: Calendar Years 2005-2012--Continued

Type of return	Estimated 2005	Projected 2006	Percentage increase over 2005	Projected 2012	Average annual percentage increase 2006-2012
	(1)	(2)	(3)	(4)	(5)
Exempt organization total--continued					
Form 990PF	88,600	92,200	4.1	111,800	3.2
Form 990PF, electronic	100	800	700.0	15,200	49.1
Form 990T	58,700	59,600	1.5	65,200	1.5
Form 4720	2,000	2,100	5.0	2,600	3.6
Form 5227	127,700	129,800	1.6	141,100	1.4
Form 990C	**3,400**	**3,200**	**-5.9**	**2,500**	**-4.1**
Supplemental documents, total	**20,334,600**	**20,124,000**	**-1.0**	**23,788,900**	**2.8**
Form 1040X	3,218,800	3,256,600	1.2	3,468,900	1.1
Form 4868, total	9,336,800	9,622,500	3.1	11,337,000	2.7
Paper	7,525,200	7,549,200	0.3	7,488,700	-0.1
Electronic	1,811,600	2,073,400	14.5	3,848,300	10.3
Credit card	33,300	34,900	4.8	55,600	7.8
E-file	1,191,200	2,038,500	71.1	3,792,700	10.3
TeleFile	587,100	--	--	--	--
Form 2688	3,594,600	--	--	--	--
Form 1120X	12,800	12,400	-3.1	10,600	-2.6
Form 5558	352,800	349,100	-1.0	327,200	-1.1
Form 7004, total	3,364,000	6,422,700	90.9	8,095,500	3.9
Electronic	47,900	292,800	511.3	2,878,300	38.1
Form 8868, total	454,800	460,600	1.3	549,700	2.9
Electronic	1,900	5,300	178.9	74,000	43.9

NOTES: For definitions of most of the form numbers, see the text discussion and the footnotes to Table 1, at the end of this article. Detail may not add to total due to rounding.

At the same time, a newly changed Form 7004, *Application for Automatic Extension of Time To File Corporation Income Tax Return,* will see a projected 90.9-percent increase in 2006 over 2005, from 3.4 million to 6.4 million returns filed. This is an increase of 3.1 million returns. There will also be the introduction of new Form 944, *Employer's Annual Federal Tax Return,* starting in 2007. Thus, the changes taken together have offsetting effects relative to the Form 941 and Form 2688 volumes. In the process, they also contribute to a more robust annual growth rate of 1.2 percent for the grand total over the longer horizon. All of these changes and other developments are discussed in more detail below.

Form 941 and New Form 944

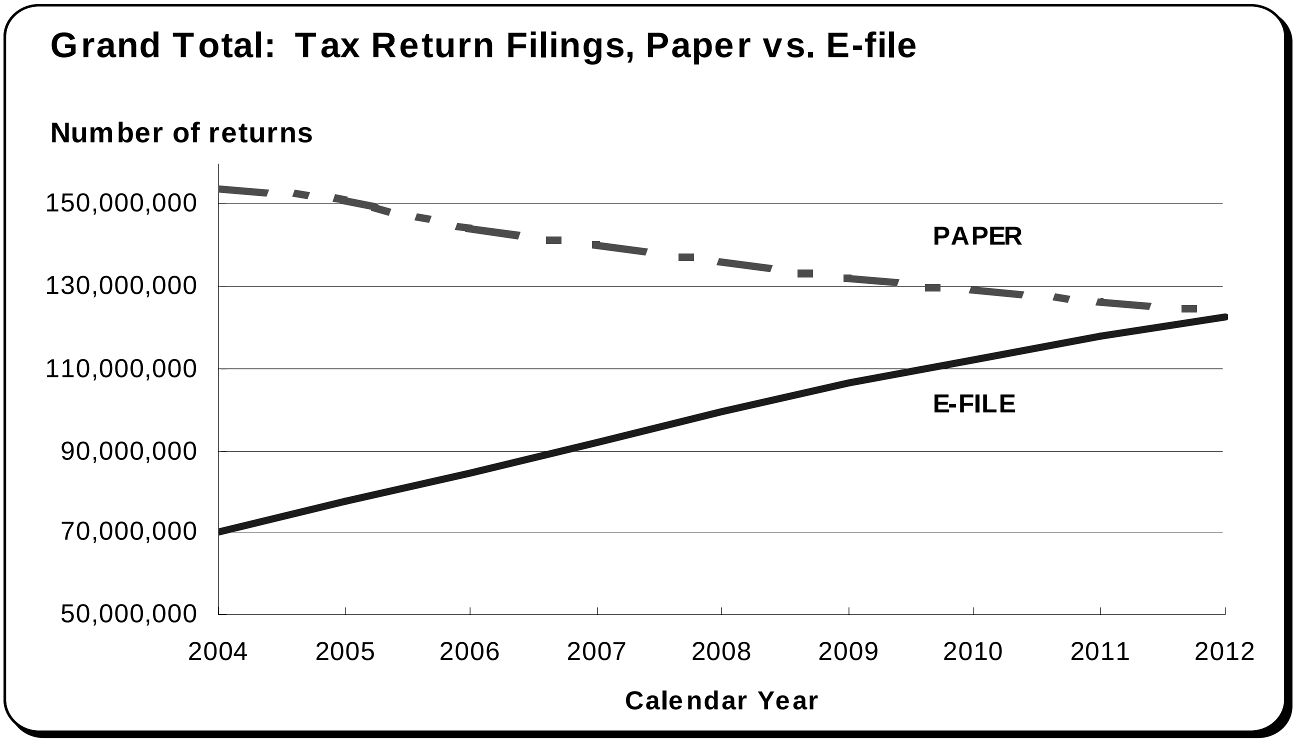
In an effort to reduce taxpayer burden on small businesses, IRS plans to issue Form 944. This new form is an annualized version of Form 941 and will be available to taxpayers starting in January 2007. Form 944 will be available to business filers with annual employment tax liability of $1,000 or less. Instead of filing quarterly Form 941 returns, eligible taxpayers will be required to file Form 944 once a year. Consequently, as qualified taxpayers switch to filing Form 944, return volumes of Form 941 will drop in the early part of CY 2006. As Table 1 shows, around 925,000 taxpayers are expected to switch to Form 944 in its first year. Filings are expected to grow modestly thereafter and reach 976,200 in 2012. At the same time, the forecasts of Form 941 return volumes exhibit associated downward adjustments for the estimated impact of taxpayers switching to the new Form 944.

Elimination of Form 2688

IRS plans to implement additional taxpayer burden reduction regulations in Filing Year 2006 that will have the de facto effect of eliminating filings of Form 2688. The new regulations will provide taxpayers required to file an individual income tax return an automatic 6-month extension to file, if they submit a Form 4868, *Application for Automatic Extension of Time To File a U.S. Income Tax Return*. In previ-

Projections of Federal Tax Return Filings: Calendar Years 2005-2012

Figure B



ous years, Form 4868 (i.e., the "first extension") provided only a 4-month grace period to file, while Form 2688 (i.e., the "second extension") gave an additional 2-month extension. The effects of these two forms will now be folded into a single 6-month automatic extension via Form 4868. Accordingly, in Table 1, there are no projections for Form 2688 from CY 2006 onwards.

Expansion of Form 7004

The scope of Form 7004, *Application for Automatic Extension of Time To File Corporation Income Tax*, which is currently used primarily to request an extension of time to file a corporation income tax (Form 1120 series) return, has now been expanded. Starting in 2006, Form 7004 will not only be used for filing extensions on corporate returns but also extensions for partnership (Form 1065) and fiduciary (Form 1041) returns. A sizable volume of extensions is currently requested for the filing of Forms 1065 and 1041, but such extensions were not among the many form types formally projected by IRS staff in the past. As a result, their inclusion in the projected volume of the newly released Form 7004 now leads to a dramatic 90.9-percent increase in this return series beginning in 2006.

Trend in Individual Income Tax Returns

"Individual, Total" returns include paper and electronic versions of the major individual income tax returns. These are Forms 1040 and 1040-A, *U.S. Individual Income Tax Return*; 1040EZ, *Income Tax Return for Single and Joint Filers with No Dependents*; 1040NR, *U.S. Non-Resident Alien Income Tax Return*; 1040 (PR), *Planilla para la Declaracion de la Contribucion Federal Sobre El Trabajo Por Cuenta Propia--Puerto Rico;* and 1040-SS, *U.S. Self-Employment Tax Return*. This category excludes Form 1040X, *Amended U.S. Individual Income Tax Return,* which is included under the "supplemental documents" heading.

Projections of Federal Tax Return Filings: Calendar Years 2005-2012

By far the largest category of tax return filings, the number of individual income tax returns filed, is projected to reach 134.9 million in 2006. This series is expected to grow at an average annual rate of 1.1 percent until 2012. This projected growth is tied mainly to the expected increase in U.S. employment over the same period. At this rate, the projected number of total individual returns filed will be 143.9 million by 2012.

Trend in Employment Tax Returns

Paper and electronic versions of several business related tax forms fall under the heading of "Employment, total" returns. These form series include*:* Forms 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return;* 941, *Employer's Quarterly Federal Tax Return*; 943, *Employer's Annual Federal Tax Return for Agricultural Employees*; 944, *Employer's Annual Federal Tax Return*, which will be an annualized version of Form 941; 945, *Annual Return of Withheld Federal Income Tax*; and CT-1, *Employer's Annual Railroad Tax Return*. A magnetic tape filing option for Forms 940 and 941 ended in early 2004. As a result, a small volume of returns for this medium is reported for Calendar Year 2004, and none for 2005 and beyond.

In 2004 and 2005, employment tax returns make up the second largest share of the grand total. The interplay between the introduction of the annual Form 944, and the scaling back of the quarterly Form 941 (as discussed earlier), results in a projected 8.2-percent drop in total employment return filings in 2006. After that, the projected annual rate of growth over the entire forecast horizon is a more typical 0.9 percent. The projected filings of Forms 940 and 941 comprise the bulk of employment tax return volume. Their projected growth over the 2006-2012 period is tied mainly to the associated forecasts for U.S. employment and real gross domestic product.

Trend in Individual Estimated Tax Returns

Form 1040-ES, *U.S. Estimated Tax for Individuals*, is used by individual taxpayers who need to make advance tax payments. Such filers are typically those who expect their tax withholdings to be less than 90 percent of their Federal tax liabilities for the year due to additional income, such as earnings from self-employment, interest, dividends, rents, and alimony. Individual taxpayers who make estimated tax payments often file more than one voucher (Form 1040-ES) during the course of the year, usually one per quarter.

In 2004 and 2005, Form 1040-ES makes up the third largest share of the grand total. The initial Form 1040-ES filing experience in 2005, however, indicated growth over 2004. Based on this likely development, and the underlying long-term trend, the number of Form 1040-ES filings is projected to grow in the future. In 2006, approximately 29.5 million individual estimated tax vouchers are expected to be filed, an increase of 1.8 percent over the 29.0 million vouchers filed in 2005. A total of 30.3 million returns are projected to be filed by 2012, indicating an average annual growth rate of 0.4 percent from 2006 to 2012.

The number of Form 1040-ES returns filed has actually dropped substantially in recent years from a peak of 39.9 million in 1998 to an estimated 29.0 million in 2005. One reason for this is thought to be the various tax law changes enacted in 2001 and subsequent years which significantly reduced tax liabilities. Other factors that have likely contributed to the prior drop include the stock market slump, the recession, and the "sluggish" economic recovery in the early 2000's. However, with the amelioration of these factors in recent years, future growth is expected in Form 1040-ES filings.

Trends in Electronic Filing (E-file)

Individual Returns

From Table 1, about 61.4 million individual income tax returns were filed electronically in 2004, and 68.2 million electronic returns are estimated to be filed in 2005, representing an 11.0-percent increase. The projection for 2006 is 74.2 million returns, which represent another robust increase of 8.9 percent. This e-file volume is expected to grow at an average rate of 5.2 percent per year, attaining a total of 101.2 million by 2012.

The projected e-file pattern for individual returns in 2006-2012 is one of stronger growth in the initial forecast years, followed by a somewhat dampened growth in the later years. This growth pattern is customary for an innovative commercial product like e-file. Still, the projected growth in e-file is much steeper than the overall growth in total individual return filings. Hence, under current trends, roughly 70 percent of individual income tax returns are projected to be filed electronically by 2012.

Projections of Federal Tax Return Filings: Calendar Years 2005-2012

As reported in Table 1, “Total Individual Electronic Returns” are made up of three e-file categories: 1) online filing, 2) practitioner e-file, and 3) TeleFile. Online filing enables taxpayers to use a personal computer, commercial tax preparation software, and the Internet to file their returns. Online filing includes the “Free File” option, which is accessible from the IRS Web site and involves a public-private partnership between the IRS and the Free File Alliance, a consortium of tax preparation software companies. In the case of practitioner electronic filing, taxpayers essentially have returns electronically transmitted to the IRS by a tax preparation professional. The TeleFile program enabled certain taxpayers to use a touch-tone telephone to transmit their Form 1040-EZ returns. However, IRS has announced that the Telefile system will be discontinued after 2005. The general decline in TeleFile usage, the expenses involved, and the growth of other electronic filing alternatives (such as online filing) have all contributed to the discontinuance of this medium of filing. This decision applies to all other IRS TeleFile programs, such as those for Forms 4868 and 941.

Within all three e-file categories, about 17.1 million people utilized online filing in 2005. That number will likely grow to 21.0 million in 2006, a 23-percent increase, fueled in part by the cessation of TeleFile. Meanwhile, practitioners are expected to file 53.2 million returns electronically in 2006, up 11.3 percent over the 47.8 million returns filed in 2005. About 3.3 million people used TeleFile in 2005, the last year of this service, down from 3.8 million in 2004.

Various initiatives further encourage the growth of individual electronic filing. One is the IRS “e-services” program. The e-services program is open to professionals who have e-filed five or more accepted individual or business returns in a season. The program provides a suite of Web-based products that allow tax professionals to conduct business with the IRS electronically, such as disclosure authorization, electronic account resolution, and transcript delivery system. Authorized agents who submit (any of six) information returns subject to backup withholding can also make use of TIN (Taxpayer Identification Number) matching with e-services.

Another initiative is the Federal/State e-file program for taxpayers. The program makes it possible for taxpayers to meet both Federal and State return filing requirements with one e-file transmission. Nearly 40 states participate in Federal/State e-file. In addition, several States have mandated e-filing of their State tax returns in certain situations. As a result, IRS has experienced relatively strong growth in electronically-filed Federal returns in States that have mandated e-filing of state returns.

Business Returns

IRS also continues to enhance its business e-file programs under the aegis of the Modernized e-File (MeF) platform. Most of the common business tax forms are now available for e-file either through MeF or older electronic filing systems. This includes fiduciary (Form 1041), partnership (Form 1065), corporation (Forms 1120, 1120S), employment (Forms 940 and 941), and tax-exempt (Forms 990, 990-EZ and 990-PF) returns.

New Treasury regulations issued in 2005 mandate electronic filing of Federal returns for some large corporations and tax-exempt organizations whose assets exceed certain dollar thresholds. However, these e-file mandates only apply to those corporations and tax-exempt entities that also file at least 250 other returns with the IRS during a calendar year, such as employment and excise tax returns, and information documents like Forms W-2, 1099-DIV, and Schedules K-1. The e-file mandates require corporations with gross assets of at least $50 million to e-file their Forms 1120 or 1120S returns beginning in CY 2006. This e-file requirement is expanded to corporations with at least $10 million in gross assets, effective in 2007.

Figure A shows that 57,900 Form 1120 and 155,000 Form 1120S returns are estimated to be e-filed in 2005. Assuming growth patterns typical of innovative technology-based products, the forecast for 2006 is 139,200 for the former and 307,800 for the latter. These represent increases of 140.4 percent for Form 1120 and 98.6 percent for Form 1120S. In subsequent years, e-filed Forms 1120/1120S are both expected to continue to grow rapidly. About 816,000 Form 1120 returns and nearly 1.9 million Form 1120S returns are projected to be filed electronically in 2012. Since corporations covered by the mandates in 2007 total only around 30,000, they will represent only a small fraction of the overall Form 1120 and 1120S e-file volumes projected.

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Tax-exempt organizations with $100 million or more in total assets will also be required to file their Forms 990 electronically in 2006. This threshold is lowered to $10 million in 2007. Also impacted are private foundations and charitable trusts which will be required to file their Forms 990-PF, *Return of Private Foundation*, electronically, starting in 2007, regardless of their asset sizes. However, the additional mandate criterion that limits its scope to only those organizations filing at least 250 other tax-returns results in a relatively small number of affected tax-exempt filers. Only around 1,200 tax exempt organizations are estimated to be covered by the e-file mandate in Filing Year 2006 and approximately 10,000 in 2007.

From Figure A, an estimated 4,800 Forms 990, 990EZ, and 990-PF returns will be filed electronically in 2005. With the help of the mandates, tax-exempt e-file returns are expected to increase to 12,000 in 2006. In the long term, 132,900 exempt organization tax returns are expected electronically by the year 2012.

Employment Returns

The changes related to Forms 941 and 944 discussed earlier have a unique short-term impact on the number of e-filed employment tax returns. With the TeleFile program ending after the 2005 filing season, Form 941TeleFile volumes will drop to zero in 2006. While some former 941Telefile users are expected to move to other e-file options, some are also expected to revert back to paper. In addition, the introduction of the annual Form 944 in 2007 will lead to a slight decrease in the total number of quarterly Form 941 e-filed returns in 2006.

In 2005, over 5.9 million employment returns will be filed electronically. However that number is projected to drop 2.3 percent to 5.8 million e-filed employment returns in 2006, in the wake of the developments in the Telefile program and the new Form 944. After that unique transition period, the more persistent underlying growth trend is expected to resume. Based on that trend, the total number of e-filed employment returns (i.e., Forms 940, 941, 943, and 944) is expected to be 8.6 million by 2012, growing at an average annual rate of 6.5 percent over this period.

Grand Total

There are several other individual and business e-file return categories covered in these latest projections, e.g., partnership (Form 1065), fiduciary (Form 1041) and filings for extensions (e.g., Forms 4868 and 7004). Each form has its own unique set of circumstances. However, what is most striking is the overall net effect of e-file. As presented in Figure B, the projected trend in grand total return filings is one of a marked decline in paper filings and a steep increase in e-file returns through 2012. Indeed, our current forecasts call for essentially half of the 246.8 million total returns in 2012 to be filed electronically. Also, future e-file initiatives by IRS and/or private industry may very well accelerate this migration to electronic filing.

Data Sources

The reported actual volumes of returns filed in CY 2004 by form type and filing medium are based primarily on filings as recorded on the IRS master files. With a few exceptions, these volumes are the same as those reported in the Internal Revenue Service *Data Book* (Publication 55B) for that processing year. However, master file counts were not available in a few instances. In these cases, tallies of actual filings were provided by program staff in the IRS operating divisions, typically from data capture systems located in the IRS processing campuses. For CY 2005, master file data through August were generally available. The partial-year data were extrapolated to obtain estimates for CY 2005, and typically incorporated into the models used to make the projections.

Projection Methodology

Each major form type is forecasted separately using either a time series or a linear regression model. Time series models use historical data for a form type to make predictions based on the patterns exhibited by the data. Some of the most common time series models used were several types of trended exponential smoothing and lower order Box-Jenkins ARIMA models. These models were applied for such return series as corporation (Forms 1120, 1120A, and 1120S), partnership (Form 1065), and excise (Forms 720, 730, and 2290) tax returns.

In other instances, models based on linear regression analysis were used with independent ("predictor") variables such as gross domestic product and employment. For these models, forecasts of the independent variables were provided by Global Insight, Inc. For example, linear regression models

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incorporating economic and demographic variables were used to project the individual income tax return series and employment Forms 940 and 941.

Legislative and administrative changes approved for future implementation and not captured in statistical models are also factored into tax return forecasts as "off-model adjustments." Such was the case in developing the projections for the new employment Form 944. Analysis of the impact of similar events in the past, as well as input from subject-matter experts is used to develop these off-model adjustments. However such adjustments are made only for enacted tax law changes and confirmed (or reasonably certain) administrative plans and not for initiatives simply under consideration. This is particularly true of electronically-filed returns (e-file). As a result, the e-file forecasts presented in this article are not IRS goals, and should not be interpreted as precluding an alternative e-file future.

Notes and References

[1] All values in Table 1 are taken from *Calendar Year Return Projections for the United States and IRS Campuses: 2005-2012*, IRS Document 6186, November 2005, National Headquarters Office of Research, Analysis and Statistics, Internal Revenue Service, U.S. Department of the Treasury.

[2] Throughout the year, the Projections and Forecasting Group (PFG) under IRS National Headquarters Office of Research publishes forecasts of a large number of tax return filings and other IRS workload categories. These projections provide a foundation for IRS workload estimates/resource requirements contained in budget submissions and also help with other major IRS planning and analysis efforts.

SOURCE: IRS, Statistics of Income Winter 2005-2006 Bulletin, Publication 1136.

Projections of Federal Tax Return Filings: Calendar Years 2005-2012

Table 1.--Total Number of Returns To Be Filed with the Internal Revenue Service: Calendar Years 2005-2012

Type of return	Actual 2004	Estimated [1] 2005	Projected 2006	2007	2008	2009	2010	2011	2012
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Grand total [2]	**224,477,634**	**228,985,300**	**229,270,000**	**232,502,200**	**235,723,000**	**238,673,300**	**241,670,400**	**244,334,600**	**246,826,400**
Paper grand total	154,277,116	150,816,000	144,638,900	140,338,200	136,222,900	132,481,300	129,291,900	126,604,800	124,548,700
Electronic grand total	70,200,518	78,169,300	84,631,200	92,164,000	99,500,100	106,191,900	112,378,500	117,729,800	122,277,600
Total primary returns [3]	**205,078,062**	**208,650,700**	**209,146,100**	**211,748,100**	**214,366,900**	**216,699,800**	**219,100,600**	**221,133,700**	**223,037,400**
Individual, total [4]	**131,297,517**	**132,766,200**	**134,901,700**	**136,351,800**	**138,184,300**	**139,703,600**	**141,405,900**	**142,845,900**	**143,903,300**
Forms 1040, 1040A, and 1040EZ [5]	130,576,852	132,022,400	134,134,600	135,555,500	137,358,800	138,849,000	140,522,200	141,933,100	142,961,500
Total individual paper returns	69,148,584	63,866,500	59,928,300	55,350,000	51,624,600	48,415,200	45,838,700	43,649,600	41,744,600
Form 1040	49,640,220	45,249,300	42,885,900	39,877,100	37,383,500	34,826,000	32,804,700	30,813,300	28,718,000
Form 1040A	10,862,016	10,187,000	8,456,800	7,562,700	6,894,500	6,616,400	6,328,900	6,265,100	6,411,000
Form 1040EZ	8,646,348	8,430,200	8,585,600	7,910,200	7,346,600	6,972,800	6,705,000	6,571,200	6,615,700
Total individual electronic returns	61,428,268	68,155,900	74,206,300	80,205,500	85,734,200	90,433,800	94,683,500	98,283,500	101,216,900
Online filing	14,562,975	17,076,100	21,003,600	22,953,800	24,458,800	25,469,200	26,155,500	26,525,800	26,630,100
Practitioner electronic filing	43,095,365	47,786,200	53,202,700	57,251,700	61,275,400	64,964,600	68,528,000	71,757,700	74,586,800
TeleFile	3,769,928	3,293,600	--	--	--	--	--	--	--
Form 1040NR	606,758	628,200	649,000	675,800	702,500	729,200	755,800	782,500	809,100
Forms 1040PR and 1040SS	113,907	115,700	118,100	120,600	123,000	125,400	127,900	130,300	132,800
Individual estimated tax, Form 1040-ES, total	**27,669,288**	**29,022,900**	**29,548,300**	**29,953,400**	**30,139,300**	**30,237,400**	**30,289,100**	**30,316,500**	**30,330,900**
Form 1040-ES, paper	27,616,395	28,959,300	29,473,600	29,868,900	30,044,900	30,132,900	30,174,400	30,191,500	30,195,500
Form 1040-ES, electronic (credit card)	52,893	63,600	74,700	84,500	94,400	104,500	114,700	125,000	135,400
Fiduciary (Form 1041), total	**3,722,408**	**3,757,700**	**3,800,600**	**3,845,000**	**3,893,400**	**3,946,000**	**4,003,200**	**4,058,300**	**4,112,100**
Paper fiduciary returns	2,396,728	2,379,800	2,368,600	2,358,800	2,351,700	2,347,500	2,345,900	2,343,100	2,339,400
Electronic/magnetic tape fiduciary returns	1,325,680	1,377,800	1,432,000	1,486,200	1,541,600	1,598,500	1,657,300	1,715,200	1,772,700
Fiduciary estimated tax, Form 1041-ES	**664,219**	**838,500**	**845,100**	**851,800**	**858,500**	**865,200**	**871,800**	**878,500**	**885,200**
Partnership, Forms 1065/1065B, total	**2,546,439**	**2,686,200**	**2,822,100**	**2,960,800**	**3,090,600**	**3,218,100**	**3,340,700**	**3,457,600**	**3,568,100**
Paper partnership returns	2,451,126	2,513,100	2,585,600	2,649,200	2,692,600	2,722,000	2,735,000	2,730,700	2,708,500
Electronic partnership returns	95,313	173,100	236,500	311,500	398,100	496,100	605,700	726,900	859,600
Corporation, total	**6,012,894**	**6,147,300**	**6,290,000**	**6,467,500**	**6,621,300**	**6,798,700**	**6,979,300**	**7,155,800**	**7,322,200**
Paper corporation returns	5,962,270	5,934,400	5,842,900	5,645,600	5,325,300	4,998,100	4,777,000	4,658,000	4,592,700
Electronic corporation returns	50,624	212,900	447,000	821,900	1,296,000	1,800,600	2,202,300	2,497,800	2,729,500
Form 1120, total	2,066,806	2,055,600	2,041,800	2,034,100	2,020,500	2,008,700	1,997,000	1,985,300	1,973,600
Form 1120, electronic	14,211	57,900	139,200	257,900	408,000	569,000	689,700	766,300	815,800
Form 1120A, total	214,709	208,600	201,000	194,600	187,000	179,800	172,600	165,400	158,200
Form 1120F, total	25,967	26,700	27,500	28,400	29,300	30,300	31,300	32,300	33,300
Form 1120FSC, total	1,597	1,000	--	--	--	--	--	--	--
Form 1120H, total	159,487	170,400	176,200	181,900	187,600	193,300	199,000	204,700	210,400
Form 1120RIC, total	11,020	11,900	12,300	12,600	12,900	13,200	13,500	13,800	14,000
Form 1120S, total	3,523,934	3,663,200	3,821,000	4,005,300	4,172,900	4,361,700	4,553,800	4,741,900	4,919,900
Form 1120S, electronic	36,413	155,000	307,800	564,000	888,000	1,231,600	1,512,500	1,731,500	1,913,700
Forms 1120L/PC/REIT/SF, total	9,374	9,700	10,200	10,600	11,100	11,500	12,000	12,400	12,900
Small Corporation Election, Form 2553	**545,884**	**617,800**	**638,400**	**660,300**	**682,200**	**706,200**	**730,700**	**754,700**	**777,300**
"REMIC," Form 1066	**19,512**	**22,700**	**26,000**	**29,300**	**32,500**	**35,800**	**39,000**	**42,300**	**45,600**
Estate, Forms 706 and 706NA, total	**74,172**	**48,000**	**44,900**	**30,400**	**28,900**	**26,700**	**17,600**	**7,000**	**55,100**
Gift, Form 709	**262,164**	**259,400**	**256,800**	**254,300**	**252,000**	**249,900**	**215,200**	**91,900**	**244,200**
Employment, total [6]	**30,463,568**	**30,634,400**	**28,108,000**	**28,422,700**	**28,643,000**	**28,916,300**	**29,187,700**	**29,449,000**	**29,692,000**
Paper employment returns	24,748,134	24,652,200	22,261,200	22,134,500	21,929,700	21,757,500	21,562,800	21,335,800	21,067,300
Magnetic tape employment returns	735,239	--	--	--	--	--	--	--	--
Electronic employment returns	4,980,195	5,982,200	5,846,800	6,288,200	6,713,300	7,158,800	7,624,900	8,113,100	8,624,700
Forms 940, 940EZ, and 940PR, total	5,757,193	5,795,300	5,816,300	5,864,700	5,884,000	5,910,400	5,932,100	5,950,200	5,964,900
Forms 940, 940EZ, and 940PR, paper	4,872,344	4,843,400	4,802,300	4,784,500	4,738,300	4,698,800	4,655,100	4,608,100	4,558,200
Form 940, magnetic tape	472,532	--	--	--	--	--	--	--	--
Form 940, e-file/online/XML	412,317	951,900	1,014,000	1,080,200	1,145,700	1,211,600	1,277,000	1,342,100	1,406,700
Forms 941, 941PR/SS/E, total	24,278,396	24,422,400	21,887,000	21,238,600	21,442,000	21,690,100	21,940,800	22,183,900	22,412,000
Forms 941, 941PR/SS/E, paper	19,447,811	19,392,100	17,054,200	16,061,400	15,905,500	15,774,400	15,624,700	15,445,100	15,226,600
Form 941, magnetic tape	262,707	--	--	--	--	--	--	--	--
Form 941, e-file/online/XML	3,729,864	4,393,200	4,832,800	5,177,200	5,536,400	5,915,700	6,316,100	6,738,900	7,185,500
Form 941 TEL	838,014	637,100	--	--	--	--	--	--	--
Forms 943 and 943 PR	269,376	263,200	256,700	251,500	245,000	239,000	233,000	226,900	220,900
Form 944, total	--	--	--	925,000	934,300	944,300	954,200	965,100	976,200
Form 944, e-file	--	--	--	30,900	31,200	31,500	31,800	32,200	32,600
Form 945	156,668	151,600	146,000	141,100	135,700	130,600	125,700	120,800	116,100
Form CT-1	1,935	1,900	1,900	1,900	1,900	1,900	1,900	1,900	1,900
Form 1042 [7]	**30,765**	**31,400**	**32,100**	**32,700**	**33,400**	**34,100**	**34,700**	**35,400**	**36,000**

Footnotes at end of table.

Projections of Federal Tax Return Filings: Calendar Years 2005-2012

Table 1.--Total Number of Returns To Be Filed with the Internal Revenue Service: Calendar Years 2005-2012--Continued

Type of return	Actual 2004	Estimated [1] 2005	Projected 2006	2007	2008	2009	2010	2011	2012
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Exempt organization, total [8]	**803,839**	**853,500**	**863,100**	**908,400**	**917,600**	**960,900**	**970,800**	**1,014,000**	**1,023,900**
Paper exempt organization, total	803,183	848,700	851,100	875,400	864,400	889,400	882,500	902,600	891,000
Electronic exempt organization, total	656	4,800	12,000	33,000	53,200	71,500	88,400	111,400	132,900
Form 990, total	393,286	430,000	430,000	465,000	465,000	498,900	499,500	533,400	534,000
Form 990, electronic	330	3,400	8,600	25,900	39,600	51,300	62,100	78,100	91,700
Form 990EZ, total	139,684	146,600	149,400	153,400	156,300	159,500	162,700	165,900	169,200
Form 990EZ, electronic	326	1,300	2,700	5,400	10,100	13,300	17,100	21,300	26,000
Form 990PF	85,692	88,600	92,200	95,500	98,700	102,000	105,300	108,600	111,800
Form 990PF, electronic	--	100	800	1,700	3,600	6,900	9,200	12,000	15,200
Form 990T	57,721	58,700	59,600	60,500	61,400	62,400	63,300	64,200	65,200
Form 4720	1,962	2,000	2,100	2,200	2,300	2,400	2,500	2,500	2,600
Form 5227	125,494	127,700	129,800	131,800	133,800	135,700	137,600	139,400	141,100
Form 990C [9]	**3,504**	**3,400**	**3,200**	**3,000**	**2,900**	**2,800**	**2,700**	**2,600**	**2,500**
Government entities, total	**51,482**	**53,600**	**54,600**	**55,700**	**56,700**	**57,700**	**58,700**	**59,800**	**60,800**
Form 8038	4,385	4,500	4,500	4,600	4,700	4,700	4,800	4,900	5,000
Form 8038G	30,388	32,100	32,700	33,400	34,100	34,800	35,400	36,100	36,800
Form 8038GC	14,385	14,800	15,100	15,400	15,600	15,900	16,200	16,500	16,700
Form 8038T	2,121	2,000	2,100	2,100	2,100	2,100	2,100	2,100	2,100
Form 8328	203	200	200	200	200	200	200	300	300
Political organizations, total	**10,371**	**9,800**	**10,700**	**9,500**	**10,300**	**9,200**	**10,000**	**8,800**	**9,700**
Form 1120POL, total	5,385	5,200	5,100	4,900	4,700	4,600	4,400	4,200	4,100
Electronic 1120POL	--	--	--	100	300	300	400	500	600
Form 8871	1,383	1,500	1,800	1,500	1,800	1,500	1,800	1,500	1,800
Electronic 8871	1,383	1,500	1,800	1,500	1,800	1,500	1,800	1,500	1,800
Form 8872	3,603	3,100	3,800	3,100	3,800	3,100	3,800	3,100	3,800
Electronic 8872	2,164	2,000	2,500	2,100	2,600	2,200	2,700	2,300	2,800
Excise, total	**834,756**	**835,300**	**840,000**	**852,900**	**863,200**	**876,100**	**889,700**	**903,800**	**918,100**
Form 11-C	9,656	9,300	9,100	9,000	8,900	8,800	8,700	8,600	8,500
Form 720	117,950	103,600	95,200	90,500	87,500	85,800	84,800	84,200	83,800
Form 730	46,528	46,100	45,200	44,300	43,300	42,400	41,400	40,500	39,500
Form 2290	660,622	676,300	690,500	709,100	723,500	739,200	754,900	770,600	786,300
Form 5330	**23,413**	**22,200**	**21,400**	**20,600**	**19,700**	**18,900**	**18,000**	**17,200**	**16,300**
Form 8752[10]	**41,867**	**40,300**	**39,100**	**38,000**	**37,100**	**36,300**	**35,500**	**34,800**	**34,100**
Supplemental documents. total [11]	**19,399,572**	**20,334,600**	**20,124,000**	**20,754,200**	**21,356,100**	**21,973,500**	**22,569,800**	**23,200,900**	**23,788,900**
Form 1040X, total	3,256,755	3,218,800	3,256,600	3,294,400	3,324,400	3,354,300	3,384,600	3,436,500	3,468,900
Form 4868, total	8,703,947	9,336,800	9,622,500	9,908,300	10,194,000	10,479,800	10,765,500	11,051,300	11,337,000
Paper	7,344,995	7,525,200	7,549,200	7,544,700	7,537,000	7,524,300	7,512,100	7,502,400	7,488,700
Electronic	1,358,952	1,811,600	2,073,400	2,363,500	2,657,100	2,955,400	3,253,400	3,548,800	3,848,300
Credit card	27,425	33,300	34,900	38,000	41,300	44,700	48,200	51,800	55,600
E-file	742,489	1,191,200	2,038,500	2,325,500	2,615,800	2,910,700	3,205,200	3,497,000	3,792,700
TeleFile	589,038	587,100	--	--	--	--	--	--	--
Form 2688, total	3,477,342	3,594,600	--	--	--	--	--	--	--
Electronic	168,812	334,200	--	--	--	--	--	--	--
Form 1120X	13,130	12,800	12,400	12,100	11,800	11,500	11,200	10,900	10,600
Form 5558	353,432	352,800	349,100	345,500	341,800	338,200	334,500	330,900	327,200
Form 7004, total	3,153,169	3,364,000	6,422,700	6,709,200	6,993,700	7,275,400	7,553,900	7,827,400	8,095,500
Electronic	--	47,900	292,800	555,800	988,600	1,533,300	2,097,200	2,543,700	2,878,300
Form 8868, total	441,797	454,800	460,600	484,700	490,500	514,400	520,200	544,000	549,700
Electronic	339	1,900	5,300	10,200	18,900	35,400	46,100	60,100	74,000

[1] Estimated based on information available as of August 2005.

[2] Grand total is the sum of total primary returns and supplemental documents.

[3] Total primary returns is the sum of all returns, excluding supplemental documents.

[4] "Individual, total" is the sum of paper and electronic Forms 1040, 1040A, 1040EZ, 1040NR, 1040PR, and 1040SS.

[5] Forms 1040/A/EZ is the sum of the paper and electronic Forms 1040, 1040A, and 1040EZ.

[6] "Employment, total" includes paper, magnetic tape and electronic Forms 940, 940EZ, 940PR, 941, 941E, 941PR, 941SS, 943, 943PR, 944, 945, and CT-1.

[7] Form 1042 is the Annual Withholding Tax Return for U.S. Source Income of Foreign Persons.

[8] "Exempt organization, total" includes Forms 990, 990EZ, 990PF, 990T, 4720, and 5227.

[9] "Exempt organization, total" excludes Form 990C.

[10] Form 8752 is Required Payment or Refund Under Section 7519, a computation of payment or refund by partnership or S corporation.

[11] Supplemental documents consist mainly of applications for extensions of time to file and amended tax returns.

NOTE: Details may not add to totals because of rounding.

- Self-Employed Individuals
- State Links
- More Topics . .

IRS Resources

- Compliance & Enforcement
- Contact My Local Office
- e-file
- Forms and Publications
- Frequently Asked Questions
- News
- Taxpayer Advocacy
- Where To File

Estate Tax Questions

Reminder: Most relatively simple estates (cash, publicly-traded securities, small amounts of other easily-valued assets, and no special deductions or elections, or jointly-held property) with a total value under $1,000,000 do not require the filing of an estate tax return. The amount was $1,500,000 in 2004 and 2005. For 2006 through 2008, the amount is raised to $2,000,000.

Q: What is the Estate Tax?

The Estate Tax is a tax on your right to transfer property at your death. It consists of an accounting of everything you own or have certain interests in at the date of death (Refer to Form 706). The fair market value of these items is used, not necessarily what you paid for them or what their values were when you acquired them. The total of all of these items is your "Gross Estate." The includible property may consist of Cash and Securities, Real Estate, Insurance, Trusts, Annuities, Business interests and other assets.

Once you have accounted for the Gross Estate, certain deductions (and in special circumstances, reductions to value) are allowed in arriving at your "Taxable Estate." These deductions may include Mortgages and other Debts, Estate Administration expenses, property that passes to Surviving Spouses and Qualified Charities. The value of some operating business interests or farms may be reduced for estates that qualify.

After the net amount is computed, the value of lifetime taxable gifts (beginning with gifts made in 1977) is added to this number and the tax is computed. The tax is then reduced by the available unified credit. Presently, the amount of this credit reduces the computed tax so that only total taxable estates and lifetime gifts that exceed $1,000,000 will actually have to pay tax. In its current form, the estate tax only affects the wealthiest 2% of all Americans.

Q: Where do I file the return?

Use the below mailing address for all tax forms filed at the Cincinnati Service Center including Estate and Gift tax returns:

Internal Revenue Service
Cincinnati, Oh 45999

To mail FedEx packages, please use the following street address:

Internal Revenue Service
201 W. Rivercenter Blvd
Covington, KY 41011

For questions about return accounts and extensions only, (no tax law questions) call:

1-866-699-4083

All tax law questions can still be answered by calling:

1-800-829-1040

Q: When is the return due?

Generally, the estate tax return is due nine months after the date of death. A six month extension is available if requested prior to the due date and the estimated correct amount of tax is paid before the due date.

Q: When can I expect the Estate Tax Closing Letter?

There can be some variation, but for returns that are accepted as filed and contain no other errors or special circumstances, you should expect to wait about 4 to 6 months after the return is filed to receive your closing letter. Returns that are selected for examination or reviewed for statistical purposes will take longer.

Q: What is included in the Estate?

The Gross Estate of the decedent consists of an accounting of everything you own or have certain interests in at the date of death (Refer to Form 706). The fair market value of these items is used, not necessarily what you paid for them or what their values were when you acquired them. The total of all of these items is your "Gross Estate." The includible property may consist of cash and securities, real estate, insurance, trusts, annuities, business interests and other assets. Keep in mind that the Gross Estate will likely include non-probate as well as probate property.

Q: I own a 1/2 interest in a farm (or building or business) with my brother (sister, friend, other). What is included?

Depending on how your 1/2 interest is held and treated under state law, and how it was acquired, you would probably only include 1/2 of its value in your gross estate. However, many other factors influence this answer, so you would need to visit with a tax or legal professional to make that determination.

Q: What is excluded from the Estate?

Generally, the gross estate does not include property owned solely by the decedent's spouse or other individuals. Lifetime gifts that are complete (no powers or other control over the gifts are retained) are not included in the Gross Estate (but taxable gifts are used in the computation of the estate tax). Life estates given to the decedent by others in which the decedent has no further control or power at the date of death are not included.

Q: What deductions are available to reduce the Estate Tax?

1. Marital Deduction: One of the primary deductions for married decedents is the Marital Deduction. All property that is included in the gross estate and passes to the surviving spouse is eligible for the marital deduction. The property must pass "outright." In some cases, certain life estates also qualify for the marital deduction.
2. Charitable Deduction: If the decedent leaves property to a qualifying charity, it is deductible from the gross estate.
3. Mortgages and Debt.
4. Administration expenses of the estate.
5. Losses during estate administration.

Q: What other information do I need to include with the return?

See Form 706 and Instructions and Publication 950. Among other items listed:

1. Copies of the death certificate
2. Copies of the decedent's will and/or relevant trusts
3. Copies of appraisals
4. Copies of relevant documents regarding litigation involving the estate
5. Documentation of any unusual items shown on the return (partially included assets, losses, near date of death transfers, others).

Q: What is "Fair Market Value?"

Fair Market Value is defined as: "The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts. The fair market value of a particular item of property includible in the decedent's gross estate is not to be determined by a forced sale price. Nor is the fair market value of an item of property to be determined by the sale price of the item in a market other than that in which such item is most commonly sold to the public, taking into account the location of the item wherever appropriate." Regulation §20.2031-1.

Q: What about the value of my family business/farm?

Generally, the fair market value of such interests owned by the decedent are includible in the gross estate at date of death. However, for certain farms or businesses operated as a family farm or business, reductions to these amounts may be available.

In the case of a qualifying Family Farm, IRC §2032A allows a reduction from value of up to $820,000.

If the decedent owned an interest in a qualifying family owned business, a deduction from the gross estate in the amount of up to $1,100,000 may be available under IRC §2057.

Q: What if I do not have everything ready for filing by the due date?

The estate's representative may request an extension of time to file for up to six months from the due date of the return. However, the correct amount of tax is still due by the due date and interest is accrued on any amounts still owed by the due date that are not paid at that time.

Q: Who should I hire to represent me and prepare and file the return?

The Internal Revenue Service cannot make recommendations about specific individuals, but there are several factors to consider:

1. How complex is the estate? By the time most estates reach $1,000,000, there is usually some complexity involved.
2. How large is the estate?
3. In what condition are the decedent's records?
4. How many beneficiaries are there and are they cooperative?
5. Do I need an attorney, CPA, Enrolled Agent (EA) or other professional(s)?

With these questions in mind, it is a good idea to discuss the matter with several attorneys and CPAs or EAs. Ask about how much experience they have had and ask for referrals. This process should be similar to locating a good physician. Locate other individuals that have had similar experiences and ask for recommendations. Finally, after the individual(s) are employed and begin to work on estate matters, make sure the lines of communication remain open so that there are no surprises during administration or if the estate tax return is examined.

Finally, most estates engage the services of both attorneys and CPAs or EAs. The attorney usually handles probate matters and reviews the impact of documents on the estate tax return. The CPA or EA often handles the actual return preparation and some representation of the estate in matters with the IRS. However, some attorneys handle all of the work. CPAs and EAs may also handle most of the work, but cannot take care of probate matters and other situations where a law license is required. In addition, other professionals (such as appraisers, surveyors, financial advisors and others) may need to be engaged during this time.

Q: Do I have to talk to the IRS during an examination?

You do not have to be present during an examination unless an IRS representative needs to ask specific questions. Although you may represent yourself during an examination, most executors prefer that professional(s) they have employed handle this phase of administration. They may delegate authority for this by signing a designation on the Form 706 itself, or executing Form 2848 "Power of Attorney".

Q: What if I disagree with the examination proposals?

You have many rights and avenues of appeal if you disagree with any proposals made by the IRS. See Publications 1 and 5 for an explanation of these options.

Q: What happens if I sell property that I have inherited?

The sale of such property is usually considered the sale of a capital asset and may be subject to capital gains (or loss) treatment. However, IRC §1014 provides that the basis of property acquired from a decedent is its fair market value at the date of death, so there is usually little or no gain to account for if the sale occurs soon after the date of death. (Remember, the rules are different for determining the basis of property received as a lifetime gift). [Link to Gift Tax FAQ]

Most information for this page came from the Internal Revenue Code: Chapter 11--Estate Tax (generally Internal Revenue Code §2000 and following, related regulations and other sources)

Contact Information

If you have suggestions or comments (or suggested FAQs) for the Estate and Gift Tax web site, please contact us: CONTACT ESTATE AND GIFT TAX. We will not be able to respond to your email, but will consider it when making improvements or additions to this site. Refer to "Where do I file the return?" at the top of this page for information on how to obtain technical assistance or questions about return status.

Note: *This page contains one or more references to the Internal Revenue Code (IRC), Treasury Regulations, court cases, or other official tax guidance. References to these legal authorities are included for the convenience of those who would like to read the technical reference material. To access the applicable IRC sections, Treasury Regulations, or other official tax guidance, visit the Tax Code, Regulations, and Official Guidance page. To access any Tax Court case opinions issued after September 24, 1995, visit the Opinions Search page of the United States Tax Court.*

What's New

The provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 made a number of changes to the estate tax and the gift tax rates and to the applicable exclusion amounts.

- The top marginal tax rate applicable to estate and gifts has decreased from 46 percent in 2006 to 45 percent in 2007, and will remain at that rate for 2008 and 2009.
- The estate tax has been repealed for 2010 and the highest gift tax rate will be decreased to 35 percent for 2010. The changes to the applicable exclusion amounts are discussed later in this publication.
- The provisions for these changes are currently set to expire for estates of decedents dying and gifts made after December 31, 2010.

Introduction

If you give someone money or property during your life, you may be subject to federal gift tax. The money and property you own when you die (your estate) may be subject to federal estate tax. The purpose of this publication is to give you a general understanding of when these taxes apply and when they do not. It explains how much money or property you can give away during your lifetime or leave to your heirs at your death before any tax will be owed. Gifts you make during your life or bequests from your estate can also be subject to an additional tax, the generation-skipping transfer (GST) tax, if the gifts or bequests are to a person, such as a grandchild, who is more than one generation younger than you.

No tax owed. Most gifts are not subject to the gift tax and most estates are not subject to the estate tax. For example, there is usually no tax if you make a gift to your spouse or to a charity or if your estate goes to your spouse or to a charity at your death. If you make a gift to someone else, the gift tax usually does not apply until the value of the gifts you give that person exceeds the annual exclusion for the year. See *Annual exclusion* under *Gift Tax,* on page 6.

Even if tax applies to your gifts or your estate, it may be eliminated by the unified credit, discussed later.

No return needed. Gift tax returns are filed annually. However, you do not need to file a gift tax return unless you give someone, other than your spouse, money or property worth more than the annual exclusion (discussed on page 6) for that year, or a gift not subject to the annual exclusion. An estate tax return generally will not be needed unless the estate is worth more than the applicable exclusion amount for the year of death. This amount is shown in the table under *Unified Credit (Applicable Exclusion Amount),* on page 4.

No tax payable by the person receiving your gift or estate. The person who receives your gift or your estate will not have to pay any federal gift tax or estate tax because of it. Also, that person will not have to pay income tax on the value of the gift or inheritance received.

No income tax deduction. Making a gift or leaving your estate to your heirs does not ordinarily affect your federal income tax. You cannot deduct the value of gifts you make (other than gifts that are deductible charitable contributions).

What this publication contains. If you are not sure whether the gift tax, the estate tax, or the generation-skipping transfer tax applies to your situation, the rest of this publication may help you. It explains in general terms:

- When tax is not owed because of the unified credit,
- When the gift tax does and does not apply,
- When the estate tax does and does not apply,

- When to file a return for the gift tax or the estate tax, and
- When the generation-skipping transfer tax may apply.

This publication does not contain any information about state or local taxes. That information should be available from your local taxing authority.

Where to find out more. This publication does not contain all the rules and exceptions for federal estate and gift taxes. It does not contain the rules that apply to nonresident aliens. If you need more information, see the following publication, forms, and instructions:

- Publication 559, Survivors, Executors, and Administrators;
- Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return;
- Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return; and
- Form 706-NA, United States Estate (and Generation-Skipping Transfer) Tax Return, Estate of nonresident, not a citizen of the United States.

To order these forms, call 1-800-TAX-FORMS (1-800-829-3676). If you have access to TTY/TDD equipment, you can call 1-800-829-4059. To get these forms using your personal computer, go to *www.irs.gov.*

Unified Credit (Applicable Exclusion Amount)

A credit is an amount that eliminates or reduces tax. A unified credit applies to both the gift tax and the estate tax. You must subtract the unified credit from any gift tax that you owe. Any unified credit you use against your gift tax in 1 year reduces the amount of credit that you can use against your gift tax in a later year. The total amount used during life against your gift tax reduces the credit available to use against your estate tax.

The unified credit against taxable gifts will remain at $345,800 (exempting $1 million from tax) through 2009, while the unified credit against estate tax increases during the same period. The following table shows the unified credit and applicable exclusion amount for the calendar years in which a gift is made or a decedent dies after 2001.

	For Gift Tax Purposes:		For Estate Tax Purposes:	
Year	**Unified Credit**	**Applicable Exclusion Amount**	**Unified Credit**	**Applicable Exclusion Amount**
2002 and 2003	345,800	1,000,000	345,800	1,000,000
2004 and 2005	345,800	1,000,000	555,800	1,500,000
2006, 2007, and 2008	345,800	1,000,000	780,800	2,000,000
2009	345,800	1,000,000	1,455,800	3,500,000

For examples of how the credit works, see *Applying the Unified Credit to Gift Tax* and *Applying the Unified Credit to Estate Tax,* later.

Gift Tax

The gift tax applies to the transfer by gift of any property. You make a gift if you give property (including money), or the use of or income from property, without expecting to receive something of at least equal value in return. If you sell something at less than its full value or if you make an interest-free or reduced-interest loan, you may be making a gift.

The general rule is that any gift is a taxable gift. However, there are many exceptions to this rule.

Generally, the following gifts are not taxable gifts:

- Gifts, excluding gifts of future interests, that are not more than the annual exclusion for the calendar year,
- Tuition or medical expenses you pay directly to a medical or educational institution for someone,
- Gifts to your spouse,
- Gifts to a political organization for its use, and
- Gifts to charities.

Annual exclusion. A separate annual exclusion applies to each person to whom you make a gift. In 1998, the gift tax annual exclusion became subject to cost-of-living increases. The exclusion for 1998 through 2001 was $10,000 and for 2002 through 2005 the exclusion was $11,000. For 2006 and 2007 the amount is $12,000. Thus, in 2007, you generally can give up to $12,000 each to any number of people in 2007 and none of the gifts will be taxable.

However, gifts of future interests cannot be excluded under the annual exclusion provisions. A gift of a future interest is a gift that is limited so that its use, possession, or enjoyment will begin at some point in the future.

If you are married, both you and your spouse can separately give up to $12,000 to the same person in 2007 without making a taxable gift. If one of you gives more than $12,000 to a person in 2007, see *Gift Splitting,* later.

Inflation adjustment. The annual exclusion may be increased due to cost-of-living adjustments. See the instructions for Form 709 for the amount of the annual exclusion for the year you make the gift.

Example 1. In 2007, you give your niece a cash gift of $8,000. It is your only gift to her this year. The gift is not a taxable gift because it is not more than the $12,000 annual exclusion.

Example 2. You pay the $15,000 college tuition of your friend. Because the payment qualifies for the educational exclusion, the gift is not a taxable gift.

Example 3. In 2007, you give $25,000 to your 25-year-old daughter. The first $12,000 of your gift is not subject to the gift tax because of the annual exclusion. The remaining $13,000 is a taxable gift. As explained later under *Applying the Unified Credit to Gift Tax,* you may not have to pay the gift tax on the remaining $13,000. However, you do have to file a gift tax return.

More information. See Form 709 and its instructions for more information about taxable gifts.

Gift Splitting

If you or your spouse make a gift to a third party, the gift can be considered as made one-half by you and one-half by your spouse. This is known as gift splitting. Both of you must consent (agree) to split the gift. If you do, you each can take the annual exclusion for your part of the gift.

In 2007, gift splitting allows married couples to give up to $24,000 to a person without making a taxable gift.

If you split a gift you made, you must file a gift tax return to show that you and your spouse agree to use gift splitting. You must file a Form 709 even if half of the split gift is less than the annual exclusion.

Example. Harold and his wife, Helen, agree to split the gifts that they made during 2007. Harold gives his nephew, George, $21,000, and Helen gives her niece, Gina, $18,000. Although each gift is more than the annual exclusion ($12,000), by gift splitting they can make these gifts without making a taxable gift.

Harold's gift to George is treated as one-half ($10,500) from Harold and one-half ($10,500) from Helen. Helen's gift to Gina is also treated as one-half ($9,000) from Helen and one-half ($9,000) from Harold. In each case, because one-half of the split gift is not more than the annual exclusion, it is not a taxable gift. However, each of them must file a gift tax return.

Applying the Unified Credit to Gift Tax

After you determine which of your gifts are taxable, you figure the amount of gift tax on the total taxable gifts and apply your unified credit for the year.

Example. In 2007, you give your niece, Mary, a cash gift of $8,000. It is your only gift to her this year. You pay the $15,000 college tuition of your friend, David. You give your 25-year-old daughter, Lisa, $25,000. You also give your 27-year-old son, Ken, $25,000. Before 2007, you had never given a taxable gift. You apply the exceptions to the gift tax and the unified credit as follows:

1. Apply the educational exclusion. Payment of tuition expenses is not subject to the gift tax. Therefore, the gift to David is not a taxable gift.
2. Apply the annual exclusion. The first $12,000 you give someone during 2007 is not a taxable gift. Therefore, your $8,000 gift to Mary, the first $12,000 of your gift to Lisa, and the first $12,000 of your gift to Ken are not taxable gifts.
3. Apply the unified credit. The gift tax on $26,000 ($13,000 remaining from your gift to Lisa plus $13,000 remaining from your gift to Ken) is $5,120. See the Instructions for Form 709 for the Table for Computing Gift Tax for further information. You subtract the $5,120 from your unified credit of $345,800 for 2007. The unified credit that you can use against the gift tax in a later year is $340,680.

You do not have to pay any gift tax for 2007. However, you do have to file Form 709.

Filing a Gift Tax Return

Generally, you must file a gift tax return on Form 709 if any of the following apply.

- You gave gifts to at least one person (other than your spouse) that are more than the annual exclusion for the year.

- You and your spouse are splitting a gift.
- You gave someone (other than your spouse) a gift of a future interest that he or she cannot actually possess, enjoy, or receive income from until some time in the future.
- You gave your spouse an interest in property that will be ended by some future event.

You do not have to file a gift tax return to report gifts to (or for the use of) political organizations and gifts made by paying someone's tuition or medical expenses.

You also do not need to report the following deductible gifts made to charities:

- Your entire interest in property, if no other interest has been transferred for less than adequate consideration or for other than a charitable use; or
- A qualified conservation contribution that is a restriction (granted forever) on the use of real property.

More information. If you need to file a gift tax return, you should see Form 709 and its instructions.

Estate Tax

Estate tax may apply to your taxable estate at your death. Your taxable estate is your gross estate less allowable deductions.

Gross Estate

Your gross estate includes the value of all property in which you had an interest at the time of death. Your gross estate also will include the following:

- Life insurance proceeds payable to your estate or, if you owned the policy, to your heirs;
- The value of certain annuities payable to your estate or your heirs; and

- The value of certain property you transferred within 3 years before your death.

Taxable Estate

The allowable deductions used in determining your taxable estate include:

- Funeral expenses paid out of your estate,
- Debts you owed at the time of death,
- The marital deduction (generally, the value of the property that passes from your estate to your surviving spouse),
- The charitable deduction (generally, the value of the property that passes from your estate to the United States, any state, a political subdivision of a state, or to a qualifying charity for exclusively charitable purposes), and
- The state death tax deduction (generally any estate, inheritance, legacy, or succession taxes paid as the result of the decedent's death to any state or the District of Columbia.

More information. For more information on what is included in your gross estate and the allowable deductions, see Form 706 and Form 706-NA and their instructions.

Applying the Unified Credit to Estate Tax

Basically, any unified credit not used to eliminate gift tax can be used to eliminate or reduce estate tax. However, to determine the unified credit used against the estate tax, you must complete Form 706.

Filing an Estate Tax Return

An estate tax return, Form 706, must be filed if the gross estate, plus any adjusted taxable gifts and specific gift tax exemption, is more than the filing requirement for the year of death.

Adjusted taxable gifts is the total of the taxable gifts you made after 1976 that are not included in your gross estate. The specific gift tax exemption applies only to gifts made after September 8, 1976, and before 1977.

Filing requirement. The following table lists the filing requirement for the estate of a decedent dying after 2001.

Year of Death:	Filing Requirement:
2002 and 2003	1,000,000
2004 and 2005	1,500,000
2006, 2007, and 2008	2,000,000
2009	3,500,000

More information. If you think you will have an estate on which tax must be paid, or if your estate will have to file an estate tax return even if no tax will be due, see Publication 559, Form 706, Form 706-NA, and the forms' instructions for more information. You can get publications and forms from the IRS website, which is *www.irs.gov*. You (or your estate) may want to get a qualified estate tax professional to help with estate tax questions.

Generation-Skipping Transfer Tax

The GST tax may apply to gifts or direct skips occurring at your death to skip persons. The GST tax is calculated on the value of the gift or bequest, after subtraction of any allocated GST exemption, at the maximum estate tax rate for the year involved. Each individual has a GST exemption equal to the applicable exclusion amount for the year involved.

A direct skip is a transfer made during your life or occurring at your death that is:

- Subject to the gift or estate tax,
- Of an interest in property, and
- Made to a skip person.

A skip person is generally a person who is assigned to a generation that is two or more generations below the generation assignment of the donor. For instance, your grandchild will generally be a skip person to you or your spouse. The GST tax is computed on the amount of the gift or bequest transferred to a skip person, after subtraction of any GST exemption allocated to the gift or bequest at the maximum gift and estate tax rates.

More information. If you think you will have a gift or bequest on which GST tax must be paid, see Form 709, Form 706, Form 706-NA, and the forms' instructions for more information. You can get publications and forms from the IRS website, *www.irs.gov*. You (or your estate) may want to get a qualified estate tax professional to help with the GST questions.