

2009 Estate Tax Form M706 Instructions

for estates of decedents whose dates of death are in calendar year 2009

Questions?

You can find forms and information, including answers to frequently asked questions and options for paying electronically, on our website at:

www.taxes.state.mn.us

Send us an email at:

businessincome.tax@state.mn.us

Call us at:

651-556-3075

Weekdays, 8 a.m. to 4:30 p.m.

TTY: 711 Minnesota Relay

Or write to:

Minnesota Revenue

Mail Station 1315

St. Paul, MN 55146-1315

Forms you may need

M706 Estate Tax Return

PV47 Estate Tax Return Payment Voucher

PV86 Estate Tax Extension Payment Voucher

Need forms?

Download forms and other information, including Revenue Notice 06-04 regarding the alternative value, special use valuation and administrative deductions, at www.taxes.state.mn.us.

We'll provide information in another format upon request to persons with disabilities.

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Filing requirements

If the decedent was a resident of Minnesota at the time of death, the estate is required to file Form M706 if it meets at least one of the following requirements:

- the gross estate exceeds \$1,000,000 on the date of death, **OR**
- the estate is required to file a federal estate tax return.

If the decedent was a nonresident of Minnesota, the estate is required to file Form M706 if the total federal gross estate is \$1,000,000 or more, and Minnesota situated property is included in the federal gross estate.

(M.S. 289A.10, *subd.* 1)

Who must file?

If the decedent's estate is being probated, the Probate Court or Probate Registrar will appoint someone as personal representative — also called executor or administrator — of the decedent's estate. That person is then responsible for filing Form M706 for the estate.

In some cases, the Probate Court or Probate Registrar will appoint more than one person as executor. In such cases, all persons who have been appointed as executors are jointly responsible for filing the return.

If the estate is not being probated, all persons who will receive assets included in the decedent's federal gross estate (line 1 of federal Form 706) are responsible for filing the Minnesota return. If more than one person will receive the assets, all persons receiving the assets should choose a mutually agreeable person among them to file the estate tax returns. If one person cannot be agreed on, each person must file a Minnesota return for the decedent's estate. Each person must include on the return not only the assets he or she is receiving, but also all of the decedent's assets being received by other persons and the names of the other persons.

(M.S. 289A.10)

Who must pay?

The executor is responsible for paying the Minnesota estate tax.

However, if the assets were distributed without reserving enough to pay the various taxes, the executor and beneficiaries are personally responsible for payment.

(M.S. 270C.585)

Deadline for filing

The regular due date for filing Form M706 is nine months after the decedent's death.

(M.S. 289A.18, *subd.* 3)

Filing extensions

Effective for estates of decedents who have died after December 31, 2008, all estates are granted an automatic six-month extension to file Form M706, or the amount of time granted by Internal Revenue Service (IRS) to file the federal estate tax return, whichever is longer.

(M.S. 289A.19, *subd.* 4)

Any tax not paid by the regular due date is subject to penalties and interest. For more information, see *Penalties* on page 2.

Deadline for paying

The Minnesota estate tax must be paid no later than nine months after the date of death of the decedent. However, it may be possible to pay the tax in installments after this date if the estate meets the requirements explained in the next section, *Paying tax in installments*.

(M.S. 289A.20, *subd.* 3)

Paying tax in installments

If the Minnesota estate tax is \$5,000 or more and the IRS, under IRC sections 6161 or 6166, has granted the estate an extension of time to pay the federal estate tax, the estate may pay the Minnesota estate tax in installments if the requirements explained below are met.

Continued

General information

To be allowed to pay the Minnesota estate tax in installments, the executor must notify the commissioner in writing no later than nine months after the date of death of the decedent. The letter must indicate that the estate will pay the Minnesota tax in installments and the dates the payments will be made. The dates must be the same as the dates on which the federal estate tax installments will be made.

The installments — not including interest owed — must be made in equal amounts.

If you are paying the federal estate tax in installments and you wish to pay the Minnesota estate tax in installments, check the box above line 1.

Even if you pay the tax in installments, you must pay interest on any tax that remains unpaid after nine months from the date of death of the decedent. The rate of interest on each installment will be the interest rate in effect during that annual period. (*M.S. 289A.55, subd. 7*)

The amount of interest to include with each installment must be figured separately. Follow the steps below to determine the interest to include with each installment:

- 1 Determine the number of days from the last payment due date (return or installment) to date of payment or December 31, whichever is earlier.
- 2 Divide step 1 by 365, and round the result to five decimal places.
- 3 Multiply step 2 by the interest rate in effect for that year (see *Interest* on page 3).
- 4 Multiply step 3 by the tax still due.
 - If the due date is in the same year that you're making your payment, stop here. The result in step 4 is the interest you must include with your installment.
 - If your payment was due in one year and you're making the installment in the next calendar year, continue with step 5.
- 5 Determine the number of days from January 1 to date of payment.
- 6 Divide step 5 by 365, and round the result to five decimal places.
- 7 Multiply step 6 by the interest rate in effect for that year (see *Interest* on page 3).
- 8 Multiply step 7 by the tax still due.
- 9 Add step 4 and step 8. This is the interest to include with your installment.

Payment options

Estate tax can be paid electronically or by check.

■ Pay electronically

- Go to our website at **www.taxes.state.mn.us**, and click on "Login to e-File Minnesota" from the e-Services menu.
- If you don't have Internet access, call **1-800-570-3329**.

Both options are free and there is no need to register. Enter the decedent's Social Security number and follow the prompts for individuals to make an estate tax payment. You'll need the decedent's last name, date of birth, date of death and your bank routing and account numbers.

To be timely, you must complete your transaction and receive a confirmation number on or before the due date for that payment.

■ If you are making one of the following payments by check:

you must mail your check with a completed Form:

Tax return payment (taxes due with M706) PV47
Extension payment PV86

Make your check payable to Minnesota Revenue.

If you fail to make an installment on time, you cannot continue to pay the tax in installments. Instead, you must pay — within 90 days from the date of the missed installment — the full amount of unpaid estate tax, a late payment penalty on the unpaid tax, plus interest.

However, if you missed the installment date for what you believe is a reasonable cause, write to the Commissioner of Revenue explaining why the payment was late. You'll be notified in writing whether you may continue to pay Minnesota estate tax in installments.

(*M.S. 289A.30, subd. 2*)

Penalties

Late payment. If you're not paying estate tax in installments, a late payment penalty will be assessed on any tax not paid by the regular due date — nine months after the decedent's date of death. The penalty is 6 percent of the unpaid tax.

If you file your return after the due date with a balance due, an additional 5 percent penalty will be assessed on the unpaid tax.

To avoid a late payment penalty, you must pay at least 90 percent of the total Minnesota estate tax by the regular due date and file Form M706 and pay the remaining tax due no later than 15 months after

the decedent's death (six months after the regular due date). Make your extension payment electronically or mail your check with completed Form PV86 (see *Payment options* above). If you made an extension payment, include the amount you paid on line 12 of Form M706.

(*M.S. 289A.60*)

Federal extension for paying tax. If you received an extension to pay federal estate tax or you have properly elected under IRC section 6166 to pay federal tax in installments, you will not be assessed a late payment penalty on any Minnesota tax not paid by the regular due date. Attach to your Minnesota return a copy of the federal approval for extending payment of tax.

(*M.S. 289A.30, subd. 2*)

Late filing. If you file the return after the regular due date — or after the extended due date — a late filing penalty will be assessed on the unpaid tax. The penalty is 5 percent of the unpaid tax.

(*M.S. 289A.60, subd. 2*)

Failing to file with intent to evade tax or filing a false or fraudulent return. A penalty of 50 percent of the tax due is added to the tax. This penalty is in addition to any other penalties that may apply.

(*M.S. 289A.60, subd. 6*)

Continued

General information (continued)

Criminal penalties. If you willfully fail to file a return in order to evade paying the tax, you could be charged with a gross misdemeanor. If you file a fraudulent return in order to evade paying all or part of the tax, you could be charged with a felony.

(M.S. 289A.63)

Abatement of penalties

If circumstances beyond your control prevented you from filing or paying your taxes on time, you may request an abatement of penalties. To request an abatement, send a letter to the department explaining the specific events or circumstances that prevented you from filing and/or paying on time. Your abatement request must be made within 60 days after the date you were notified that a penalty has been imposed.

(M.S. 270C.34)

Interest

Interest is calculated as simple interest and accrues on unpaid tax and penalties beginning nine months from the decedent's date of death. Interest will be charged even if the deadline for filing the return has been extended or the tax is being paid under an installment plan. The rate of interest may change from year to year. (M.S. 270C.40)

The interest rate for 2009 is 5 percent, and the rate for 2010 will be determined in October 2009. (M.S. 289A.55)

Use of information

Information requested for filing estate tax is required under state law (M.S. 289A.10, *subd.* 2).

All information you enter on the return is private under state law. It cannot be given to others without your consent except to the IRS, other Minnesota state agencies and other state governments that are authorized by law to receive the information and must treat the information as private.

The decedent's Social Security number is required by M.S. 270C.306. Although your — the executor's — Social Security number is requested on Form M706, you are not required to provide it. We ask for your Social Security number so the department can correctly identify you, because you are responsible for paying the estate tax if the tax is not paid from the estate's assets.

Assembling required information

You must attach the following to Form M706 (documents may be double-sided):

- a completed copy of your federal Form 706, including all federal schedules (A through U) that list an amount,
- copies of the wills, property appraisals or sales documents, trust agreements, disclaimers, financial documents, etc., that verify balances and/or stock or bond prices, and
- a copy of the death certificate

Other items you must attach to the return include:

- a copy of the IRS's extension approval, if you're filing Form M706 by the federal extended due date.
- an itemized list of the gross values of the decedent's real and tangible personal property located outside Minnesota (if a resident estate) or in Minnesota (if a nonresident estate). Also, include a list of the schedule and item number where each property is listed in the decedent's federal return.
- a completed PV47 payment voucher, if you're paying the tax due by check with the Form M706.
- a copy of the IRS approval document, if you're paying the federal estate tax in installments.

Preferred method. To attach, be sure to use binder clips, 3-ring binders or 2-prong fasteners. **Do not** use bindings, staples or colored paper as separators.

Alternative method. Save all forms, documents, and attachments using the PDF format, and store on a CD. Label the CD with the decedent's name (last, first, middle initial), date of death and Social Security number (last four digits). Submit the CD along with a printed copy of Form M706, the first three pages of federal Form 706, the death certificate and an index page listing the documents.

Where to file. Use one of the mailing labels provided on page 6 to mail your Form M706 and all required attachments to the department. If you choose not to use the label, mail your forms to: Minnesota Estate Tax, Mail Station 1315, St. Paul, MN 55146-1315.

Reporting federal changes

If the IRS changes or audits the estate's federal tax or you amend the federal return, you must file an amended Minnesota estate tax return with the department. The amended return is due no later than 180 days after you are notified of the federal changes or the date you filed the amended federal return.

You must file an amended Minnesota return even if the changes do not require you to amend the federal return. Complete a new Form M706 with the appropriate amended information, and check the box at the top of the form to indicate that it is an amended return. You must attach to your Form M706, a complete copy of the estate's amended federal return or the correction notice you received from the IRS.

If there are no changes made to the federal return, the IRS will generally issue the estate an "Estate Tax Closing Letter." If you received a closing letter, submit a copy to the department so the estate's file can be closed.

(M.S. 289A.38, *subd.* 7)

If you fail to report the federal changes within 180 days as required, a 10 percent penalty will be assessed on any additional tax.

(M.S. 289A.60, *subd.* 24)

Refund of Minnesota tax

If you overpaid tax or the circumstances of the estate have changed since the Minnesota return was filed and you believe all or a portion of the tax already paid should be refunded, complete a new Form M706 and check the box to show it is an amended return. Be sure to enter on line 12 any tax, penalty and interest you've already paid. On line 17 enter the refund amount.

The estate will be paid interest on the amount refunded.

(M.S. 289A.50, *subd.* 1)

Income tax return for estates

If the estate's assets generate \$600 or more of Minnesota gross income, you must file Form M2, *Income Tax Return for Estates and Trusts*, with the department.

Form M2 corresponds to the federal Form 1041, *United States Income Tax Return for Estates and Trusts*, and is due April 15 or the 15th day of the fourth month following the end of the tax year.

Line instructions

You must first complete federal Form 706

You will need your federal return to complete Form M706.

Under the Federal Economic Growth and Tax Relief Reconciliation Act of 2001, the federal estate tax exclusion was increased and the credit for state death taxes was phased out between the years 2002 and 2005.

However, Minnesota did not adopt these federal changes. As a result, the filing requirement and the calculation of the Minnesota estate tax continues to be based under the federal law in effect prior to the changes enacted in 2001. Tables A and B on pages 4 and 5 reflect federal law in effect in 2001.

If you are not required to file a federal estate tax return, you must obtain and complete a 2009 federal Form 706 and instructions to correctly determine your Minnesota estate tax. You must attach a copy of this completed federal return and all supporting schedules when you file your Form M706.

Executor(s)

Enter the name, address and Social Security number of the appointed executor in the designated area on Form M706.

If more than one executor was appointed by the Probate Court or Probate Registrar, you must attach a separate sheet of paper listing all of the other appointed executors' names, addresses and Social Security numbers.

All appointed executors must sign the completed Form M706.

Installment payments

If you're paying the federal estate tax in installments and you wish to pay the Minnesota estate tax in installments, check the box above line 1.

You must attach to Form M706 a copy of the document you received from the IRS approving your federal installment payment plan.

Estates of Minnesota residents—Lines 1–6

*Round amounts to the nearest whole dollar.
Drop amounts less than 50 cents and increase amounts 50 cents or more to the next higher dollar.*

Line 1

Tentative Minnesota estate tax

Follow the steps below to determine line 1:

- 1 Tentative federal taxable estate, before state death tax deduction (from line 3a of Form 706) _____
- 2 Adjusted taxable gifts (from line 4 of Form 706) _____
- 3 Add steps 1 and 2 _____
- 4 Using the result in step 3 and Table A (below), determine the amount to enter here .. _____
- 5 Enter step 3 or \$17,184,000, whichever is less _____
- 6 Subtract \$10,000,000 from step 5 (if zero or less, enter zero) _____
- 7 Multiply step 6 by 5% (.05) _____
- 8 Add step 4 and step 7 _____
- 9 Total gift tax paid or payable (from line 7 of Form 706) . _____
- 10 Subtract step 9 from step 8 _____
- 11 Maximum unified credit .. **\$345,800**
- 12 Adjustment to unified credit (from line 10 of Form 706) _____
- 13 Allowable unified credit (subtract step 12 from step 11) . _____
- 14 Subtract step 13 from step 10 (if zero or less, enter zero) . _____
- 15 Tentative federal taxable estate, before state death tax deduction (from line 3a of Form 706) _____
- 16 Minimum amount **\$60,000**
- 17 Adjusted taxable estate (subtract step 16 from step 15) . _____
- 18 Using the result in step 17 and Table B (on page 5), determine the amount to enter here .. _____
- 19 Enter the amount from step 14 or step 18, whichever is less. Also enter this result on line 1 of your Form M706 _____

If you want to verify your calculation, use the estate tax calculator available at www.taxes.state.mn.us. To access, you must have Microsoft Excel installed on your computer.

If you use a software package, be sure to verify that the appropriate table amounts in steps 4 and 18, and the correct maximum unified credit amount in step 11 are used.

Continued

Table A —Use to determine step 4 of your line 1 worksheet

If step 3 of your line 1 worksheet is:

over	but not over	subtract from step 3	multiply result by	and add
\$ 0	\$ 10,000	\$ 0	18%	\$ 0
10,000	20,000	10,000	20%	1,800
20,000	40,000	20,000	22%	3,800
40,000	60,000	40,000	24%	8,200
60,000	80,000	60,000	26%	13,000
80,000	100,000	80,000	28%	18,200
100,000	150,000	100,000	30%	23,800
150,000	250,000	150,000	32%	38,800
250,000	500,000	250,000	34%	70,800
500,000	750,000	500,000	37%	155,800
750,000	1,000,000	750,000	39%	248,300
1,000,000	1,250,000	1,000,000	41%	345,800
1,250,000	1,500,000	1,250,000	43%	448,300
1,500,000	2,000,000	1,500,000	45%	555,800
2,000,000	2,500,000	2,000,000	49%	780,800
2,500,000	3,000,000	2,500,000	53%	1,025,800
3,000,000	— — — — —	3,000,000	55%	1,290,800

Enter the result on step 4 of your line 1 worksheet.

Line instructions

Line 2

Gross value of property in other states

From the federal estate tax return, add the gross values of each item of the decedent's real and tangible personal property located in other states. Enter the total on line 2 and attach an itemized list.

Estates of nonresidents of Minnesota—Lines 7–11

Line 7

Tentative Minnesota estate tax

Determine line 7 by following the steps provided in the line 1 instructions. Enter the amount from step 19 on line 7 of your Form M706.

Line 8

Gross value of property in Minnesota

From the federal estate tax return, add the gross values of each item of the decedent's real and tangible personal property located in Minnesota. Enter the total on line 8 and attach an itemized list.

All estates—Lines 12–18

Line 12

Payments previously made

If — before you filed this return — you paid Minnesota estate tax, enter the amount you've already paid, including any extension payment made electronically or when filing a PV86 payment voucher.

Line 14

Penalties

The regular due date for filing the Minnesota return and paying the total estate tax owed is nine months after the decedent's date of death. If the return is filed or the tax is paid after the due date — unless you're paying estate tax in installments — the estate is subject to penalties.

Late payment. A penalty is due if you don't pay the total tax by the regular due date. The penalty is 6 percent of the unpaid tax.

If you file your return after the due date and you don't pay the tax as reported on your return, an additional 5 percent penalty is due on the unpaid tax.

Late filing. If you file after the regular due date — or after the extended due date—and you owe tax, you must pay an additional penalty for filing late. The late filing penalty is 5 percent of the unpaid tax.

Extended delinquency. An additional penalty is due if the return is not filed within 30 days after the department sends a written demand. The penalty is 5 percent of the tax not paid prior to the demand.

(M.S. 289A.60)

Line 15

Interest

You must pay interest on any unpaid tax and penalty from the regular due date until the total is paid. Interest accrues even if the deadline for filing the return or paying the tax has been extended or the estate tax is being paid in installments.

The rate of interest may change from year to year. The interest rate for 2009 is 5 percent. The interest rate for 2010 will be determined in October 2009. (M.S. 270C.40)

To determine the interest to enter on line 15, complete the worksheet on the back of Form M706 or, if you're paying an installment, see the section *Paying tax in installments* on page 2.

(M.S. 289A.55)

Continued

Table B—Use to determine step 18 of the line 1 worksheet

If step 17 of the line 1 worksheet is:

at least	but less than	subtract from step 17	multiply result by	and add
\$ 0	\$ 40,000	\$ 0		\$ 0
40,000	90,000	40,000	0.8%	0
90,000	140,000	90,000	1.6%	400
140,000	240,000	140,000	2.4%	1,200
240,000	440,000	240,000	3.2%	3,600
440,000	640,000	440,000	4.0%	10,000
640,000	840,000	640,000	4.8%	18,000
840,000	1,040,000	840,000	5.6%	27,600
1,040,000	1,540,000	1,040,000	6.4%	38,800
1,540,000	2,040,000	1,540,000	7.2%	70,800
2,040,000	2,540,000	2,040,000	8.0%	106,800
2,540,000	3,040,000	2,540,000	8.8%	146,800
3,040,000	3,540,000	3,040,000	9.6%	190,800
3,540,000	4,040,000	3,540,000	10.4%	238,800
4,040,000	5,040,000	4,040,000	11.2%	290,800
5,040,000	6,040,000	5,040,000	12.0%	402,800
6,040,000	7,040,000	6,040,000	12.8%	522,800
7,040,000	8,040,000	7,040,000	13.6%	650,800
8,040,000	9,040,000	8,040,000	14.4%	786,800
9,040,000	10,040,000	9,040,000	15.2%	930,800
10,040,000	— — — — —	10,040,000	16.0%	1,082,800

Enter the result on step 18 of the line 1 worksheet.

Line instructions (continued)

Line 16

Amount due

If the estate owes Minnesota estate tax, penalty or interest, you may pay the amount electronically or by check. See *Payment options* on page 2.

Line 18

To request direct deposit of refund

If you want the refund on line 17 to be directly deposited into the estate's checking or savings account, enter the routing and account numbers.

You can find your bank's routing number and account number on the bottom of your check.

⑆09 ⑆000000 ⑆000000000000⑆
└── Bank's routing number ─┘ └── Account number ─┘

The **routing number** must have nine digits.

The **account number** may contain up to 17 digits (both numbers and letters). Enter the number and leave out any hyphens, spaces and symbols.

If the routing or account number is incorrect or is not accepted by your financial institution, your refund will be sent to you in the form of a paper check.

By completing line 18, you are authorizing the department and your financial institution to initiate electronic credit entries, and if necessary, debit entries and adjustments for any credits made in error.

Signature of the executor

The executor of the estate must sign the completed Form M706. (*M.S. 289A.10, subd. 1*)

If more than one executor was appointed by the Probate Court or Probate Registrar, all appointed executors must sign the form.

If you wish to grant power of attorney to someone, complete the power of attorney form on the back of Form M706 and check the box after your signature (see the next section), or file Form REV184, *Power of Attorney*, with the department.

Power of Attorney

If you're the executor or personal representative of the decedent's estate, you may designate another person to act on your behalf or perform any act you can perform with respect to the estate tax on the decedent's estate when dealing with the department. This is done by granting power of attorney to the person. Even with a power of attorney, you will continue to receive all tax refunds, unless you submit Form REV184a, *Election for Power of Attorney*.

The department is prohibited by law from disclosing any information it may have in its records about the decedent's estate except to persons who have been granted power of attorney and to the decedent's heirs, next of kin or person who holds an interest in any of the decedent's property.

If you wish, you may complete the section on the back of Form M706 to grant power of attorney to someone. The person you appoint will be able to perform any and all acts you can perform for purposes of dealing with the department.

If you prefer, you may exclude specific powers by listing the excluded powers at the bottom of the form.

Stop writing checks Pay electronically!

It's Secure, Easy, Convenient, Free

www.taxes.state.mn.us

Use a mailing label

Use one of these mailing labels on your own envelope to mail your Form M706 and copies of the estate's federal return, required schedules and death certificate. (Cut on the dotted line and tape the label to your envelope.)



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