



**INSTRUCTIONS FOR FORM REV-1500
PENNSYLVANIA INHERITANCE TAX RETURN
RESIDENT DECEDENT**

A MESSAGE FROM THE SECRETARY...

The Department of Revenue is actively participating in Governor Ridge's PRIME initiatives designed to make state government more customer-oriented, cost efficient, and competitive, one of which is imaging tax returns. As part of the PRIME initiative to improve services to the survivors of Pennsylvania decedents, the Inheritance Tax Division has recently revised the REV-1500, Inheritance Tax Return to meet the criteria for imaging, an innovative method of storing and retrieving records.

This comprehensive instruction booklet is designed to provide the information necessary to complete the new Pennsylvania Inheritance Tax Return for the estates of most resident decedents. Unnecessary paperwork, such as Schedule O, has been eliminated for many estates. The revised tax return is available from any Department of Revenue district office or your local Register of Wills. You can also access forms, instructions, and news from the Department at our "Cyberspace District Office". Our Internet address is <http://www.revenue.state.pa.us>, and our E-mail address is: parev@epix.net.

Review the preface inside for a quick look at recent developments regarding Inheritance Tax issues. As noted, Governor Ridge has, through legislation, reduced the spousal or "widow's tax" rate to zero thereby eliminating this onerous tax burden for spouses. The Inheritance Tax Division has renewed their commitment to providing expedient service and will be happy to answer any questions you may have. You can reach them at (717) 787-8327, or send a fax to (717)772-0412.

**COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF REVENUE**

PREFACE

Since the enactment of Act 21 of 1995, which reduced the spousal tax rate to zero, many tax return preparers have contacted the Inheritance Tax Division with questions about preparing the tax return now that the “widows’ tax” has been repealed. Technically speaking, the transfer of property to a surviving spouse is not exempt, but the tax rate has been reduced to zero, so that, effectively, no tax is required to be paid. The statute still requires the disclosure of assets of a taxable nature on a tax return, and Line 15 of the cover sheet is used to indicate the transfer to the surviving spouse at the zero tax rate.

In order to eliminate unnecessary paperwork, Schedule O should only be filed when the estate representative elects to include the value of a qualified Sec. 9113 trust as a taxable transfer in the estate of the first spouse to die. Schedule O need not be filed if the estate representative intends to postpone payment of the tax until the death of the surviving spouse. Schedule J should be used to remove a qualified nonelected trust from the tax computation. The revised Schedules O & J are available from any Department of Revenue district office or from your local Register of Wills.

Other items to note:

- The Inheritance Tax Return forms, (REV-1500, Resident Decedents, or REV-1737 Nonresident Decedents), can be used for all estates, regardless of the date of death of the decedent.
- Since January 1, 1997, the Department requires prepayment of a fee for certain types of assistance in the valuation of assets.
- Since February 16, 1997, the Department of Revenue applies all payments (excluding those made for probate fees or local costs) to the tax liability first, with the remaining portion of the payment applied to any interest, penalty, or legal costs which may be assessed.
- Due to the enactment of Act No. 168 of 1996, Section 6411 has been added to the Probate, Estate and Fiduciaries Code. This section requires the reporting of securities held by a decedent in a trust or any form which includes the designation of a beneficiary to the Department of Revenue for Inheritance Tax purposes. In order to comply, you must file a return and pay the tax prior to the transfer. If that is not possible, you may also receive a waiver/consent from the Department of Revenue prior to the transfer, or simply provide written notice of the transfer to the Department within ten days of the transfer. The latter two options for compliance can be accomplished by using form REV-516 to request a waiver or provide the appropriate notice within ten days. Form REV-516 can be obtained as indicated in SECTION 7, ORDERING FORMS, in the first part of this booklet.

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1. STATUTES AND GENERAL DESCRIPTION

The Pennsylvania Inheritance Tax is imposed by the Inheritance and Estate Tax Act of 1991, which applies to estates of decedents who died on or after October 3, 1991. The 1991 Act [72 P.S. § 9101 et seq.] was amended in 1994, for estates of decedents who died on or after July 1, 1994 and again in 1995 for estates of decedents who died on or after January 1, 1995. The PA Inheritance Tax was previously imposed by the Inheritance and Estate Tax Act of 1961, which applies to estates of decedents who died between January 1, 1962, and December 13, 1982. The law was amended by Act 255 of 1982, which applies only to estates of decedents who died between December 13, 1982, and October 3, 1991. Information on applicability of Inheritance Tax to estates of decedents who died before January 1, 1962, can be obtained from the Department of Revenue, Bureau of Individual Taxes.

Inheritance Tax is a tax on the right of succession or privilege of receiving property at a death, and it is imposed upon the transfer of taxable property. The net value subject to tax is determined by subtracting from the value of the gross estate the amount of approved deductions.

2. TAXABLE PROPERTY

All real property and all tangible personal property located within the Commonwealth of Pennsylvania is taxable, as is all intangible personal property of a resident decedent regardless of where it is located.

A contract to sell any real property or any tangible personal property located outside the Commonwealth of Pennsylvania owned by a resident decedent makes such property taxable, provided the jurisdiction where the property is located does not subject it to Inheritance Tax.

Other taxable assets include non-Pennsylvania lottery winnings, survival action proceeds, certain retirement benefits, IRAs, annuities, "in trust for" bank accounts, jointly-owned assets, and living trusts. The designation of a beneficiary in the event of the death of an owner allows for the transfer of ownership of some assets without formal probate. However, these assets are still subject to Inheritance Tax.

In the event that the current decedent is the beneficiary of a trust created by a predeceased spouse who died on or after January 1, 1995, and in whose estate no election to tax under Section 9113 had been made to pay tax on such trust, then the assets may be subject to tax and should be reported on Schedule G. Refer to the instructions for Schedule O for further information.

3. TAXABLE TRANSFERS

The tax is imposed on inter vivos transfers, transfers of taxable property by will, other testamentary instrument, or by intestacy.

Property, including but not limited to real estate, securities, and bank accounts in two or more names (except husband and wife) with right of survivorship is taxable even if the joint tenancy had been created by the survivor (see instructions for Schedule F). In addition, the tax is imposed on certain inter vivos transfers (see instructions for Schedule G).

The relinquishment of a retained power to alter, amend, or revoke an inter vivos transfer done within one (1) year of the death does not prevent the inclusion of the property which was subject to that power in the taxable estate.

If a decedent died after December 12, 1982, a transfer made within one (1) year of the death of the decedent, if made without valuable and adequate consideration in money or money's worth at the time of the transfer, is taxable.

For those decedents dying on or before December 12, 1982, a transfer made within two (2) years of the death of the decedent, if made without valuable and adequate consideration, is taxable.

It is important to note that property which was subject to a life interest retained by a decedent is taxable and must be reported on Schedule G at its full date of death value. Retained life interests may be evidenced by explicit specific reference in the instrument of transfer or determined to be implied by the nature of the transaction.

4. DEDUCTIONS

Funeral and burial expenses, the family exemption (where applicable), administration expenses, and debts of the decedent are all valid deductions. When the tax is imposed upon a transfer of jointly owned property by right of survivorship (see instructions for Schedule F) or a taxable inter vivos transfer (see instructions for Schedule G), the transferee must establish actual payment of deductible items and either the legal obligation to pay items or that the estate, subject to administration by the personal representative, is insufficient to pay the deductible items.

5. TAX RATES

Inheritance Tax is generally payable at the rate of 6% (Class A) or 15% (Class B). The tax rate for transfers to

a surviving spouse is controlled by the statute in effect at the decedent's date of death. [See 5(a) below]. Classes depend on the relationship of the beneficiary to the decedent.

Class A: Grandfather, grandmother, father, mother, husband [see 5(a) below], wife, [see 5(a) below], children, wife or widow and husband or widower of a child, and lineal descendants. "Children" includes natural children whether or not they have been adopted by others, adopted children and stepchildren. "Lineal Descendants" includes all children of the natural parents and their descendants, whether or not they have been adopted by others, adopted descendants and their descendants, and step-descendants. (For descendants of stepchildren, see special note after Class B. For natural children adopted by others, see special note after Class B.)

Class B: Includes all beneficiaries other than those in Class A (except charitable organizations, exempt institutions, and government entities which are exempt from tax).

Special Note - Descendants of Stepchildren:

For estates of decedents dying on or after December 13, 1982, stepchildren and their descendants are considered Class A beneficiaries and are taxable at the 6% tax rate. For estates of decedents dying before December 13, 1982, descendants of stepchildren are not included in the definition of lineal descendants and are taxable at the rate for Class B beneficiaries.

Special Note - Natural Children Adopted by Others:

For estates of decedents dying on or after October 3, 1991, natural children adopted by others are considered Class A beneficiaries in the estates of both the natural parents and the adoptive parents and are taxable at the 6% rate. For estates of decedents dying before October 3, 1991, natural children adopted by others are not included in the definition of lineal descendants and are taxable at the rate for Class B beneficiaries in the estate of the natural parents, but are included in the adopting parents' estates as Class A beneficiaries.

5.(a) SPOUSAL TAX RATES

The rate of tax for transfers to a surviving spouse is dependent on the statute in effect as of the decedent's date of death. The applicable rates and effective dates are:

<u>Dates of Death</u>	<u>Rate</u>
Prior to July 1, 1994,	6%
July 1, 1994 through December 31, 1994	3%
January 1, 1995, and after	0%

6. SPOUSAL POVERTY CREDIT

A credit is available for estates of decedents dying on or after January 1, 1992, and before January 1, 1995, for transfers made to the surviving spouse if certain criteria are met. First, the transferee must be the decedent's spouse on the date of death. Second, the value of the decedent's estate reduced by actual liabilities must not exceed \$200,000. Third, the average of the joint exemption income of the decedent and spouse for the three years prior to the decedent's death must not exceed \$40,000 annually.

The credit is calculated up to the first \$100,000 of net taxable transfers to the surviving spouse. The credit is 2% for decedents dying January 1, 1992, through December 31, 1992, 4% for decedents dying January 1, 1993, through December 31, 1993, and 6% for decedents dying on or after January 1, 1994, but prior to July 1, 1994.

As a result of the reduced rate of tax for transfers to spouses, the credit cannot exceed the tax imposed. The credit available is 3% for estates of decedents who died from July 1, 1994 through December 31, 1994. The credit is not available for estates of decedents who died on or after January 1, 1995.

The credit is claimed by checking Block 10 in the upper right hand corner of the cover sheet of the return and filing a completed Schedule N. See specific instructions for Schedule N. Failure to check Block 10 could result in the denial of the credit.

7. ORDERING FORMS

In general, forms and schedules may be obtained at the Register of Wills office in your local courthouse or at any of the Department of Revenue offices listed in the back of this book. You may order any Pennsylvania tax form or schedule by calling the 24-hour answering service numbers for forms ordering: 1-800-362-2050; or within the local Harrisburg area, call (717) 787-8094. TTY/TDD users only may call (717) 772-2252. Large quantities of forms must be ordered by written request from: PA Department of Revenue, Bureau of Administrative Services, Tax Forms Service Unit, 711 Gibson Boulevard, Harrisburg, PA 17104-3200. Forms and schedules are also available on the Internet at <http://www.revenue.state.pa.us>.

8. WHO MUST FILE

An Inheritance Tax return must be filed for every decedent who has property which is or may be subject to tax. You must file a return if you are:

(a) The personal representative of the decedent's estate. The return must disclose property of the decedent administered by the personal representative and additional property, which is or may be subject to Inheritance Tax, of which the personal representative has or acquires knowledge.

(b) The transferee of property, if no personal representative is appointed or if the personal representative does not file a return, or if the personal representative files a return but does not include the subject property. A "transferee" means any person to whom a transfer is made and includes legatees, devisees, heirs, next of kin, grantees, beneficiaries, vendees, assignees, donees, surviving joint tenants, and insurance beneficiaries. The return must disclose any property or any interest therein or income therefrom in possession or enjoyment, present or future, in trust or otherwise which passes ownership to the transferee. No separate transferee return is required for property included in a personal representative's return.

The inclusion of property in the return does not constitute an admission that its transfer is taxable.

9. WHEN TO FILE

File as soon as possible after the decedent's death, but not later than nine (9) months from the decedent's death. Failure to file may subject the estate to a penalty of 25% of the tax ultimately found to be due or \$1,000, whichever is less. If the return cannot be filed when due, an extension of time to file can be requested from the Department of Revenue. The extension request should include an estate file number as assigned by the Register of Wills, if available. The extension request must be made before the return is due, and should be mailed to:

PA Department of Revenue
Bureau of Individual Taxes
Inheritance Tax Division-EXT.
Dept. 280601
Harrisburg PA 17128-0601

The Department's granting of an extension to file does not relieve the estate from payment of interest which will accrue beginning nine (9) months and one (1) day from the decedent's death on any tax ultimately found to be due and not timely paid.

The extension request must document the basis for an extension. Extensions will be granted for events beyond the control of the estate such as litigation over assets and will disputes. Extensions are not granted for events within the control of the estate such as a failure to collect the information needed to complete the return.

10. SUPPLEMENTAL RETURN

A personal representative or transferee who acquires knowledge of additional assets, transfers or deductions at any time after the original return has been filed must promptly file a supplemental return.

The supplemental return should include only the additional assets, transfers or deductions. A supplemental return may not be used to adjust or correct a previously filed return.

Errors contained in an assessed return must be resolved by one of the procedures outlined in paragraphs 17, 20, or 21 of this section of the booklet.

It is important to note that it is not possible to file an amended Inheritance Tax return. When the value of an asset or deduction has been established by assessment notice from the Department, any discrepancy must be resolved through either the refund process outlined in paragraph 17, or through the appeal process discussed in paragraph 21 of this section of the booklet.

11. SUPPLEMENTAL DOCUMENTS

If the decedent died testate or had maintained an inter vivos trust, a copy of the will and/or trust document must be submitted with the return. See instructions for each schedule for other documents to be submitted with the return.

12. ADDITIONAL VERIFICATION OR DOCUMENTATION

Additional verification or documentation on certain assets or deductions may be required by the Department of Revenue to complete the review of this form. The Department will request by letter the information needed. Failure to provide the information will result in a delay of the processing of the return, or in the issuance of an unfavorable assessment.

Any supplemental information which the estate representative considers confidential should be submitted directly to the PA Department of Revenue, Bureau of Individual Taxes, Dept. 280601, Harrisburg, PA 17128-0601, with a statement that the documents are not part of the public record. Confidential documents need not be attached to the return filed with the Register of Wills.

13. WHERE TO FILE

The return is to be filed in duplicate, with the Register of Wills of the county in which the decedent was a resident at the time of death. (See page 23 for the addresses of the Registers of Wills.)

14. FILING A FALSE RETURN

Any person who willfully makes a false return or report commits a misdemeanor of the third degree.

15. PAYMENT OF TAX

The tax assessed on the transfer of the property reported in the return is payable within nine (9) months after the decedent's death. The granting of an extension of time to file the tax return does not extend the time for payment of the tax ultimately found to be due.

If tax is paid within three (3) calendar months after the decedent's death, a 5% discount will be allowed on the actual tax paid within the time period. A discount is not allowed on any amount which may be subsequently refunded.

All checks must be made payable to: "Register of Wills, Agent" and presented to the Register of Wills of the county where the decedent resided.

The Commonwealth places no limitation on tax liability until a proper and complete return is made and the return is assessed by the Department of Revenue.

16. INTEREST and PENALTY

Interest is charged beginning with first day of delinquency, or nine (9) months and one (1) day from the date of death, to the date of payment. Taxes which became delinquent before January 1, 1982, bear interest at the rate of six (6%) percent per annum, calculated at a daily rate of .000164. All taxes which became delinquent on and after January 1, 1982, will bear interest at a rate which will vary from calendar year to calendar year with that rate announced by the PA Department of Revenue. The applicable interest rates for 1982 through 1997 are shown on the chart below. Interest rates for subsequent years can be obtained from the Register of Wills or any Revenue District Office.

<u>Year</u>	<u>Percent</u>	<u>Daily Rate</u>
1982	20%	.000548
1983	16%	.000438
1984	11%	.000301
1985	13%	.000356
1986	10%	.000274
1987	9%	.000247
1988 through 1991	11%	.000301
1992	9%	.000247
1993 and 1994	7%	.000192
1995 through 1997	9%	.000247

For estates of decedents who died on or before March 31, 1993, a penalty for nonparticipation in the Tax Amnesty program will be due if the tax and interest were unpaid, unreported or underreported before the end of the Tax Amnesty period. A penalty of fifteen (15) percent of the total balance due as of January 17, 1996, is imposed on all liabilities not paid in full before January 18, 1996. All payments received before February 16, 1997, must first be applied to any penalty, legal costs or interest which may be due, with any remainder of the payment applied to the tax balance. All payments made on or after February 17, 1997 will be applied to any tax due first, with any remainder of the payment applied to interest, penalty, or legal costs.

17. REFUND

A refund will be made of any tax to which the Commonwealth is not rightfully or equitably entitled, providing the Commonwealth determines the refund is due. The application for refund of payment made prior to January 1, 1998 must be made within two (2) years after the date of payment, the date of the notice of assessment, or the date the tax becomes delinquent, whichever is later. (Consult Section 9181(d) of the 1991 Act, as amended, for refund limitations.) For payments made after December 31, 1997, the application for refund period has been extended to three(3) years. (Consult Section 9181(d) of the 1991 Act, as amended by Act 7 of 1997).

If tax is overpaid when the return is filed, a refund can be requested by placing a check mark in the "Refund Requested" block at Line 19 of the return. If this block is checked, the estate is not required to submit a separate application for refund. A refund check will be issued by the Department as soon as the return processing is completed.

If the refund block at Line 19 of the return was not checked when the tax return was filed, an "Application for Refund of Pennsylvania Inheritance/Estate Tax" (form REV-1313) must be filed to request a refund of an existing tax credit reflected on an official assessment notice. Refund applications should be directed to:

PA Department of Revenue
Bureau of Individual Taxes
Inheritance Tax Division-REF
Dept. 280601
Harrisburg, PA 17128-0601

Should you believe that a refund is due as the result of an issue which had not previously been raised, and where the statutory appeal provisions of Section 9186(a) of the 1991 Act, as amended, have expired, a petition for refund may be filed with the Board of Appeals provided that all tax, penalty, and interest which have been assessed are paid in full. The request should be made using the Board of Appeals "Petition" (form REV-65) and should be directed to:

PA Department of Revenue
Board of Appeals
Dept. 281021
Harrisburg, PA 17128-1021

The Board of Appeals does not accept facsimile, or fax copies of petition forms. The estate may appeal a decision on a petition for refund.

18. FAILURE TO PAY

The taxes imposed, together with any interest thereon, constitute a lien upon real property which remains in effect until the taxes and interest are paid in full. There is no statute of limitations for collection of Inheritance Tax.

19. APPRAISEMENT, ALLOWANCE OR DISALLOWANCE OF DEDUCTIONS AND ASSESSMENT OF TAX

After a return is filed, the Department of Revenue issues a notice setting forth its valuation of the estate assets, allowable deductions and inheritance tax due. The Department uses a series of Assessment Control Numbers (ACNs) to identify and separate tax liabilities imposed under sections of the law:

ACN 101 represents the tax due on the Inheritance Tax return (REV-1500) filed by the personal representative or transferee of property.

ACNs 102-199 represent the tax due on a future interest compromise tax determination or the remainder tax due for estates of decedents who died prior to December 13, 1982.

ACN 201 represents Pennsylvania Estate Tax due based on the Federal Estate Tax Return (Form 706). ACN 202 represents any additional Pennsylvania Estate Tax due resulting from any changes to the Federal liability as reflected on the Estate Tax closing letter received from the Internal Revenue Service. ACNs 501 to 599 represent the tax due on the proceeds of litigation received more than nine (9) months after the date of death.

Notices of potential tax liabilities based on the existence of jointly held or trust assets are identified through the use of an eight (8) digit number beginning with the two digits representing the year in which the notice is originally issued. For example, all notices issued in 1997 will be numbered 97000001, 97000002, etc.

Further information concerning the ACN system can be obtained by contacting the Inheritance Tax Division Inquiry Unit at (717) 787-8327.

20. ADMINISTRATIVE CORRECTIONS

Obvious factual errors discovered on the assessment may be corrected administratively. Examples of administratively correctable errors include those made by transposition of figures, mathematical errors, miscalculations, and obvious duplication of assets. The estate must report such errors to the Department of Revenue by a letter which identifies the alleged error, and the proposed correction, together with any documentation which supports the need for an adjustment to the record. Requests for administrative correction should be directed to:

PA Department of Revenue
Bureau of Individual Taxes
Post Assessment Review Unit
Dept. 280601
Harrisburg, PA 17128-0601

All other errors must be resolved in accordance with either the guidelines outlined in paragraph 21 below, or by the payment of tax, penalty, and interest and the filing of a Petition for Refund with the Board of Appeals as indicated in paragraph 17.

21. PROTEST, NOTICE, OR APPEAL

A taxpayer or any party in interest, including the Commonwealth, not satisfied with the appraisal, allowance or disallowance of deductions, assessment of tax (including discount or interest), or any other matter relating to the tax imposed may object by taking any of the following actions WITHIN SIXTY (60) DAYS of receipt of the notice to which objection is made:

(a) File a written protest specifying all objections with:

PA Department of Revenue
Board of Appeals
Dept. 281021
Harrisburg, PA 17128-1021

The Board of Appeals does not accept facsimile, or fax copies of petition forms.

(b) Notify the Register of Wills in writing that you elect to have the correctness of the Department's action determined at the "audit of the account" of the personal representative. A copy of this election must be sent to:

PA Department of Revenue
Office of Chief Counsel
Dept. 281061
Harrisburg, PA 17128-1061

(c) File an appeal to the Court of Common Pleas, Orphans' Court Division to have the correctness of the Department's action determined at the "audit of the account" of the personal representative or at such time as the court shall fix. A copy of the appeal must be sent to:

PA Department of Revenue
Office of Chief Counsel
Dept. 281061
Harrisburg, PA 17128-1061

22. PENNSYLVANIA ESTATE TAX

Estate Tax is due at the date of death and becomes delinquent (9) months after the date of death, regardless of any extension granted for filing of the Federal Estate Tax Return. Payment of Estate Tax is made to the Register of Wills.

Note: For decedents dying prior to October 3, 1991, the Estate Tax is due at the date of death and becomes delinquent 18 months after the date of death, regardless of any extension granted for filing of the Federal Estate Tax Return.

The personal representative (executor or administrator) or any other fiduciary responsible for filing the Federal Estate Tax Return must also file a copy of that return (Form 706) with the Register of Wills of the county in which the decedent resided at the time of death. The copy of the return must be filed within one month of the filing of the Federal Estate Tax Return.

A copy of the final communication from the Federal Government must also be filed with the Register of Wills within 30 days of receipt. The Department of Revenue will issue a Notice of Determination and Assessment of Pennsylvania Estate Tax based on the federal closing letter under ACN 202. Any tax due as a result of changes made by the Federal Government on the final communication becomes delinquent one month after the date of the receipt of the final federal closing letter by the estate.

For more information please request a copy of form REV-229 "Pennsylvania Estate Tax - General Information."

23. CITATION PROCEDURE

The law provides for the filing of a citation with the Court of Common Pleas, Orphans' Court Division to compel the filing of the tax return or the payment of tax. It may be directed to the personal representative or transferee and may commence (9) months after the date of death. The citation process can result in an order directing filing and payment, a contempt citation, and ultimately, additional fines and imprisonment for failure to comply with the requirements of the Inheritance and Estate Tax Act.

24. VALUATION

The general rule is that valuation is based on the fair market value as of the decedent's date of death. Special rules apply to the valuation of life estates and future interests created by a decedent. See the instructions for Schedules K, L and M.

For estates of decedents dying on or after January 1, 1995, special rules exist for the valuation of a trust established for the sole use of the surviving spouse allowing for an election to subject the trust to taxation in the donor's estate. If an election is not made, then the value of the trust will be determined as of the date of death of the surviving spouse and will be subject to tax as though it were a transfer from the surviving spouse. See the instructions for Schedule O for further information.

Special rules also apply to the valuation of farmland. See the instructions for Schedule A. Further information concerning the Special Farm Use Valuation can be found in Section 9122 of the Inheritance and Estate Tax Act or by contacting the Inheritance Tax Division's Specialty Tax Unit at (717) 787-8327.

It is important to note that Pennsylvania does not have a six month alternate valuation date similar to that found in the Internal Revenue Code.

REV-1500 COVER SHEET INSTRUCTIONS

The REV-1500 cover sheet of the Inheritance Tax Return must include all information relevant to the estate's identification, certain characteristics of the estate, the name and address of the person with whom the Department of Revenue should correspond, the

recapitulation of the totals of the estate's assets and deductions, and the estate representative's signature. The decedent's complete address must be entered on the reverse side of the REV-1500. Questions on the reverse side of the cover sheet must be answered. Completion of the tax payments and credits portion is optional.

The decedent information section on the front of the REV-1500 should be completed by entering the Department of Revenue file number, if available, the decedent's name, social security number, date of death and date of birth, and the decedent's surviving spouse's name and social security number. The following applicable estate characteristics must also be indicated on the cover sheet:

TYPE OF RETURN

Block 1: Original Return - check this block if this is the first return filed for this estate and no other asset or deduction description has been previously submitted.

Block 2: Supplemental Return - check this block if this return is being filed to report **additional assets or deductions not reported on a prior return.**

Block 3: Remainder Return - check this block to report a future interest under a prior limited estate. This return is filed either at the time the remainderman exercises the option to prepay or at the time the remainderman comes into actual possession and enjoyment. This block is applicable only to estates where the decedent died prior to December 13, 1982.

Block 4: Limited Estate - check this block to indicate that the decedent created a limited estate (i.e., one which does not allow for the disposition of assets outright at the time of death but allows for their limited distribution to a beneficiary for the duration of the beneficiary's life or a specific term of years). For further information please refer to the instructions for Schedules K and M on pages 16 and 17.

Block 4a: Future Interest Compromise - check this block to request a compromise if the rate of tax which will be applicable when a future interest vests cannot be established with certainty. If this block is checked, you must complete Schedule M. This block is applicable only to estates where the decedent died on or after December 13, 1982.

Block 5: Federal Estate Tax Return Required - check this block if the total assets reportable to the Internal Revenue Service require that a Federal Estate Tax Return be filed. A copy of the federal return, (Form 706), must be filed with the Department of Revenue through

the Register of Wills office within one (1) month of the filing of the federal return.

Block 6: Decedent Died Testate - check this block if the decedent died having a valid will which has been submitted to the Register of Wills for probate. A copy of the will must be attached to the return when it is filed.

Block 7: Decedent Maintained A Living Trust - check this block if the decedent, during his lifetime, transferred property and retained or reserved an interest or a power of disposition. A copy of the instrument must be attached to the return when it is filed.

Block 8: Total Number of Safe Deposit Boxes Inventoried - enter the number of safe deposit boxes held by a decedent alone or jointly (except with a surviving spouse) which were required to be inventoried either by a representative of the Department of Revenue or an official of the financial institution in which the safe deposit box was held.

Block 9: Litigation Proceeds Received - check this block if the estate received proceeds of litigation after nine (9) months from the date of death.

Block 10: Spousal Poverty Credit - check this block if the estate is claiming the spousal poverty credit which is available for estates of decedents who died after December 31, 1991 and before January 1, 1995. The credit is not allowed unless the block is checked and Schedule N is completed and filed with the return.

Block 11: Election to Tax Under Sec. 9113(A) - check this block if the decedent created a trust or similar arrangement which qualifies under Sec. 9113(A), and for which an election to impose the trust or similar arrangement to tax in this estate has been made. The election will not be allowed unless the block is checked and Schedule O is completed and filed with the return.

CORRESPONDENT

This section must include the name of the person whom the personal representative designates to receive correspondence. All requests for information and documentation from the Department, including the tax assessment will be forwarded to this individual. This section should also include the correspondent's address and telephone number.

RECAPITULATION

At the bottom of each individual schedule is an area to list the total of the assets or deductions included on that schedule and the particular line in the Recapitulation on which that total must be included. All totals must be carried forward from the individual schedules to the

Recapitulation section on the cover sheet. If there are no assets or deductions to report on a particular schedule, the schedule should **not** be submitted and that line item on the Recapitulation should be identified as "none". If assets are reported and are considered not taxable, the schedule must be submitted and a zero (-0-) placed on the applicable line of the cover sheet. Schedule G must be completed and submitted if the answer to any of the questions one through four on the reverse side of the REV-1500 cover sheet is "yes"

All assets shown on Line 1 through Line 7 of the Recapitulation Sheet are added together and the total value of all assets is entered on Line 8.

All deductions shown on Lines 9 and 10 of the Recapitulation Sheet are added together and the total is entered on Line 11. Line 12 is the Net Value of Estate after the deductions are subtracted (Line 8 minus Line 11).

Line 13 represents any bequests made to institutions which qualify as tax-exempt charities or tax-exempt governments, and the value of any trust or similar arrangement which qualifies under Section 9113 as a sole use trust for the benefit of the surviving spouse for which an election to tax in the present decedent's estate has not been made. Line 14 represents the value of the estate subject to tax, including outright distributions to the surviving spouse and the value of any trust which qualifies under Section 9113 for which an election to tax has been made on Schedule O. (Line 12 minus Line 13).

TAX COMPUTATION

The Inheritance Tax Return Resident Decedent (form REV-1500) can be used for all filings with the Department, including those prior to the revision date. Special care should be taken to insure that transfers to a surviving spouse are reported on the appropriate line of the tax computation section. For estates of decedents dying before July 1, 1994, transfers to a surviving spouse are subject to tax at 6% and should be included on Line 16 of the return. For estates of decedents dying on or after July 1, 1994, transfers to a surviving spouse are subject to tax at the rates determined by the following dates of death:

<u>Date of Death</u>	<u>Tax Rate</u>
7/1/94 through 12/31/94	3%
1/1/95 and thereafter	0%

The rate of inheritance tax assessed is determined by the relationship of the beneficiaries or transferees of the estate to the decedent.

To compute the tax, total all distributions under will or intestate share, life estate or annuity interests, transfers passing outright to the surviving spouse, or trust assets for which an election has been made to tax in the present decedent's estate. Enter this total in the first space on Line 15. Multiply by the appropriate rate for the surviving spouse as provided in General Information Section of this booklet and enter the result in the second space on Line 15.

Total all distributions under will or intestate share, life estate or annuity interests, joint assets, and transfers passing to Class A (lineal) beneficiaries or transferees, including assets in trust for the current decedent which were not subject to tax at the death of a predeceased spouse. Enter this total in the first space on Line 16, multiply by .06 (the 6% tax rate for Class A beneficiaries or transferees) and enter the result in the second space on Line 16.

Total all distributions under will or intestate share, life estate or annuity interests, joint assets, and transfers passing to Class B (collateral) beneficiaries or transferees, including assets in trust for the current decedent which were not subject to tax at the death of a predeceased spouse. Enter this total on the first space on Line 17, multiply by .15 (the 15% tax rate for Class B beneficiaries or transferees) and enter the result in the second space on Line 17. If the estate includes a life estate, annuity, or a compromise of a contingent future interest, the values from Schedule K or Schedule M must be included on Line(s) 14 through 16, as appropriate.

Add Lines 15, 16 and 17 and enter the total on Line 18. This is the principal tax due.

Check the block on Line 19 to request a refund of an overpayment.

REV-1500 - REVERSE SIDE

Enter the decedent's complete address in the first section on the back of the REV-1500.

TAX PAYMENTS and CREDITS

Carry the tax due amount from Line 18 on the front of the tax return to Line 1 on the reverse side of REV-1500. Line 2 should include any credits, including: (a) spousal poverty credit which the estate has claimed; (b) the actual amount of tax paid, as well as (c) discount allowed on payments made within three (3) months of the date of death. Compute the interest and penalty due, if applicable, and enter on Line 3. Refer to Section

INTEREST and **PENALTY** in the first part of this booklet for assistance in the computation of interest and penalty.

If Line 2 is greater than Line 1 plus Line 3, enter the difference on Line 4. This is the overpayment. Check the block on the front of the REV-1500 at Line 19 to request a refund of the overpayment. If Line 1 plus Line 3 is greater than Line 2, enter the difference on Line 5. This is the balance due. Compute any interest which has accrued on this balance and enter on Line 5A. Total Lines 5 and 5A and enter on 5B. Make the check payable to the "Register of Wills, Agent".

QUESTIONS ON REVERSE

Answer questions 1 through 4 listed on the reverse side of the cover sheet pertaining to lifetime transfers made by the decedent. Schedule G must be completed and filed with the return if "yes" is the answer to any question.

The last section on the reverse side of REV-1500 concerns estates of decedents who died on or after January 1, 1995, and were survived by a spouse. Answer the question if it is applicable.

After making sure the return is complete and contains all the necessary schedules, the person(s) responsible for filing must sign and date the return. The address(es) of the signer(s) must also be included. Those signing the return are legally responsible and may incur liability for erroneous, false or fraudulent returns.

If there is no personal representative, every person in actual or constructive possession of any property of the decedent is considered, by law, a fiduciary for the purposes of the tax and must file a return. If the estate representative(s) secured help in preparing the return, the preparer's signature, address and date prepared must be shown on the last line.

INSTRUCTIONS FOR SCHEDULES

SCHEDULE A

REAL ESTATE

This schedule must list and describe all real property located in Pennsylvania owned by the decedent at the time of death, other than real property owned with right of survivorship (see Schedule F instructions). The real estate description must be sufficiently detailed as to enable the Department of Revenue to readily locate it for inspection and valuation, if necessary. The real

property should be described by size, lot and block number, street and street number, together with a general description of the property and the conveyance by which the decedent took title.

If the decedent owned a fractional interest in a parcel of real property as a tenant in common, state the decedent's fractional interest, include the full value of the property with the description, and enter only the value of the decedent's interest in the column marked, "Value at Date of Death".

If any item of real estate is subject to a mortgage for which the decedent's estate is liable, the full value of such realty must be shown on Schedule A. However, any mortgage deduction may be claimed on Schedule I. Any real estate located in Pennsylvania which the decedent had contracted to purchase should also be listed on Schedule A. List the full value of the property on Schedule A and claim the unpaid portion of the purchase price as a deduction on Schedule I.

Although the use of the county assessment figure and the "common level ratio" as determined by the State Tax Equalization Board is required in certain situations for valuation purposes when calculating state realty transfer tax, there is no statutory requirement that the Department also accept this method for the valuation of real estate for inheritance tax purposes. Estates are required to report all real estate at the fair market value as of the date of death.

Fair market value is defined as the price at which the property would be sold by a willing seller, not compelled to sell, to a willing buyer, not compelled to buy, both of whom have reasonable knowledge of the relevant facts. Examples of factors to be considered include the state of repair of all structures, locality, trend of real estate values in the neighborhood, estimated sale price and/or recent comparable sales of similar properties.

Submit copies of any appraisals, sale settlement sheets or agreements of sale with the return to explain how the reported value was determined.

Rents due, but not collected, or rents accrued, but not due as of the date of death, are taxable property and must be reported on Schedule E.

Under Section 9122 of the Inheritance and Estate Tax Act of 1991, land devoted to agricultural use, agriculture reserve or forest reserve may be eligible for preferential assessment measured by particular use, rather than by fair market value. This preferential valuation may be used to determine county property tax assessments. If you elect to use this method of valuation, the special use valuation under the Pennsylvania Farmland and Forest Land Assessment Act of 1974, 72 P.S. §5490.1,

et. seq. must be reported. You will also be required to submit fair market value appraisals of the residential property, farm outbuildings and agricultural property so that a proper valuation may be made if the special use is discontinued or if the property does not meet all requirements.

Do not report a retained life estate on this schedule. See Schedule G.

SCHEDULE B

STOCKS AND BONDS

On this schedule list all stocks and bonds owned by the decedent solely or as a tenant in common on the date of the decedent's death. The stock description must include the number of shares, whether common or preferred, par and market values, the exact name of the corporation and CUSIP number, if available. The description of the bonds must include the type of bond, quantity, denomination, obligor, date of maturity, interest rate, and interest due dates.

Determine the market value by taking the mean of the highest and lowest quoted selling prices on the date of death. Where death occurs on a weekend the valuation of any stock listed on the New York or American Stock Exchange is the average of the mean between the high and low for Friday and the mean between the high and low on the Monday after death. Where death occurs on a holiday the valuation of such stock is the average of the mean of the high and the low on the day preceding the holiday and the mean between the high and low of the succeeding market day. If there were no sales on the valuation date, but there were sales on dates within a reasonable period both before and after the valuation date, the fair market value is determined by taking a weighted average of the means between the highest and lowest sales on the nearest date before and the nearest after the valuation date. The average is to be weighted inversely by the respective numbers of trading days between the selling dates and the valuation date. In cases of stock quotations listed as "Over the Counter", use the mean between the bid and asked.

Mutual funds are to be reported at the net asset value (NAV). Include as a separate item dividends not collected at death but payable to the decedent or estate because decedent was a stockholder of record on or before the date of decedent's death. When stock is being traded on an exchange and is selling ex-dividend on the date of the decedent's death, add the amount of the dividend to the ex-dividend quotation to determine the fair market value of the stock as of the date of the decedent's death.

Interest due, but not collected, and interest accrued, but not due as of the date of death of decedent, is taxable and must be reported on Schedule B.

SCHEDULE C

CLOSELY HELD CORPORATION, PARTNERSHIP OR SOLE-PROPRIETORSHIP

All business interests, including proprietorships held by the decedent, must be included on Schedule C. In addition to a general description and date of death value, you must submit the appropriate supplemental schedule (C-1 or C-2) and all information relative to establishing the true value of the decedent's interest. All jointly owned business interests must be reported on Schedule F, and the appropriate supplemental schedule(s) and verification data must be prepared and attached.

The verification data which must be submitted for closely held corporate stock interests include:

1. Detailed calculations used in the valuation of the decedent's stock.
2. Complete copies of financial statements or Federal Corporate Income Tax returns (Form 1120) for the year of death and 4 preceding years.
3. If the corporation owned real estate, submit a list showing the complete address/es and estimated fair market value/s. If real estate appraisals have been secured, attach copies.
4. List of principal stockholders at the date of death, number of shares held and their relationship to the decedent.
5. List of officers, their salaries, bonuses and any other benefits received from the corporation.
6. Statement of dividends paid each year. List those declared and unpaid.
7. Any other information relating to the valuation of the decedent's stock.

The verification data which must be submitted for partnership interests includes:

1. Detailed calculations used in the valuation of the decedent's partnership interest.
2. Complete copies of financial statements or Federal Partnership Income Tax returns (Form 1065) for the year of death and 4 preceding years.

3. If the partnership owned real estate, submit a list showing the complete address/es and estimated fair market value/s. If real estate appraisals have been secured, attach copies.
4. Any other information relating to the valuation of the decedent's partnership interest.

Complete a separate report for each interest in a closely held corporation and/or partnership held by a decedent.

For sole-proprietorships, a supplemental schedule is not necessary. However, the estate must submit the following information with the return:

1. Detailed calculations used in the valuation of the decedent's proprietorship interest.
2. Complete copies of financial statements or copies of the decedent's Federal Income Tax returns, including Schedule C and supporting schedules, or the year of death and four preceding years. If financial statements are unavailable, include a balance sheet as of the date of death.
3. A breakdown of liquidation distributions, if the proprietorship was dissolved or liquidated after the decedent's death.
4. Real property owned by the decedent and used by the proprietorship must be reported on Schedule A. Identify such real property as used in the proprietorship.

SCHEDULE D

MORTGAGES AND NOTES RECEIVABLE

The following types of assets must be included on Schedule D:

1. Mortgages - Include the face value and unpaid balance, date of mortgage, date of maturity, name of maker, property mortgaged, mortgage book reference, schedule of payments, interest dates and rate of interest. This category refers to an asset of the decedent, i.e., the decedent was the person receiving the mortgage payments.
2. Promissory Notes - Include data similar to that required in mortgages in the preceding paragraph.

SCHEDULE E

CASH, BANK DEPOSITS AND MISCELLANEOUS PERSONAL PROPERTY

List on Schedule E all items of the gross estate not reportable under any other schedule, such as: jewelry, wearing apparel, household goods and furnishings, books, paintings, automobiles, boats, farm products, livestock, farm machinery, cash on hand and in financial institutions, money market funds, salaries or wages, debts due the decedent, rents, rents due but not collected or rent accrued but not due on the date of death, leaseholds, royalties, patents, judgments, reversionary or remainder interests.

IRA's, annuities and pension plans payable to the estate are reported on this schedule. All other IRA's, annuities and pension plans are reported on Schedule G. A detailed discussion of the taxability of these items can be found in the instructions for Schedule G.

For estates of decedents dying after December 12, 1982, all payments received from life insurance contracts on the life of the decedent, whether paid to the estate or to another beneficiary, are exempt from inheritance tax. For estates of decedents dying before December 13, 1982, life insurance payable to the estate or to an executor or administrator for the use of the estate is taxable and should be reported on Schedule E.

Schedule E must include a list of all real property situated outside the Commonwealth which the decedent had contracted to sell and for which settlement had not occurred prior to death, provided that the property is not subject to death tax in the state, country or territory wherein the property is located. Tangible personal property located outside Pennsylvania is not subject to inheritance tax.

If any article (e.g., jewelry, furs, silverware or paintings, etc.) is worth more than \$3,000 or if any collection of articles in one category is valued at more than \$10,000, include an appraisal by an expert and that appraiser's statement concerning his qualifications.

For cash in banks and other financial institutions, report the name and address of the financial institution, the account number, nature of the account (i.e., checking, savings) and the date of death balance. Retain any statements obtained from the financial organizations for inspection by the Department of Revenue. It will be helpful to attach copies of such statements to the return.

This schedule should also be used to report the proceeds received by the estate as the result of litigation initiated by the decedent prior to his death, or by the personal representative of the estate on behalf of the

decedent. Sufficient documentation should be submitted to allow the Department of Revenue to determine if the recovery is subject to inheritance tax and, if so, from which date interest will be imposed. In all cases, a copy of the settlement agreement and/or court approved schedule of distribution should be supplied. If the Department of Revenue has previously reviewed and accepted the settlement please attach verification. In cases where structured settlements have been accepted or there is an agreement to provide payments for a number of years, it will be necessary for the estate to submit information sufficient for the Department to calculate the present value of such distributions.

Any supplemental information which the estate representative considers confidential may be submitted directly to the PA Department of Revenue, Bureau of Individual Taxes, Dept. 280601, Harrisburg, PA 17128-0601 with a statement that the documents are not part of the public record. Confidential documents need not be attached to the return filed with the Register of Wills.

SCHEDULE F

JOINTLY-OWNED PROPERTY

Include on Schedule F all property of whatever kind or character, whether real estate situated in the Commonwealth of Pennsylvania or personal property, (except tangible personal property with a foreign situs) in which at the time of death the decedent held an interest as a joint tenant with right of survivorship with someone other than the decedent's surviving spouse. (Do not list property which the decedent held as a tenant in common or nominee, or in a partnership, but the value of the decedent's interest, if any, should be reported on the appropriate asset schedule. When in doubt, disclose and explain by short notation or otherwise any asset held wholly or partly in the name of the decedent.) Disclose the full value of all assets on this schedule and show the decedent's taxable interest at death. Determine the decedent's taxable interest by dividing the full value of the property by the number of joint tenants. Only the fractional ownership interest of the decedent at the date of death is subject to tax, unless the joint ownership was created within one year of the decedent's death (within two years of the decedent's death if death occurred on or before December 12, 1982). **Joint tenancies, including those between husband and wife, created within one year of the decedent's death (or two years for estates of decedents dying on or before December 12, 1982), must be reported on Schedule G.**

List on Schedule F a complete description of the assets indicating the date the asset was placed into joint

ownership, the exact balance or market value at date of death, and the value of the taxable interest. Each description must show the exact registration of the asset and the appropriate letter, A. B. C. etc., to indicate the name, address, and relationship of each of the surviving joint tenants.

If the surviving joint owner of any asset has received a separate assessment notice from the Department and paid the tax due on a specific joint asset, the value of that asset should not be included in the total for this schedule.

Do not report a retained life estate on this schedule. See instructions for Schedule G.

SCHEDULE G

INTER VIVOS TRANSFERS & MISCELLANEOUS NON-PROBATE PROPERTY

Include on Schedule G the transfer of assets defined by Section 9107(c) which were made by the decedent during life, by trust or otherwise, to the extent that they were made without valuable and adequate consideration in money or money's worth at the time of the transfer, and also assets held in a trust as defined in Section 9113(A) for the benefit of the current decedent which was not subject to tax in the donor's estate. Transfers which are subject to tax should be valued as of the date of the transferor's death, and not the date of the transfer. You must include all such transfers including the name and relationship of the transferee (see items 1 through 6 following) in the gross estate on this schedule.

1. IRA'S, ANNUITIES AND PENSION PLANS - Where a decedent, during his lifetime, possessed rights in an employment benefit plan beyond those described below, the payments received from the plan will be subject to tax. Rights under a plan which would subject the plan's payment to inheritance tax would include, but are not limited to, the right to withdraw benefits, including the right to withdraw only upon payment of a penalty (providing the penalty is smaller than 10% of the withdrawal), the right to borrow monies from the retirement plan, the right to assign the benefits of the plan to another, the right to pledge the plan and/or its benefits, the right to anticipate the benefits of the retirement plan (other than in regular monthly installments), or the right, by contract or otherwise, to materially alter the provisions of the plan.

Payments received from Employment Benefit Plans such as pension plans, stock bonus plans, profit sharing plans and all other retirement plans, including

but not limited to, H.R. 10 (Keogh) plans, individual retirement accounts (IRAs), individual retirement annuities, and individual retirement bonds will be exempt from tax if any of these conditions exist:

a. The payments are exempt from the federal estate tax under the provisions of the Internal Revenue Code of 1986, as amended, any supplement to the code, or any other similar provision in effect for federal estate tax purposes; or

b. The payment would be exempt for federal estate tax purposes if it had not been made in a lump sum or other nonexempt form of payment, and the payment is made in a lump sum or other nonexempt form of payment; or

c. The decedent, during his lifetime, did not have the right to possess (including proprietary rights at termination of employment), enjoy, assign or anticipate the payments made.

A decedent whose only rights under the plan were to designate a beneficiary and to receive a regular monthly payment under the plan, is not considered as having the right to possess, enjoy, assign, or anticipate. Therefore, the possession of either the right to designate a beneficiary or the right to receive regular monthly payment under the plan, either alone or together, will not subject the plan to inheritance tax, as long as no other rights exist.

In general IRAs are taxable if the decedent was age 59 or older, or considered disabled at any age.

2. TRANSFERS MADE WITHIN ONE (1) YEAR OF DECEDENT'S DEATH - Such transfers by a decedent are subject to tax to the extent that they exceed \$3,000 at the time of the transfer or a combined total of all transfers per transferee during any calendar year exceeds \$3,000. For example, if the decedent transferred \$10,000 within one year of his death, \$7,000 would be subject to Inheritance Tax. For estates of decedents dying on or before December 12, 1982, there is a presumption that transfers of a material part of an estate made by a decedent within two (2) years of death were made "in contemplation of death", where the dominant or impelling motive, but not necessarily the sole motive, of the transferor was prompted by the thought of death, without which motive the transfer would not have been made. In such instances, the entire value of the transfer is subject to tax, unless the presumption is rebutted by the submission of relevant evidence.

3. RETAINED REVERSIONARY INTEREST - Such transfers are those in which the transferor (decedent) reserved the right to regain or reassert control over the corpus of the transferred property, provided that the

value of the reversionary interest in the property immediately before the decedent's death was in excess of 5% of the value of the transferred property.

4. TRANSFERS IN WHICH THE DECEDENT RETAINED A LIFE INTEREST - Include transfers under which the decedent expressly or impliedly reserved for life or any period which does not, in fact, end before death the income or the enjoyment of the property. For example, a life interest in real estate includes the right to use or occupy the real estate or receive rents. Continued occupancy without the actual payment of fair market value rent is one example of evidence of a retained life estate. Rental income from such property must be verified by the landlord.

5. PROMISES BY TRANSFeree - Such transfers are those under which the transferee promises to make payments to or care for the transferor during the remainder of the transferor's life.

6. REVOCABLE AND TENTATIVE TRUSTS - Include transfers under which the decedent had, either alone or in conjunction with another person, a power to alter, amend or revoke the interest of the beneficiary, for example, an account registered in the name of the decedent in trust for another person. The relinquishment of such a power within one year of the death of the transferor is a transfer subject to tax.

Note: The \$3,000 exclusion is not applicable to the transfers described in paragraphs 3 through 6 above. However, the \$3,000 exclusion would apply under paragraph 6, if the decedent relinquished the right to revoke within one (1) year of the date of the decedent's death.

Schedule G also must be used to report assets that were created or transferred into joint tenancy in the name of the decedent and another or others, including the decedent's surviving spouse, within one year of the decedent's death. Any joint tenancy so created will cause the entire interest to be taxed in the estate of the person creating the joint tenancy to the extent that the total value of the assets placed in joint ownership with any one person exceeds \$3,000. For estates of decedents dying on or before December 12, 1982, joint tenancies created within two (2) years of a decedent's death are presumed to have been created "in contemplation of death" and are fully taxable unless the presumption is rebutted. (See item 2 above.)

If you answer "yes" to any of the questions on the reverse side of the REV-1500 cover sheet, you must complete Schedule G and file it as part of the tax return.

Fully describe the transferred property and show the total value and the value of the decedent's interest in the asset. You may submit copies of documentation

supporting a position of nontaxability or which explains how the reported values were determined.

When a trust as defined by Section 9113(a) is reported on this schedule as a transfer by this decedent, it will be necessary to submit documentation relative to the valuation of the assets and a copy of the instrument creating the trust.

SCHEDULE H

FUNERAL EXPENSES & ADMINISTRATIVE COSTS

List on Schedule H all funeral and burial expenses, all administrative costs, any claim made for the family exemption, and all miscellaneous expenses. Except as noted below, these items are deductible regardless of whether or not assets comprising the decedent's taxable estate are employed in the payment or discharge of the deductible items. When a tax is imposed upon a transfer of jointly owned property by right of survivorship (see Schedule F) or upon a taxable inter vivos transfer (see Schedule G), the deductions shall be allowed to the transferee only to the extent that the transferee has actually paid the deductible items and either the transferee was legally obligated to pay the deductible items or the estate subject to administration by a personal representative is insufficient to pay the deductible items. The transferee must show that the same debts are not claimed by an executor, administrator or other personal representative handling the administration of the decedent's estate.

Part A. FUNERAL AND BURIAL EXPENSES - Itemize, giving names of persons to whom payable and the exact nature of the expense. Such expenses include, but are not limited to: opening of graves, services of mortician, embalming and transportation, casket, clothes, flowers, travel expenses and fee of clergyman, rental of church or house for burial ceremonies, food and refreshments during the funeral period, the cost of a family burial lot or other resting place, and purchase and erection of a marker, gravestone or monument on decedent's burial lot or final resting place, bequests or devises in trust or funds placed in trust after decedent's death, or funds paid under a contract after decedent's death to the extent that such funds or the income therefrom are applied to the care and preservation of the family burial lot or other final resting place in which the decedent is buried, bequests for the celebration of religious rites, rituals, services or ceremonies in consequence of the death of the decedent.

All deductions for funeral and burial expenses must be reasonable and customary based upon the decedent's

station in life and the size of the estate. You need not reduce the amount of allowable deductions by any amount received as government burial benefits, such as the social security death benefit.

Funeral expenses paid by a prepaid funeral account are deductible. The prepaid account must be reported as an asset of the decedent on Schedule E.

Part B. ADMINISTRATIVE COSTS - Itemize, giving the names of the persons to whom payable and the exact nature of the expense.

You may deduct, in reasonable amounts, fees for services rendered to the estate, fiduciary commissions and professional fees which will be paid, but commissions or fees which will not be paid may not be deducted.

Personal Representative's Commissions

Personal representative or fiduciary commissions constitute taxable income. When claiming the commission, include the individual personal representative's or fiduciary's social security number. Commissions received by residents of Pennsylvania must be reported as compensation for Personal Income Tax purposes in the year in which they are received. Corporate fiduciaries must include a federal identification number.

Attorney Fees

Attorney fees incidental to litigation instituted by the beneficiaries for their benefit do not constitute a proper deduction. Other administration expenses include, but are not limited to: costs of letters testamentary or of administration, accounting fees, tax return preparation fees, estate notices, inventory, fees of appraisers, witnesses, short certificates, affidavits, fees for account and adjudication, public liability insurance premiums, stock transfers, stamps, registered mail charges, certified copies of will, fees for recording instruments, bank charges for supervision of entry into safe deposit boxes, broker's commissions, state and local realty transfer taxes, cost of maintaining property administered, and other services.

Family Exemption

The family exemption is a right given to specific individuals to retain or claim certain items or amounts of the decedent's property in accordance with Section 3121 of the Probate, Estates and Fiduciaries Code. For dates of death from June 27, 1974 through January 29, 1995, the family exemption is \$2,000; after January 29, 1995, the amount is increased to \$3,500. The spouse of any decedent, or if there is no spouse, then such children who are members of the same household as the decedent at the decedent's death, or if there are no children, then the parent or parents of the decedent who are members of the same household as the decedent at

the decedent's death, may retain or claim property to the value permitted by law as the "family exemption" under the Probate, Estates and Fiduciaries Code. This exemption, if properly claimed, is a recognized deduction and should be listed in Part B, giving the name of the claimant, his or her relationship to the decedent and the claimant's address at the time of the decedent's death. If the claimant's address is not the same as the decedent's address shown on the reverse side of the REV-1500 cover sheet, provide a written explanation stating why the exemption is being claimed. **The family exemption is legally payable only from the probate estate of the decedent.** Accordingly, it may not be claimed as a deduction except to the extent that there are sufficient probate assets to satisfy the exemption from this property. **A family exemption cannot be claimed against assets listed on Schedules F and G of the return.**

SCHEDULE I

DEBTS OF DECEDENT, MORTGAGE LIABILITIES & LIENS

List on Schedule I all valid debts of the decedent owed at the time of death, including all mortgages and liens on real estate (including interest due to the date of death). Except as otherwise noted, these items are deductible regardless of whether or not assets comprising the taxable estate are employed in the payment or discharge of the deductible items. However, uncollectible liens are not allowable as a debt of the decedent. These would include invalid liens such as those filed while the decedent is under bankruptcy. When a tax is imposed upon a transfer of jointly owned property by right of survivorship (see Schedule F) or a taxable inter vivos transfer (see Schedule G), the deductions will be allowed to the transferee only to the extent that the transferee has actually paid the deductible items and either the transferee was obligated to pay the deductible items or the estate subject to administration by a personal representative is insufficient to pay the deductible items. The transferee must show that the same debts are not also claimed by an executor, administrator, or other personal representative handling the administration of the decedent's estate.

Examples of obligations which should be itemized on Schedule I include property taxes which are owing prior to decedent's death, secured loans, liabilities, and claims based on a promise or agreement, provided that the liability was contracted bona fide and for an adequate and full consideration. The deduction on a joint obligation is limited to the decedent's proportionate share of liability and may be deducted whether or not payment is secured by entireties' property or property which passes to another under the right of survivorship.

Expenses incurred in treating the decedent's last illness which are unpaid at the time of death are not deductible if they will be paid, or the estate will be reimbursed for their payment, from other sources such as medical insurance. Include only expenses which will not be paid or reimbursed by medical insurance on this schedule.

For estates of decedents dying on or before December 12, 1982, medical expenses which are unpaid at the time of the decedent's death are deductible whether or not the debts will be paid by a third party insurer. Note, however, that in cases where the medical insurance proceeds are paid or payable to the decedent's personal representative (rather than directly to the providers of the medical services), the proceeds also must be included as taxable transfers in the decedent's estate.

SCHEDULE J

BENEFICIARIES

Schedule J must include the names and addresses of all beneficiaries, including charitable organizations, as well as the amount of the distribution by will or intestate share.

Part I must include the names and addresses of the non-charitable beneficiaries of the estate, the relationship to the decedent, and the value of the interest to which each is entitled, other than the value of a trust which qualifies under Section 9113(a), unless an election to subject the value of the trust to tax in this estate will be made. If the estate is paid to an inter vivos trust, or if assets pass under the terms of an inter vivos trust which is taxable (see Schedule G instructions), the names, addresses and relationship of each potential trust beneficiary must be listed. The value of these bequests are subject to tax. Do not list the trustees as beneficiaries of the estate.

If assets pass under the terms of a trust as defined by Section 9113(a), the name, address, and relationship of each potential remainder trust beneficiary must be listed.

In Part II, Section A., list any trust or similar arrangement, or portion thereof, which benefits only the surviving spouse for his or her entire lifetime for which a Schedule O election to tax as a transfer in the first decedent spouse's estate is not being made.

In Part II, Section B, list all bequests made to institutions qualifying for the charitable exemption under Section 9111(c) of the Inheritance and Estate Tax Act, and all governments qualifying for the exemption under Section

9111(b). If the institution is not listed in the Cumulative List of Organizations, Publication 78, Internal Revenue Service, submit a copy of the federal exemption, if available, or a copy of the bylaws of the organization. Bequests must be specifically contained in the will or trust instrument in order to qualify as a charitable bequest. Approved charitable bequests are not subject to tax.

When there are no qualified beneficiaries to receive the net proceeds of the estate by will or by intestate share, the Commonwealth of Pennsylvania is the statutory heir under Section 2106 of the Probate, Estates & Fiduciaries Code. In such cases, indicate "Commonwealth of PA, Statutory Heir" in Section II, Part B., Charitable and Governmental Distributions, along with the amount which will be distributed.

Total Sections A and B of Part II and enter the amount on Line 13 of the REV-1500 cover sheet. The amount on Line 13 should represent the value of all charitable bequests, governmental distributions, and the value of Section 9113(a) trust(s), of fractions thereof, for which an election to tax in the subject estate has not been made.

SCHEDULE K

LIFE ESTATE, ANNUITY & TERM CERTAIN

This schedule must list and describe all presently vested life estates, annuities and terms certain created by the decedent for which valuations must be actuarially determined. **The asset(s) subject to the annuity or life estate calculation must be included in the asset schedules (A through G).** The description of the trust, property interest or other arrangement to be valued must include the name, date of birth, and age of each beneficiary to enable the Department of Revenue to readily identify the property interest to be valued with reference to the governing instrument. If the interest to be valued is the right to receive the income or annuity for a term certain rather than the life of a person, include the number of years.

If the decedent, by testamentary disposition or inter vivos transfer, did not allow for the disposition of assets outright at the time of death but allowed for their limited distribution to a beneficiary for the duration of the beneficiary's life or allowed for disposition over a specific term of years, it is a taxable transfer.

For decedents dying on or after December 12, 1982, the valuation methods are the same as described in US Treasury Department regulations. The actuarial tables used for dates of death on or after May 1, 1989 can be

found in IRS Publication 1457, Actuarial Tables, Alpha and Beta Volumes.

Questions concerning the valuation of remainder interests, annuities, unitrusts and pooled income funds for estates of decedents dying prior to May 1, 1989 should be directed to the Chief, Inheritance Tax Division, Bureau of Individual Taxes.

For estates of decedents dying on or after May 1, 1989, the present value of an annuity or life estate which is dependent on the continuation or termination of the life of only one person or the present value of an annuity or income interest which is payable for a term certain will be determined using tables which incorporate an interest rate equal to 120 percent of the federal mid-term annual rate in effect for the month in which the date of death occurred. For purposes of the computation, the age of the life tenant used is his or her age on the birthday nearest to the date of death.

Effective January 1, 1997, the PA Department of Revenue will begin charging a fee for private letter valuations which involve an actuarial calculation. This fee is similar to that charged by the Internal Revenue Service for private letter rulings which involve an actuarial calculation, and is a result of the increase in requests due to rate changes in the 1995 amendments to the PA Inheritance and Estate Tax Act.

The fee must be paid by a certified form of payment prior to the issuance of the valuation. Acceptable forms of payment are a money order, bank draft, or certified check made payable to the PA Department of Revenue. Personal or business account checks will not be accepted. The fee schedule is as follows:

\$250	A single life estate or term certain with no potential for invasion of the trust principal, or the need for a probability of survival computation for the remaindermen.
\$450	A single life estate or term certain with potential for trust invasion and/or the need for a survival probability calculation, a double life estate, or fixed annual right of invasion, such as the standard 5% or \$5000.
\$650	A life estate calculation involving three or more ages and no right to invade the trust principal, a one or two life unitrust calculation, a one or two life pooled income fund calculation, or a term certain with various distribution amounts during the term.
\$850	Any complex actuarial calculation involving more than three ages, a trust involving more than a fixed 5% or \$5000 annual right of invasion, a probability of at least one of three or

SCHEDULE M

more people surviving a life tenant for distribution to occur at a specific tax rate; or any calculation which requires the development of a specialized computer program(s).

\$200 Revision of the computation due to a change in the information originally provided by the estate representative.

Each request for a private letter valuation must include the name of the decedent, the date of death, and the estate file number. Private letter valuations will not be issued for estate planning purposes. The Department of Revenue will continue to provide single life estate factors by telephone free of charge.

The Department should be contacted at least three weeks in advance of the date needed to request a written valuation. The calculation and written valuation will be mailed to the estate representative. You may contact the Trust Valuation Specialists at (717) 787-8327 if you have any questions. Requests should be mailed to:

Pa Department of Revenue
Inheritance Tax Division,
Specialty Tax Unit
Dept. 280601
Harrisburg, PA 17128-0601

The request must be accompanied by a statement of the dates of birth of each person, the duration of whose life may affect the value of the interest, and copies of the relevant instruments.

For Charitable Remainder Unitrusts and Pooled Income Funds, the factor to compute the interest of a beneficiary is calculated in accordance with the methods described in US Treasury Department regulations.

SCHEDULES L, L-1, L-2

REMAINDER RETURNS

These schedules are appropriate only for estates of decedents dying on or before December 12, 1982.

Schedule L along with Schedule L-1 and L-2 are used to report invasions of principal and elections to prepay tax on the remainder interest.

Additional information is available from the Chief, Inheritance Tax Division, Bureau of Individual Taxes, Dept. 280601, Harrisburg, PA 17128-0601.

FUTURE INTEREST COMPROMISE

This schedule is appropriate only for estates of decedents dying on or after December 13, 1982. Section 9116(e) of the Inheritance and Estate Tax Act of 1991 [72 P.S. § 9116(e)] effective October 3, 1991 authorizes the Department of Revenue to compromise the amount of tax payable on a future interest when the rate of tax cannot be established with certainty. This section is applicable only if a contingency makes it impossible on the date of death of a decedent to determine the rate of tax which will apply when a future interest vests in possession and enjoyment. A compromise request is not necessary if all potential beneficiaries are taxable at the same rate, and the only uncertainty is the identity of the ultimate beneficiary of a future interest, if all potential beneficiaries are taxable at the same rate.

The following examples illustrate situations in which compromise determinations apply:

Example 1 - (a) Date of death after December 2, 1982 and before January 1, 1995 - Decedent bequeathed the residue of his estate to his trustee, in trust, and directed payment of income to his wife, age 65, for life. Upon her death, the remainder will be distributed to decedent's son, age 38 at decedent's death, provided he survives the decedent's wife. If the son does not survive the wife, the remainder is distributable to charity. This estate qualifies for a compromise determination since it is uncertain at the time of the decedent's death whether the remainder ultimately will pass to a 6 % beneficiary or to a tax-exempt charity. (b) Date of death after January 1, 1995 - Since the trust qualifies as a Section 9113 trust, the estate qualifies for a compromise determination only if the estate elects under Section 9113(a) to have the trust or portion of the trust subjected to tax in the decedent's estate. If an election is made, then the value of the interest passing to the spouse will be subject to tax at the 0% rate and the future interest uncertainty would be the amounts available to pass at either the 6% rate for the son or exempt to the charity.

If a Schedule O election is not made, then the entire value of the trust would not be subject to tax in the decedent's estate but rather would be valued at the death of the surviving spouse and be subject to tax as though the transfer were made by the surviving spouse.

Example 2 - Decedent bequeathed the residue of her estate to her trustee, in trust, and directed payment of income to her sister, age 87 at decedent's death, for life. Trustee is authorized to invade principal for sister's

health, maintenance and support. Upon her death, the remainder, if any, will be distributed to charity. This estate qualifies for a compromise determination because the trustees may invade principal for the benefit of the life tenant, thereby affecting the value of the remainder interest which may ultimately pass to charity.

Example 3 - Decedent's will creates two trusts for the benefit of the surviving spouse. The first trust (TRUST A) provides for income payable to the spouse for life with the remainder payable to issue at the spouse's death. The second trust (TRUST B) also provides for income payable to the spouse for life, principal payable at the trustee's discretion, if needed, for support of the surviving spouse and also for the support and education of issue, after consideration of all other available resources, with the remainder to pass to issue at the death of the surviving spouse.

In this example, TRUST A is not subject to future interest compromise tax since the value of the spouse's interest can be determined by the use of an actuarial calculation and would be taxable at the rate determined by the decedent's date of death. (For dates of death after December 31, 1994, TRUST A would be includable only if it were subject to an election made by the decedent's estate under Section 9113(a).)

Since TRUST B is not for the sole use of the surviving spouse, it cannot be considered a Section 9113 arrangement and, therefore, qualifies for a future interest compromise tax determination. The uncertainty to be resolved is whether trust principal will be consumed for the benefit of the surviving spouse and issue, thereby affecting the amount available for distribution to the decedent's issue at the death of the spouse. (For dates of death before July 1, 1994, TRUST B is not subject to a future interest compromise tax determination since all potential beneficiaries are of the same class and tax rate). For dates of death between July 1, 1994 and December 31, 1994, future interest compromise tax would apply because the spousal tax rate was 3% and the other potential beneficiaries would be subject to tax at 6%.

To request a compromise determination, the person responsible for filing the return must check block 4 "Limited Estate" and check block 4a "Future Interest Compromise" of the REV-1500 cover sheet.

If a contingency makes it impossible on the date of death to determine the rate of tax which will apply when a future interest vests in possession and enjoyment and a compromise determination is not requested by the taxpayer, the Department will assess tax at the highest rates which would apply at all points of uncertainty in the chain of distribution.

Schedule "M", "Future Interest Compromise," must accompany the return if a compromise determination is requested. All information having a direct or indirect effect on the compromise portion of the estate should be presented with the return. Required data would include the name, relationship, date of birth, age and sex of each beneficiary involved in the future interest compromise. The estate is encouraged to provide any information that is deemed to have an impact on the possible future benefit to the respective beneficiaries so that the Department may make informed judgments. This may include, but would not be limited to: the health and lifestyle of the respective beneficiaries, individual wealth of the beneficiary, average expenses, expected income, etc. The estate's compromise offer should be supported by as much factual data and explanatory information as possible.

The Department of Revenue will review the information presented to determine if a compromise determination is appropriate and to evaluate the suggested compromise tax amount submitted by the taxpayer. The Department's review may be conducted on actuarial computation, subjective analysis, or a combination of both. If the facts presented on Schedule M do not reveal any extraordinary circumstances, the determination of the Department will be made by an actuarial formula without any subjective review. For instance, if, in Example 1 no exceptional circumstances are identified, the Department's analysis and compromise offer would be based strictly on an actuarial formula. The formula developed for use in compromise situations involves an actuarially derived probability factor which is applied to determine the present value of the probability that the secondary beneficiary will survive the life tenant (in this example, the 38 year old son would survive the 65 year old wife.) The amount of the principal of the trust is multiplied by the probability factor to determine the amount taxable at each of the applicable tax rates.

The Chief of the Inheritance Tax Division, upon written request, will provide the probability factor in the case of an actual decedent prior to the filing of the tax return. Inquiries should be addressed to PA Department of Revenue, Bureau of Individual Taxes, Inheritance Tax Division, Dept. 280601, Harrisburg, PA 17128-0601. The request for a probability factor must identify the estate, date of death and bureau file number and must be accompanied by a copy of any relevant instrument.

The facts described in Example 2 require subjective analysis before a compromise can be reached. Since the trustee has the power to invade principal for the benefit of the life tenant, a reasonable determination must be made to estimate the probable need for use of principal. In reviewing the facts of this estate, the Department would consider the health of the life tenant, her average expenses, any expected extraordinary

expenses, and all future income, including the income from the decedent's trust. By balancing expenses against income, a compromise could be effected on the probability that principal would be consumed.

Similarly, in Example 3, the trustee must also consider the potential distributions made for the benefit of the decedent's issue as well as the spouse (life tenant). In this example, additional information concerning the number of issue, their ages, respective financial situations, and related data which would have an effect on the probability of principal distribution to the issue. Such distributions would affect the calculation of both the life estate and remainder interests.

Following any negotiations which are deemed necessary, the Department will prepare a Compromise Agreement for consideration by the taxpayer. The Agreement will be sent to the person listed as correspondent on the tax return along with an explanatory letter describing how the offer was determined. Taxes owing on all other interests will be determined and will be set forth on a "Notice of Inheritance Tax Appraisalment, Allowance or Disallowance of Deductions and Assessment of Tax" which will accompany the compromise offer.

In order to consummate the Compromise Agreement, it must be signed by the taxpayer and the compromise tax amount must be paid within sixty (60) days of the signing of the Agreement. Failure to meet both requirements will render the Agreement null and void. A copy of the signed Agreement must accompany payment of the compromise tax amount to the Register of Wills. If the Agreement is signed and the tax is paid, the Agreement shall constitute the final determination of tax on the future interest. **No further assessment notice will be issued by the Department and all rights of appeal shall cease.**

Once issued, the Compromise Agreement furnished by the Department of Revenue for consideration by the taxpayer is not subject to negotiation. If the Agreement is not acceptable, the Department of Revenue must be notified by a letter which specifies that the Agreement is not satisfactory, which will prompt issuance of the "Notice of Inheritance Tax Appraisalment, Allowance or Disallowance of Deductions and Assessment of Tax." If the Compromise Agreement furnished for consideration by the taxpayer is not accepted or if the Compromise Agreement is not fully consummated by the payment of all tax and interest due under the Agreement, the Department will then officially assess the future interest tax in accordance with the Compromise Agreement.

When the "Notice of Inheritance Tax Appraisalment, Allowance or Disallowance of Deductions and Assessment of Tax" is received, the taxpayer may, with-

in 60 days of the date the assessment is received, exercise the statutory right of appeal provided in 72 P.S. § 9186(b). Any liability not paid in full or under appeal will be referred for collection at the expiration of the appeal period or nine months after the date of death, whichever is later

The taxpayer is cautioned that in the case of decedents dying on or after December 13, 1982, all inheritance tax, including the compromise tax component, is due at death and becomes delinquent nine months following death (72 P.S. § 9142). The taxpayer may, therefore, wish to consider making a payment on account of the amount of tax which will result from the compromise determination to obtain the benefit of the discount for payment within three months after the date of death, or to avoid imposition of interest. For dates of death between December 31, 1991 and December 31, 1994, the availability of the Spousal Poverty Credit does not affect the future interest compromise calculation.

SCHEDULE N

SPOUSAL POVERTY CREDIT

This schedule must be used to claim the spousal poverty credit which is available to estates of decedents dying on or after January 1, 1992 and before January 1, 1995. In order to claim the credit, complete this schedule, furnish required supporting information and make the election by checking Block 10 on the REV-1500 cover sheet. If the block is not checked and Schedule N is not completed, the credit will not be allowed.

PART I

This part is used to calculate the gross value of the decedent's estate for purposes of the spousal poverty credit. This will include both taxable and nontaxable assets in which the decedent had an interest. Do not report assets in which the decedent had no interest during lifetime.

Line 1

Enter the total of taxable assets listed on Line 8 of the Recapitulation Section of the cover sheet on Line 1.

Lines 2-6

Use Lines 2 through 6 to report all of the decedent's assets which are not reported on the Pennsylvania Inheritance Tax Return, regardless of their situs. In addition to the value of property entered on Line 1, examples of property included for purposes of calculating the \$200,000 threshold are:

- The proceeds of life insurance policies owned by the decedent on the decedent's life must be entered on Line 2.
 - The present value of retirement benefits (not included on Line 1) must be entered on Line 3. Retirement benefits include pensions, retirement plans, 401(K) plans, individual retirement accounts, stock bonus plans, etc.
 - The decedent's fractional share of all property jointly held by the decedent and the surviving spouse (as joint tenants with right of survivorship or tenants by the entirety) calculated as if such property was taxable, must be entered on Line 4.
 - The present value of Pennsylvania lottery winnings must be entered on Line 5.
- Other nontaxable assets must be entered on Lines 6a through 6d. Such nontaxable assets include:
- Real property and tangible personal property situated outside the Commonwealth of Pennsylvania.
 - The total of any exclusions of up to \$3,000 per transferee claimed on Schedule G for transfers within one (1) year of death.
 - Adjusted service certificates and bonds.

Do not include on Lines 2 through 6 the value of property which was already included on Line 1. Examples of property which should not be included on Lines 1 through 6 for purposes of calculating the \$200,000 threshold are:

- War risk insurance and national service life insurance.
- Vietnam conflict pay allowance.
- Property over which the decedent held power of appointment as donee of such power.
- Irrevocable burial funds.
- Property in which the decedent had no beneficial interest.
- Irrevocable trusts over which the decedent had no access or enjoyment.
- Lump sum death benefits and burial payments from the Social Security Administration, Veterans Administration or Railroad Retirement Board.

Line 7

Add Lines 1 through 6 and enter total here.

Line 8

Enter the actual liabilities of the decedent on Line 8. Include the items from Schedule I which are evidenced by a written agreement. Do not include estate administration expenses. For purposes of calculating the "liabilities" portion for joint obligations, the decedent's proportionate share will be allowed in the same manner authorized for calculating allowable debts and deductions. Oral debts will not be recognized as Section 9112(C)(2) of the 1991 Inheritance and Estate Tax Act specifically requires that actual liabilities be evidenced by a written agreement.

Line 9

Subtract Line 8 from Line 7 to determine the net value of the estate. Stop if Line 9 is greater than \$200,000. The estate is not eligible for the spousal poverty credit. If Line 9 is less than \$200,000 continue to Part II.

PART II

Part II of Schedule N is used to determine the average joint exemption income of the decedent and the surviving spouse for the three (3) tax years prior to the date of death. Income from full tax years must be furnished. Do not furnish income from the year of the decedent's death unless the decedent died on the last day of the year. For example, if a decedent dies on May 5, 1994, the three base period tax years would be 1993, 1992 and 1991.

Information reported in Part II will be verified with the records of the Internal Revenue Service and the PA Department of Revenue. Submit copies of Federal Individual Income Tax Returns for the appropriate tax years. If the copies do not bear the signatures of both spouses, the surviving spouse must sign the returns to verify that the copies are true and correct. If one or both spouses was not required to file Federal Individual Income Tax Returns for any year in question, the estate must submit a reasonable facsimile or pro forma of the Federal Individual Income Tax Return which would have been filed if income were sufficient to require filing. The individual preparing the facsimile must verify that the information is true and correct. Information must be supplied for both the decedent and the spouse even if they were not married throughout the three (3) tax years under consideration.

A column is provided for each base year. Use Line a to indicate the surviving spouse's income, Line b the decedent's income and line c to report joint income.

Exemption income also includes income which is not subject to income tax. Nontaxable income, such as that from tax exempt municipal bonds, etc., is reported on line d. Other income is reported on line e. This includes amounts not subjected to tax by reason of the exclusion available to eligible taxpayers over age 55 on the sale of a personal residence. Add lines a through e and enter the total on line f.

The average joint exemption income is calculated on line 4. Add Lines 1f, 2f and 3f and divide the total by 3. This is the average joint exemption income and must be entered on Line 4(b). Stop if Line 4(b) is greater than \$40,000. The estate is not eligible to claim a spousal poverty credit. If Line 4(b) is less than or equal to \$40,000, continue to Part III.

PART III

This part is used to calculate the amount of the spousal poverty credit. The credit is allowed on the first \$100,000 of taxable transfers to the decedent's surviving spouse. The amount of the taxable transfer is net of deductions and liabilities. It is not the gross value of assets passing to spouse. The value of taxable transfers cannot exceed Line 12 of the cover sheet. Do not include nontaxable assets such as life insurance or jointly held assets passing to the spouse on Line 1.

For example, if husband dies and wife receives, after deductions:

House (Joint names)	\$50,000
Checking Account (Joint names)	50,000
Car (Decedent's name)	5,000
Savings Account (Decedent's name)	<u>90,000</u>
Total received by wife	\$195,000

Of the total value of \$195,000 received by wife, only \$95,000 would be reported on Line 1 as the house and checking account passed to the surviving spouse by operation of law and were not subject to Pennsylvania Inheritance tax.

Calculate the spousal credit by multiplying Line 1 by the allowable credit percentage. The credit percentage is determined by the date of death as follows:

<u>Date of Death</u>	<u>Credit Percentage</u>
1-1-92 to 12-31-922%
1-1-93 to 12-31-934%
1-1-94 to 6-30-946%
7-1-94 to 12-31-943%

Enter the appropriate percentage on Line 2. Multiply Line 1 by Line 2 and enter the result on Line 3. This is

the amount of the spousal poverty credit. Transfer the amount on Line 3 to Line 18 of the cover sheet. Verify that the block in the upper right hand corner of the cover sheet has been checked to indicate that the estate is claiming a spousal poverty credit.

Lines 4 and 5 apply only to estates of nonresidents and should be left blank for estates of residents.

Application of discount for payment within three calendar months of death and interest on delinquent payments to estates claiming the spousal poverty credit is illustrated in the following examples:

EXAMPLE 1

Principal tax due	\$ 10,000
Less: Spousal poverty credit	(1,500)
Balance due	\$ 8,500
Less: Payment within discount period	(7,500)
Discount	(375)
Balance of tax due	\$625

Interest will accrue on the unpaid balance of \$625 commencing (9) months after death.

EXAMPLE 2

Principal tax due	\$ 10,000
Less: Spousal poverty credit	(2,000)
Balance due	\$ 8,000
Less: Payment within discount period	(10,000)
Discount (calculated on actual tax liability of \$8,000)	(400)
Overpayment	\$ 2,400

EXAMPLE 3

Principal tax due	\$ 2,000
Less: Spousal poverty credit	(2,000)
Balance due	-0-

EXAMPLE 4

Principal tax due	\$10,000
Less: Spousal poverty credit	(2,000)
Payment made after discount period and within 9 months of date of death	8,000
.	-0-
Tax due	-0-

SCHEDULE O

ELECTION TO TAX UNDER SEC. 9113(A)

ELECTION TO TAX SUBJECT PROPERTY UNDER SECTION 9113(A) AS A TAXABLE TRANSFER BY THIS DECEDENT: The election to tax a trust or similar arrangement for the sole use of the surviving spouse during the spouse's lifetime, or portion thereof, as a taxable transfer in the first decedent spouse's estate must be made by checking Block 11 on the REV-1500 cover sheet and by completing Schedule O. Failure to check the Block 11 and file Schedule O will result in the entire trust or similar arrangement being included as a taxable transfer in the estate of the surviving spouse. A separate Schedule O must be filed for each qualified trust or similar arrangement affected by an election to tax. Schedule O can be used for nonresident decedent estates, as well as resident decedent estates.

Section 9113(A) of the Inheritance & Estate Tax Act of 1991, as amended by Act 21 of 1995 provides for the inclusion of a trust or similar arrangement that benefits only the surviving spouse during the spouse's entire lifetime as a taxable transfer in the estate of the surviving spouse and not as a taxable transfer in the transferor's, or first decedent spouse's, estate. The tax on a qualified trust or life estate arrangement is not due until the death of the second spouse, at which time it becomes fully taxable in his or her estate at the rate(s) applicable to the remainder beneficiary(ies) with no deduction of the original value of the survivor's expired life estate.

Section 9113(A) benefits the surviving spouse because the payment of tax on the decedent's assets is postponed until the death of the surviving spouse. In situations where the surviving spouse must rely on the trust assets for maintenance income, the trust assets are not depleted by the payment of tax, but instead are preserved in order to provide the maximum income, and principal should an invasion of the principal, if the instrument so authorizes, become necessary for the surviving spouse's benefit. Similarly, when the trust assets are comprised of real property and limited cash assets, the tax does not impose a burden which would necessitate the sale of the real property, which is often the residence of the surviving spouse.

The estate can elect to include such a trust, or similar arrangement, or portion thereof, as a taxable transfer in the transferor's, or first decedent spouse's estate. The election to tax in the estate of the first decedent spouse can be advantageous for tax purposes if there are sufficient cash assets to pay the tax without imposing a burden on the surviving spouse. Although there are numerous considerations, including estate tax consequences, it may be advantageous to make the election to tax in the first estate since the value of the surviving spouse's interest in the trust or similar arrangement is subject to tax at the spousal rate of zero percent. Schedules K and M can be used to determine the value of the surviving spouse's interest.

Schedule O, which is only applicable to estates of

decedents dying on or after January 1, 1995, must be completed if the election to tax the trust in the first decedent spouse's estate is made. It is not necessary to complete this schedule if all of the property received by the surviving spouse is transferred outright to the spouse without the incidents of a trust or other similar arrangement, or if the estate representative has determined that it would be more advantageous to allow the payment of the tax on the qualified trust or similar arrangement to be postponed as provided under the law until the death of the second spouse (See instructions for Schedule J).

The trust or similar arrangement for which an election to tax is being made must be clearly identified. The name of the trust, or the paragraph or item number of the instrument in which its terms are set forth should be entered on Schedule O in the section below the decedent's name and estate file number.

Values reported on this schedule must be consistent with Schedules K and/or M.

The value of all assets should be the fair market value on the date of the decedent's death net of any deductions allocable against the interests passing to the trust or similar arrangement.

PART A: ALL INTERESTS PASSING TO THE QUALIFIED TRUST OR SIMILAR ARRANGEMENT

List all property interests that pass from the decedent to a trust or similar arrangement for the sole use of the surviving spouse during the spouse's entire lifetime. Examples of these interests include, but are not limited to:

1. Assets passing under the decedent's will or by intestate succession
2. Assets passing by operation of law because of the designation of a beneficiary, such as IRA's, pensions, "in trust for" accounts, "payable on death" accounts, "transfer on death" accounts, etc.
3. Assets held in trust
4. Annuity contracts

If Schedule O includes a bequest of the residue or part of the residue of the decedent's estate, attach as an exhibit a computation showing how the value of the residue was determined.

PART B: VALUE OF TRUST OR SIMILAR ARRANGEMENT FOR WHICH A SECTION 9113(A) ELECTION IS BEING MADE:

List in Part B the value of a trust or similar arrangement that passes to the surviving spouse for the spouse's sole use during his or her entire lifetime for which a Section 9113(A) election is made. The value as calculated on Schedules K and M, net of any deductions allocable to the surviving spouse's interest, should be listed. Specific reference should be made to items listed in Part A to allow cross reference of the items. If the election is made for more than one trust, please specifically identify the individual trusts.

REGISTER OF WILLS

ADAMS

Courthouse
111-117 Baltimore St.
Gettysburg, PA 17325
(717) 334-6781

ALLEGHENY

City-County Building
414 Grant St.
Pittsburgh, PA 15219
(412) 350-4184

ARMSTRONG

Courthouse
500 Market St.
Kittanning, PA 16201
(412) 548-3280

BEAVER

Courthouse
Third St.
Beaver, PA 15009
(412) 728-5700

BEDFORD

Courthouse
200 S. Juliana
Bedford, PA 15522
(814) 623-4836

BERKS

Berks Co. Services Ct.
633 Court St., 2nd. Fl.
Reading, PA 19601
(610) 478-6600

BLAIR

Courthouse
423 Allegheny St.
Holidaysburg, PA 16648
(814) 693-3095

BRADFORD

Courthouse
310 Main St.
Towanda, PA 18848
(717) 265-1702

BUCKS

Courthouse
Court and Main Sts.
Doylestown, PA 18901
(215) 348-6265

BUTLER

Courthouse
P.O. Box 1208
Butler, PA 16003-1208
(412) 248-5348

CAMBRIA

Courthouse
P.O. Box 298
Ebensburg, PA 15931
(814) 472-5440

CAMERON

Courthouse
Emporium, PA 15834
(814) 486-3349

CARBON

Courthouse
P.O. Box 286
Jim Thorpe, PA 18229
(717) 325-2261

CENTRE

Register of Wills
Courthouse
Bellefonte, PA 16823
(814) 355-6724

CHESTER

Register of Wills
Courthouse
2 N. High St., Ste. 109
West Chester, PA 19380-3073
(610) 344-6335

CLARION

Courthouse
Main St.
Clarion, PA 16214
(814) 226-4000 Ext. 2500

CLEARFIELD

Courthouse
P.O. Box 361
Clearfield, PA 16830
(814) 765-2641 Ext. 23

CLINTON

Courthouse
P.O. Box 943
Lock Haven, PA 17745
(717) 893-4020

COLUMBIA

Courthouse
P.O. Box 380
Bloomsburg, PA 17815
(717) 389-5632

CRAWFORD

Courthouse
903 Diamond Pk.
Meadville, PA 16335
(814) 333-7338

CUMBERLAND

Courthouse
1 Courthouse Sq.
Carlisle, PA 17013-3387
(717) 240-6345

DAUPHIN

Courthouse
Room 103
Front & Mkt. Sts.
Harrisburg, PA 17101
(717) 255-2657

DELAWARE

Gov. Center Bldg.
201 W. Front St.
Media, PA 19063
(610) 891-4400

ELK

Courthouse
Main Street
P. O. Box 314
Ridgway, PA 15853
(814) 776-5349

ERIE

Courthouse
Register of Wills
Room 122
140 W. 6th St.
Erie, PA 16501
(814) 451-6258

FAYETTE

Courthouse
61 E. Main St.
Uniontown, PA 15401
(412) 430-1206

FOREST

Courthouse
P.O. Box 423
Tionesta, PA 16353
(814) 755-3526

FRANKLIN

Courthouse
157 Lincoln Way E.
Chambersburg, PA 17201
(717) 261-3872

FULTON

Courthouse
201 N. 2nd St.
McConnellsburg, PA 17233
(717) 485-4212

GREENE

Courthouse
Waynesburg, PA 15370
(412) 852-5283

HUNTINGDON

Courthouse
223 Penn St.
Huntingdon, PA 16652
(814) 643-2740

INDIANA

Courthouse
825 Phila. St.
Indiana, PA 15701
(412) 465-3860

REGISTER OF WILLS

JEFFERSON

Courthouse
200 Main St.
Brookville, PA 15825
(814) 849-1610

JUNIATA

Courthouse
P.O. Box 68
Mifflintown, PA 17059
(717) 436-7709

LACKAWANNA

Courthouse
200 N. Washington Ave.
Scranton, PA 18503
(717) 963-6702

LANCASTER

Courthouse
P.O. Box 83480
50 N. Duke St.
Lancaster, PA 17608-3480
(717) 299-8246

LAWRENCE

Courthouse
430 Court St.
New Castle, PA 16101
(412) 656-2159

LEBANON

Room 105
400 S. 8th St.
Lebanon, PA 17042
(717) 228-4415

LEHIGH

Courthouse
P.O. Box 1548
Allentown, PA 18105
(610) 820-3170

LUZERNE

Courthouse
Wilkes-Barre, PA 18711
(717) 825-1668

LYCOMING

Courthouse
48 W. Third St.
Williamsport, PA 17701
(717) 327-2263

MCKEAN

Courthouse
Smethport, PA 16749
(814) 887-3263
(814) 887-3260

MERCER

112 Courthouse
Mercer, PA 16137
(412) 662-3800

MIFFLIN

Courthouse
20 N. Wayne St.
Lewistown, PA 17044
(717) 242-1449

MONROE

Courthouse
Stroudsburg, PA 18360
(717) 420-3540

MONTGOMERY

Courthouse
P.O. Box 311
Norristown, PA 19404
(610) 278-3410

MONTOUR

Courthouse
29 Mill St.
Danville, PA 17821
(717) 271-3012

NORTHAMPTON

Courthouse
669 Washington St.
Easton, PA 18042
(610) 559-3094
(610) 559-3092

NORTHUMBERLAND

Courthouse
Sunbury, PA 17801
(717) 988-4140

PERRY

Courthouse
New Bloomfield, PA 17068
(717) 582-2131

PHILADELPHIA

Room 180, City Hall
Philadelphia, PA 19107
(215) 686-2918

PIKE

Courthouse
506 Broad St.
Milford, PA 18337
(717) 296-3508

POTTER

Courthouse
1 E. 2nd St.
Coudersport, PA 16915
(814) 274-8370

SCHUYLKILL

Courthouse
401 N. 2nd. St.
Pottsville, PA 17901
(717) 628-1381

SNYDER

Courthouse
Middleburg, PA 17842
(717) 837-4225

SOMERSET

Courthouse
Ste. 170
111 E. Union St.
Somerset, PA 15501
(814) 445-2096

SULLIVAN

Courthouse
Laporte, PA 18626
(717) 946-7351

SUSQUEHANNA

Courthouse
P.O. Box 218
Montrose, PA 18801
(717) 278-4600

TIOGA

Courthouse
116 Main St.
Wellsboro, PA 16901
(717) 724-9260

UNION

Courthouse
Lewisburg, PA 17837
(717) 524-8761

VENANGO

Courthouse
1168 Liberty St.
Franklin, PA 16323
(814) 432-9534

WARREN

Courthouse
Warren, PA 16365
(814) 723-7550 Ext. 232

WASHINGTON

Ste. 1002
1 S. Main St.
Washington, PA 15301
(412) 228-6775

WAYNE

Courthouse
Honesdale, PA 18431
(717) 253-5970 Ext. 210

WESTMORELAND

Courthouse
301 Courthouse Sq.
Greensburg, PA 15601
(412) 830-3189

WYOMING

Courthouse
1 Courthouse Sq.
Tunkhannock, PA 18657
(717) 836-3200

YORK

Courthouse
York, PA 17401
(717) 771-9601

REVENUE DISTRICT OFFICES

The location of these offices may change. To verify the location of an office, please call the number listed for that office or TDD# (717) 772-2252 (Hearing Impaired Only).

LOCATION	COUNTIES SERVED	LOCATION	COUNTIES SERVED
ALTOONA Cricket Field Plaza 615 Howard Avenue Altoona, PA 16601-4867 (814) 946-7310	Blair Centre Fulton Huntingdon Mifflin	HARRISBURG Strawberry Square Harrisburg, PA 17128-0101 (717) 783-1405	Cumberland Dauphin Perry
BETHLEHEM 44 East Broad Street Bethlehem, PA 18018-5998 (610) 861-2000	Lehigh Northampton	INDIANA 835 Water Street, Rear Indiana, PA 15701-1705 (412) 357-7600	Armstrong Clarion Indiana Jefferson
BRADFORD Second Floor 86 Boylston Street Bradford, PA 16701-2011 (814) 368-7113	Cameron Elk Forest McKean Potter Warren	JOHNSTOWN Third Floor 345 Main Street Johnstown, PA 15901-1614 (814) 533-2495	Bedford Cambria Clearfield Somerset
DOYLESTOWN Suite 104 600 Louis Drive Warminster, PA 18974-2846 (215) 443-2990	Bucks	LANCASTER 160 East King Street Lancaster, PA 17602-2869 (717) 299-7581	Lancaster Lebanon
ERIE Sumner Nichols Building Room 216 155 West Eighth Street Erie, PA 16501-1012 (814) 871-4491	Erie Crawford	NEW CASTLE Room 201 101 South Mercer Street New Castle, PA 16101-3837 (412) 656-3203	Beaver Butler Lawrence Mercer Venango
GREENSBURG 15 W. Third Street, 2nd Fl. Westmoreland Greensburg, PA 15601-3007 (412) 832-5386		NEWTOWN SQUARE Suite 1 90 S. Newtown Street Rd. (Rt. 252) Newtown Sq., PA 19073-4092 (610) 353-4051	Chester Delaware

REVENUE DISTRICT OFFICES

The location of these offices may change. To verify the location of an office, please call the number listed for that office or TDD# (717) 772-2252 (Hearing Impaired Only).

LOCATION	COUNTIES SERVED	LOCATION	COUNTIES SERVED
NORRISTOWN Stoney Creek Office Center Fourth Floor 151 West Marshall Street Norristown, PA 19401-4739 (610) 270-1780	Montgomery	SUNBURY 335 Market Street Sunbury, PA 17801-3466 (717) 988-5520	Columbia Juniata Montour Northumberland Snyder Union
PHILADELPHIA State Office Building, Room 1206 1400 West Spring Garden St. Philadelphia, PA 19130-4088 (215) 560-2714	Philadelphia	WASHINGTON George Stewart Bldg. 75 E. Maiden Street Washington, PA 15301-4963 (412) 223-4550	Fayette Greene Washington
PITTSBURGH Room 216 City County Building Pittsburgh, PA 15219-2452 (412) 565-3513	Allegheny (Inheritance Tax Office Only).	WILKES-BARRE Thomas C. Thomas Bldg. 100 E. Union Street Wilkes-Barre, PA 18701-3398 (717) 826-2466	Luzerne Wyoming
POTTSVILLE 110 East Laurel Boulevard Pottsville, PA 17901-2527 (717) 621-3175	Carbon Schuylkill	WILLIAMSPORT 322 Locust Street Williamsport, PA 17701-6085 (717) 327-3475	Bradford Clinton Lycoming Sullivan
READING Suite 239 625 Cherry Street Reading, PA 19602-1186 (610) 378-4401	Berks	YORK Second Floor 130 North Duke Street York, PA 17401-1113 (717) 845-6661	Adams Franklin York
SCRANTON Samters Building Suite 305 101 Penn Avenue Scranton, PA 18503-1970 (717) 963-4585	Lackawanna Monroe Pike Susquehanna Wayne	INTERNET ADDRESS http://www.revenue.state.pa.us . E-MAIL ADDRESS parev@epix.net	

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