

Estate Tax Form M706 Instructions 2004

for estates of decedents whose dates of death are in calendar year 2004

Questions?

Call 651-296-3475

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

TTY: 711 Minnesota Relay

Or write to:

Minnesota Revenue
Mail Station 1315
St. Paul, MN 55146-1315

Our web address

www.taxes.state.mn.us

Our email address

businessincome.tax@state.mn.us

Forms and schedules

M706 Estate tax return

PV86 Estate Extension Payment
Voucher

PV47 Estate Return Payment
Voucher

Need forms?

Our website is an easy and convenient way for you to get the most up-to-date tax forms and information, including Revenue Notice publications regarding the alternative value, special use valuation and administrative deductions. You may also pay your estate tax electronically from our website.

- Find us at www.taxes.state.mn.us, or
- Request forms to be faxed to you by calling 651-296-4444.

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

Contents

What's new	1
General information	1-3
Filing and paying requirements	1-2
Due dates and payment options	1-2
Line instructions	4-6
Tax table	5

What's new?

Interest on estate tax refunds

Effective for estates of decedents whose dates of death are after December 31, 2003, interest will be paid on the overpayment of estate taxes from the later of the date of overpayment, the due date for filing the return, or the date the original Minnesota estate tax return is filed. Interest paid under previous law was from the date of overpayment.

Filing requirements

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

- the gross estate is at least or more than the Minnesota threshold for the year (the threshold for 2004 is \$850,000; see below), **OR**
- the estate is required to file a federal estate tax return.

If the decedent was a nonresident of Minnesota, the estate is required to file Form M706 if the total federal gross estate is \$850,000 or more, and Minnesota situated property is included in the federal gross estate. ([M.S. 289A.10, subd. 1](#))

Minnesota thresholds. If, on the date of death, the decedent's total gross estate was equal to or more than the amount shown below for the year the decedent died, you must file Form M706. The filing requirement applies even if the estate is not required to file a federal return.

Year	Total gross estate	Maximum unified credit
2004	\$ 850,000	\$ 287,300
2005	950,000	326,300
2006 and later	1,000,000	345,800

Who must file?

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

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

If the estate is not being probated, all persons who will receive assets included in the decedent's federal gross estate (line 1 of federal Form 706) are responsible for filing the Minnesota return. If more than one person will receive the assets, all persons receiving the assets should choose a mutually agreeable person among them to file the estate tax returns. If one person cannot be agreed on, state law requires each person to file a Minnesota return for the decedent's estate. Each person must include on the return not only the assets he or she is receiving, but also all of the decedent's assets being received by other persons and the names of the other persons. ([M.S. 289A.10](#))

Who must pay?

The executor and each person who is receiving assets subject to Minnesota estate tax are responsible for paying a portion of the total Minnesota estate tax equal to his or her share of the value of the assets.

However, if the funds were distributed without reserving enough to pay the various taxes, the executor will be held personally responsible.

([M.S. 289A.31, subd. 4 and 6](#))

Deadline for filing

You must file Form M706 no later than nine months after the date of death of the decedent unless a federal extension of the filing deadline has been granted. ([M.S. 289A.18, subd. 3](#))

General information

Deadline for paying

The Minnesota estate tax must be paid no later than nine months after the date of death of the decedent. However, it may be possible to pay the tax in installments after this date if the estate meets the requirements explained in the section *Paying tax in installments* on this page. (M.S. 289A.20, subd. 3)

Extension of time to file

If the Internal Revenue Service (IRS) grants an extension of time to file the decedent's federal estate tax return, the federal extended filing due date automatically applies to the Minnesota return. When you file Form M706, attach a copy of the IRS document that grants the extension. Also, be sure to indicate the approved federal filing extension due date on the front of your Minnesota return.

If you are not extending the time to file your federal return, you may request a six-month extension for filing your Minnesota return. To request, you must send a letter explaining why the extension is needed and pay at least 90 percent of the tax due. Mail your request and payment to Minnesota Estate Tax, Mail Station 5170, St. Paul, MN 55146-5170. You can assume your request has been approved if you do not hear from us within 30 business days.

The extension of time to file does not extend the time in which you must pay the estate tax. To avoid penalties and interest, you must pay your tax on or before the regular due date (see *Payment options* above).

If you made an extension payment, include the amount you paid on line 12 of Form M706. (M.S. 289A.19, subd. 4)

Extension payment. Estate tax is due by the regular due date, even if the return will be filed under an extension. A late payment penalty and interest will be assessed on tax paid after the regular due date, unless you received an extension to pay the federal tax, or you have properly elected under IRC section 6166 or 6601 to pay tax in installments. In which case, a penalty will not be assessed.

Paying tax in installments

If the Minnesota estate tax is \$5,000 or more and the IRS has granted the estate an extension of time to pay the federal estate tax for the purpose of paying the tax in installments, the estate may pay the Minnesota estate tax in installments if the requirements explained below are met. (M.S. 289A.30, subd. 2)

Payment options

Estate tax can be paid electronically or by check.

■ Pay electronically

- Go to our website at www.taxes.state.mn.us.
- If you don't have Internet access, call **1-800-570-3329**.



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

To be timely, you must complete your transaction and receive a confirmation number on or before the due date for that payment. You may also set up payments—up to 13 months in advance—when you pay electronically.

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

you must mail your check with a completed Form:

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

Make your check payable to Minnesota Revenue.

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

The installments on the total estate tax owed—not including interest owed—must be made in equal amounts.

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

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

- 1 Determine the number of days from the last payment due date (return or installment) to date of payment or December 31, whichever is earlier.
- 2 Divide step 1 by 366 (if 2004) or 365 (if 2005), and round to five decimal places.
- 3 Multiply step 2 by the interest rate in effect for that year (see *Interest* on [page 3](#)).

4 Multiply step 3 by the tax still due.

- If the due date is in the same year that you're making your payment, stop here. The result in step 4 is the interest you must include with your installment.
- If your payment was due in one year and you're making the installment in the next calendar year, continue with step 5.

5 Determine the number of days from January 1 to date of payment.

6 Divide step 5 by 366 (if 2004) or 365 (if 2005), and round to five decimal places.

7 Multiply step 6 by the interest rate in effect for that year (see *Interest* on [page 3](#)).

8 Multiply step 7 by the tax still due.

9 Add step 4 and step 8. This is the interest to include with your installment.

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

However, if you missed the installment date for what you believe is a reasonable cause, write to the Commissioner of Revenue explaining why the payment was late. You'll be notified in writing whether you may continue to pay Minnesota estate tax in installments. (M.S. 289A.30, subd. 2)

General information (continued)

Penalties

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

The penalty is 6 percent of the unpaid tax. If you file your return after the due date and you do not pay the tax as reported on your return, an additional 5 percent late payment penalty will be assessed on the unpaid tax.

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

The penalty is 5 percent of the unpaid tax. An additional extended delinquency penalty of 5 percent of the unpaid tax will be assessed if the return is not filed within 30 days after the department sends a written demand.

Failing to file with intent to evade tax or filing a false or fraudulent return. A penalty of 50 percent of the tax due is added to the tax. This penalty is in addition to any other penalties that may apply. (*M.S. 289A.60*)

Criminal penalties. If you willfully fail to file a return in order to evade paying the tax, you could be charged with a gross misdemeanor. If you file a fraudulent return in order to evade paying all or part of the tax, you could be charged with a felony. (*M.S. 289A.63*)

Abatement of penalties

If circumstances beyond your control prevented you from filing or paying your taxes on time, you may request an abatement of penalties. To request an abatement, send a letter to the department explaining the specific events or circumstances that prevented you from filing and/or paying on time. Your abatement request must be made within 60 days after the date you were notified that a penalty has been imposed. (*M.S. 270.07, subd. 1*)

Interest

Interest is calculated as simple interest and accrues on unpaid tax and penalties beginning nine months from the decedent's date of death. Interest will be charged even if the deadline for filing the return has been extended or the tax is being paid under an installment plan. The rate of interest may change from year to year. (*M.S. 270.75*)

The interest rate for 2004 is 4 percent, and the rate for 2005 will be determined in October 2004. (*M.S. 289A.55*)

Required information

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

You must attach the following to Form M706:

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

Other items you must attach to the return include:

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

Use one of the mailing labels provided on [page 4](#) to mail your Form M706 and all required attachments to the department. If you choose not to use the label, mail your forms to: Minnesota Estate Tax, Mail Station 1315, St. Paul, MN 55146-1315. (*M.S. 289A.10, subd. 2*)

Use of information

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

The decedent's Social Security number is required by M.S. 270.066. Although your—the executor's—Social Security number is requested on Form M706, you are not required to provide it. We ask for your

Social Security number so the department can correctly identify you.

Reporting federal changes

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

You must file an amended Minnesota return even if the changes do not require you to amend the federal return.

To file an amended Minnesota return, complete a new Form M706 with the appropriate amended information, and check the box at the top of the form to indicate that it is an amended return. You must attach to your Form M706, a complete copy of the estate's amended federal return or the correction notice you received from the IRS.

If there are no changes made to the federal return, the IRS will generally issue the estate an "Estate Tax Closing Letter." If you received a closing letter, submit a copy to the department so the estate's file can be closed. (*M.S. 289A.38, subd. 7*)

If you fail to report the federal changes within 180 days as required, a 10 percent penalty will be assessed on any additional tax. (*M.S. 289A.60, subd. 24*)

Refund of Minnesota tax

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

The estate will be paid interest on the amount refunded. (*M.S. 289A.50*)

Income tax return for estates

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

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

Federal 706 worksheet instructions

You must first complete a federal 706 worksheet

Even though you may have completed federal Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return*, you must also complete lines 1 through 12 on a *separate federal Form 706 (Rev. August 2002)* using the federal law in effect prior to the changes enacted in 2001. This separate form will be used as a worksheet to determine your Minnesota estate tax.

When you complete your federal 706 worksheet, use the following instructions:

Lines 1 through 5: Determine the amounts to enter on these lines using the [federal 2002 instructions](#).

Line 6: Use Table A (at right) and the amount on line 5 of your federal 706 worksheet to determine the federal tentative tax to enter on line 6.

Lines 7 and 8: Determine the amounts to enter on these lines using the federal 2002 instructions.

Line 9: Enter \$287,300. This is the maximum unified credit for dates of death in 2004.

Lines 10 through 12: Determine the amounts to enter on these lines using the federal 2002 instructions.

If you use a software package, be sure to verify that the appropriate table amount on line 6 and the correct maximum unified credit amount on line 9 are used.

You must attach to your Form M706 the federal 706 worksheet and all required schedules that list an amount.

Table A —Use to determine line 6 of federal 706 worksheet

If line 5 of your federal 706 worksheet is:

over	but not over	subtract from line 5	multiply result by	and add
\$ 0	... \$ 10,000	... \$ 0	... 18%	... \$ 0
10,000	... 20,000	... 10,000	... 20%	... 1,800
20,000	... 40,000	... 20,000	... 22%	... 3,800
40,000	... 60,000	... 40,000	... 24%	... 8,200
60,000	... 80,000	... 60,000	... 26%	... 13,000
80,000	... 100,000	... 80,000	... 28%	... 18,200
100,000	... 150,000	... 100,000	... 30%	... 23,800
150,000	... 250,000	... 150,000	... 32%	... 38,800
250,000	... 500,000	... 250,000	... 34%	... 70,800
500,000	... 750,000	... 500,000	... 37%	... 155,800
750,000	... 1,000,000	... 750,000	... 39%	... 248,300
1,000,000	... 1,250,000	... 1,000,000	... 41%	... 345,800
1,250,000	... 1,500,000	... 1,250,000	... 43%	... 448,300
1,500,000	... 2,000,000	... 1,500,000	... 45%	... 555,800
2,000,000	... 2,500,000	... 2,000,000	... 49%	... 780,800
2,500,000	... 3,000,000	... 2,500,000	... 53%	... 1,025,800
3,000,000	... — — — —	... 3,000,000	... 55%	... 1,290,800

Enter the result on line 6 of your federal 706 worksheet.

Use a mailing label

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

MINNESOTA • REVENUE

Mail Station 1315

St. Paul, MN 55146-1315

MINNESOTA • REVENUE

Mail Station 1315

St. Paul, MN 55146-1315

Line instructions

You will need your federal 706 worksheet to complete your Form M706.

See [page 4](#) for details.

Executor(s)

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

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

All appointed executors must sign the completed Form M706.

Estates of Minnesota residents—Lines 1–6

Line 1

Tentative Minnesota estate tax

To determine the amount to enter on line 1 of your Form M706, follow the steps below:

- 1 Federal taxable estate (from line 3 of your federal 706 worksheet)
- 2 Minimum amount \$60,000
- 3 Adjusted taxable estate (subtract step 2 from step 1)
- 4 Using the result from step 3 and Table B at right, determine the amount to enter here
- 5 Gross estate tax (from line 8 of your federal 706 worksheet)
- 6 Maximum unified credit (from line 9 of your federal 706 worksheet) \$287,300
- 7 Subtract step 6 from step 5 . ..
- 8 Enter the amount from step 4 or step 7, whichever is less. Also enter this amount on line 1 of your Form M706

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

Line 2

Gross value of property in other states

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

Estates of nonresidents of Minnesota—Lines 7–11

Line 7

Tentative Minnesota estate tax

Determine the amount to enter on line 7 by following the steps provided in the line 1 instructions. Enter the amount from step 8 on line 7 of your Form M706.

Line 8

Gross value of property in Minnesota

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

All estates—Lines 12–18

Line 12

Payments previously made

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

Table B—Use to determine step 4 of the line 1 worksheet

If step 3 of the line 1 worksheet is:

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

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

Line instructions (continued)

Line 14

Penalties

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

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

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

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

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

(M.S. 289A.60)

Line 15

Interest

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

The rate of interest may change from year to year. (M.S. 270.75)

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

(M.S. 289A.55)

Line 16

Amount due

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

Line 18

Installment payments

If you're paying the federal estate tax in installments and you wish to pay the Minnesota estate tax in installments, check the box on line 18.

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

Signature of the executor

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

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

If you wish to grant power of attorney to someone, you must complete the power of attorney form on the back of Form M706 and check the box after your signature. For more details, see the next section.

Power of Attorney

If you're the executor or personal representative of the decedent's estate, you may designate another person to act on your behalf or perform any act you can perform with respect to the estate tax on the decedent's estate when dealing with the department. This is done by granting power of attorney to the person.

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

If you wish, you may complete the section on the back of Form M706 to grant power of attorney to someone. You may select some or all of the specific powers provided for purposes of dealing with the department or grant whatever powers you wish at the bottom of the form.

Stop writing checks Pay electronically!

It's Secure, Easy, Convenient, Free

www.taxes.state.mn.us

