

subdivision or possession of the treaty country that are not directly or indirectly creditable under the treaty.

Under the statute, the credit is authorized for all death taxes (national and local) imposed in the foreign country. Whether local taxes are the basis for a credit under a treaty depends upon the provisions of the particular treaty.

If a credit for death taxes paid in more than one foreign country is allowable, a separate computation of the credit must be made for each foreign country. The copies of Schedule P on which the additional computations are made should be attached to the copy of Schedule P provided in the return.

The total credit allowable for any property, whether subjected to tax by one or more than one foreign country, is limited to the amount of the federal estate tax attributable to the property. The anticipated amount of the credit may be figured on the return, but the credit cannot finally be allowed until the foreign tax has been paid and a Form 706-CE evidencing payment is filed. Section 2014(g) provides that for credits for foreign death taxes, each U.S. possession is deemed a foreign country.

Convert death taxes paid to the foreign country into U.S. dollars by using the rate of exchange in effect at the time each payment of foreign tax is made.

If a credit is claimed for any foreign death tax that is later recovered, see Regulations section 20.2016-1 for the notice required within 30 days.

### Limitation Period

The credit for foreign death taxes is limited to those taxes that were actually paid and for which a credit was claimed within the later of 4 years after the filing of the estate tax return, before the date of expiration of any extension of time for payment of the federal estate tax, or 60 days after a final decision of the Tax Court on a timely filed petition for a redetermination of a deficiency.

### Credit Under the Statute

For the credit allowed by the statute, the question of whether particular property is situated in the foreign country imposing the tax is determined by the same principles that would apply in determining whether similar property of a nonresident not a U.S. citizen is situated within the United States for

purposes of the federal estate tax. See the instructions for Form 706-NA.

### Computation of Credit Under the Statute

**Item 1.** Enter the amount of the estate, inheritance, legacy, and succession taxes paid to the foreign country and its possessions or political subdivisions, attributable to property that is:

- Situated in that country,
- Subjected to these taxes, and
- Included in the gross estate.

The amount entered at item 1 should not include any tax paid to the foreign country for property not situated in that country and should not include any tax paid to the foreign country for property not included in the gross estate. If only a part of the property subjected to foreign taxes is both situated in the foreign country and included in the gross estate, it will be necessary to determine the portion of the taxes attributable to that part of the property. Also, attach the computation of the amount entered at item 1.

**Item 2.** Enter the value of the gross estate, less the total of the deductions on items 21 and 22 of Part 5—Recapitulation.

**Item 3.** Enter the value of the property situated in the foreign country that is subjected to the foreign taxes and included in the gross estate, less those portions of the deductions taken on Schedules M and O that are attributable to the property.

**Item 4.** Subtract any credit claimed on line 15 for federal gift taxes on pre-1977 gifts (section 2012) from line 12 of Part 2—Tax Computation, and enter the balance at item 4 of Schedule P.

### Credit Under Treaties

If you are reporting any items on this return based on the provisions of a death tax treaty, you may have to attach a statement to this return disclosing the return position that is treaty based. See Regulations section 301.6114-1 for details.

**In general.** If the provisions of a treaty apply to the estate of a U.S. citizen or resident, a credit is authorized for payment of the foreign death tax or taxes specified in the treaty. Treaties with death tax conventions are in effect with the following countries: Australia, Austria, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, Norway, South Africa, Switzerland, and the United Kingdom.

A credit claimed under a treaty is in general figured on Schedule P in the same manner as the credit is figured under the statute with the following principal exceptions:

- The situs rules contained in the treaty apply in determining whether property was situated in the foreign country;
- The credit may be allowed only for payment of the death tax or taxes specified in the treaty (but see the instructions above for credit under the statute for death taxes paid to each political subdivision or possession of the treaty country that are not directly or indirectly creditable under the treaty);
- If specifically provided, the credit is proportionately shared for the tax applicable to property situated outside both countries, or that was deemed in some instances situated within both countries; and
- The amount entered at item 4 of Schedule P is the amount shown on line 12 of Part 2—Tax Computation, less the total of the credits claimed for federal gift taxes on pre-1977 gifts (section 2012) and for tax on prior transfers (line 14 of Part 2—Tax Computation). (If a credit is claimed for tax on prior transfers, it will be necessary to complete Schedule Q before completing Schedule P.) For examples of computation of credits under the treaties, see the applicable regulations.

**Computation of credit in cases where property is situated outside both countries or deemed situated within both countries.** See the appropriate treaty for details.

### Schedule Q—Credit for Tax on Prior Transfers

#### General

Complete Schedule Q and file it with the return if you claim a credit on Part 2—Tax Computation, line 14.

The term *transferee* means the decedent for whose estate this return is filed. If the transferee received property from a transferor who died within 10 years before, or 2 years after, the transferee, a credit is allowable on this return for all or part of the federal estate tax paid by the transferor's estate for the transfer. There is no requirement that the property be identified in the estate of the transferee or that it exist on the date of the transferee's death. It is sufficient for the allowance of the credit that the transfer of the property was subjected to federal estate tax in the estate of the transferor and that the specified period

of time has not elapsed. A credit may be allowed for property received as the result of the exercise or nonexercise of a power of appointment when the property is included in the gross estate of the donee of the power.

If the transferee was the transferor's surviving spouse, no credit is allowed for property received from the transferor to the extent that a marital deduction was allowed to the transferor's estate for the property. There is no credit for tax on prior transfers for federal gift taxes paid in connection with the transfer of the property to the transferee.

If you are claiming a credit for tax on prior transfers on Form 706-NA, you should first complete and attach Part 5—Recapitulation from Form 706 before figuring the credit on Schedule Q from Form 706.

Section 2056(d)(3) contains specific rules for allowing a credit for certain transfers to a spouse who was not a U.S. citizen where the property passed outright to the spouse, or to a qualified domestic trust.

## Property

The term *property* includes any interest (legal or equitable) of which the transferee received the beneficial ownership. The transferee is considered the beneficial owner of property over which the transferee received a general power of appointment. Property does not include interests to which the transferee received only a bare legal title, such as that of a trustee. Neither does it include an interest in property over which the transferee received a power of appointment that is not a general power of appointment. In addition to interests in which the transferee received the complete ownership, the credit may be allowed for annuities, life estates, terms for years, remainder interests (whether contingent or vested), and any other interest that is less than the complete ownership of the property, to the extent that the transferee became the beneficial owner of the interest.

## Maximum Amount of the Credit

The *maximum amount of the credit* is the smaller of:

1. The amount of the estate tax of the transferor's estate attributable to the transferred property or
2. The amount by which:

a. An estate tax on the transferee's estate determined without the credit for tax on prior transfers exceeds

b. An estate tax on the transferee's estate determined by excluding from the gross estate the net value of the transfer.

If credit for a particular foreign death tax may be taken under either the statute or a death duty convention, and on this return the credit actually is taken under the convention, then no credit for that foreign death tax may be taken into consideration in figuring estate tax (a) or estate tax (b), above.

## Percent Allowable

**Where transferee predeceased the transferor.** If not more than 2 years elapsed between the dates of death, the credit allowed is 100% of the maximum amount. If more than 2 years elapsed between the dates of death, no credit is allowed.

**Where transferor predeceased the transferee.** The percent of the maximum amount that is allowed as a credit depends on the number of years that elapsed between dates of death. It is determined using the following table:

Period of Time Exceeding	Not Exceeding	Percent Allowable
-----	2 years	100
2 years	4 years	80
4 years	6 years	60
6 years	8 years	40
8 years	10 years	20
10 years	-----	none

## How To Figure the Credit

A worksheet for Schedule Q is provided to allow you to figure the limits before completing Schedule Q. Transfer the appropriate amounts from the worksheet to Schedule Q as indicated on the schedule. You do not need to file the worksheet with Form 706, but keep it for your records.

**Cases involving transfers from two or more transferors.** Part I of the worksheet and Schedule Q enable you to figure the credit for as many as three transferors. The number of transferors is irrelevant to Part II of the worksheet. If you are figuring the credit for more than three transferors, use more than one worksheet and Schedule Q, Part I, and combine the totals for the appropriate lines.

**Section 2032A additional tax.** If the transferor's estate elected special-use valuation and the additional estate tax of section 2032A(c) was imposed at any time up to 2 years after the death of the decedent for whom you are filing this return, check the box on Schedule Q. On lines 1 and 9 of the worksheet, include the property subject to the additional estate tax at its FMV rather than its special-use value. On line 10 of the worksheet, include the additional estate tax paid as a federal estate tax paid.

## How To Complete the Schedule Q Worksheet

Most of the information to complete Part I of the worksheet should be obtained from the transferor's Form 706.

**Line 5.** Enter on line 5 the applicable marital deduction claimed for the transferor's estate (from the transferor's Form 706).

**Lines 10 through 18.** Enter on these lines the appropriate taxes paid by the transferor's estate.

If the transferor's estate elected to pay the federal estate tax in installments, enter on line 10 only the total of the installments that have actually been paid at the time you file this Form 706. See Rev. Rul. 83-15, 1983-1 C.B. 224, for more details.

**Line 21.** Add lines 11 (allowable applicable credit) and 13 (foreign death taxes credit) of Part 2—Tax Computation to the amount of any credit taken (on line 15) for federal gift taxes on pre-1977 gifts (section 2012). Subtract this total from Part 2—Tax Computation, line 8. Enter the result on line 21 of the worksheet.

**Line 26.** If you figured the marital deduction using the unlimited marital deduction in effect for decedents dying after 1981, for purposes of determining the marital deduction for the reduced gross estate, see Rev. Rul. 90-2, 1990-1 C.B. 169. To determine the "reduced adjusted gross estate," subtract the amount on line 25 of the Schedule Q Worksheet from the amount on line 24 of the worksheet. If community property is included in the amount on line 24 of the worksheet, figure the reduced adjusted gross estate using the rules of Regulations section 20.2056(c)-2 and Rev. Rul. 76-311, 1976-2 C.B. 261.

**Worksheet for Schedule Q—Credit for Tax on Prior Transfers**

Part I Transferor's tax on prior transfers	Transferor (From Schedule Q)			Total for all transfers (line 8 only)
	A	B	C	
1. Gross value of prior transfer to this transferee				
2. Death taxes payable from prior transfer				
3. Encumbrances allocable to prior transfer				
4. Obligations allocable to prior transfer.				
5. Marital deduction applicable to line 1 above, as shown on transferor's Form 706 . . . . .				
6. <b>TOTAL.</b> Add lines 2, 3, 4, and 5 . . . . .				
7. <b>Net value of transfers.</b> Subtract line 6 from line 1. . . . .				
8. <b>Net value of transfers.</b> Add columns A, B, and C of line 7. . . . .				
9. Transferor's taxable estate. . . . .				
10. Federal estate tax paid . . . . .				
11. State death taxes paid . . . . .				
12. Foreign death taxes paid . . . . .				
13. Other death taxes paid . . . . .				
14. <b>TOTAL taxes paid.</b> Add lines 10, 11, 12, and 13				
15. <b>Value of transferor's estate.</b> Subtract line 14 from line 9 . . . . .				
16. Net federal estate tax paid on transferor's estate . . . . .				
17. Credit for gift tax paid on transferor's estate with respect to pre-1977 gifts (section 2012)				
18. Credit allowed transferor's estate for tax on prior transfers from prior transferor(s) who died within 10 years before death of decedent . . . . .				
19. <b>Tax on transferor's estate.</b> Add lines 16, 17, and 18				
20. Transferor's tax on prior transfers ((line 7 ÷ line 15) × line 19 of respective estates).				

Part II Transferee's tax on prior transfers	Item	Amount
21.	Transferee's actual tax before allowance of credit for prior transfers (see instructions) . . . . .	21
22.	Total gross estate of transferee from line 1 of the Tax Computation, page 1, Form 706. . . . .	22
23.	Net value of all transfers from line 8 of this worksheet . . . . .	23
24.	Transferee's reduced gross estate. Subtract line 23 from line 22 . . . . .	24
25.	Total debts and deductions (not including marital and charitable deductions) (line 3b of Part 2—Tax Computation, page 1 and items 18, 19, and 20 of the Recapitulation, page 3, Form 706) . . . . .	25
26.	Marital deduction from item 21, Recapitulation, page 3, Form 706 (see instructions). . . . .	26
27.	Charitable bequests from item 22, Recapitulation, page 3, Form 706 . . . . .	27
28.	Charitable deduction proportion ( [ line 23 ÷ (line 22 – line 25) ] × line 27 ) . . . . .	28
29.	Reduced charitable deduction. Subtract line 28 from line 27. . . . .	29
30.	Transferee's deduction as adjusted. Add lines 25, 26, and 29 . . . . .	30
31.	(a) Transferee's reduced taxable estate. Subtract line 30 from line 24 . . . . .	31(a)
	(b) Adjusted taxable gifts . . . . .	31(b)
	(c) Total reduced taxable estate. Add lines 31(a) and 31(b) . . . . .	31(c)
32.	Tentative tax on reduced taxable estate. . . . .	32
33.	(a) Post-1976 gift taxes paid . . . . .	33(a)
	(b) Unified credit (applicable credit amount) . . . . .	33(b)
	(c) Section 2012 gift tax credit. . . . .	33(c)
	(d) Section 2014 foreign death tax credit . . . . .	33(d)
	(e) Total credits. Add lines 33(a) through 33(d) . . . . .	33(e)
34.	Net tax on reduced taxable estate. Subtract line 33(e) from line 32. . . . .	34
35.	Transferee's tax on prior transfers. Subtract line 34 from line 21 . . . . .	35