

# **Summary of Enhancements: Residue Calculations and Form 8971**

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## §1.01 Introduction

We have made a number of enhancements to the most recent version of GEM706 for decedents dying in 2015, including the following:

1. You can use two lines to enter the beneficiaries' names. This is useful for trusts and other entities.
2. If you elect to transfer an asset to Schedule M, you now have the option of using on Schedule M: (1) the schedule reference; (2) the full description; or (3) the schedule reference and the full description.
3. If you elect to transfer an asset to Schedule M, you can elect to transfer: (1) the full value of the asset; or (2) that portion of the asset allocated to the spouse in the beneficiary table for that asset.
4. For trust listed on Part 1, Schedule R, we now provide a word processor window to permit you to enter lengthy trust names and any additional information you deemed appropriate.
5. We now alphabetize preparers making it easier for large firms to select the correct one.

We also made significant changes to accommodate the recently released Form 8971, Information Regarding Beneficiaries Acquiring Property from a Decedent. Although these changes are detailed in the GEM706 manual that you can access under Help on the menu bar, we thought it would be helpful to explain them in a separate document.

On July 31, Congress enacted IRC §6035 which requires executors to furnish the IRS and the estate's beneficiaries a statement identifying the value of each property interest reported on the estate tax return. Each beneficiary must receive a separate Schedule A, Form 8971, listing only the assets that the beneficiary received. As a result, you must associate every asset on Schedules A through I, Form 706, with the appropriate beneficiaries.

The changes also affect the residue calculation in your existing 2015 data files. This, in turn, will be reflected in the beneficiary table on page 2, Form 706, and in marital and charitable gifts defined by entering a percent of the estate's or trust's residue.

- **To the extent possible, we convert the residue data entered in your existing data files. Nevertheless, due to the significant changes required to accommodate the newly released Form 8971, you must print the residue report by selecting option 14 on the Main Menu to identify and make necessary adjustments.**

- **If you made an election to specially value real estate as provided in IRC §2032A, you will also have to re-identify the qualified heirs for each parcel of elected property.**

## §1.02 Beneficiaries and Designating Residuary Gifts

Option 2 on the Main Menu permits you to enter information with respect to the estate's beneficiaries:

We have made several changes. First, rather than having two tabs at the top of the window, all relevant information with respect to each beneficiary is entered in one window.

In the upper portion of the window, you can indicate whether the beneficiary is a charity. According to the Instructions for Form 706, you should not list charities in the table on page 2. Accordingly, if the charity is a beneficiary, GEM706 assumes that the beneficiary will not be appear in the table. Furthermore, you must enter information with respect to taxes payable out of charitable gifts in option 11 on the Main Menu. As a result, the questions relating to the taxes payable by the beneficiary are inactive.

If the beneficiary is the surviving spouse, he or she must be included on page 2, Form 706, and you must enter information with respect to taxes payable out of marital gifts in option 10 on the Main Menu. Similarly, the questions relating to taxes are inactive.

You can identify transfers on Schedules M and O as comprising a portion of the estate's or trust's residue. You can also indicate in the beneficiary window that a portion of the estate's or trust's residue passes to the spouse or charity. The residue data fields in the beneficiary window permit you to apportion assets among the charities and spouse for purposes of Form 8971.

- **You must enter residuary transfers that qualify for a marital or charitable deduction directly on Schedule M or O.**

In the previous version of GEM706, the beneficiary screen indicated the amount of life insurance on Schedule D, joint tenancy property on Schedule E, and annuities on Schedule I assigned to the beneficiary on those respective schedules. Since GEM706 now permits you to apportion non-residuary transfers on all schedules among the beneficiaries, the beneficiary screen now shows the non-residuary transfers on Schedules A through I that the beneficiary received. If you select option 14 on the Main

Menu to print the Beneficiaries report, GEM706 summarizes by schedule the non-residuary gifts that each beneficiary received.

The last question requests whether you want to include the beneficiary on Form 8971, Information Regarding Beneficiaries Acquiring Property from a Decedent. If so, you must enter the date that the beneficiary's Schedule A was provided for purposes of completing on page 1, Form 8971. Note that there is also a button that permits you to enter introductory language that will appear on this beneficiary's Schedule A. By default, GEM706 uses the following language:

The beneficiary has, will, or may receive the assets listed on this Schedule A.

However, by clicking this button, you can customize the language on each Schedule A:

The screenshot displays the 'Beneficiary Information' window in the 'Federal Estate Tax Returns (2015): Estate of John P. Smith' software. The window is titled 'Beneficiary Information:' and contains the following fields and options:

- Name:** Susan T. Smith
- Address:** 5122 Marigold Trail
- City:** Norman, **State:** OK, **Zip:** 73072
- Taxpayer ID:** 234-56-7890
- Spouse?:** ☒ Yes, ☐ No
- Relationship:** Daughter
- Skip person:** ☐ Yes, ☒ No
- Charity?:** ☐ Yes, ☒ No
- Non-residuary transfer:** ☐ Yes, ☒ No
- Non-residuary gift:** ☐ Yes, ☒ No
- Other non-residuary:** ☐ Yes, ☒ No
- Percent of residue:** 50%
- Percent of total:** 50%
- Federal estate tax:** 19,288.00
- Federal gift tax:** 57.55
- State taxes (line 30, page 1):** 49,725.00
- Other transfer taxes payable by beneficiary:** 146.33
- Other transfer taxes payable by beneficiary:** 50,075.00
- Other transfer taxes payable by beneficiary:** 311.48
- Other transfer taxes payable by beneficiary:** 56,265.00
- Other transfer taxes payable by beneficiary:** 32,586.00
- Other transfer taxes payable by beneficiary:** 26,335.92
- Other transfer taxes payable by beneficiary:** 15.67
- Other transfer taxes payable by beneficiary:** 15,344.74
- Other transfer taxes payable by beneficiary:** 100,000.00

The 'Form 8971 Intro' button is located at the bottom right of the window. A smaller 'Edit Form 8971 Introductory Language' dialog box is open, showing the default text: 'The beneficiary has, will, or may receive the assets listed on this Schedule A.' The dialog box has 'OK', 'F11-WP', and 'Cancel' buttons.

Assume that the residue passed equally to the decedent's children, Susan and Lawrence. In the middle of the window, note that Susan receives 50% of the estate's residue:

Federal Estate Tax Returns (2015): Estate of John P. Smith

File Utilities Preferences

Data Entry

1. Decedent Information
2. Beneficiaries
3. Preparer and Estate
4. Executors
5. Elections
6. General and Tax
7. Gift Tax Returns
8. Section 2032A Election
9. Section 6166 Election
10. Interrelated Marital
11. Interrelated Charitable
12. Residue Information
13. State Death Tax Information

Print

14. Miscellaneous Returns
15. Form 706
16. Section 2032A Election
17. Section 6166 Election
18. Supporting Forms

Utilities

19. GEM706 Gateway
20. GEM709 Gateway
21. State Returns

**Beneficiary Information:**

Enter the following beneficiary information:

Name: Susan T. Smith

Address: 5122 Marigold Trail

City: Norman State: OK Zip: 73072

Taxpayer ID: 234-56-7890

Spouse? ☐ Yes ☒ No Relationship: Daughter

Skip person? ☐ Yes ☒ No

Charity? ☐ Yes ☒ No

Non-residuary transfers:

Non-residuary transfers listed on Schedules A-I: \$0.00

Other non-residuary transfers:

Description	Amount	Source
		<input type="checkbox"/> Estate <input type="checkbox"/> Trust
		<input type="checkbox"/> Estate <input type="checkbox"/> Trust
		<input type="checkbox"/> Estate <input type="checkbox"/> Trust

Percent of residue received by beneficiary:

Estate residue: 50.0000% Trust residue:

Percent of taxes paid by beneficiary:

Federal estate tax (line 16, page 1):

Federal GST tax (line 17, page 1):

State taxes (line 3b, page 1):

Other transfer taxes payable by beneficiary:

☒ Yes ☐ No List beneficiary in table on page 2, Form 706?

☒ Yes ☐ No List beneficiary on Form 8971? Date provided: Form 8971 Intro

For purposes of computing amount received by spouse (line 4c, page 2, Form 706), enter adjustment to marital deduction shown on Schedule M.

Note: If trust on Schedule M is also listed in beneficiary table on page 2, consider entering a negative adjustment to reduce line 4c.

< F3 - Previous F7 - Add Bene F9 - OK Cancel F4 - Next >

F7 - Add Item F5 - Delete Item F8 - Add Appendage

You would also make a similar entry on Lawrence's beneficiary screen. For beneficiaries other than the spouse and charities, GEM706 uses this information to generate the beneficiary table on page 2, Form 706. You must still apportion both residuary and non-residuary gifts on Schedules A through I among the beneficiaries on each asset schedule to complete Form 8971.

You can also enter the residuary beneficiaries in option 12 on the Main Menu:

Federal Estate Tax Returns (2015): Estate of John P. Smith

File Utilities Preferences Help

Form 706 Page 1

Data Entry

1. Decedent Information
2. Beneficiaries
3. Preparer and Estate Representative
4. Executors
5. Elections
6. General and Tax Related
7. Gift Tax Returns
8. Section 2032A Election
9. Section 6166 Election
10. Interrelated Marital Deduction
11. Interrelated Charitable Deduction
12. Residue Information
13. State Death Tax Information

Print

14. Miscellaneous Reports
15. Form 706
16. Section 2032A Election
17. Section 6166 Election
18. Supporting Forms

Utilities

19. GEMAcct Gateway
20. GEM706 Gateway
21. State Returns

Residue Information:

Estate Residue | Intervivos Trust Residue

Beneficiary	Percent
Mary L. Smith	
Susan T. Smith	50.0000%
Lawrence W. Smith	50.0000%
University of Oklahoma Foundation	
James I. Horn	
	100.0000%

Gross estate (line 1, Form 706) \$8,904,246.28

Less:

Non-residuary transfers listed on Sch. A, B, C, D, F, H and I	\$0.00
All transfers listed on Schedules E and G	\$7,900.00
All deductions listed on Schedules J, K, and L-Part 1	\$44,416.99
Non-residuary transfers identified in Beneficiaries	\$2,839,096.29
Additional non-residuary transfers	
Deductions claimed on Form 1041	
Total reductions	(\$2,891,413.28)

Plus:

Deductions on Schedules J, K, and L-Part 1 not payable from estate residue	
Administration expenses on Schedule J payable out of estate income	
Total additions	\$0.00
Estate residue prior to payment of taxes	\$6,012,833.00

F9 - Exit

F7 - Add Item

F5 - Delete Item

F8 - Add Appendage

All of the beneficiaries are listed in the table at the top of the window. If you change the percent allocated to the beneficiaries on the above screen, GEM706 makes a corresponding change in Beneficiaries, option 2 on the Main Menu.

### §1.03 Apportioning Assets Among Beneficiaries

Life insurance listed on Schedule D and annuities listed on Schedule I often pass pursuant to a beneficiary designation. In earlier versions of GEM706, you could associate those items with specific beneficiaries, serving two objectives. First, for purposes of generating the beneficiary table on page 2, Form 706, GEM706 assigned those items to the respective beneficiaries. Second, GEM706 reduced the value of the assets available for distribution to the residuary beneficiaries by those items on Schedules D and I associated with beneficiaries.

In the latest version of GEM706, this principle has been expanded to all asset schedules. For example, when you add real estate to Schedule A, the following window appears.

**Schedule A - Real Estate**

Item number	Description	Alternate valuation date	Alternate Value	Value at date of death
1	Page Break		\$0.00	\$0.00

**Beneficiary Table:**

Beneficiary	Percent for Form 706	Percent for Form 8971	Increases Tax Form 8971
Susan T. Smith			
Lawrence W. Smith			

**Elections:**

☐ Estate residue ☐ Estate residue - Proportionate ☐ Non-residuary

☐ Transfer to Schedule M

☐ Full description ☐ Include schedule reference

☐ Full value ☐ Spousal share

☐ Check if community property

☐ Check if estimated value

**2032A Elections:**

☐ Elected property

☐ Qualified property

☐ Personal property

☐ Woodlands

**6166 Election:**

☐ Business interest

Above the beneficiary table, there are three mutually exclusive radio buttons. In addition, there are two percent columns in the beneficiary table. It is critical to understand the relationship between these selections, Form 8971, and the beneficiary table on page 2, Form 706.

## §1.04 – Residuary Gifts

Let's assume that the first item on Schedule A passes pursuant to the will's residuary clause. In our example, there are two beneficiaries receiving an equal share in the residue, Susan and Lawrence. In some cases, individual assets may pass proportionately to the beneficiaries. In most cases, the executor is authorized to make disproportionate distributions. Assume that the farm will pass to them equally:

**Schedule A - Real Estate**

Item number	Description	Alternate valuation date	Alternate Value	Value at date of death
2	160 acre farm located in Cedar County, Iowa, more particularly described as follows: The northeast quarter of Section 31, Range 2 West of the 5th Principal Meridian, in Cedar County, Iowa.		\$1,540,000.00	\$1,540,000.00

☐ Estate residue ☒ Estate residue - Proportionate ☐ Non-residuary

Beneficiary	Percent for Form 706	Percent for Form 8971	Increases Tax Form 8971
Susan T. Smith		50.0000%	<input type="checkbox"/>
Lawrence W. Smith		50.0000%	<input type="checkbox"/>

☐ Transfer to Schedule M  
☐ Full description ☐ Include schedule reference  
☐ Full value ☐ Spousal share  
☐ Check if community property  
☐ Check if estimated value

**2032A Elections:**  
☐ Elected property  
☐ Qualified property  
☐ Personal property  
☐ Woodlands

**6166 Election:**  
☐ Business interest

Note that the second residue button is checked.

If either of the residue buttons is checked, GEM706 only shows those beneficiaries identified as residuary beneficiaries. Also, you cannot enter the percent of the property that passes to the beneficiary for purposes of completing the beneficiary table on page 2, Form 706 (the first percent column in the beneficiary table). You identify the residuary beneficiaries and their respective shares in either the Beneficiaries or the Residue Information program division. For purposes of completing the table on page 2, GEM706 multiplies the estate's residue times each beneficiary's share as entered in those program divisions.

- **To complete the beneficiary table on page 2, Form 706, you must enter each beneficiary's share of the residue in the Beneficiaries or Residue Information program division.**

The second percent column permits you to assign the item among the beneficiaries for purposes of generating Form 8971. If it is a proportionate residuary gift, GEM706 apportions the item among the beneficiaries based on that portion of the residue that they receive as entered in option 2 or 12 on the Main Menu, and you cannot change those percentages in the above window. GEM706 uses this information to generate Form 8971:



Form 8971 (1-2016)

### SCHEDULE A – Information Regarding Beneficiaries Acquiring Property From a Decedent

Information about Form 8971 (including Schedule A) and its separate instructions is at [www.irs.gov/form8971](http://www.irs.gov/form8971).

Check box if this is a supplemental filing ☐

#### Part 1. General Information

1 Decedent's name <b>John P. Smith</b>	2 Decedent's SSN <b>111-22-3333</b>	3 Beneficiary's name <b>Susan T. Smith</b>	4 Beneficiary's TIN <b>234-56-7890</b>
5 Executor's name <b>Mary L. Smith</b>		6 Executor's phone no.	
7 Executor's address <b>2032 Fareway Drive Muscatine, IA 52761</b>			

#### Part 2. Information on Property Acquired

A Item No.	B Description of property acquired from the decedent and the Schedule and item number where reported on the decedent's Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return. If the beneficiary acquired a partial interest in the property, indicate the interest acquired here.	C Did this asset increase estate tax liability? (Y/N)	D Valuation Date	E Estate Tax Value (in U.S. dollars)
1	<p>The beneficiary has, will, or may receive the assets listed on this Schedule A.</p> <p>Form 706, Schedule A, Item 2 A 50.0000% interest in:</p> <p>160 acre farm located in Cedar County, Iowa, more particularly described as follows:</p> <p>The northeast quarter of Section 31, Range 2 West of the 5th Principal Meridian, in Cedar County, Iowa.</p>	N	3/25/2015	770,000

Note that if an item passes to more than one beneficiary, GEM706 includes each beneficiary's percentage on Schedule A, Form 8971.

If the real estate passed pursuant to the residuary clause but the executor will distribute this parcel to Susan (presumably making an offsetting distribution to Lawrence), you would complete the screen as follows:

Federal Estate Tax Returns (2015): Estate of John P. Smith

File Utilities Preferences Help

Form 706 Page 1  
Form 706 Page 2

#### Schedule A: Item 2

F7 - Add Item F5 - Delete F8 - Add Appendage Convert to Appendage

##### Schedule A - Real Estate

Item number	Description	Alternate valuation date	Alternate Value	Value at date of death
2	<p>Page Break</p> <p>160 acre farm located in Cedar County, Iowa, more particularly described as follows:</p> <p>The northeast quarter of Section 31, Range 2 West of the 5th Principal Meridian, in Cedar County, Iowa.</p>	<input type="checkbox"/> Page Break <input checked="" type="checkbox"/> Use default <input type="checkbox"/> Various	\$1,540,000.00	\$1,540,000.00

F10-Macro Statement Prep Note F11-WP

Form 8971 Supplemental Item ☐

Beneficiary	Percent for Form 706	Percent for Form 8971	Increases Tax Form 8971
Susan T. Smith		100.0000%	<input checked="" type="checkbox"/>
Lawrence W. Smith			<input type="checkbox"/>

☐ Transfer to Schedule M  
☐ Full description ☐ Include schedule reference  
☐ Full value ☐ Spousal share  
☐ Check if community property  
☐ Check if estimated value

2032A Elections:  
☐ Elected property  
☐ Qualified property  
☐ Personal property  
☐ Woodlands

6166 Election:  
☐ Business interest

< F3 - Previous F9 - OK Cancel F4 - Next >

F9 - Exit

F7 - Add Item F5 - Delete Item F8 - Add Appendage

If you check the first residue radio button, you can enter the percent received by each residuary beneficiary for purposes of Form 8971. Again, the Form 8971 percent column is only used to allocate the item among the beneficiaries on Form 8971.

With respect to residuary gifts, you generally will not be able to identify the recipient of specific assets at the time you file the estate tax return. The Instructions for Form 8971 and Schedule A require you list on each beneficiary's Schedule A all items of property that could be used, in whole or in part, to fund the beneficiary's distribution. If the farm could be distributed to either residuary beneficiary, you should check the first residue radio button and enter 100% in the Form 8971 column for both beneficiaries, in which case the full value of the item will appear on each beneficiary's Schedule A:

The amounts in the Form 8971 percent column entered in the above window do not affect the beneficiary table on page 2, Form 706. As a result, it will not overstate the amount passing to the beneficiaries for purposes of generating the beneficiary table.

If the asset is included in the estate's residue, you cannot transfer the asset to Schedule M in the bottom portion of the window. You must enter all residuary gifts that qualify for the marital deduction directly on Schedule M. Similarly, if you indicate that all or a portion of an item passes to charity, you must still create a separate item on Schedule O representing the charitable deduction.

Again, it is important to understand the relationship between residuary gifts and the beneficiary table on page 2, Form 706. Regardless of whether it is a proportionate or disproportionate residuary gift, GEM706 does not assign the value of the beneficiary's share of an individual item to the beneficiary for purposes of the table on page 2. In the Beneficiaries program division (or the Residue Information program division), you indicate the residuary beneficiaries by assigning each a percentage of the residue. GEM706 uses this information to compute the value of each beneficiary's residual interest as shown in the table on page 2, Form 706, regardless of whether you have allocated individual items to the beneficiaries.

- You should always select option 14 on the Main Menu to print the residue report to determine whether the residuary computed by GEM706 is correct.

## §1.05 – Non-Residuary Gifts

Let's add an item to Schedule A that represents a specific devise to James Horn.

Federal Estate Tax Returns (2015): Estate of John P. Smith

File Utilities Preferences Help

Form 706 Page 1  
Form 706 Page 2

Data Entry

1. Decedent Information
2. Beneficiaries
3. Preparer and Executors
4. Elections
5. General and Section 2032
6. Section 2032
7. Section 6166
8. Interrelated
9. Interrelated
10. Residue Information
11. State Death

Print

14. Miscellaneous
15. Form 706
16. Section 2032
17. Section 6166
18. Supporting

Utilities

19. GEMAcct Ge
20. GEM709 Gal
21. State Return

Schedule A: Item 2

F7 - Add Item F5 - Delete F8 - Add Appendage Convert to Appendage

**Schedule A - Real Estate**

Item number	Description	Alternate valuation date	Alternate Value	Value at date of death
2	160 acre farm located in Cedar County, Iowa, more particularly described as follows: The northeast quarter of Section 31, Range 2 West of the 5th Principal Meridian, in Cedar County, Iowa.		\$1,540,000.00	\$1,540,000.00

F10-Macro Statement Prep Note F11-WP

☐ Estate residue ☐ Estate residue - Proportionate ☒ Non-residuary

Form 8971 Supplemental Item ☐

Beneficiary	Percent for Form 706	Percent for Form 8971	Increases Tax Form 8971
Susan T. Smith			
Lawrence W. Smith			
University of Oklahoma Foundation			
James Horn	100.0000%	100.0000%	<input checked="" type="checkbox"/>

☐ Transfer to Schedule M ☐ Full description ☐ Include schedule reference ☐ Full value ☐ Spousal share ☐ Check if community property ☐ Check if estimated value

2032A Elections: ☐ Elected property ☐ Qualified property ☐ Personal property ☐ Woodlands

6166 Election: ☐ Business interest

< F3 - Previous F9 - OK Cancel F4 - Next >

F9 - Exit F7 - Add Item F5 - Delete Item F8 - Add Appendage

First, note the non-residuary radio button is checked. As a result, all the beneficiaries are listed in the table, including James. GEM706 also subtracts the value of the item from the assets available for distribution to the estate's residuary beneficiaries, regardless of whether you indicate which beneficiary received the item. In the past, GEM706 only reduced the residue by the items on Schedules D, Schedule E, Part 2, and Schedule I that were associated with a beneficiary or cotenant.

Note that both the Form 706 and Form 8971 percent columns are active. The Form 706 percent column permits you identify who will receive the asset for purposes of generating the table on page 2, Form 706. The total of your entries in the Form 706 column cannot exceed 100%. GEM706 includes each beneficiary's share (together with the other residuary and non-residuary gifts that the beneficiary received) in the table on page 2. In this example, note that 100% is entered opposite James' name. If you were to return to option 2 on the Main Menu and select James from the beneficiary list, you would see the following:

Federal Estate Tax Returns (2015): Estate of John P. Smith

File Utilities Preferences Help

Form 706 Page 1

Data Entry

1. Decedent Information
2. Beneficiaries
3. Preparer and Estate Representative
4. Executors
5. Elections
6. General and Tax Related
7. Gift Tax Returns
8. Section 2032A Election
9. Section 6166 Election
10. Interrelated Marital Deduction
11. Interrelated Charitable Deduction
12. Residue Information
13. State Death Tax Information

Print

14. Miscellaneous Reports
15. Form 706
16. Section 2032A Election
17. Section 6166 Election
18. Supporting Forms

Utilities

19. GEMAcct Gateway
20. GEM709 Gateway
21. State Returns

Beneficiary Information:

Enter the following beneficiary information:

Name: James Horn

Address: 215 West Sixth

City: Wilton State: IA Zip: 52778

Taxpayer ID: 654-65-6543

Spouse? ☐ Yes ☒ No Relationship: Nephew

Skip person? ☐ Yes ☒ No

Charity? ☐ Yes ☒ No

Non-residuary transfers:

Non-residuary transfers listed on Schedules A-I: \$1,540,000.00

Other non-residuary transfers:

Description	Amount	Source
		<input type="checkbox"/> Estate <input type="checkbox"/> Trust
		<input type="checkbox"/> Estate <input type="checkbox"/> Trust
		<input type="checkbox"/> Estate <input type="checkbox"/> Trust

Percent of residue received by beneficiary:

Estate residue: Trust residue:

Percent of taxes paid by beneficiary:

Federal estate tax (line 16, page 1):

Federal GST tax (line 17, page 1):

State taxes (line 3b, page 1):

Other transfer taxes payable by beneficiary:

☒ Yes ☐ No List beneficiary in table on page 2, Form 706?

☒ Yes ☐ No List beneficiary on Form 8971? Date provided:

For purposes of computing amount received by spouse (line 4c, page 2, Form 706), enter adjustment to marital deduction shown on Schedule M.

Note: If trust on Schedule M is also listed in beneficiary table on page 2, consider entering a negative adjustment to reduce line 4c.

< F3 - Previous F7 - Add Bene F9 - OK Cancel F4 - Next >

F3 - Exit F7 - Add Item F5 - Delete Item F8 - Add Appendage

In the middle of the window, GEM706 displays the value of all non-residuary transfers listed on Schedule A through I associated with James. In this example, it is only the \$1,000,000 farm listed on Schedule A.

- If the asset is a non-residuary transfer and if you identify the beneficiary in the Form 706 column, you do not have to make an additional entry in the Beneficiaries program division to reflect its value in the beneficiary table on page 2, Form 706.

The Form 8971 percent column permits you to dictate what portion of the asset will appear on each beneficiary's Schedule A. In many instances, your entry in this column will match your entry in the Form 706 column. However, GEM706 gives you the flexibility to dictate a different result in the event the asset might be distributable to more than one beneficiary. In this example, James' Schedule A will appear as follows:

Report Preview  
of 3  
Zoom 154.3 %

Form 8971 (1-2016)

**SCHEDULE A – Information Regarding Beneficiaries Acquiring Property From a Decedent**  
 ► Information about Form 8971 (including Schedule A) and its separate instructions is at [www.irs.gov/form8971](http://www.irs.gov/form8971).

Check box if this is a supplemental filing ☐

**Part 1. General Information**

1 Decedent's name John P. Smith	2 Decedent's SSN 111-22-3333	3 Beneficiary's name James Horn	4 Beneficiary's TIN 654-65-6543
5 Executor's name Mary L. Smith			6 Executor's phone no.
7 Executor's address 2032 Fareway Drive Muscatine, IA 52761			

**Part 2. Information on Property Acquired**

A Item No.	B Description of property acquired from the decedent and the Schedule and item number where reported on the decedent's Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return. If the beneficiary acquired a partial interest in the property, indicate the interest acquired here.	C Did this asset increase estate tax liability? (Y/N)	D Valuation Date	E Estate Tax Value (in U.S. dollars)
1	<p>The beneficiary has, will, or may receive the assets listed on this Schedule A.</p> <p>Form 706, Schedule A, Item 2</p> <p>160 acre farm located in Cedar County, Iowa, more particularly described as follows:</p> <p>The northeast quarter of Section 31, Range 2 West of the 5th Principal Meridian, in Cedar County, Iowa.</p>	Y	3/25/2015	1,540,000

Page 3 of 3

There is no relationship between the beneficiary table in the asset window and Schedule M. Even if the surviving spouse is identified as the recipient of an asset in the Form 706 column, GEM706 does not create an item on Schedule M representing a marital deduction. If a non-residuary transfer qualifies for the marital deduction, you must either use the check boxes in the lower portion of the asset window to transfer the spousal share to Schedule M or create a separate item on Schedule M that represents the marital deduction.

## §1.06 Schedule E – Joint Tenancies

GEM706 treats all joint tenancies listed on Schedule E as passing outside probate, regardless of whether you enter cotenants. In earlier versions, GEM706 treated all qualified joint tenancies on Part 1, Schedule E, as reducing the amount of the estate residue available for distribution, but only reduced the residue by items on Part 2, Schedule E, for which you identified the cotenants.

If you are entering a qualified joint tenancy on Part 1, Schedule E, GEM706 displays the following:

Federal Estate Tax Returns (2015): Estate of John P. Smith

File Utilities Preferences Help

9 Quad Cities Bank and Trust

1,875.00  
61,827.55  
54,538.28  
153,251.27  
65,813.75  
203,682.06  
19,288.00  
57.55  
49,725.00  
146.33  
50,075.00  
311.48  
56,265.00  
32,586.00  
26,335.92  
15.67  
15,344.74  
100,000.00  
215.35  
75,000.00  
97.33  
12,743.00  
278,000.00  
825,000.00  
15,000.00  
124,000.00  
15,000.00  
12,000.00

Data Entry

1. Decedent Information
2. Beneficiary Information
3. Preparer and Fiduciary Information
4. Executors
5. Elections
6. General and Miscellaneous
7. Gift Tax Return
8. Section 2032
9. Section 6166
10. Interrelated Returns
11. Interrelated Returns
12. Residue Information
13. State Death Tax

Print

14. Miscellaneous
15. Form 706
16. Section 2032
17. Section 6166
18. Supporting Documents

Utilities

19. GEMAcct G
20. GEM709 Ga
21. State Return

Schedule E1: Item 1

F7 - Add Item F5 - Delete F8 - Add Appendage Convert to Appendage

**Schedule E, Part 1 - Qualified Joint Interests**

Item number	Description For securities, give CUSIP number	Alternate valuation date	Unit value	Number of units	Value DOD / Alt Val
1	Page Break				\$0.00
					\$0.00

Use default  
Various

CUSIP/EIN

F10-Macro Statement Prep Note F12-Codes F11-WP

Estate residue Estate residue - Proportionate Non-residuary Form 8971 Supplemental Item

Beneficiary	Cotenant Form 706	Cotenant Form 8971	Increase Tax Form 8971
Mary L. Smith	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Transfer to Schedule M

Full description Full value Check if community property Check if estimated value

Include schedule reference Spousal share

2032A Elections:

Elected property Qualified property Personal property Woodlands

6166 Election:

Business interest

< F3 - Previous F9 - OK Cancel F4 - Next >

F9 - Exit F7 - Add Item F5 - Delete Item F8 - Add Appendage

The radio buttons above the beneficiary table are inactive, the only beneficiary shown in the table is the surviving spouse, and the spouse is indicated as the cotenant for purposes of Form 706. The second check box opposite the spouse's name controls whether this item appears on the spouse's Schedule A, Form 8971.

Even though the item passes to the surviving spouse, GEM706 does not automatically add the item to Schedule M. Assuming that the transfer qualifies for the marital deduction, you can transfer the item to Schedule M in the bottom portion of the window or manually add an item to Schedule M representing the marital deduction.

For items listed on Part 2, Schedule E, GEM706 displays the following:

**Schedule E, Part 2 - All Other Joint Interests**

Item number	Description (including alternate valuation date if any)	Percentage includible	Unit value	Number of units	Value DOD / Alt Val
1	Page Break				\$0.00
	Alt. val:				\$0.00

CUSIP/EIN: \_\_\_\_\_

Form 8971 Supplemental Item: ☐

Beneficiary	Cotenant Form 706	Cotenant Form 8971	Increase Tax Form 8971
► Mary L. Smith	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Susan T. Smith	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lawrence W. Smith	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
University of Oklahoma Foundation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

☐ Transfer to Schedule M  
☐ Full description ☐ Include schedule reference  
☐ Full value ☐ Spousal share  
☐ Check if community property  
☐ Check if estimated value

2032A Elections:  
☐ Elected property  
☐ Qualified property  
☐ Personal property  
☐ Woodlands

6166 Election:  
☐ Business interest

< F3 - Previous    F9 - OK    Cancel    F4 - Next >

F9 - Exit    F7 - Add Item    F5 - Delete Item    F8 - Add Appendage

All of the beneficiaries, including the surviving spouse, appear in the table. Note there are two check boxes opposite each cotenant's name. The Form 706 check box determines who is listed on Part 2, Schedule E, as a surviving joint tenant. GEM706 also uses this information to complete the beneficiary table on page 2, Form 706. GEM706 treats each cotenant as receiving an amount equal to the includible fair market value of the item divided by the number of surviving cotenants and prints that amount (together with other gifts they may have received) in the beneficiary table on page 2, Form 706. As a result, you do not have to make an additional entry in the Beneficiaries program division to account for a cotenant's receipt of joint property.

The second check box opposite the cotenant's name controls whether this item appears on the cotenant's Schedule A, Form 8971. In most instances, if you check the Form 706 checkbox indicating that the beneficiary is a surviving joint tenant for purposes of Schedule E, Form 706, you will also want to check the Form 8971 check box to include that interest on the beneficiary's Schedule A.

## §1.07 Schedule G – Lifetime Transfers

Lifetime transfers that are included in the decedent's gross estate are listed on Schedule G. As in the past, GEM706 permits you to define marital and charitable deduction gifts by a percentage of the trust's residue. In addition, in the Beneficiaries program division, you can apportion the trust's residue among the beneficiaries for purposes of completing the table on page 2, Form 706. When you add an item to Schedule G, GEM706 displays the following:

In past versions, GEM706 assumed that all items on Schedule G comprised the trust residue, and you could indicate in the Residue Information program the amount of assets on Schedule G that were not included in the trust. You now indicate whether the item passes pursuant to the trust's residue clause (either proportionately or disproportionately) or whether the item represents a non-residuary transfer. As a result, the data field in the Residue Information program division representing non-residuary transfers on Schedule G is no longer necessary.

Apportioning trust assets among the trust's beneficiaries is the same as apportioning the estate's assets. If the transfer is a non-residuary transfer, GEM706 includes the beneficiaries share in the table on page 2, Form 706.

Again, it is important to understand the relationship between residuary gifts and the beneficiary table on page 2, Form 706, and Form 8971. Regardless of whether it is a proportionate or disproportionate trust residuary gift, GEM706 does not assign the value of the beneficiary's share of the asset to the beneficiary for purposes of the table on page 2. In the Beneficiaries program division (or the Residue Information program division), you indicate the trust's residuary beneficiaries by assigning each a percentage of the trust residue. GEM706 uses this information to compute the value of each beneficiary's residual interest as shown in the table on page 2, Form 706, regardless of whether you have allocated individual items to the beneficiaries.

- **You should always select option 14 on the Main Menu to print the residue report to determine whether the residuary computed by GEM706 is correct.**

With respect to residuary gifts, you generally will not be able to identify the recipient of specific assets at the time you file the estate tax return. The Instructions for Form 8971 and Schedule A require you list on each beneficiary's Schedule A all items of property that could be used, in whole or in part, to fund the beneficiary's distribution. If you indicate that the item passed pursuant to the trust's residue clause, you can enter 100% in the Form 8971 percent column for both Susan and Lawrence. As noted



above, GEM706 does not assign the value of the beneficiary's residuary gift to the beneficiary for purposes of the table on page 2, Form 706. As a result, this will not overstate the amount passing to the beneficiaries for purposes of generating the beneficiary table.

## **§1.08 2014 Decedents**

We only modified GEM706 to prepare Form 8971 for 2015 decedents. If you need to complete Form 8971 for a 2014 decedent, perform the following steps after you have completed work on the estate tax return:

1. Create a copy of the 2014 GEM706 data file. You can copy GEM706 data files in the same manner as Word or Excel files. Open GEMS and select Federal Estate Tax Returns. Click Open Existing, right click on the file name, and choose Copy. Then, move your mouse to another location in the window, right click again, and choose Paste. You will have a copy of the original file. (Windows also includes an explorer program which permits you to manage and organize your hard drive. If you are familiar with Windows Explorer, you can use that program to make backup copies of data files.) Since you will use the copy solely for purposes of generating Form 8971, we recommend that you rename the file to include a reference to Form 8971. To rename the file, right click on the duplicate file and select Rename from the menu.
2. Access the newly created copy of the 2014 data file. Advance to option 1, Decedent Information, and change the decedent's date of death to 2015. Once you roll the file forward to 2015, you will not be able to access this data file with the 2014 version of GEM706. You will use the original 2014 data file for purposes of generating the decedent's estate tax return.
3. Return to the administrator screen and open the copy of the data file. GEM706 automatically advances to the 2015 version.
4. Select option 6 on the Main Menu, then select the Tax Related Information tab. The last data filed permits you to enter a separate date of death for purposes of Form 8971. Enter the decedent's 2014 date of death.
5. Enter the relevant beneficiary information on the asset schedules as you would for a 2015 decedent.

It is critical to make a copy of your 2014 data file before you begin to prepare Form 8971 and to use the original file to generate Form 706.