

Estate of:

SCHEDULE T—Qualified Family-Owned Business Interest Deduction

For details on the deduction, including trades and businesses that do not qualify, see page 25 of the separate Instructions for Form 706.

Part 1—Election

Note: The executor is deemed to have made the election under section 2057 if he or she files Schedule T and deducts any qualifying business interests from the gross estate.

Part 2—General Qualifications

1 Did the decedent and/or a member of the decedent's family own the business interests listed on line 5 of this schedule for at least 5 of the 8 years immediately preceding the date of the decedent's death? **Yes** **No**

2 Were there any periods during the 8-year period preceding the date of the decedent's death during which the decedent or a member of his or her family:

	Yes	No
a Did not own the business interests listed on this schedule?		
b Did not materially participate, within the meaning of section 2032A(e)(6), in the operation of the business to which such interests relate?		

If "Yes" to either of the above, you must attach a statement listing the periods. If applicable, describe whether the exceptions of sections 2032A(b)(4) or (5) are met.

Attach affidavits describing the activities constituting material participation and the identity and relationship to the decedent of the material participants.

- 3** Check the applicable box(es). The qualified family-owned business interest(s) is:
- An interest as a proprietor in a trade or business carried on as a proprietorship.
 - An interest in an entity, at least 50% of which is owned (directly or indirectly) by the decedent and members of the decedent's family.
 - An interest in an entity, at least 70% of which is owned (directly or indirectly) by members of 2 families and at least 30% of which is owned (directly or indirectly) by the decedent and members of the decedent's family.
 - An interest in an entity, at least 90% of which is owned (directly or indirectly) by members of 3 families and at least 30% of which is owned (directly or indirectly) by the decedent and members of the decedent's family.

4 Persons holding interests. Enter the requested information for each party who received any interest in the family-owned business. If any qualified heir is not a U.S. citizen, see the line 4 instructions on page 26 of the separate instructions. **(Each of the qualified heirs receiving an interest in the business must sign the agreement that begins on the following page 40, and the agreement must be filed with this return.)**

	Name	Address	
A			
B			
C			
D			
E			
F			
G			
H			

	Identifying number	Relationship to decedent	Value of interest
A			
B			
C			
D			
E			
F			
G			
H			

Part 3—Adjusted Value of Qualified Family-Owned Business Interests

5 Qualified family-owned business interests reported on this return.
Note: All property listed on line 5 must also be entered on Schedules A, B, C, E, F, G, or H, as applicable.

A Schedule and item number from Form 706	B Description of business interest and principal place of business	C Reported value
6 Total reported value		6
7 Amount of claims or mortgages deductible under section 2053(a)(3) or (4) (see separate instructions)	7	
8a Enter the amount of any indebtedness on qualified residence of the decedent (see separate instructions)	8a	
b Enter the amount of any indebtedness used for educational or medical expenses (see separate instructions)	8b	
c Enter the amount of any indebtedness other than that listed on line 8a or 8b, but do not enter more than \$10,000 (see separate instructions)	8c	
d Total (add lines 8a through 8c)	8d	
9 Subtract line 8d from line 7		9
10 Adjusted value of qualified family-owned business interests (subtract line 9 from line 6)		10

Part 4—Qualifying Estate

11 Includible gifts of qualified family-owned business interests (see separate instructions):		
a Amount of gifts taken into account under section 2001(b)(1)(B)	11a	
b Amount of such gifts excluded under section 2503(b)	11b	
c Add lines 11a and 11b		11c
12 Add lines 10 and 11c		12
13 Adjusted gross estate (see separate instructions):		
a Amount of gross estate	13a	
b Enter the amount from line 7	13b	
c Subtract line 13b from line 13a	13c	
d Enter the amount from line 11c	13d	
e Enter the amount of transfers, if any, to the decedent's spouse (see inst.)	13e	
f Enter the amount of other gifts (see inst.)	13f	
g Add the amounts on lines 13d, 13e, and 13f	13g	
h Enter any amounts from line 13g that are otherwise includible in the gross estate	13h	
i Subtract line 13h from line 13g	13i	
j Adjusted gross estate (add lines 13c and 13i)		13j
14 Enter one-half of the amount on line 13j		14
Note: If line 12 does not exceed line 14, stop here; the estate does not qualify for the deduction. Otherwise, complete line 15.		
15 Net value of qualified family-owned business interests you elect to deduct (line 10 reduced by any marital or other deductions)— DO NOT enter more than \$675,000—(see instructions) (attach schedule)—enter here and on Part 5, Recapitulation, page 3, at item 22		15

Part 5—Agreement to Family-Owned Business Interest Deduction Under Section 2057

Estate of:	Date of Death	Decedent's Social Security Number
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There cannot be a valid election unless:

- The agreement is executed by each and every one of the qualified heirs, and
- The agreement is included with the estate tax return when the estate tax return is filed.

We (list all qualified heirs and other persons having an interest in the business required to sign this agreement)

_____ ,
 _____ ,
 being all the qualified heirs and _____ ,

_____ ,
 being all other parties having interests in the business(es) which are deducted under section 2057 of the Internal Revenue Code, do hereby approve of the election made by _____ ,
 Executor/Administrator of the estate of _____ ,
 pursuant to section 2057 to deduct said interests from the gross estate and do hereby enter into this agreement pursuant to section 2057(h).

The undersigned agree and consent to the application of subsection (f) of section 2057 of the Code with respect to all the qualified family-owned business interests deducted on Schedule T of Form 706, attached to this agreement. More specifically, the undersigned heirs expressly agree and consent to personal liability under subsection (c) of 2032A (as made applicable by section 2057(i)(3)(F) of the Code) for the additional estate tax imposed by that subsection with respect to their respective interests in the above-described business interests in the event of certain early dispositions of the interests or the occurrence of any of the disqualifying acts described in section 2057(f)(1) of the Code. It is understood that if a qualified heir disposes of any deducted interest to any member of his or her family, such member may thereafter be treated as the qualified heir with respect to such interest upon filing a new agreement and any other form required by the Internal Revenue Service.

The undersigned interested parties who are not qualified heirs consent to the collection of any additional estate tax imposed under section 2057(f) of the Code from the deducted interests.

If there is a disposition of any interest which passes or has passed to him or her, each of the undersigned heirs agrees to file the appropriate form and pay any additional estate tax due within 6 months of the disposition or other disqualifying act.

It is understood by all interested parties that this agreement is a condition precedent to the election of the qualified family-owned business deduction under section 2057 of the Code and must be executed by every interested party even though that person may not have received the estate tax benefits or be in possession of such property.

Each of the undersigned understands that by making this election, a lien will be created and recorded pursuant to section 6324B of the Code on the interests referred to in this agreement for the applicable percentage of the adjusted tax differences with respect to the estate as defined in section 2057(f)(2)(C).

As the interested parties, the undersigned designate the following individual as their agent for all dealings with the Internal Revenue Service concerning the continued qualification of the deducted property under section 2057 of the Code and on all issues regarding the special lien under section 6324B. The agent is authorized to act for all the parties with respect to all dealings with the Service on matters affecting the qualified interests described earlier. This authority includes the following:

- To receive confidential information on all matters relating to continued qualification under section 2057 of the deducted interests and on all matters relating to the special lien arising under section 6324B.
- To furnish the Service with any requested information concerning the interests.
- To notify the Service of any disposition or other disqualifying events specified in section 2057(f)(1) of the Code.
- To receive, but not to endorse and collect, checks in payment of any refund of Internal Revenue taxes, penalties, or interest.
- To execute waivers (including offers of waivers) of restrictions on assessment or collection of deficiencies in tax and waivers of notice of disallowance of a claim for credit or refund.
- To execute closing agreements under section 7121.

(continued on next page)

Part 5. Agreement to Family-Owned Business Interest Deduction Under Section 2057 (continued)

Estate of:	Date of Death	Decedent's Social Security Number
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• Other acts (specify) ► _____

By signing this agreement, the agent agrees to provide the Internal Revenue Service with any requested information concerning the qualified business interests and to notify the Internal Revenue Service of any disposition or other disqualifying events with regard to said interests.

_____ Name of Agent	_____ Signature	_____ Address
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The interests to which this agreement relates are listed in Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return, along with their fair market value according to section 2031 (or, if applicable, section 2032A) of the Code. The name, address, social security number, and interest (including the value) of each of the undersigned in this business(es) are as set forth in the attached Schedule T.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands at _____,
this _____ day of _____.

SIGNATURES OF EACH OF THE QUALIFIED HEIRS:

_____ Signature of qualified heir	_____ Signature of qualified heir
_____ Signature of qualified heir	_____ Signature of qualified heir
_____ Signature of qualified heir	_____ Signature of qualified heir
_____ Signature of qualified heir	_____ Signature of qualified heir
_____ Signature of qualified heir	_____ Signature of qualified heir
_____ Signature of qualified heir	_____ Signature of qualified heir

Signature(s) of other interested parties

Signature(s) of other interested parties

Schedule T. Qualified Family-Owned Business Interest Deduction

Under section 2057, you may elect to deduct the value of certain family-owned business interests from the gross estate. You make the election by filing Schedule T, attaching all required statements, and deducting the value of the qualifying business interests on Part 5, Recapitulation, page 3, at item 22. You can only deduct the value of property that you have also reported on Schedule A, B, C, E, F, G, or H of Form 706.

The amount of the deduction cannot exceed the lesser of:

- The adjusted value of the qualified family-owned business interests (QFOBI) of the decedent otherwise includible in the gross estate, or
- \$675,000.

Coordination with unified credit.

The sum of the QFOBI deduction and the applicable exclusion amount cannot exceed \$1.3 million. Thus, if the maximum QFOBI deduction of \$675,000 is claimed, the applicable exclusion amount would be limited to \$625,000, and the credit entered on line 9 of Part 2 - Tax Computation, would be \$202,050.

If the amount of the QFOBI deduction is less than \$675,000, increase the applicable exclusion amount by the difference between \$675,000 and the amount of the QFOBI deduction (but not to exceed the maximum applicable exclusion amount in effect for the year of death).

For example, if the estate of a decedent dying in 2003 claimed a QFOBI deduction of \$665,000, the applicable exclusion amount for the estate would be \$635,000 $(\$675,000 - 665,000) + 625,000$). But if the QFOBI deduction was \$200,000, the applicable exclusion amount would be \$1,000,000, the maximum for 2003.

General Requirements

Business interests may qualify for the exclusion if the following requirements are met:

- The decedent was a citizen or resident of the United States at the date of death.
- The business interests are includible in the gross estate.
- The interests must have passed to or been acquired by a qualified heir from the decedent.
- The adjusted value of the qualified family-owned business interests must exceed 50% of the adjusted gross estate (see below for a discussion of these terms).
- The interest must be in a trade or business that has its principal place of business in the United States.
- The business interest was owned by the decedent or a member of the decedent's family during 5 of the 8 years before the decedent's death.
- For 5 of the 8 years before the decedent's death, there was material

participation by the decedent or a member of the decedent's family in the business to which the ownership interest relates.

Qualified Family-Owned Business Interest

In general. To qualify for the deduction, the business interest must be either an interest as a proprietor in a trade or business carried on as a proprietorship, or an interest in an entity carrying on a trade or business in which:

- At least 50% of the entity is owned by the decedent or members of the decedent's family;
- At least 70% of the entity is owned by members of two families, and at least 30% is owned by the decedent or members of the decedent's family; or
- At least 90% of the entity is owned by members of three families, and at least 30% is owned by the decedent or members of the decedent's family.

In all cases, ownership may be either direct or indirect.

Ownership rules. Ownership of the business interest may either be direct, or indirect through a corporation, partnership, or a trust. An interest owned, directly or indirectly, by or for such an entity is considered owned proportionately by or for the entity's shareholders, partners, or beneficiaries. A person is the beneficiary of a trust only if he or she has a present interest in the trust.

Corporations. Ownership of a corporation is determined by holding stock that has the appropriate percentage of the total combined voting power of all classes of stock entitled to vote and the appropriate percentage of the total value of shares of all classes of stock.

Partnerships. Ownership of a partnership is based on owning the appropriate percentage of the capital interest in the partnership.

Tiered entities. For the purpose of determining ownership of a business under section 2057, if the decedent, a member of the decedent's family, any qualified heir, or any member of the qualified heir's family owns an interest in a business, and by reason of that ownership the person is treated as owning an interest in any other business, the ownership interest in the other business is disregarded in determining the ownership interest in the first business. Likewise, you must apply the ownership rules separately in determining ownership of the other business.

Limitations

"Qualified family-owned business interests" shall **not** include the following:

- Any interest in a trade or business if its principal place of business is located outside the United States.
- Any interest in an entity if the stock or debt of the entity (or a controlled group of which the entity is a member) was readily tradable on an established securities market or secondary market at any time

within 3 years of the date of the decedent's death.

- Any interest in a trade or business (excluding banks and domestic building and loan associations) if more than 35% of its adjusted ordinary gross income for the taxable year that includes the date of the decedent's death would qualify as personal holding company income (as defined in section 2057(e)(2)(C)) if such trade or business was a corporation.

- The portion of an interest in a trade or business that is attributable to:

1. Cash and/or marketable securities in excess of the reasonably expected day-to-day working capital needs, and
2. Any other assets (other than assets held in the active conduct of a bank or domestic building and loan) that produce or are held for the production of personal holding company income and most types of foreign personal holding company income. See section 2057(e)(2)(D) for more information.

Net cash lease. If the decedent leased property on a net cash basis to a member of the decedent's family, income from the lease is not considered personal holding company income for this purpose, and the property is not considered asset producing or held for the production of personal holding company income. However, if the income or property would have been personal holding company income or property if the decedent had engaged directly in the activities of the lessee, then this net cash lease rule does not apply.

Qualified Heir

A person is a qualified heir of property if he or she is a member of the decedent's family and acquired or received the interest from the decedent.

If a qualified heir disposes of any qualified family-owned business interest to any member of his or her family, that person will then be treated as the qualified heir with respect to that interest.

The term **member of the family** includes only:

- An ancestor (parent, grandparent, etc.) of the individual;
- The spouse of the individual;
- The lineal descendent (child, stepchild, grandchild, etc.) of the individual, the individual's spouse, or a parent of the individual; and
- The spouse, widow, or widower of any lineal descendent described above.

A legally adopted child of an individual is treated as a child of that individual by blood.

For the purpose of this deduction, qualified heir also includes any active employee of the trade or business to which the qualified family-owned business interest relates if the employee has been employed by the trade or business for a period of at least 10 years before the date of the decedent's death.

Interests Acquired From the Decedent

An interest in a business is considered to have been acquired from or to have passed from the decedent if one or more of the following apply:

- The interest is considered to have been acquired from or to have passed from the decedent under section 1014(b) (relating to basis of property acquired from a decedent).
- The interest is acquired by any person from the estate.
- The interest is acquired by any person from a trust, to the extent the property is includible in the gross estate.

Material Participation

To make the section 2057 election, either the decedent or a member of the decedent's family must have materially participated in the trade or business to which the ownership interest relates for at least 5 of the 8 years ending on the date of the decedent's death.

The existence of material participation is a factual determination, and the types of activities and financial risks that will support a finding of material participation will vary with the mode of ownership. No single factor is determinative of the presence of material participation, but physical work and participation in management decisions are the principal factors to be considered. Passively collecting rents, salaries, draws, dividends, or other income from the trade or business does not constitute material participation. Neither does merely advancing capital and reviewing business plans and financial reports each business year.

For more information on material participation, see page 8 of these instructions and Regulations section 20.2032A-3.

Specific Instructions

Line 4

If any qualified heir is not a U.S. citizen, the ownership interest he or she receives must pass, be acquired, or be held in a qualified trust. See section 2057(g) for details. If any qualified heir listed on line 4 is not a U.S. citizen, indicate along with their address "citizen of _____" filling in the appropriate country.

Line 5

List on line 5 **all** qualified family-owned business interests included in the gross estate, even if they will not be included in the deduction because, for example, they pass to the surviving spouse and are deducted on Schedule M rather than Schedule T (see the instructions for line 15 on page 27).

Line 7

Enter on line 7 the amount, if any, deductible from the gross estate as claims against the estate or indebtedness of the estate reported elsewhere on this Form 706. Do not include funeral or administrative expenses on this line.

Line 8a

Enter the amount of any indebtedness that is both:

- Included on line 7, and
- Indebtedness on a residence of the decedent that qualifies for the mortgage interest deduction under section 163(h)(3).

Line 8b

Enter the amount of any indebtedness:

- That is included on line 7, and
- The proceeds of which were used to pay educational or medical expenses of the decedent, the decedent's spouse, or the decedent's dependents.

Line 8c

Enter the amount of any other indebtedness included on line 7 but not on lines 8a or 8b, but **do not** enter more than \$10,000.

Line 11a

Enter on this line the amount of gifts, if any, that were:

- Included on line 4 of Part 2, page 1, Form 706;
- Of qualified family-owned business interests;
- From the decedent to members of the decedent's family **other than** the decedent's spouse; and
- Continuously held by such members of the decedent's family from the date of the gift to the date of the decedent's death.

Line 11b

Enter the amount, if any, of gifts that would have been included on line 11a except that they were excluded under the gift tax annual exclusion of section 2503(b).

Line 13a

Enter the amount from item 12, Part 5, Recapitulation.

Line 13e

Enter any amounts (other than qualified family-owned business interests and de minimis amounts) transferred from the decedent to the decedent's spouse (determined at the time of the transfer) and within 10 years of the date of the decedent's death. At the time this form went to print, the IRS had not issued guidelines on what constitutes a de minimis amount.

Line 13f

Enter the amount of any other gifts:

- That are not included on lines 13d or 13e;
- That were from the decedent;
- That were made within 3 years of the date of the decedent's death; and
- That were **not** both gifts to members of the decedent's family and excluded under the annual gift tax exclusion of section 2503(b).

Line 13h

Enter the amounts, if any, from lines 13d, 13e, or 13f, that are otherwise included in the gross estate (e.g., under section 2035).

Line 15

The interests listed on line 5 (see page 26) are used to qualify the estate for the section 2057 deduction. You may choose, however, not to deduct on Schedule T all of the trade or business interests that are listed on line 5. For example, if a trade or business interest that is a qualified family-owned business interest passes to the surviving spouse and you choose to deduct it on Schedule M, you may **not** deduct on Schedule T the part of its value deducted on Schedule M. Or, you may simply choose not to include a particular trade or business interest in the section 2057 election.

Report on line 15 only the value of those trade or business interests listed on line 5 for which you are making the section 2057 election.

Also, you must reduce the amount of the Schedule T deduction by the amount of any Federal estate or GST tax and any state inheritance taxes paid out of, and any other deductions claimed with respect to, the interests that you elect to deduct on Schedule T.

Provide the following information on an attached statement:

- Identify each trade or business interest from line 5 for which you are making the section 2057 election and the amount being deducted.
- Specify the amount, if any, of the interests for which you are making the election that is deducted on Schedule M.
- List for each trade or business interest the type and amount of any taxes paid out of that interest.
- List for each trade or business interest the type and amount of any other deductions claimed with respect to that interest.

If there are no such reductions, enter the amount from line 10 on line 15.