

Instructions for Form OR706-A, Oregon Additional Estate Transfer Tax Return

Use this form only if you inherited natural resource property on or after January 1, 2012. If you inherited natural resource property before January 1, 2012, use Form IT-1A, Oregon Additional Inheritance Tax Return.

Definitions

The terms we use in these instructions are defined in Oregon Revised Statute (ORS) 118.140 and Oregon Administrative Rule (OAR) 150-118.140.

“Property” means natural resource property or commercial fishing property used for the natural resource credit on Form OR706.

“Property owner” means you, the person who received property from the decedent.

“Qualified use” means to use the property as a natural resource or commercial fishing business property.

“Disqualified property” means property that:

- You disposed of, or stopped qualified use of, before five out of eight calendar years had passed after the decedent’s death.
- Was subject to an involuntary conversion and you did not reinvest all of the proceeds from the involuntary conversion.

“Involuntary conversion” as defined in the Internal Revenue Code (IRC), section 1033.

Taxable events

The property owner causes a taxable event if the property is not used as set out in ORS 118.140.

- The property is disposed of or the qualified use of the property stops before it is used for five out of eight calendar years after the decedent’s death.
- Involuntary conversions—you may owe additional tax if you don’t reinvest the proceeds or reinvest only part of the proceeds from the involuntary conversion.

As the property owner, you are responsible for reporting and paying any additional estate transfer tax imposed by ORS 118.140. You must file Oregon Form OR706-A to report the taxable event. The additional tax is limited to the tax credit claimed on Form OR706. See example 1.

If you and other qualified family members shared ownership of the property and you stop the qualified use, your additional tax will be based only on your share of the property. See example 2.

Nontaxable events for disposition to a family member

Property is not disqualified if you transfer the property to:

1. Another member of the decedent’s family; or

2. The decedent’s registered domestic partner; or

3. Another entity eligible for the credit. **Note:** Nontaxable events described above relate only to the addition estate transfer tax per chapter 118. If a sale takes place, even to a family member, the seller may have a capital gain which would be reported on their personal income taxes.

See example 3.

Even if you don’t owe tax, you must complete and file Form OR706-A to notify us of a change in property ownership. Complete only parts 1, 2, 5, and 6 of this form.

Replacement of natural resource property and involuntary conversions

Read below for information on when to file a return in the case of replacement property or involuntary conversion.

Replacement of property. After the credit is claimed, you may replace natural resource property with real or personal property, as long as the replacement property is used as natural resource property and all proceeds are reinvested in natural resource property. Real property for which the credit was claimed may only be replaced with real property. The replacement property must be acquired within one year to avoid a disposition and additional tax. See example 4.

Involuntary conversions. If, within two years of an involuntary conversion, you reinvest all proceeds in qualified replacement property, you won’t owe additional estate transfer tax. Complete parts 1–3 and 6 to notify us that an involuntary conversion took place, even though you owe no tax. If you don’t replace the property within two years of the involuntary conversion, you’ll owe additional tax.

Partially taxable involuntary conversions. If you paid less for the qualified replacement property than you received in the involuntary conversion or you don’t reinvest the entire amount received from the conversion, then the conversion is partially taxable. See example 5.

Return due date

Generally. File Form OR706-A and pay any additional taxes due within six months after you disposed of the property or ended the qualifying use.

Exchange or involuntary conversion

The tax return and additional tax are due six months from the taxable event. A taxable event takes place only when your property isn’t replaced within the allowed time. For

example, if your property is subject to an involuntary conversion on February 15, you have until February 15 of the following year to replace the natural resource property. If you don't do so within the year, a taxable event has taken place. The additional estate transfer tax return is due six months from the taxable event (in this example, August 15, six months from February 15).

Extensions

To request an extension of time to file or pay, you must complete and mail federal Form 4768 to us by the original due date of Form OR706-A.

Extension of time to file. When we receive your extension request, you'll have an automatic six month extension of time to file. Include a copy of this extension with your Form OR706-A. An extension of time to file doesn't extend the time to pay the tax.

Extension of time to pay tax. Along with your federal Form 4768, you must also attach a written statement detailing why you can't pay the tax by the original due date. If you don't provide a written statement, the request will be denied. We'll send you a copy of your extension request either approving or denying your extension. Once your tax return is filed and an extension to pay is approved, you must provide collateral in an amount twice the amount of unpaid tax to secure the debt. An extension of time to pay the tax does not extend the time to file the tax return.

Interest accrues on any unpaid tax during the extension period.

Interest and penalty

Interest owed on additional estate transfer tax starts the day after the due date of Form OR706-A, excluding extensions. If you don't pay the tax within 60 days of our billing notice, the interest rate increases by 4 percent per year. If you have an approved extension of time to pay, the additional 4 percent wouldn't apply.

Interest accrues on any unpaid tax during an extension of time to file. Here's how to calculate the interest due:

$$\begin{aligned} &\text{Tax} \times \text{Annual interest rate} \times \text{Number of full years} \\ &\text{Tax} \times \text{Monthly interest rate} \times \text{Number of months} \\ &\text{Tax} \times \text{Daily interest rate} \times \text{Number of days} \end{aligned}$$

For periods beginning	Annual	Monthly	Daily
January 1, 2015	4%	0.3333%	0.0110%
January 1, 2014	4%	0.3333%	0.0110%
January 1, 2013	4%	0.3333%	0.0110%

If you file your return after the due date, including the extended filing due date, add a late filing penalty of 5 percent to the tax amount. If you file your return more than three months after the due date or the extended

filing due date, add an additional 20 percent penalty for a total penalty of 25 percent.

If your tax is unpaid as of the due date, including any approved extension of time to pay, add a late payment penalty of 5 percent of the tax.

What to file

- Form OR706-A for each property owner.
- Copy of extension, federal Form 4768, if applicable.
- Copy of Schedule NRC.
- Copy of sales document as applicable.
- Supporting documentation for involuntary conversion of property.
- On Form OR706-V, *Oregon Estate Transfer Tax Payment Voucher*, 150-104-172, make sure you check the additional tax OR706-A return (148) box, include **your** name and Social Security number on the payment voucher in the name of executor box.
- Payment—make your check or money order payable to the Oregon Department of Revenue. Include your name, Form OR706-A, and the year the qualified use of the property stopped.

Line instructions

Specific line instructions are provided for lines not fully described on Form OR706-A.

Part 1—Property owner information

Enter the name of the property owner, SSN, address, and phone number.

If you have applied for an extension to file or extension to pay, check the corresponding boxes.

Enter the name of the decedent from whom you inherited the property. Enter the decedent's date of death and SSN.

Part 2—Description of property

Note: References to Schedule NRC are for "Schedule NRC for deaths on or after January 1, 2012."

Column A—Enter the description of the disqualified property.

Column B—Enter the date the property was sold, exchanged, or converted.

Column C—Enter the value of the property listed in column A that was used in the formula to calculate the natural resource credit (NRC). **This amount is from Schedule NRC, part 2, column D.**

If jointly own property or only part of the property is disqualified, enter only the value of the disqualified portion or your share of the property. For example, the estate claimed natural resource property on Schedule NRC for a farm with a value of \$1,000,000. The farm was inherited equally by two brothers. After a year of farming one brother decides to stop farming his share. Column C will have \$500,000.

Column D—Enter the proceeds from the sale, exchange, or conversion of the property listed in column A.

Column E—Enter the amount from the proceeds that wasn't reinvested in a qualified natural resource property.

Column F—Divide the amount of column E by column D (round to two decimal places). This is the disqualified percentage.

Column G—Multiply the percentage in column F with the amount in column C. This is the disqualified value.

Total the amounts in column G.

Part 3—Property replacement

If you've replaced your natural resource property with another qualified natural resource property or have reinvested the proceeds from an involuntary conversion on another qualified natural resource property complete this section.

Column A—Enter the acquisition date of the new property.

Column B—Enter the description of the newly acquired natural resource property as result of an exchange or involuntary conversion. Also describe which property was replaced. **Note:** this property should be listed on part 2.

Examples

Example 1

Jack inherited a farm from his father with a date of death value of \$1,000,000 and farm equipment value of \$200,000. After running the farm for 18 months, Jack decided to sell the farm and all the equipment. His Schedule NRC shows the following information: adjusted gross estate \$1,950,000; tax payable \$96,125; and natural resource credit claimed \$59,598. Jack will pay additional estate transfer tax of \$41,719, calculated as follows:

Line 1.....\$ 1,200,000	Line 7.....\$ 0.00
Line 2.....\$ 1,200,000	Line 8.....\$ 59,598
Line 3.....\$ 0	Line 9.....\$ 59,598
Line 4.....\$ 1,950,000	Line 10.....42
Line 5.....0.00	Line 11.....0.70
Line 6.....\$ 96,125	Line 12..... <u>\$ 41,719</u>

Example 2

Assume same facts as example 1, except Jack inherited the farm equipment and his brother, David, inherited the farm. After operating the farm together for 18 months, David decides to lease the farmland. Jack sells his farm equipment for \$202,000 and buys a cottage with the sale proceeds. David doesn't have additional estate transfer tax because the land remains in qualified use. Jack will file OR706-A, completing parts 1, 2, 4 and 6. On part 2, column C, Jack will enter \$200,000, the value of the

equipment he inherited and sold. On column D he will enter \$202,000 the proceeds of the sale and \$0 on column E. Jack will pay additional estate transfer tax of \$7,403, calculated as follows:

Line 1.....\$ 1,200,000	Line 7.....\$ 49,024
Line 2.....\$ 200,000	Line 8.....\$ 59,598
Line 3.....\$ 1,000,000	Line 9.....\$ 10,574
Line 4.....\$ 1,950,000	Line 10.....42
Line 5.....0.51	Line 11.....0.70
Line 6.....\$ 96,125	Line 12..... <u>\$ 7,403</u>

Example 3

Assume the same facts as in example 2, except that David and Jack sold the farm and the farm equipment to their brother Joseph. Because the property was sold to a family member, David and Jack don't pay additional estate transfer tax per ORS 118.140. David and Jack may have a capital gain as a result of the sale of the property that would be reported on their personal income taxes.

David and Jack will each complete and file Form OR706-A, parts 1, 2, 5, and 6, to report the sale of the NRC property to family member.

Example 4

Anthony inherited a farm with value of \$1,200,000 from his great aunt Vanessa, who passed away June 12, 2012. The estate claimed an NRC of \$45,200 on Form OR706. On April 12, 2014, the city annexed the farm and paid Anthony \$1,200,000. On May 16, 2015, Anthony decided to reinvest all of the proceeds from the involuntary conversion and purchased another farm for \$1,200,000. Anthony doesn't have to pay additional estate transfer tax because he reinvested all the proceeds from the involuntary conversion on another farm within 2 years from the involuntary conversion. Anthony will file Form OR706-A and complete parts 1, 2, 3, and 6, to notify the Department of Revenue that the involuntary conversion took place.

Example 5

Assume the same facts as example 4, except that Anthony purchased another farm for \$1,050,000 and purchased an RV for personal use for \$150,000. Anthony would need to pay additional tax on the \$150,000 because he didn't reinvest that portion of the proceeds. The tax payable on Form OR706 was \$60,250, the NRC claimed was \$45,200, and the adjusted gross estate was \$1,600,000. Anthony would calculate his additional estate transfer tax as follows:

Line 1.....\$ 1,200,000	Line 7.....\$ 39,765
Line 2.....\$ 150,000	Line 8.....\$ 45,200
Line 3.....\$ 1,050,000	Line 9.....\$ 5,435
Line 4.....\$ 1,600,000	Line 10.....38
Line 5.....0.66	Line 11.....0.63
Line 6.....\$ 60,250	Line 12..... <u>\$ 3,424</u>

Have questions? Need help?

Email.....estate.help.dor@oregon.gov
This email address is not secure and confidentiality cannot be ensured. General tax and policy questions only. We ask that professional tax preparers and attorneys research questions before contacting us.

Write to.....Estate Audit, Business Division
Oregon Department of Revenue, PO Box 14110, Salem OR
97309-0910. *Include the property owner’s SSN, the decedent’s SSN, and a daytime phone number for faster service.*

General tax information.....www.oregon.gov/dor
Salem 503-378-4988
Toll-free from an Oregon prefix 1-800-356-4222

Asistencia en español:
En Salem o fuera de Oregon 503-378-4988
Gratis de prefijo de Oregon 1-800-356-4222

TTY (hearing or speech impaired; machine only):
Salem area or outside Oregon 503-945-8617
Toll-free from an Oregon prefix 1-800-886-7204

Americans with Disabilities Act (ADA): Call one of the help numbers above for information in alternative formats.

Form
OR706-A
 (147)

**Oregon Additional Estate
 Transfer Tax Return**

For office use only

Date received

Payment

BIN

This form should be used to report and pay additional estate transfer tax imposed by Oregon Revised Statute (ORS) 118.140 for an early disposition or an early cessation of use of qualified natural resource property or commercial fishing property. You'll need your copy of the original Schedule NRC to complete this form. **Note:** For recapture of the natural resource credit taken on Form IT-1, *Oregon Inheritance Tax Return* (for deaths prior to January 1, 2012), use Form IT-1A, *Oregon Additional Inheritance Tax*.

Part 1

Extension of time to **file** is attached. Extension of time to **pay** is attached.

Name of property owner		Property owner's SSN or FEIN
Property owner's current mailing address		Property owner's phone
Name of decedent	Decedent's date of death	Decedent's Social Security number

Part 2—Description of property (see instructions)

A. Property description	B. Date of disposition	C. Value of property listed on column A (see Schedule NRC, column D)	D. Proceeds from sale / exchange / conversion	E. Proceeds not reinvested	F. Disqualified percentage (E ÷ D)	G. Disqualified property (F x C)
Total						

Part 3—Property replacement & involuntary conversion of property (see instructions)

A. Date of acquisition	B. Property description of newly acquired property and the property that was replaced

Part 4—Additional estate transfer tax computation (references to Schedule NRC are for use with Form OR706)

1. Enter total from Schedule NRC, part 2, column D.....	1	
2. Enter total from Form OR706-A, part 2, column G.....	2	
3. Subtract line 2 from line 1	3	
4. Adjusted gross estate (Schedule NRC, part 5, line 3).....	4	
5. Divide line 3 by line 4 (round to two decimal points)	5	
6. Tax payable (Schedule NRC, part 5, line 8)	6	
7. Multiply line 5 by line 6.....	7	
8. Original NRC credit claimed (Schedule NRC, part 5, line 9)	8	
9. Subtract line 7 from line 8	9	
10. Enter the result of: 60 minus the number of months the property was used as natural resource property ...	10	
11. Divide line 10 by 60 (round to two decimal points)	11	
12. Multiply line 9 by line 11. This is your additional estate transfer tax (don't enter more than the amount on line 8)	12	
13. Penalty due (see instructions)	13	
14. Interest due (see instructions)	14	
15. Add lines 12 through 14. This is your total due.....	15	

Part 5—Disposition of property to a decedent's family member

If you sold or gifted your NRC property to another member of the decedent's family, complete this section (see instructions). If there is more than one person, attach an additional statement and include all of the information requested here.

Name of qualifying family member	Social Security number
Relationship to decedent	Phone
Address	

Part 6—Signatures and authorization

Under penalties of false swearing, I declare that I have examined this return, including accompanying schedules and statements. To the best of my knowledge and belief it is true, correct, and complete. If prepared by a person other than the executor, this declaration is based on all information of which the preparer has any knowledge.

Signature of owner X	Date
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Check the box to authorize the following individual(s) to receive and provide confidential tax information relating to this tax return.

Name of preparer	Title		
Signature of preparer X	Phone		
Mailing address	City	State	ZIP code

Attach a complete copy of your Schedule NRC and supporting documents.

Mail to:

Oregon Department of Revenue
PO Box 14110
Salem OR 97309-0910