OREGON DEPARTMENT OF REVENUE

Form OR-706-R Instructions

Repayment of Oregon Natural Resource Credit

2021

Use this form only if you inherited natural resource or commercial fishing business property on or after January 1, 2012. If you inherited natural resource or commercial fishing 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) 150-118-0110.

Additionally, as used in these instructions:

"Property" means natural resource property or commercial fishing business property used for the natural resource credit on Form OR-706.

"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 didn't reinvest all of the proceeds from the involuntary conversion into another natural resource or commercial fishing business property.

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

Filing Requirements

Taxable events

The property owner causes a taxable event if the property isn't used as set out in ORS 118.140.

- The property is disposed of or the qualified use of the property stops before it's 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 qualified replacement property.

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 OR-706-R to report the taxable event. The additional tax is limited to the tax credit claimed on Form OR-706. See example 1 below.

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 below.

Nontaxable events for disposition to a family member

Property isn't 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 additional 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 below.

Even if you don't owe tax, you must complete and file Form OR-706-R 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

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 or commercial fishing property and all proceeds are reinvested in natural resource or commercial fishing 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 below.

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 in the qualified replacement property, then the conversion is partially taxable. See example 5 below.

Return due date

File Form OR-706-R 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 with the qualified replacement property within the allowed time. For example, if your property is subject to an involuntary conversion on February 10, 2019, you have until February 10, 2021 to replace it with the qualified replacement property. If you don't do so within this time period, a taxable event has taken place. The additional estate transfer tax return is due six months from the taxable event (in this example, August 10, 2021 six months from February 10, 2021).

Interest and penalty

Interest owed on additional estate transfer tax starts the day after the due date of Form OR-706-R. If you don't pay the tax within 60 days of our billing notice, the interest rate increases by 4 percent per year.

Interest accrues on any unpaid tax. Here's how to calculate the interest due:

Tax x Daily interest rate x Number of days

For periods beginning	Annual	Daily
January 1, 2022	4%	0.0110%
January 1, 2021	4%	0.0110%
January 1, 2020	6%	0.0164%

If you file your return after the due date, add a late filing penalty of 5 percent of the tax due to the tax amount. If you file your return more than three months after the due date, add an additional 20 percent penalty for a total penalty of 25 percent of the tax due.

If your tax is unpaid as of the due date, add a late payment penalty of 5 percent of the tax. There is only one 5 percent penalty charged if the return is filed late and the payment isn't paid by the due date of the return. See ORS 118.260.

What to file

- Form OR-706-R for each property owner.
- Copy of Schedule OR-NRC.
- Copy of sales document as applicable.
- Supporting documentation for involuntary conversion of property.
- Payment—make your check or money order payable to the Oregon Department of Revenue. Include your name, Form OR-706-R, and the year the qualified use of the property stopped. **Don't** include a payment voucher when paying in the same envelop as your return.

Where to file

Note: We are not offering e-file for the Form OR-706-R.

Mail to:

Returns:
If you're including a payment with your return, mail your return without a payment voucher, to:
Oregon Department of Revenue
PO Box 14555
Salem OR 97309-0940

If you're not including a payment with your return, mail your return to:
Oregon Department of Revenue
PO Box 14110
Salem OR 97309-0910

Payment only:
If you're paying by mail, separate from your return, include a payment voucher and mail to:
Oregon Department of Revenue
PO Box 14950
Salem OR 97309-0950

Include on your check:
- FEIN or SSN.
- Tax year.
- Daytime phone.
- Tax form the payment is for (such as OR-706-R).

Line instructions

Specific line instructions are provided for lines not fully described on Form OR-706-R.

Part 1—Property owner information

- Name:
  - — Individuals, complete first name, initial, last name, and Social Security number (SSN).
  - — Non-individuals (for example, a trust), complete name of owner and federal employer identification number (FEIN).
- Enter the address and phone number of the property owner.
- Enter the name of the decedent from whom the property owner inherited the property. Enter the decedent's date of death and SSN.

Part 2—Description of property

Line 1A—Enter the description of the disqualified property.

Line 1B—Enter the date the property was sold, exchanged, or converted.

Line 1C—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**

OR-NRC, part 2, column D that was filed with the decedent's Oregon Estate Transfer tax return.

If jointly owned 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 OR-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.

Line 1D—Enter the proceeds from the sale, exchange, or conversion of the property listed in column A.

Line 1E—Enter the amount from the proceeds that wasn't reinvested in a qualified replacement property.

Line 1F—Divide the amount of column E by column D. Round to two decimal places then multiply by 100. This is the disqualified percentage.

Example:

Assume Line 1D equals $975,000 and Line 1E equals $467,000.

Line 1F: (467,000 ÷ 975,000) = 0.478974
(0.478974 rounded two decimal places is 0.48)
0.48 x 100 = 48%
Disqualified percentage to enter on Line 1F = 48%

Line 1G—Multiply the percentage in column F with the amount in column C. This is the disqualified value.

Line 5G—Total the amounts in Line 5G.

Part 3—Property replacement

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

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

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

Part 4—Additional estate transfer tax computation

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 OR-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 in part 4 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	$ 41,719

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 OR-706-R, completing parts 1, 2, 4 and 6. In part 2, column C, Jack will enter $200,000, the value of the equipment he inherited and sold. In column D he will enter $202,000 the proceeds of the sale and $0 in column E. Jack will pay additional estate transfer tax of $7,402, calculated in part 4 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	$ 7,402

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 OR-706-R, parts 1, 2, 5, and 6, to report the sale of the NRC property to a family member.

Example 4

Anthony inherited a farm with a value of $1,200,000 from his great aunt Vanessa, who passed away June 12, 2018. The estate claimed an NRC of $45,200 on Form OR-706. On April 12, 2020, the city annexed the farm and paid Anthony $1,200,000. On May 15, 2021, 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 in another farm within 2 years from the involuntary conversion. Anthony will file Form OR-706-R 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 OR-706 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 in part 4 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	$ 3,424

Part 6—Signature and authorization

Signature of owner

The owner who files the return must sign the return under penalties of false swearing, per ORS 118.990.

If you paid a tax preparer to complete this tax return, the preparer must sign and date the return, and provide their identifying information.

Authorization

If you want the tax return preparer to discuss this tax return with us, check the box located between the signature line for the owner and the preparer. This is a limited authorization.

If you want to authorize a person other than the preparer, include a signed *Oregon Tax Information Authorization and Power of Attorney for Representation (POA) form,* 150-800-005, with the tax return, or submit the POA form to us separately. The POA form is available on our website at www.oregon.gov/dor/forms.

Do you have questions or need help?

Internet

www.oregon.gov/dor
- Download forms, instructions, and publications.
- Search FAQ.

Email

estate.help.dor@oregon.gov
This email address isn't secure and confidentiality can't be ensured. General tax and policy questions only. We ask that professional tax preparers and attorneys research questions before contacting us.

Correspondence

Estate Tax Unit, Business Division
Oregon Department of Revenue
PO Box 14110, Salem OR 97309-0910
Fax: 503-945-8787, Estate Tax Unit

Phone

503-378-4988 or 800-356-4222
Monday–Friday, 7:30 a.m.–5 p.m.
Closed Thursdays from 9–11 a.m. Closed holidays.
Wait times may vary.

Contact us for ADA accommodations or assistance in other languages.

In person

Find directions and hours on our website.