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## **What You Need to Know about the Generation-Skipping Transfer Tax Returns**

If you have clients with significant wealth, things like estate, gift, and generation-skipping transfer (GST) taxes need to be discussed. If a client wishes to make a gift or leave a large inheritance to a grandchild (while their child is still alive) a more in-depth conversation surrounding the GST tax needs to be addressed. As an advisor, it can be helpful if you understand the basics of the GST tax, the impact it can have on a client's estate plan, and additional steps that may occur during the administration process at the client's death.

Several different returns involve the GST tax and we will touch on a few of them in this article. The appropriate form that needs to be filed with the Internal Revenue Service (IRS) will depend on the situation.

### **What Is Form 709?**

This form would be used when a client decides to make a gift to a skip person during their lifetime. Form 709<sup>1</sup> is used to report transfers that are subject to federal gift and certain GST taxes. This also includes the allocation of lifetime GST exemption to property transferred during the transferor's lifetime. The IRS has provided instructions for the transferor to complete the form.<sup>2</sup>

### **What Is Form 706-GS(D-1)?**

Form 706-GS(D-1)<sup>3</sup> is used for trustees of a trust to report distributions from a trust to a beneficiary that are subject to the GST tax. For additional assistance, the IRS has published instructions for completing the form.<sup>4</sup>

<sup>1</sup> IRS Form 709, IRS.gov, <https://www.irs.gov/pub/irs-pdf/f709.pdf> (last visited Feb. 27, 2024).

<sup>2</sup> IRS Instructions for Form 709, IRS.gov, <https://www.irs.gov/pub/irs-pdf/i709.pdf> (last visited Feb. 27, 2024).

<sup>3</sup> IRS Form 706 GS(D-1), IRS.gov, <https://www.irs.gov/pub/irs-pdf/f706gsd1.pdf> (last visited Feb. 27, 2024).

<sup>4</sup> IRS Instructions for Form 706 GS(D-1), IRS.gov, <https://www.irs.gov/pub/irs-pdf/i706gsd1.pdf> (last visited Feb. 27, 2024).

## What Is Form 706-GS(D)?

Form 706-GS(D)<sup>5</sup> is used for skipped persons to report tax due on distributions made from a trust to them, that is subject to the GST tax. Like the other forms from the IRS, some instructions walk through the completion of the form.<sup>6</sup>

## What Is Form 706-GS(T)?

Form 706-GS(T)<sup>7</sup> is used for trustees and any other entities or responsible parties to calculate taxes and report what is due from certain distributions and trust terminations subject to the generation-skipping tax. There are instructions<sup>8</sup> for tax computation and separate sections for required information for the transferor and the trust.

You can help affluent clients create a detailed list of documents and information required to determine the value of the money and property transferred to their trust or given outright as a gift or part of an inheritance. Understanding the complex calculations is critical.

The amount of the GST tax exemption allocated to the transfer is divided by the value of the property involved in the transfer.<sup>9</sup> The fraction is rounded to the nearest one-thousandth (.001) and looks like this:

$$\frac{\text{GST tax exemption allocated}}{\text{Value of property transferred}}$$

The next step is determining the inclusion ratio by subtracting the fraction from the number one. Depending on the ratio, the trust is either fully exempt, fully taxable, or partially taxable.<sup>10</sup>

## Completing the Forms

To fill out the applicable forms, individuals need to gather a significant amount of information. Here is a list of some of the information that may be needed:

- The legal name of the trust and its federal tax identification number
- Name and Social Security Number (SSN) or Employer Identification Number (EIN) of the individual making the GST
- A list of all beneficiaries, including their names and relationships to the transferor
- The generation of each beneficiary in relation to the transferor (skip person or non-skip person)

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<sup>5</sup> IRS Form 706 GS(D), IRS.gov, <https://www.irs.gov/pub/irs-pdf/f706gsd.pdf> (last visited Feb. 27, 2024).

<sup>6</sup> IRS Instructions for Form 706 GS(D), IRS.gov, <https://www.irs.gov/pub/irs-pdf/i706gsd.pdf> (last visited Feb. 27, 2024).

<sup>7</sup> IRS Form 706 GS(T), IRS.gov, <https://www.irs.gov/pub/irs-pdf/f706gst.pdf> (last visited Feb. 14, 2024).

<sup>8</sup> IRS Instructions for Form 706 GS(T), IRS.gov, <https://www.irs.gov/pub/irs-pdf/i706gst.pdf> (last visited Feb. 14, 2024).

<sup>9</sup> Legal Info. Inst., 26 CFR § 26.2654-1 - *Certain Trusts Treated as Separate Trusts*, Cornell L. Sch., <https://www.law.cornell.edu/cfr/text/26/26.2654-1> (last visited Feb. 14, 2024).

<sup>10</sup> Legal Info. Inst., 26 CFR § 26.2642-6 - *Qualified Severance*, Cornell L. Sch., <https://www.law.cornell.edu/cfr/text/26/26.2642-6> (last visited Feb. 14, 2024).

- Name and address of the trustee(s) responsible for managing the trust
- A detailed list of all assets held within the trust, including values at the time of the GST
- Appraisals of assets to determine their fair market values
- Information about any other gifts or transfers made by the transferor during their lifetime that could be subject to the GST tax
- Indication of how the transferor's GST tax exemption will be allocated among the trusts
- Allocations to skip persons, including any direct skips, indirect skips, or taxable terminations
- Details about the transferor or any beneficiary who is deceased
- Copies of the trust agreement and any amendments
- Any legal documents relevant to the GST
- Specific dates of GSTs

### **Filing Deadlines**

Generally, these forms must be filed by April 15 of the year following the calendar year when the gift, distribution, or termination occurred. Help your client organize and prepare their information. Maintaining clear records and staying informed about any updates to tax laws will streamline the process of completing the filing on time.

### **Collaborative Opportunities**

Working with other professionals outside of your area of expertise can help ensure accuracy and compliance with the GST tax rules. When we work together, including skilled tax professionals, we can provide the best possible service to our clients.



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