

over a 5-year period. Accordingly, for 2015, D reports the following.

\$30,000	(the amount of the contribution that exceeded \$70,000)
+ \$14,000	(the $\frac{1}{5}$ portion from the election)
\$44,000	the total gift to her son listed in Part 1 of Schedule A for 2015

In 2016, D gives a gift of \$20,000 cash to her niece and no other gifts. On her 2016 Form 709, D reports in Part 1 of Schedule A the \$20,000 gift to her niece and a \$14,000 gift to her son (the one-fifth portion of the 2015 gift that is treated as made in 2016). In column E of Part 1 (Schedule A), D lists "2016" as the date of the gift.

D makes no gifts in 2017, 2018, or 2019. She is not required to file Form 709 in any of those years to report the one-fifth portion of the QTP gift because she is not otherwise required to file Form 709.

You make the election by checking the box on line B at the top of Schedule A. The election must be made for the calendar year in which the contribution is made. Also attach an explanation that includes the following.

- The total amount contributed per individual beneficiary.
- The amount for which the election is being made.
- The name of the individual for whom the contribution was made.

If you are electing gift splitting, apply the gift-splitting rules before applying the QTP rules. Each spouse would then decide individually whether to make this QTP election.



Contributions to QTPs do not qualify for the education exclusion.

How To Complete Parts 1, 2, and 3

After you determine which gifts you made in 2015 that are subject to the gift tax, list them on Schedule A. You must divide these gifts between:

1. Part 1—those subject only to the gift tax (gifts made to nonskip persons—see *Part 1—Gifts Subject Only to Gift Tax*),
2. Part 2—those subject to both the gift and GST taxes (gifts made to skip persons—see *Gifts Subject to Both Gift and GST Taxes* and *Part 2—Direct Skips*), and
3. Part 3—those subject only to the gift tax at this time but which could later be subject to GST tax (gifts that are indirect skips, see *Part 3—Indirect Skips*).

If you need more space, attach a separate sheet using the same format as Schedule A.



Use the following guidelines when entering gifts on Schedule A.

- Enter a gift only once—in Part 1, Part 2, or Part 3.
- Do not enter any gift or part of a gift that qualified for the political organization, educational, or medical exclusion.
- Enter gifts under "Gifts made by spouse" only if you have chosen to split gifts with your spouse and your spouse is required to file a Form 709 (see Part 1—General Information, Lines 12–18. Split Gifts).
- In column F, enter the full value of the gift (including those made by your spouse, if applicable). If you have chosen to split gifts, that one-half portion of the gift is entered in column G.

Gifts to Donees Other Than Your Spouse

You must always enter all gifts of future interests that you made during the calendar year regardless of their value.

Gift splitting not elected. If the total gifts of present interests to any donee are more than \$14,000 in the calendar year, then you must enter all such gifts that you made during the year to or on behalf of that donee, including those gifts that will be excluded under the annual exclusion. If the total is \$14,000 or less, you need not enter on Schedule A any gifts (except gifts of future interests) that you made to that donee. Enter these gifts in the top half of Part 1, 2, or 3, as applicable.

Gift splitting elected. Enter on Schedule A the entire value of every gift you made during the calendar year while you were married, even if the gift's value will be less than \$14,000 after it is split in column G of Part 1, 2, or 3 of Schedule A.

Gifts made by spouse. If you elected gift splitting and your spouse made gifts, list those gifts in the space below "Gifts made by spouse" in Part 1, 2, or 3. Report these gifts in the same way you report gifts you made.

Gifts to Your Spouse

Except for the gifts described below, you do not need to enter any of your gifts to your spouse on Schedule A.

Terminable interests. Terminable interests are defined in the instructions to Part 4, line 4. If all the terminable interests you gave to your spouse qualify as life estates with power of appointment (defined under *Life estate with power of appointment*), you do not need to enter any of them on Schedule A.

However, if you gave your spouse any terminable interest that does not qualify as a life estate with power of appointment, you must report on Schedule A all gifts of terminable interests you made to your spouse during the year.

Charitable remainder trusts. If you make a gift to a charitable remainder trust and your spouse is the only noncharitable beneficiary (other than yourself), the interest you gave to your spouse is not considered a terminable interest and, therefore, should not be shown on Schedule A. See section 2523(g)(1). For definitions and rules concerning these trusts, see section 2056(b)(8)(B).

Future interest. Generally, you should not report a gift of a future interest to your spouse unless the future interest is also a terminable interest that is required to be reported as described earlier. However, if you gave a gift of a future interest to your spouse and you are required to report the gift on Form 709 because you gave the present interest to a donee other than your spouse, then you should enter the entire gift, including the future interest given to your spouse, on Schedule A. You should use the rules under *Gifts Subject to Both Gift and GST Taxes*, later, to determine whether to enter the gift on Schedule A, Part 1, Part 2, or Part 3.

Spouses who are not U.S. citizens. If your spouse is not a U.S. citizen and you gave him or her a gift of a future interest, you must report on Schedule A all gifts to your spouse for the year. If all gifts to your spouse were present interests, do not report on Schedule A any gifts to your spouse if the total of such gifts for the year does not exceed \$147,000 and all gifts in excess of \$14,000 would qualify for a marital deduction if your spouse were a U.S. citizen (see the instructions for Schedule A, Part 4, line 4). If the gifts exceed \$147,000, you must report all of the gifts even though some may be excluded.

Gifts Subject to Both Gift and GST Taxes

Definitions

Direct skip. The GST tax you must report on Form 709 is that imposed only on *inter vivos* direct skips. An *inter vivos direct skip* is a transfer that is:

- Subject to the gift tax,
 - Of an interest in property, and
 - Made to a skip person.
- All three requirements must be met before the gift is subject to the GST tax.

A gift is "subject to the gift tax" if you are required to list it on Schedule A of Form 709. However, if you make a nontaxable gift (which is a direct skip) to a

2. Prorate the difference between mean prices to the valuation date.

3. Add or subtract (whichever applies) the prorated part of the difference to or from the mean price figured for the nearest trading date before the actual valuation date.

If no actual sales were made reasonably close to the valuation date, make the same computation using the mean between the bona fide bid and the asked prices instead of sales prices. If actual sales prices or bona fide bid and asked prices are available within a reasonable period of time before the valuation date but not after the valuation date, or vice versa, use the mean between the highest and lowest sales prices or bid and asked prices as the FMV.

Stock of close corporations or inactive stock must be valued on the basis of net worth, earnings, earning and dividend capacity, and other relevant factors.

Generally, the best indication of the value of real property is the price paid for the property in an arm's-length transaction on or before the valuation date. If there has been no such transaction, use the comparable sales method. In comparing similar properties, consider differences in the date of the sale, and the size, condition, and location of the properties, and make all appropriate adjustments.

The value of all annuities, life estates, terms for years, remainders, or reversions is generally the present value on the date of the gift.

Sections 2701 and 2702 provide special valuation rules to determine the amount of the gift when a donor transfers an equity interest in a corporation or partnership (section 2701) or makes a gift in trust (section 2702). The rules only apply if, immediately after the transfer, the donor (or an applicable family member) holds an applicable retained interest in the corporation or partnership, or retains an interest in the trust. For details, see sections 2701 and 2702, and their regulations.

Column G. Split Gifts

Enter an amount in this column only if you have chosen to split gifts with your spouse.

Split Gifts—Gifts Made by Spouses

If you elected to split gifts with your spouse and your spouse has given a gift(s) that is being split with you, enter in this area of Part 1 information on the gift(s) made by your spouse. If only you made

gifts and you are splitting them with your spouse, do not make an entry in this area.

Generally, if you elect to split your gifts, you must split all gifts made by you and your spouse to third-party donees. The only exception is if you gave your spouse a general power of appointment over a gift you made.

Supplemental Documents

To support the value of your gifts, you must provide information showing how it was determined.

For stock of close corporations or inactive stock, attach balance sheets, particularly the one nearest the date of the gift, and statements of net earnings or operating results and dividends paid for each of the 5 preceding years.

For each life insurance policy, attach Form 712, Life Insurance Statement.

Note for single premium or paid-up policies. In certain situations, for example, where the surrender value of the policy exceeds its replacement cost, the true economic value of the policy will be greater than the amount shown on line 59 of Form 712. In these situations, report the full economic value of the policy on Schedule A. See Rev. Rul. 78-137, 1978-1 C.B. 280, for details.

If the gift was made by means of a trust, attach a certified or verified copy of the trust instrument to the return on which you report your first transfer to the trust. However, to report subsequent transfers to the trust, you may attach a brief description of the terms of the trust or a copy of the trust instrument.

Also attach any appraisal used to determine the value of real estate or other property.

If you do not attach this information, Schedule A must include a full explanation of how value was determined.

Part 2—Direct Skips

List in Part 2 only those gifts that are currently subject to both the gift and GST taxes. You must list the gifts in Part 2 in the chronological order that you made them. Number, describe, and value the gifts as described in the instructions for Part 1.

If you made a transfer to a trust that was a direct skip, list the entire gift as one line entry in Part 2.

Column C. 2632(b) Election

If you elect under section 2632(b)(3) to not have the automatic allocation rules of section 2632(b) apply to a transfer, enter a check in column C next to the transfer. You must also attach a statement to Form 709 clearly describing the transaction and

the extent to which the automatic allocation is not to apply. Reporting a direct skip on a timely filed Form 709 and paying the GST tax on the transfer will qualify as such a statement.

How to report generation-skipping transfers after the close of an ETIP. If you are reporting a generation-skipping transfer that was subject to an ETIP (provided the ETIP closed as a result of something other than the death of the transferor; see Form 706), and you are also reporting gifts made during the year, complete Schedule A as you normally would with the transfer subject to an ETIP listed on Schedule A, Part 2.

Column B. In addition to the information already requested, describe the interest that is closing the ETIP; explain what caused the interest to terminate; and list the year the gift portion of the transfer was reported and its item number on Schedule A that was originally filed to report the gift portion of the ETIP transfer.

Column E. Give the date the ETIP closed rather than the date of the initial gift.

Columns F, G, and H. Enter "N/A" in these columns.

The value is entered only in column B of Part 1, Schedule D. See *Column B*, earlier.

Split Gifts—Gifts Made by Spouse

See this heading under Part 1.

Part 3—Indirect Skips

Some gifts made to trusts are subject only to gift tax at the time of the transfer but later may be subject to GST tax. The GST tax could apply either at the time of a distribution from the trust, at the termination of the trust, or both.

Section 2632(c) defines indirect skips and applies special rules to the allocation of GST exemption to such transfers. In general, an indirect skip is a transfer of property that is subject to gift tax (other than a direct skip) and is made to a GST trust. A GST trust is a trust that could have a generation-skipping transfer with respect to the transferor, unless the trust provides for certain distributions of trust corpus to nonskip persons. See section 2632(c)(3) (B) for details.

List in Part 3 those gifts that are indirect skips as defined in section 2632(c) or may later be subject to GST tax. This includes indirect skips for which election 2, described below, will be made in the current year or has been made in a previous year. You must list the gifts in Part 3 in the chronological order that you made them.

Column C. 2632(c) Election

Section 2632(c) provides for the automatic allocation of the donor's unused GST exemption to indirect skips. This section also sets forth three different elections you may make regarding the allocation of exemption.

Election 1. You may elect not to have the automatic allocation rules apply to the current transfer made to a particular trust.

Election 2. You may elect not to have the automatic rules apply to both the current transfer and any and all future transfers made to a particular trust.

Election 3. You may elect to treat any trust as a GST trust for purposes of the automatic allocation rules.

See section 2632(c)(5) for details.

When to make an election. Election 1 is timely made if it is made on a timely filed gift tax return for the year the transfer was made or was deemed to have been made.

Elections 2 and 3 may be made on a timely filed gift tax return for the year for which the election is to become effective.

To make one of these elections, check column C next to the transfer to which the election applies. You must also attach an explanation as described below. If you are making election 2 or 3 on a return on which the transfer is not reported, simply attach the statement described below.

If you are reporting a transfer to a trust for which election 2 or 3 was made on a previously filed return, do not make an entry in column C for that transfer and do not attach a statement.

Attachment. Attach a statement to Form 709 that describes the election you are making and clearly identifies the trusts and/or transfers to which the election applies.

Split Gifts—Gifts Made by Spouse

See this heading under Part 1.

Part 4—Taxable Gift Reconciliation

Line 1

Enter only gifts of the donor. If gift-splitting has been elected, enter only the value of the gift that is attributable to the spouse that is filing the return.

Line 2

Enter the total annual exclusions you are claiming for the gifts listed on Schedule A. See *Annual Exclusion*, earlier. If you split a gift with your spouse, the annual exclusion you claim against that gift may not be more than the smaller of your half of the gift or \$14,000.

Deductions

Line 4. Marital Deduction

Enter all of the gifts to your spouse that you listed on Schedule A and for which you are claiming a marital deduction. Do not enter any gift that you did not include on Schedule A. On the dotted line on line 4, indicate which numbered items from Schedule A are gifts to your spouse for which you are claiming the marital deduction.



Do not enter on line 4 any gifts to your spouse who was not a U.S. citizen at the time of the gift.

You may deduct all gifts of nonterminable interests made during the year that you entered on Schedule A regardless of amount, and certain gifts of terminable interests as outlined below.

Terminable interests. Generally, you cannot take the marital deduction if the gift to your spouse is a terminable interest. In most instances, a terminable interest is nondeductible if someone other than the donee spouse will have an interest in the property following the termination of the donee spouse's interest. Some examples of terminable interests are:

- A life estate,
- An estate for a specified number of years, or
- Any other property interest that after a period of time will terminate or fail.

If you transfer an interest to your spouse as sole joint tenant with yourself or as a tenant by the entirety, the interest is not considered a terminable interest just because the tenancy may be severed.

Life estate with power of appointment. You may deduct, without an election, a gift of a terminable interest if all four requirements below are met.

1. Your spouse is entitled for life to all of the income from the entire interest.
2. The income is paid yearly or more often.
3. Your spouse has the unlimited power, while he or she is alive or by will, to appoint the entire interest in all circumstances.
4. No part of the entire interest is subject to another person's power of appointment (except to appoint it to your spouse).

If either the right to income or the power of appointment given to your spouse pertains only to a specific portion of a property interest, the marital deduction is allowed only to the extent that the rights of your spouse meet all four of the above conditions. For example, if your spouse is to receive all of the income from the entire interest, but only has a power to

appoint one-half of the entire interest, then only one-half qualifies for the marital deduction.

A partial interest in property is treated as a specific portion of an entire interest only if the rights of your spouse to the income and to the power are a fractional or percentile share of the entire property interest. This means that the interest or share will reflect any increase or decrease in the value of the entire property interest. If the spouse is entitled to receive a specified sum of income annually, the capital amount that would produce such a sum will be considered the specific portion from which the spouse is entitled to receive the income.

Election to deduct qualified terminable interest property (QTIP). You may elect to deduct a gift of a terminable interest if it meets requirements (1), (2), and (4) earlier, even though it does not meet requirement (3).

You make this election simply by listing the qualified terminable interest property on Schedule A and deducting its value from Schedule A, Part 4, line 4. You are presumed to have made the election for all qualified property that you both list and deduct on Schedule A. You may not make the election on a late filed Form 709.

Line 5

Enter the amount of the annual exclusions that were claimed for the gifts listed on line 4.

Line 7. Charitable Deduction

You may deduct from the total gifts made during the calendar year all gifts you gave to or for the use of:

- The United States, a state or political subdivision of a state or the District of Columbia for exclusively public purposes;
- Any corporation, trust, community chest, fund, or foundation organized and operated only for religious, charitable, scientific, literary, or educational purposes, or to prevent cruelty to children or animals, or to foster national or international amateur sports competition (if none of its activities involve providing athletic equipment unless it is a qualified amateur sports organization), as long as no part of the earnings benefits any one person, no substantial propaganda is produced, and no lobbying or campaigning for any candidate for public office is done;
- A fraternal society, order, or association operating under a lodge system, if the transferred property is to be used only for religious, charitable, scientific, literary, or educational purposes, including the encouragement of art and the prevention of cruelty to children or animals; or

2. If the GST exemption is being allocated on a late filed (past the due date including extensions) gift tax return, enter the value as of the date the gift tax return was filed.

Column C

You are allowed to claim the gift tax annual exclusion currently allowable for your reported direct skips (other than certain direct skips to trusts—see *Note*), using the rules and limits discussed earlier for the gift tax annual exclusion. However, you must allocate the exclusion on a gift-by-gift basis for GST computation purposes. You must allocate the exclusion to each gift to the maximum allowable amount and in chronological order, beginning with the earliest gift that qualifies for the exclusion. Be sure that you do not claim a total exclusion of more than \$14,000 per donee.

Note. You may not claim any annual exclusion for a transfer made to a trust unless the trust meets the requirements discussed under *Part 2—Direct Skips*.

Part 2—GST Exemption Reconciliation

Line 1

Every donor is allowed a lifetime GST exemption. The amount of the exemption for 2015 is \$5,430,000. For transfers made through 1998, the GST exemption was \$1 million. The exemption amounts for 1999 through 2015 are as follows.

Year	Amount
1999	\$1,010,000
2000	\$1,030,000
2001	\$1,060,000
2002	\$1,100,000
2003	\$1,120,000
2004 and 2005	\$1,500,000
2006, 2007, and 2008	\$2,000,000
2009	\$3,500,000
2010 and 2011	\$5,000,000
2012	\$5,120,000
2013	\$5,250,000
2014	\$5,340,000
2015	\$5,430,000

In general, each annual increase can only be allocated to transfers made (or appreciation occurring) during or after the year of the transfer.

Example. A donor made \$1,750,000 in GSTs through 2005, and allocated all \$1,500,000 of the exemption to those transfers. In 2015, the donor makes a \$207,000 taxable generation-skipping transfer. The donor can allocate \$207,000 of exemption to the 2015 transfer but cannot allocate the \$3,723,000 of unused 2015 exemption to pre-2015 transfers.

However, if in 2005, the donor made a \$1,750,000 transfer to a trust that was not a direct skip, but from which generation-skipping transfers could be made in the future, the donor could allocate the increased exemption to the trust, even though no additional transfers were made to the trust. See Regulations section 26.2642-4 for the redetermination of the applicable fraction when additional exemption is allocated to the trust.

Keep a record of your transfers and exemption allocations to make sure that any future increases are allocated correctly.

Enter on line 1 of Part 2 the maximum GST exemption you are allowed. This will not necessarily be the highest indexed amount if you made no generation-skipping transfers during the year of the increase.

The donor can apply this exemption to inter vivos transfers (that is, transfers made during the donor's life) on Form 709. The executor can apply the exemption on Form 706 to transfers taking effect at death. An allocation is irrevocable.

In the case of inter vivos direct skips, a portion of the donor's unused exemption is automatically allocated to the transferred property unless the donor elects otherwise. To elect out of the automatic allocation of exemption, you must file Form 709 and attach a statement to it clearly describing the transaction and the extent to which the automatic allocation is not to apply. Reporting a direct skip on a timely filed Form 709 and paying the GST tax on the transfer will prevent an automatic allocation.

Special QTIP election. If you elect QTIP treatment for any gifts in trust listed on Schedule A, then on Schedule D you may also elect to treat the entire trust as non-QTIP for purposes of the GST tax. The election must be made for the entire trust that contains the particular gift involved on this return. Be sure to identify the item number of the specific gift for which you are making this special QTIP election.

Line 5

Enter the amount of GST exemption you are applying to transfers reported in Part 3 of Schedule A.

Section 2632(c) provides an automatic allocation to indirect skips of any unused GST exemption. The unused exemption is allocated to indirect skips to the extent necessary to make the inclusion ratio zero for the property transferred. You may elect out of this automatic allocation as explained in the instructions for Part 3.

Line 6

Notice of allocation. You may wish to allocate GST exemption to transfers not reported on this return, such as a late allocation.

To allocate your exemption to such transfers, attach a statement to this Form 709 and entitle it "Notice of Allocation." The notice must contain the following for each trust (or other transfer).

- Clear identification of the trust, including the trust's EIN, if known.
- If this is a late allocation, the year the transfer was reported on Form 709.
- The value of the trust assets at the effective date of the allocation.
- The amount of your GST exemption allocated to each gift (or a statement that you are allocating exemption by means of a formula such as "an amount necessary to produce an inclusion ratio of zero").
- The inclusion ratio of the trust after the allocation.

Total the exemption allocations and enter this total on line 6.

Note. Where the property involved in such a transfer is subject to an ETIP because it would be includible in the donor's estate if the donor died immediately after the transfer (other than by reason of the donor having died within 3 years of making the gift), an allocation of the GST exemption at the time of the transfer will only become effective at the end of the ETIP. For details, see *Transfers Subject to an Estate Tax Inclusion Period (ETIP)*, earlier, and section 2642(f).

Part 3—Tax Computation

You must enter in Part 3 every gift you listed in Part 1 of Schedule D.

Column C

You are not required to allocate your available exemption. You may allocate some, all, or none of your available exemption, as you wish, among the gifts listed in Part 3 of Schedule D. However, the total exemption claimed in column C may not exceed the amount you entered on line 3 of Part 2 of Schedule D.

Column D

Carry your computation to three decimal places (for example, "1.000").

Part 2—Tax Computation (Page 1 of Form 709)

Lines 4 and 5

To compute the tax for the amount on line 3 (to be entered on line 4) and the tax for the amount on line 2 (to be entered on