



Information for Heirs of Special Use Valuation Property

The estate's executor made an **Internal Revenue Code 2032A** election to treat certain property as special use valuation property to reduce the value of the estate. As the heir who received this special use valuation property, you signed Form 706 Schedule A-1 agreeing to allow the IRS to place a lien on the property. A Notice of Federal Estate Tax Lien will be filed in the public records where the property is located to provide security to the IRS if additional estate tax becomes due.

How to Avoid Additional Estate Tax

Here is what you must do for ten years from the date of the decedent's death to avoid owing additional estate tax:

- You must continue to use the property as the farm, trade, or business that qualified the estate for the special use valuation election. Form 706-A instructions on [irs.gov - About Form 706-A, United States Additional Estate Tax Return](#) provide information on timeframes for which you or a family member must materially participate in the farm, trade, or business property. A family member includes your parents, your spouse, your children and grandchildren, the children and grandchildren of your spouse, your siblings and their children, and the spouses of any of these individuals. This does not include your aunts and uncles.

When determining if material participation applies, key considerations include physical work and making important management decisions. Material participation does not include passively collecting rents, salaries, draws, dividends, or other income from the farm, trade, or business.

- Additional estate tax may become due if you dispose of any portion of the special use valuation property other than the following dispositions, which may be non-taxable if certain requirements are met.
 - › Disposition to a family member
 - › Disposition through a qualified conservation contribution
 - › IRC 1031 or IRC 1033 qualified replacement or exchange property

For information on these requirements and special rules that may apply to the disposition or severing of timber, see Form 706-A instructions on [irs.gov - About Form 706-A, United States Additional Estate Tax Return](#).

You may postpone using the property for the farm, trade, or business that qualified the estate for the special use valuation election for up to two years immediately following the decedent's death. If you do so, the ten-year period during which you must use the property for the qualifying purpose and retain ownership to avoid additional estate tax will begin on the date you start using the property as the farm, trade, or business.

To Report Taxable or Non-Taxable Transfers

If you cease to use the property as the farm, trade, or business that qualified the estate for the special use valuation election, or if you dispose of any portion of the special use valuation property, file Form 706-A, United States Additional Estate Tax Return.

- Form 706-A is due six months from the date the cessation of use or disposition of the property occurred. See [irs.gov - About Form 706-A, United States Additional Estate Tax Return](#) for Form 706-A and instructions.
- If you owe tax, pay the balance due by the Form 706-A due date. You are responsible for paying the additional estate tax due under Internal Revenue Code 2032A.
- If you need to request a release of the lien from the property, contact the IRS office listed below.

End of Ten-Year Period

At the end of the ten-year period from the date of the decedent's death or from the date you began to use the property for the farm, trade, or business that qualified the estate for the special use valuation election, the IRS may ask you to provide documentation to verify the status of the special use valuation property.

If the IRS determines no event occurred to cause the additional estate tax to be owed, or if the additional estate tax was correctly reported on Form 706-A and the balance due was paid in full, the IRS will release the property from the lien.

Who to Contact

For questions about the lien on the special use valuation property, contact:

Internal Revenue Service | Estate Tax Advisory Group
55 South Market Street, MS 5350
San Jose, CA 95113
Fax: (877) 477-9243 | **Phone:** (669) 229-1504

To contact us by fax, you can either use a fax machine or online fax service. Protect yourself when sending digital data by understanding the fax service's privacy and security policy.