

701—86.14(450) Computation of shares. The following areas of the law should be applied when computing the shares of an estate for the purpose of Iowa inheritance tax:

86.14(1) Right to take against the will. In the event that a decedent dies with a will, a surviving spouse may elect to take against the will and receive a statutory share in real and personal property of the decedent as designated by statute. If a surviving spouse elects to take against the will, this election nullifies gifts to the surviving spouse set forth in the decedent's will. For details regarding this election and statutory share, see Iowa Code sections 633.236 to 633.259 and *In the Matter of Campbell*, 319 N.W.2d 275, 277 (Iowa 1982).

86.14(2) Family settlements. Beneficiaries of an estate may contract to divide real or personal property of the estate, or both, in a manner contrary to the will of the decedent. The court of competent jurisdiction may approve the settlement contract of the beneficiaries. However, the department is not a party to the contract and is not bound to compute the shares of the estate based on the settlement contract. Instead, the department must compute the shares of the estate based upon the terms of the decedent's will, unless a court of competent jurisdiction determines that the will should be set aside. See *In re Estate of Bliven*, 236 N.W.2d 366 (Iowa 1975).

86.14(3) Order of abatement. Shares to be received by the beneficiaries of an estate are subject to abatement for the payment of debts, charges, federal and state estate taxes in the order as provided in Iowa Code section 633.436.

86.14(4) Contrary order of abatement. An order of abatement contrary to that provided in Iowa Code section 633.436 is provided by statute. For instance, if a provision of a will, trust or other testamentary instrument explicitly directs an order of abatement contrary to Iowa Code section 633.436 or a court of competent jurisdiction determines order of abatement due to a devise that would result in an order of abatement contrary to Iowa Code section 633.436, then the order of abatement indicated is to be followed. For additional information regarding contrary provisions of abatement, see Iowa Code section 633.437. For details regarding marital share and contrary order of abatement see, *Estate of Lois C. Olin*, Docket No. 92-70-1-0437, Letter of Findings (June 1993).

86.14(5) "Stepped-up" basis. If a decedent's will provides that taxes are to be paid from the residue of the estate and not the respective beneficial shares, a "stepped-up" basis will be utilized when computing the shares which will result in the appropriate beneficiaries' shares to include the tax obligation that was paid as an additional inheritance. A "stepped-up" basis is based on gifts prior to the residual share; shares paid out of the residue are not stepped-up.

EXAMPLE: Decedent's will gives \$1,000 to a nephew and directs that the inheritance tax on this bequest be paid from the residue of the estate. The stepped-up share is computed as follows:

Tax: $\$1,000 \times 10\% = \100 . Divide the tax by the difference between the tax rate and 100 percent (90 percent in this example): $\$100$ divided by 90% = \$111.11. Add the stepped-up tax of \$111.11 to the original bequest of \$1,000. This results in a stepped-up share of \$1,111.11, which allows the nephew to keep \$1,000 after the tax is paid.

86.14(6) Antilapse provision and the exception to the antilapse statute. Iowa Code sections 633.273 and 633.274 set forth guidance on the allocation of property in situations in which a lapse in inheritance may occur. Iowa Code section 633.273 provides that when a devisee predeceases a testator, the issue of the devisee inherits the property, per stirpes, unless from the terms of the will, the intent is clear and explicit to the contrary. However, Iowa Code section 633.274 is an exception to Iowa Code section 633.273. If the spouse of the testator predeceases the testator, the inheritance shall lapse, unless the terms of the will clearly and explicitly provide to the contrary. For details regarding the provisions, please see the cited statutes.

86.14(7) Disclaimer. A person who is to succeed to real or personal property may refuse to take the property by executing a binding disclaimer which relates back to the date of transfer. Unless the transferor of the property has otherwise provided, disclaimed property passes as if the disclaimant has predeceased the transferor. To be valid, a disclaimer must be in writing and state the property, interest or right being disclaimed, the extent the property, right, or interest is being disclaimed, and be signed and acknowledged by the disclaimant. The disclaimer must be received by the transferor or the transferor's fiduciary not later than nine months after the later of the date in which the property, interest or right

being disclaimed was transferred or the date the disclaimant reaches 18 years of age. A disclaimer is irrevocable from the date of its receipt by the transferor or the transferor's fiduciary. For additional details regarding disclaimers, please see Iowa Code Supplement chapter 633E.

Effective for estates with decedents dying on or after July 1, 2004, disclaimers are to be filed in compliance with the Iowa uniform disclaimer Act, Iowa Code Supplement chapter 633E. This Act sets forth new requirements for valid disclaimers. Criteria will be based on the type of property or the interest being disclaimed. General criteria for disclaimers have not changed. To be valid, a disclaimer must be in writing or be stored in electronic record or other medium that is retrievable, declare the disclaimer, describe the interest or power disclaimed, be signed by the person making the disclaimer, and be filed. A partial disclaimer may be expressed as a fraction, percentage, monetary amount, term of years, limitation of a power, or any other interest in property of the estate.

A disclaimer becomes irrevocable when it is delivered, filed, or when it becomes effective, whichever occurs later. Delivery of a disclaimer may generally be made by personal delivery, first-class mail, or any other method likely to result in its receipt. However, specific interests being disclaimed require specific means of delivery. For explicit information regarding delivery of a disclaimer based on interest being disclaimed, see Iowa Code Supplement section 633E.12.

86.14(8) *Right of retainer.* If a distributee of an estate is indebted to the estate, whether the decedent dies testate or intestate, the personal representative has the right to offset the distributee's share in the estate against the amount owed to the estate by the distributee. For additional information regarding this right of offset and retainer, see Iowa Code section 633.471.

86.14(9) *Deferred life estates and remainder interest.*

a. A deferred estate generally occurs as the result of a decedent granting a life estate in property to one person with the remainder of the property to another. In such cases, the determination of the tax on the remainder interest to be received by the remainderman may be deferred until the determination of the previous life estate pursuant to Iowa Code section 450.46. Tax on a remainder interest that has been deferred is valued pursuant to Iowa Code section 450.37, with no reduction based on the previous life estate. Tax due on a deferred interest must be paid before the last day of the ninth month from the date of the death of the life tenant pursuant to Iowa Code section 450.46. Penalties and interest are not imposed if the tax is paid before the last day of the ninth month from the date of the death of the life tenant. If the death of the decedent occurred before July 1, 1981, the tax due on a deferred interest must be paid before the last day of the twelfth month from the date of the death of the life tenant. Deferment may be elected due to the fact that the remainder interest is contingent and because the value of the remainder interest may be significantly altered from the time of the decedent's death until the death of the life tenant. A request for deferment may be made on a completed department form, and the completed form, with any required documentation, may be filed with the department on or before the due date of the inheritance tax return. Failure to file a completed department form requesting a deferral of tax on the remainder interest with the inheritance tax return will allow the department to provide an automatic deferral for qualifying remainder interests.

b. If deferral is chosen, an inheritance tax clearance cannot be issued for the estate. Expenses cannot be used to offset the value of the deferred remainder interest. Based upon Iowa Code section 450.12, deductible expenses must be expenses paid by the estate. Expenses incurred by a deferred remainder interest would not qualify based on Iowa Code section 450.12 as deductible expenses. Pursuant to Iowa Code section 450.52, the owner of a deferred remainder interest may choose to pay the tax on the present value of the remainder interest and have the lien on such an interest removed prior to the termination of the previous life estate. If early termination of the deferred remainder interest occurs, the value of the remainder interest will be reduced by the value of remaining previous life estate.

c. If the tax on an estate is deferred, a bond may have to be filed with the proper clerk of the district court. This bond must remain effective until the tax on the deferred estate is paid. Failure to maintain or properly renew the bond will result in the bond's being declared forfeited, and the amount collected. For additional details regarding obtaining a bond, see Iowa Code sections 450.49 and 450.50. The estate may secure payment of the deferred tax by providing other security in lieu of a bond, including but not

limited to securities named in Iowa Code section 450.48(2) and securities deemed satisfactory by the department.

86.14(10) Credit on prior transfers. A credit is allowed for inheritance tax paid by certain beneficiaries that have received shares from a prior estate. The credit can be claimed only by the brother, sister, son-in-law and daughter-in-law of the decedent. The decedent in whose estate the credit is to be used must have died within two years of the death of the decedent in whose estate the tax for which the credit is requested was paid and the property inherited. The credit is subject to two limitations:

a. The maximum credit allowed cannot exceed the amount of the prior inheritance tax that was paid on the property in the prior estate. In other words, the inheritance tax the present decedent paid on the property in the prior estate must be prorated on the basis such property bears to the total property inherited in the prior estate; and

b. The amount of the credit cannot exceed the tax generated in the current estate on the property which was inherited from the prior estate. This means that the tax in the current estate must be apportioned on the basis the prior estate property bears to the total property inherited by the beneficiary in the second estate. The credit cannot exceed this apportioned amount.

EXAMPLE 1: *Limitation—maximum credit allowed cannot exceed the amount of the prior inheritance tax that was paid on the property in the prior estate.*

First decedent, Sister, has two siblings. Her property passes to two brothers (A and B). Her property includes:

| | |
|-------------|-----------|
| Real estate | \$400,000 |
| Cash, etc. | \$250,000 |
| Expenses | \$150,000 |

Each brother inherits \$250,000. The tax due from each brother is \$21,375.

Brother B dies one year and two months after Sister. He leaves everything to Brother A.

Brother B's property includes:

| | |
|--|-----------|
| ½ interest in Sister's real estate (current value) | \$225,000 |
| Full interest in his own real estate | \$500,000 |
| ½ interest in Sister's cash, etc. | \$ 50,000 |
| Full interest in his own cash, etc. | \$500,000 |
| Expenses | \$200,000 |

Brother A inherits \$1,075,000 with a current tax due of \$103,875. Reduce the current tax due, \$103,875, by the amount of tax paid in the prior estate, \$21,375. The result is \$82,500.

Percentage of Brother A's tax of \$103,875 generated by Sister's property included in Brother B's estate:

$$\$275,000/\$1,075,000 = 25.58\%$$

$$\$103,875 \times 25.58\% = \$26,571.23$$

Maximum credit cannot be more than the tax paid in the prior estate, \$21,375. The tax due in this estate is \$82,500.

EXAMPLE 2: Limitation—amount of credit cannot exceed the tax generated in the current estate on the property which was inherited from the prior estate.

First decedent, Sister, has two siblings. Her property passes to two brothers (A and B). Her property includes:

| | |
|-------------|-----------|
| Real estate | \$400,000 |
| Cash, etc. | \$250,000 |
| Expenses | \$150,000 |

Each brother inherits \$250,000. The tax due from each brother is \$21,375.

Brother B dies one year and two months after Sister. He leaves everything to Brother A.

Brother B's property includes:

| | |
|--|-----------|
| ½ interest in Sister's real estate (current value) | \$225,000 |
| Full interest in his own real estate | \$500,000 |
| ½ interest in Sister's cash, etc. | \$ 50,000 |
| Full interest in his own cash, etc. | \$500,000 |
| Expenses | \$200,000 |

Brother A inherits \$1,075,000 with a current tax due of \$103,875. Reduce the amount of the current tax due, \$103,875, by the tax paid in the prior estate, \$21,375. The result is \$82,500.

\$1,075,000 less prior estate properties worth \$275,000 equals \$800,000. Tax would equal \$76,375.

The greater of the two computations (\$82,500 v. \$76,375) is the tax due in the estate. \$82,500 would be due.

EXAMPLE 3: Two-year requirement. Same facts as above, except that Brother B dies two years and two months after the date of death of Sister. Tax is \$103,875 with no reduction since it is over the two-year limitation.

EXAMPLE 4: *Multiple beneficiary issues.* Same facts as above, except that beneficiaries of Brother B have changed. If there are multiple beneficiaries in the second estate, only the beneficiaries that are brother, sister, son-in-law, or daughter-in-law relationships to the prior decedent can utilize the credit. The credit is then determined by the property value passing in this estate that can be identified as being inherited by this decedent from a prior estate.

Brother B dies one year and two months after his Sister. He leaves his real estate to Brother A and the residual assets to his two nieces.

Brother B's share of prior decedent's (Sister's) estate equals \$725,000. Tax equals \$68,875. Reduce the current tax due, \$68,875, by the tax paid in the prior estate, \$21,375. The result is \$47,500.

Niece 1's share equals \$175,000. Tax equals \$22,250.

Niece 2's share equals \$175,000. Tax equals \$22,250.

Total tax for Brother B's estate with no reductions equals \$113,375.

Total tax with Brother B's reduced tax is \$92,000.

Computation without the prior decedent's (Sister's) property that passes to a qualified heir:

Brother B's share would be \$500,000. Tax equals \$46,375.

Niece 1's share remains the same since she is not a qualified heir. Tax equals \$22,250.

Niece 2's share remains the same since she is not a qualified heir. Tax equals \$22,250.

Total tax for this computation is \$90,875.

The greater of the two computations is \$92,000. \$92,000 would be due.

86.14(11) *Prorated cash bequests.* If the distribution of an estate includes pecuniary legacies with an estate with property located in and outside Iowa, or the estate includes specific bequests from a fund containing property located in and outside Iowa, then the Iowa inheritance tax liability for those legacies or bequests will be based on the pro rata portion of the property of the estate located in Iowa. For further details see *Estate of Dennis M. Billingsley*, Iowa District Court of Emmet County, Case No. 13394 (July 15, 1982).

This rule is intended to implement Iowa Code chapters 450 and 633E.
[ARC 1137C, IAB 10/30/13, effective 12/4/13; ARC 4310C, IAB 2/13/19, effective 3/20/19]