



Estate Elections

Allyson Casseday | External Training and Communications

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If you have any questions, contact us:

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Presenter Allyson Casseday



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- Phone lines muted
- Questions taken by chat
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Agenda

Information we will cover today:

- Qualified Terminable Interest Property Election
- Alternative Valuation Election
- Special Valuation Election
- Request for payment extension
- Request for installment payments
- Qualified Small Business and Farm Property Election
- Form M706Q, Estate Tax Return

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Qualified Terminable Interest Property

- Surviving spouse gets all the income or use until death
- Applies if specific election is made
- Irrevocable and can't be amended



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Purpose of the QTIP Election



- Tax deferral
- Control of asset
- Provides for spouse

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QTIP Example



- Kelly and Tracy – Married
- Kelly owns home
- \$3 million in stock assets

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QTIP Example, Continued

If Kelly dies before Tracy:

- Estate may want to elect QTIP
- Tracy's estate may owe tax on the home
- QTIP removes tax due on Kelly's estate

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QTIP – Common Errors

- Federal filing when not required
 - Delays closing letter
- Reporting property incorrectly on federal Form 706



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Alternative Valuation Election



- Six-month valuation
- Irrevocable
- Applies to all assets

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To Qualify for Alternative Valuation Election

Election must:

- Reduce gross estate and tax liability
- Be required to file federally



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Alternative Valuation – Common Errors



- Cash value
- Tax reduction

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Special Valuation

- Specific types of farm and small business property
- Must elect and file federally



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Request for Payment Extension

- Six-month extension
- Reasonable cause
- If federally approved, Minnesota will approve



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Estate Tax Installment Payments



- Minnesota Estate tax is more than \$5,000
- Must have IRS-approved plan
- Commissioner of Revenue was notified
- Installments in equal amounts

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Qualified Small Business and Farm Property Deduction

Eligibility:

- Date of death after June 30, 2011
- Owned qualified property at death
- Property passed to heir



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Allowed Estate Exemption and Qualified Small Business or Farm Property Deduction

| | Amount |
|--|---------------------|
| Estate Exemption | \$3 million |
| Qualified Small Business and Farm Property Deduction | \$2 million maximum |
| Total Allowed | \$5 million |

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Qualified Small Business Deduction Requirements

- Include value of property
- Trade or business property
- Material participation



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Material participation – Example



- Business owner died December 15, 2024
- The business owner or their spouse
- Material participation tax year ending December 31, 2023

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Qualified Small Business Deduction Requirements, Continued

- Include value of property
- Trade or business property
- Material participation
- Gross annual sales were \$10 million or less



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Annual Sales— Example



- Business owner died May 2, 2025
- Gross annual sales for tax year ending December 31, 2024
- \$10 million or less

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Requirements Continued



- Assets not used in operation cannot be claimed
- Three-year property ownership
- Family member material participation
- Pay Recapture Tax

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Qualified Farm Property Deduction Requirements

- Three-year property ownership



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Three-year ownership – Example



- A farmer died on February 15, 2025
- The farmer or their spouse
- Owned the property
 - February 15, 2022, to February 15, 2025

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Qualified Farm Property Deduction Requirements, Continued

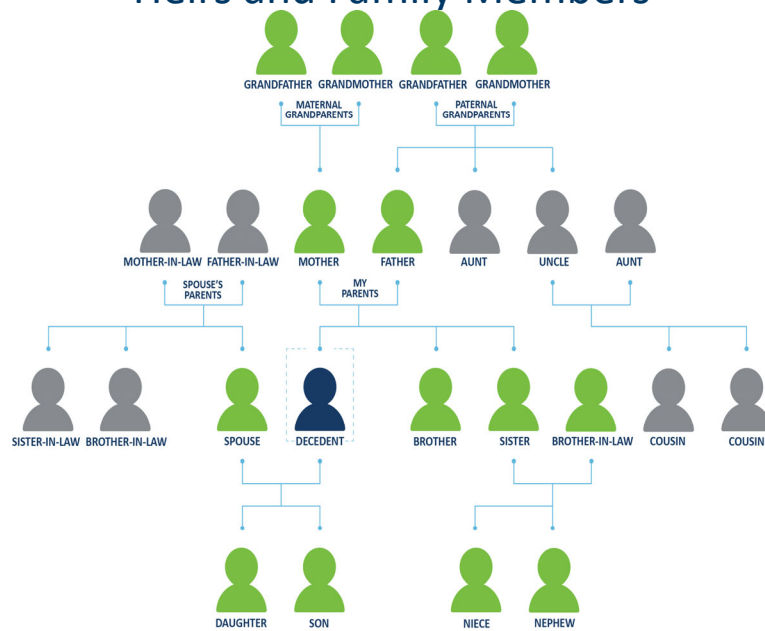
- Three-year property ownership
- Include value of property
- Agricultural land and family farm
- Agricultural property classification
- Pay Recapture Tax



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Heirs and Family Members



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Three-Year Holding Period

Qualified Small Business Property

- Qualified heir owns all interest
- Family member materially participates

Qualified Farm Property

- Qualified heir or family member owns property
- Maintains property classification

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Informational Returns



One return is due 36 to 39 months after death

Confirms no Recapture Tax is due

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Recapture Tax

- Fail to meet requirements of holding period
- 16% tax
- Property and value cannot be altered



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Recapture Tax Exceptions for Farm Property



- Eminent domain
- Reclassification from 2a to 2b
- Reclassification from 2a to 4bb

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Recapture Tax Example

| | Amount |
|-------------------------|-------------|
| Estate value | \$4 million |
| Estate exclusion | \$3 million |
| Farm property value | \$2 million |
| Farm property deduction | \$1 million |

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The Bean & Bauble Coffee Shop

- Owner: Luna Mendez, age 40
- Business established 2015
- Business value \$500,000
- Divorced, no children
- Luna hired her mother, Sofia, in 2020
- Luna died January 12, 2025



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The Bean & Bauble Coffee Shop, continued



- Sofia – Qualified heir
- Property transferred upon Luna's death
- Informational returns due:
 - January 12, 2028, to April 12, 2028

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Meyer Family Farm Example

- Owners: Roy and Jen Meyer, ages 71 and 70
- Established in 1973
- Five children, one works on the farm
- Roy died on April 30, 2025



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Meyer Family Farm Example, Continued



- Jen will continue to homestead
- Erik will farm the land
- Informational returns due:
 - April 30, 2028, to July 30, 2028

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Form M706Q

Election to Claim the Qualified Small Business and Farm Property Deduction

- Form walk-through
- Common errors



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Questions



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Thank You!

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