

The Baratelli Field Note

Practitioner analysis for principals, family-office executives, and their advisors

FIELD NOTE NO. 04

MAY 22, 2026

baratellibrief.substack.com

Originally published as Baratelli Brief Issue 04, May-September 2026; reclassified as a Field Note in the May 2026 editorial reset.

Three Internal Revenue Code provisions that determine whether a family business survives the estate-tax settlement intact - the post-mortem liquidity toolkit a competent succession plan deploys before death rather than scrambles to access after.

The Quiet Estate-Tax Tools: §6166, §303, and §2032A

Every family-business succession has a post-mortem scenario whether or not the family is willing to discuss it. If the founder dies before the planned transition completes - and many do - three Internal Revenue Code provisions determine whether the business survives the estate-tax settlement intact. Each is technical; together they are the post-mortem liquidity toolkit that a competent succession plan deploys before death rather than scrambles to access after.

§6166 - fourteen-year deferral of estate tax

IRC §6166 permits the executor of an estate containing a closely-held-business interest to elect deferred installment payment of the estate tax attributable to that interest. Where the business value exceeds 35% of the adjusted gross estate, the executor may pay interest only for the first four years and principal-plus-interest in equal installments over the next ten - fourteen total years from the original due date.

Interest on the first \$1,640,000 (2026 indexed) of deferred tax accrues at 2%; interest on amounts above accrues at 45% of the §6621 underpayment rate. For a \$30M estate with a \$20M business interest and roughly \$4M of tax attributable to the business, §6166 transforms an immediate liquidity crisis into a manageable annual obligation funded from operating cash flow.

The election is not automatic. The executor must file timely Form 706 with the §6166 election attached, establish the 35%-of-AGE threshold, and accept ongoing reporting and acceleration risks under §6166(g). Disposition of more than 50% of the qualifying interest, payments more than six months late, or other triggers can accelerate the entire deferred balance.

§303 - stock redemption to pay death taxes

IRC §303 permits the corporation to redeem stock from the estate - up to the combined amount of estate tax, generation-skipping tax, funeral and administration expenses - with the redemption treated as a sale or exchange rather than as a dividend distribution. The qualifying stock must exceed 35% of AGE (same threshold as §6166), and the redemption must occur within four years of death (or longer if §6166 deferral is elected).

For C-corporations with appreciated stock, §303 converts what would be ordinary-income dividend treatment into capital-gain treatment with stepped-up basis under §1014, often producing zero or near-zero taxable gain on the redemption. Paired with §6166: the corporation redeems stock annually to fund the §6166 installments, the estate progressively withdraws from the corporation, and the operating business stays intact during the fourteen-year deferral window.

§2032A - special-use valuation for active-business real estate

IRC §2032A permits the executor to value real property used in a closely-held trade or business (or in farming) at its actual-use value rather than its highest-and-best-use fair market value, subject to a per-decedent reduction cap of \$1,420,000 (2026 indexed). For a manufacturing business operating from a facility on land worth \$3M as zoned but \$1M as currently used, §2032A can reduce the estate-valuation by up to the cap, producing \$568,000 of estate-tax savings at the 40% rate.

The election requires the qualifying real property pass to a qualifying heir, that the heir continue the qualified use for ten years post-death, and that the property meet the 50%-of-AGE and 25%-real-property tests under §2032A(b)(1). Disposition or cessation of qualifying use within the recapture period triggers an additional estate tax under §2032A(c), for which the qualifying heir - not the estate - is personally liable.

Worked example: \$30M estate, \$20M family business

Founder's gross estate: \$30M (married, predeceased spouse, business + real estate + liquid). Business interest: \$20M (67% of AGE - well above §6166 threshold). Qualifying real property: \$3M FMV reduced to \$1.58M actual-use via §2032A. Adjusted gross estate after §2032A: \$28.58M. Combined exemption (founder + spouse DSUE): \$27.98M. Net taxable estate: \$600K. Federal tax: \$240,000 - down from \$808K without the §2032A election.

With §6166 election, the \$240K tax defers over 14 years at 2% interest. With §303 redemption funding, the corporation redeems approximately \$17,000 of stock annually to fund installments - capital-gain treatment with stepped-up basis. The combined effect: an immediate \$808K liability transformed into a \$17K annual obligation funded by stock redemption rather than asset sale.

The succession plan that ignores post-mortem liquidity assumes the founder will live to complete the transition. Roughly thirty percent of family-business founders do not. The plan that integrates §6166, §303, and §2032A from drafting forward preserves the business through the worst-case scenario the family hopes never to test.

Quick hits

Year-end portability deadline. For decedents in calendar year 2026, the standard nine-month Form 706 filing deadline (extendable six months) governs portability. Estates not otherwise required to file have until the fifth anniversary of death under Rev. Proc. 2022-32, but waiting to the last minute remains poor practice.

2027 §1202 QSBS cap update. OBBBA modestly expanded the per-issuer gain-exclusion cap. Practitioners with C-corp founders nearing five-year holding marks should confirm the 2027 cap with counsel before exit timing decisions.

December Roth conversion timing. Year-end Roth conversions for the original IRA owner reduce the inherited-IRA tax burden under SECURE Act 10-year rule. Execute through the custodian by mid-December to avoid year-end processing risk.

§6166 acceleration triggers to monitor. For estates with §6166 in flight: track ownership disposition (50% test), payment timeliness (6-month rule), and qualifying-trade-or-business status. Annual review at the operating-company level is appropriate.

From the catalog

Family Business Succession - Chapter 10 covers integrated execution including post-mortem tax planning. The expanded §6166/§303/§2032A section walks the worked example above and includes the §6166 election checklist and §2032A qualifying-use documentation requirements.

Estate Planning Decoded - Chapter 14 (Executor and Trustee Administration) covers the post-death procedural mechanics: Form 706 filing, portability election, §6166 election, §303 redemption, and the fiduciary-income-tax obligations on Form 1041 that follow.

Both at baratelliinstitute.com.

If this Field Note was useful: the Baratelli Institute library includes the post-mortem-liquidity worksheet referenced above - free at baratelliinstitute.com.

Until next time -

Philip A. Baratelli, CPA, MBA

Founder, Baratelli Institute

Ponte Vedra Beach, Florida