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part of the net capital gain from the disposition of property held for investment if you also reduce the amount of net capital gain eligible for the 28% maximum capital gains rate by the same amount. See the instructions for line 4e on page 2.

Purpose of Form

Interest expense paid by an individual, estate, or a trust on a loan that is allocable to property held for investment may not be fully deductible in the current year. Form 4952 is used to figure the amount of investment interest expense deductible for the current year and the amount, if any, to carry forward to future years.

For more details, get Pub. 550, Investment Income and Expenses.

A Change To Note

Beginning in 1993, for purposes of computing your investment interest expense deduction, net capital gain from the disposition of property held for investment is excluded from investment income. However, you may elect to include in your investment income all or

- Learning about the law or the form 15 min.
- Preparing the form 21 min.
- Copying, assembling, and sending the form to the IRS 10 min.

Who Must File

If you are an individual, estate, or a trust, and you claim a deduction for investment interest expense, you must complete and attach Form 4952 to your tax return, unless all of the following apply:

- c Your only investment income was from interest or dividends,
- c You have no other deductible expenses connected with the production of interest or dividends,
- c Your investment interest expense is not more than your investment income, and
- c You have no carryovers of investment interest expense from 1992.

Allocation of Interest Expense Under Temporary Regulations Section 1.163-8T

If you paid or accrued interest on a loan and you used the proceeds of the loan for more than one purpose, you may have to allocate the interest paid. This is necessary because of the different rules that apply to investment interest, personal interest, trade or business interest, home mortgage interest, and passive activity interest. See Pub. 550.

Specific Instructions

Part I Total Investment Interest Expense

Line 1

Enter the investment interest paid or accrued during the tax year, regardless of when the indebtedness was incurred. Investment interest is interest paid or accrued on a loan (or part of a loan) that is allocable to property held for investment (as defined below).

Be sure to include investment interest expense reported to you on Schedule K-1 from a partnership or an S corporation. Include amortization of bond premium on taxable bonds purchased after October 22, 1986, but before January 1, 1988, unless you elected to offset amortizable bond premium against the interest payments on the bond. A taxable bond is a bond on which the interest is includible in gross income.

Investment interest expense does not include the following:

- c Home mortgage interest.
- c Interest expense that is properly allocable to a passive activity. A passive activity is any business activity in which you do not materially participate and any rental activity regardless of participation. See the separate instructions for Form 8582, Passive Activity Loss Limitations, for the material participation tests and the definition of "rental activity."
- c Any interest expense that is capitalized, such as construction interest subject to section 263A.
- c Interest expense related to tax-exempt interest income under section 265.

Property held for investment. Property held for investment includes property that produces income (unless derived in the ordinary course of a trade or business) from interest, dividends, annuities, or royalties; and gains from the disposition of property that produces those types of income or is held for investment. However, it does not include an interest in a passive activity.

Property held for investment also includes an interest in an activity of conducting a trade or business in which you did not materially participate and that is not a passive activity. For example, a working interest in an oil or gas property that is not a passive activity is property held for investment if you did not materially participate in the activity.

Part II Net Investment Income

Line 4a

Gross income from property held for investment to be entered on line 4a includes income (unless derived in the ordinary course of a trade or business) from:

- c Interest,
- c Dividends (except Alaska Permanent Fund dividends),
- c Annuities, and
- c Royalties.

If you are filing Form 8814, Parents' Election To Report Child's Interest and Dividends, part or all of your child's income may be included on line 4a. See Form 8814 for details.

Also, include on line 4a net income from the following passive activities:

- c Rental of substantially nondepreciable property,
- c Equity-financed lending activities, and
- c Acquisition of certain interests in a pass-through entity licensing intangible property.

See Regulations section 1.469-2(f)(10) for details.

Net passive income from a passive activity of a publicly traded partnership (as defined in section 469(k)(2)) is also included in investment income. See Notice 88-75, 1988-2 C.B. 386, for details.

Include investment income reported to you on Schedule K-1 from a partnership or an S corporation. Also include net investment income from an estate or a trust.

Do not include on line 4a any net gain from the disposition of property held for investment. Instead, enter this amount on line 4b.

Line 4b

Net gain from the disposition of property held for investment is the excess, if any, of total gains over total losses from the disposition of property held for investment. When figuring this amount, be sure to include capital gain distributions from mutual funds.

Line 4c

Net capital gain from the disposition of property held for investment is the excess, if any, of net long-term capital gain over net short-term capital loss from the disposition of property held for investment. When figuring this amount, be sure to include capital gain distributions from mutual funds.

Line 4e

Enter all or part of the amount on line 4c, but not more than the amount on line 4b, that you choose to include in investment income. If you make an entry on line 4e and you are using the Schedule D Tax Worksheet on page D-4 of the Form 1040 instructions (or Part VI of Schedule D (Form 1041)), you must also reduce the amount of net capital gain eligible for the 28% maximum capital gains

rate by the amount on this line. Therefore, you should consider the effect on your tax using the maximum capital gains rate before making an entry on this line.

Line 5

Investment expenses are your allowed deductions, other than interest expense, directly connected with the production of investment income. For example, depreciation or depletion allowed on assets that produce investment income is an investment expense.

Be sure to include investment expenses reported to you on Schedule K-1 from a partnership or an S corporation.

Investment expenses do not include any deductions taken into account in determining your income or loss from a passive activity.

If you have investment expenses that are included as a miscellaneous itemized deduction on Schedule A (Form 1040), line 20, you may not have to use all of the amount for purposes of Form 4952, line 5. The 2% adjusted gross income limitation on Schedule A may reduce the amount.

To figure the amount to use, compare the amount of the investment expenses included on Schedule A, line 20, with the total miscellaneous expenses on Schedule A, line 24. The smaller of the investment expenses included on line 20 or the total of line 24 is the amount to use to figure the investment expenses from Schedule A for line 5.

Example. Assume Schedule A, line 20, includes investment expenses of \$3,000, and line 24 is \$1,300 after the 2% adjusted gross income limitation. Investment expenses from Schedule A of \$1,300 are used to figure the amount of investment expenses for line 5. If investment expenses of \$800 were included on line 20 and line 24 was \$1,300, investment expenses from Schedule A of \$800 would be used.

Part III Investment Interest Expense Deduction

Line 8

This is the amount you may deduct as investment interest expense.

Individuals. Enter the amount from line 8 on Schedule A (Form 1040), line 11, even if all or part of it is attributable to a partnership or an S corporation. However, if any portion of this amount is attributable to royalties, enter that part of the interest expense on Schedule E (Form 1040).

Estates and trusts. Enter the amount from line 8 on Form 1041, line 10.

Form 6198. If any portion of the deductible investment interest expense is attributable to an activity for which you are not at risk, you must also use Form 6198, At-Risk Limitations, to figure your deductible investment interest expense. Enter the portion attributable to the at-risk activity on Form 6198, line 4. Reduce Form 4952, line 8, by the amount entered on Form 6198. See Form 6198 and its instructions for more details, especially the instructions for line 4 of that form.

Alternative minimum tax. Deductible investment interest expense is an adjustment for alternative minimum tax purposes. Get Form 6251, Alternative Minimum Tax—Individuals, or Form 1041, Schedule H, for estates and trusts.

