

Tax from Recomputing a Prior Year Investment Credit

(Computation of Recapture Tax)

▶ Attach to your income tax return.

For the calendar year 19, or other taxable year beginning, 19, and ending, 19

Name	Identifying number as shown on page 1 of your tax return
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Do not use this form if (1) there is an unused investment credit attributable to the disposed asset or (2) the disposed asset is progress expenditure property. (See instructions for lines 3 and 4 and example (c) on the back.) Compute the recapture tax for these items on separate sheets.

1. Original Investment Credit							Recomputed Investment Credit					Recapture Tax
(1) Description of property (also state whether new or used)	(2) Date placed in service	(3) Cost or basis	(4) Estimated useful life	(5) Applicable percentage	(6) Qualified investment (column 3 x column 5)	(7) Original investment credit (column 6 x applicable rate)	(8) Date item ceased to be investment credit property	(9) Period actually used	(10) Applicable percentage	(11) Qualified investment (column 3 x column 10)	(12) Recomputed investment credit (column 11 x applicable rate)	(13) Column 7 less column 12
(A)												
(B)												
(C)												
(D)												
(E)												
(F)												

2. Add column 13, lines (A) through (F)	
3. Enter tax attributable to disposed assets involving unused investment credit (attach computation).	
4. Enter tax attributable to disposed qualified progress expenditure property (attach computation).	
5. Total tax from recomputing a prior year investment credit—Add lines 2 through 4. Enter this total here and on the line provided on your tax return	

Note: The recapture tax is an addition to your income tax for the year in which you dispose of investment credit property. Do not use the recapture tax to offset the current year's investment credit on Form 3468.

General Instructions (References are to the Internal Revenue Code.)

For more information on recapture of investment credit obtain Publication 572, Tax Information on Investment Credit, available free from your Internal Revenue Service office.

Who May Use This Form.—If you are an individual, estate, trust, or corporation, and

- (a) you dispose of investment credit property subject to recapture tax before the end of the useful life years category you used to figure the credit; and
- (b) you had used the maximum credit allowable at the time you disposed of the property;

you may use this form to figure the recapture tax.

If you are a small business corporation, a partnership, or an estate or trust that divided the investment between the estate or trust and the beneficiaries, you must inform your shareholders, partners, or beneficiaries of any early dispositions. You must also give them the information they need to figure the

recapture tax. (See sections 1.47-4, 1.47-5, and 1.47-6 of the regulations.)

For disposition rules that apply to certain motion picture films and video tapes, see section 47(a)(7). For the rules for certain ships, see section 46(g)(4).

If you are a corporation, see section 48(n)(4) regarding adjustments to be made if the ESOP credit (additional 1% and 1½% credit allowed by section 46(a)(2)(E)) is to be recaptured.

Effective for taxable years ending after March 31, 1976, a section 374(c) transfer of railroad property to CONRAIL is not treated as a disposition for purposes of the investment credit recapture rules. (See section 47(b)(3).)

See section 47(a)(4) for special recapture rules regarding commuter highway vehicles.

Specific Instructions

Column 2.—Section 38 property is counted as being placed in service from the first day of the first month it is used.

Column 3.—Enter the cost or basis used to figure your investment in qualified property.

Column 5.—Enter the applicable percentage based on the estimated useful life shown in column 4.

Estimated Useful Life				Applicable Percentage
Property acquired before August 16, 1971 unless ordered after March 31, 1971		Property acquired after August 15, 1971 or ordered and acquired after March 31, 1971		
At least	But less than	At least	But less than	
(a) 4 years	6 years	3 years	5 years	33⅓
(b) 6 years	8 years	5 years	7 years	66⅔
(c) 8 years or more		7 years or more		100

Column 7.—If the tax liability limitation did not apply, or if it did apply but you took the full credit with a carryback and carry-over in the year you claimed the investment credit, the credit allowed will be the applicable rate multiplied by column 6.

Applicable Rate for Section 38 Property	Percentage
Before January 22, 1975	7
Public utility property ordered and acquired after March 31, 1971, or acquired after August 15, 1971, and before January 22, 1975	4
Before April 1, 1971, use	3
Property (including public utility property) acquired or constructed after January 21, 1975, and placed in service during the tax year	10
Certain corporate taxpayers may qualify for an additional 1 or 1½ percent after January 21, 1975. (See section 46(a)(2).)	
Property completed and placed in service after January 21, 1975:	
The part completed before January 22, 1975	7
The part completed after January 21, 1975	10
(See section 46(a)(2).)	

The following three examples show the investment credit recaptured (a) in full; (b) in part; and (c) when there is an unused investment credit at the time of disposition.

(a) In full.—On January 1, 1972, D, an individual on a calendar year basis, placed in service qualified property with an 8-year life and a basis of \$9,000. D deducted \$630 (\$9,000 × 100 percent × 7 percent investment credit) that was used in full to reduce D's 1972 tax liability. On November 1, 1974, D sold this property. Because D held it less than 3 years, no in-

vestment credit is allowable. Accordingly, \$630 must be added to D's 1974 tax liability (the difference between the \$630 credit allowed and the refigured credit of zero).

(b) In part.—Assume the same facts as in (a) above, except D sold the property on March 1, 1975. D would add \$420 to D's 1975 tax liability as follows:

Original Investment Credit	
3 Cost or basis	\$9,000
4 Estimated life	8 years
5 Applicable percentage	100
6 Qualified investment (Multiply column 3 by column 5)	9,000
7 Original investment credit allowed (Multiply column 6 by 7 percent)	630
Tax from refiguring a previous year investment credit (Subtract column 12 from column 7)	

Refigured Investment Credit	
3 Cost or basis	\$9,000
9 Period actually used	3 years
10 Applicable percentage	33⅓
11 Qualified investment (Multiply column 3 by column 10)	3,000
12 Refigured investment credit (Multiply column 11 by 7 percent)	210
Tax from refiguring a previous year investment credit (Subtract column 12 from column 7)	

(c) Unused investment credit at time of disposition.—On December 1, 1974, E, an individual on a calendar year basis, placed in service \$50,000 of qualified property with a useful life of 10 years. Although the tentative investment credit was \$3,500 (\$50,000 × 100 percent × 7 percent) the investment credit was limited to E's tax liability of \$1,000. The excess of \$2,500 (\$3,500 less \$1,000) was an unused investment credit carryback. Of this \$2,500, E used \$300 in 1971, \$400 in 1972,

and \$400 in 1973. In 1975, E sold the property. Because E held the property less than 3 years, no investment credit is allowable. E had taken a total credit through 1974 of \$2,100. Accordingly, \$2,100 must be added to E's 1975 tax liability (the difference between the \$2,100 credit taken and the refigured credit of zero). E would attach a sheet to the tax return showing this computation and enter the recapture tax of \$2,100 on the line provided on the return.