

Instructions

WHO MUST FILE.—Individuals with items of tax preference in excess of \$15,000 must file this form even though there is no minimum tax due. If short period return, see note in instructions for line 3.

Line 1—ITEMS OF TAX PREFERENCE

(a) Excess investment interest

Subtract net investment income from investment interest expense and enter balance.

Investment interest expense means interest paid or accrued on indebtedness incurred or continued to purchase or carry property held for investment. However, interest paid or accrued on indebtedness incurred or continued in connection with the construction of property to be used in a trade or business is not to be treated as an investment interest expense.

Property subject to a net lease entered into after October 9, 1969 is property held for investment. Property is considered subject to a net lease if

- (1) the sum of the deductions allowable solely by reason of sec. 162 is less than 15 percent of the rental income produced by the property, or
- (2) the lessor is either guaranteed a specified return or is guaranteed in whole or in part against loss of income.

Net investment income means the excess of investment income over investment expenses.

Investment income consists of the gross income from interest, dividends, rents, and royalties, net short-term capital gain from investment property, and sec. 1245 and sec. 1250 gain if such income, gains, and profits are not derived from the conduct of a trade or business.

Investment expense consists of real property taxes (State and local, foreign), personal property taxes (State and local), bad debts, depreciation (actual deduction unless straight-line method chosen), amortizable bond premium, expenses for production of income, and depletion (actual deduction unless cost depletion chosen) directly connected with the production of investment income.

(b) Accelerated depreciation on real property:

- (1) Low-income rental housing under sec. 167(k)
- (2) Other real property

Enter on the appropriate line(s) the excess of depreciation allowable over the depreciation that would have been allowable if the straight-line method had been used. This excess must be computed on a property by property basis. **Note:** If you amortized certain rehabilitation expenditures for sec. 1250 property over a 5-year period, enter on line (b)(1) the amount by which this amortization exceeds straight-line depreciation over the normal useful life of the improvements.

(c) Accelerated depreciation on personal property subject to a net lease

Enter the excess of depreciation allowable over the depreciation that would have been allowable if the straight-line method had been used. This excess must be computed on a property by property basis.

(d) Amortization of certified pollution control facilities, and

(e) Amortization of railroad rolling stock

For items (d) and (e) with respect to each certified pollution control facility and each unit of railroad rolling stock, enter the amount by which the amortization allowable exceeds the depreciation deduction otherwise allowable.

(f) Stock options

If you received stock subject to qualified or restricted stock options, enter amount by which the fair market

value of the shares at the time of exercise exceeds the option price.

(g) Reserves for losses on bad debts of financial institutions

Enter your share of the excess of the addition to reserve for bad debts over the reasonable addition to the reserve for bad debts that would have been allowable if the bad debt reserve had been maintained for all taxable years on the basis of actual experience. See sec. 57(a)(7).

(h) Depletion

Determine any excess of deduction for depletion allowable under sec. 611 over the adjusted basis of the property at the end of the year (determined without regard to depletion deduction for the taxable year). Enter that amount here. This excess must be computed on a property by property basis.

(i) Capital gains

Enter one-half of the amount by which the net long-term capital gain exceeds the net short-term capital loss for the taxable year. (Amount from Schedule D, Part I, line 15(a). However, if capital gain distributions are reported on Form 1040, line 39, enter amount included on line 39 here.)

Partners, beneficiaries of estates and trusts, etc.

Each partner must take into account separately his distributive share of items of income and deductions which enter into the computation of items of tax preferences. If you are a partner and have elected the optional adjustment to basis (see sec. 743), adjust the applicable items of tax preference to reflect the election.

If you are a:

- beneficiary of an estate or trust; see sec. 58(c);
- shareholder of an electing small business corporation, see sec. 58(d);
- participant in a common trust fund, see sec. 58(e);
- shareholder or holder of beneficial interest in a regulated investment company or a real estate investment trust, see sec. 58(f).

If you have tax preferences attributable to foreign sources, see sec. 58(g).

Line 3—Adjustment in Exclusion for Computing Minimum Tax for Tax Preferences for Short Period Returns

If this return is for a short period, enter your adjusted exclusion on line 3 computed by using this formula:

$$\$30,000 \times \frac{\text{number of days in taxable year}}{365}$$

However, if you are married filing separately or "certain married individuals living apart," substitute \$15,000 for the \$30,000.

Note: If line 2 is more than either the adjusted exclusion or \$15,000, file this form even though there is no minimum tax due.

Line 10—1970 Net Operating Loss Carryover to 1971

Under certain conditions, part or all of the amount shown on line 9 may be deferred to a subsequent year. See sec. 56(b).

Line 13—Minimum Tax Deferred From Prior Year

Enter amount of minimum tax deferred from fiscal year 1969–70, if any. See section 56(b). In computing the amount of minimum tax deferred from fiscal year 1969–70 which is imposed in a subsequent taxable year, the same proration rule applies to the subsequent computation that applied to the computation of the initial minimum tax liability in fiscal year 1969–70. See sec. 301(c) of Public Law 91–172 (Tax Reform Act of 1969).