

# Investment Interest Expense Deduction

▶ Attach to your tax return.

Name(s) shown on return

Identifying number

<b>1</b>	Investment interest expense paid or accrued in 1991. See instructions . . . . .	<b>1</b>		
<b>2</b>	Disallowed investment interest expense from 1990 Form 4952, line 23 . . . . .	<b>2</b>		
<b>3</b>	Total investment interest expense. Add lines 1 and 2 . . . . .	<b>3</b>		
<b>4</b>	<b>Net investment income.</b> See instructions . . . . .	<b>4</b>		
<b>5</b>	<b>Disallowed investment interest expense to be carried forward to 1992.</b> Subtract line 4 from line 3. If zero or less, enter -0- . . . . .	<b>5</b>		
<b>6</b>	<b>Investment interest expense deduction.</b> Enter the smaller of line 3 or line 4. See instructions . . . . .	<b>6</b>		

## General Instructions

### Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

**Recordkeeping** . . . . . 13 min.

**Learning about the law or the form** . . . . . 14 min.

**Preparing the form** . . . . . 11 min.

**Copying, assembling, and sending the form to the IRS.** . . 10 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the IRS and the Office of Management and Budget at the addresses listed in the instructions for the tax return with which this form is filed.

### Purpose of Form

Interest expense paid by an individual, estate, or a trust on a loan that is allocable to property held for investment (defined on page 2), 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.

### 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:

- Your only investment income was from interest or dividends,
- You have no other deductible expenses connected with the production of interest or dividends,
- Your investment interest expense is not more than your investment income, and
- You have no carryovers of investment interest expense from 1990.

### 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

### Line 1—Investment Interest Expense

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

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:

- Home mortgage interest;
- Interest expense that is properly allocable to a passive activity (see **Passive Activities** below);
- Any interest expense that is capitalized, such as construction interest subject to section 263A; or
- Interest expense related to tax-exempt interest income under section 265.

### Passive Activities

Investment interest expense does not include any interest expense that is taken into account in determining your income or loss from a passive activity. However, interest expense that is properly allocable to portfolio income is investment interest expense and is not taken into account when determining your income or loss from a passive activity. Portfolio income includes income (not derived in the ordinary course of a trade or business) from interest, dividends, annuities, royalties, and net gain from the disposition of property held for investment. See the instructions for Schedule E (Form 1040) for the definition of passive activity.

### Line 4—Net Investment Income

Net investment income is the excess, if any, of investment income over investment expenses (see page 2). Include investment income and

expenses 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.

## Investment Income

Investment income includes income (not derived in the ordinary course of a trade or business) from interest, dividends, annuities, royalties, and net gain from the disposition of property held for investment (including capital gain distributions from mutual funds). Net income from the following passive activities is also treated as investment income:

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

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

In addition to the activities listed above, 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.

Investment income does not include Alaska Permanent Fund Dividends. See Rev. Rul. 90-56, 1990-2 C.B. 102.

## Property Held for Investment

Property held for investment includes property that produces investment income. However, it does not include an interest in a passive activity. See **Passive Activities**, on page 1, for more details.

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.

## Investment Expenses

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.

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 line 20 of Schedule A (Form 1040), you may not have to use all of the amount for purposes of line 4 of Form 4952. 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 line 20 of Schedule A with the total miscellaneous expenses on line 24 of Schedule A. 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 expense for line 4.

**Example.** Assume line 20 of Schedule A includes investment expenses of \$3,000, and line 24 is \$1,300 after the 2% adjusted gross income limitation. Investment expenses of \$1,300 are used to figure the amount of investment expense for line 4. If investment expenses of \$800 were included on line 20 and line 24 was \$1,300, investment expenses of \$800 would be used.

If you have investment expenses reported on a form or schedule other than Schedule A, include those expenses when figuring investment expenses for line 4.

## Line 6—Investment Interest Expense Deduction

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

### Individuals

Enter the amount from line 6 on line 11 of Schedule A (Form 1040), 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 portion of the interest expense on Schedule E (Form 1040).

### Estates and Trusts

Enter the amount from line 6 on line 10 of Form 1041.

### 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 line 4 of Form 6198. Reduce line 6 of Form 4952 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 interest expense is an adjustment for alternative minimum tax purposes. Get **Form 6251, Alternative Minimum Tax—Individuals**, or **Form 8656, Alternative Minimum Tax—Fiduciaries**.