

Interest Computation Under the Look-Back Method for Completed Long-Term Contracts

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▶ **Do not attach this form to your tax return; file it separately.**

For contracts completed during the tax year beginning ,19 and ending ,19 . (See instructions.)

Please Type or Print	Name	A Identifying number
	Number and street (or P.O. box number if mail is not delivered to street address)	B Check applicable box to show type of taxpayer: <input type="checkbox"/> Corporation <input type="checkbox"/> Individual <input type="checkbox"/> Estate or trust
	City or town, state, and ZIP code	

C If you were an owner of an interest in a pass-through entity (such as a partnership or an S corporation) that holds one or more long-term contracts to which this interest computation relates, enter the name and employer identification number of the entity. (Attach a schedule if there is more than one such entity.)

Name of entity	Employer identification number
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	Enter date of each prior year to which interest computation relates:						
	(a) Year ended mo. yr.		(b) Year ended mo. yr.		(c) Year ended mo. yr.		
1 Taxable income (or loss) for the prior year(s) shown on tax return (or as previously adjusted) before net operating loss or capital loss carrybacks (other than carrybacks that must be taken into account to properly compute interest under section 460). If you were required to file Form 8697 for an earlier contract completion year, enter adjusted taxable income for the prior year(s) from line 3, Form 8697, for the most recent contract completion year that affects the prior year(s)							
2 Adjustment to income to reflect the difference between: (a) the amount of income required to be reported for post-February 1986 contracts completed during the tax year based on the actual contract price and costs and (b) the amount of income reported for such contracts based on estimated contract price and costs. (See instructions and attach a schedule listing each separate contract, unless you were an owner of an interest in a pass-through entity reporting this amount from Schedule K-1 or similar statement)							
3 Adjusted taxable income—Combine lines 1 and 2							
4 Income tax liability on line 3 amount using tax rates in effect for the prior year(s) (See instructions.)							
5 Income tax liability shown on return (or as previously adjusted) for the prior year(s). (See instructions.) If you were required to file Form 8697 for an earlier contract completion year, enter the amount required to be reported on line 4, Form 8697, for the most recent contract completion year that affects the prior year(s)							
6 Increase (or decrease) in tax for the prior year(s) on which interest is due (or is to be refunded)—Line 4 less line 5							
7 Interest due on increase, if any, shown on line 6—See instructions for computation							
8 Interest to be refunded on decrease, if any, shown on line 6—See instructions for computation							
9 Net amount of INTEREST TO BE REFUNDED TO YOU —Enter excess of line 8, column (d) over line 7, column (d)							
10 Net amount of INTEREST YOU OWE —Enter excess of line 7, column (d) over line 8, column (d). Attach check or money order for full amount payable to "Internal Revenue Service." Write your identifying number, daytime phone number, and "Form 8697—Interest Due" on it							

Please Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature _____	Date _____
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Paid Preparer's Use Only	Preparer's signature ▶ _____	Date _____	Check if self-employed <input type="checkbox"/>	Preparer's social security number _____
	Firm's name (or yours if self-employed) and address ▶ _____	E.I. No. ▶ _____		
		ZIP code ▶ _____		

General Instructions

(Section references are to the Internal Revenue Code unless otherwise noted.)

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of interest. You are required to give us this information.

Purpose of Form.—Form 8697 is used to figure the interest due or to be refunded under the look-back method of section 460(b)(3) on long-term contracts entered into after February 28, 1986, that are accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method.

Who Must File.—Except for certain small construction contracts under section 460(e), you must file Form 8697 for each tax year in which a long-term contract entered into after February 28, 1986, is completed that for Federal income tax purposes has been accounted for under either the percentage of completion-capitalized cost method or the percentage of completion method. If you were an owner of an interest in a pass-through entity (such as a partnership or an S corporation) during any year in which a long-term contract was being accounted for under either such method, you must file this form for your tax year that ends with or includes the end of the entity's tax year in which the contract was completed.

When To File.—File Form 8697 at the time you are required to file your Federal income tax return (including extensions) for your tax year in which one or more long-term contracts are completed (or at any time required by section 460 or the regulations thereunder). If you were an owner of an interest in a pass-through entity that has completed one or more long-term contracts, file Form 8697 for your tax year that ends with or includes the end of the entity's tax year in which the contract was completed. If you received an extension to file your income tax return, attach a copy of the approved (or automatic) extension form that you filed. You do not need to request a separate extension of time to file Form 8697.

Period Covered.—Fill in the tax year line at the top of the form to show the tax year of contract completion for which the form is being filed.

If you were an owner of an interest in a pass-through entity that has completed one or more long-term contracts, enter your tax year that ends with or includes the end of the entity's tax year in which the contract was completed.

Where To File.—File Form 8697 with the Internal Revenue Service Center where you are required to file your Federal income tax return. File the form in a separate envelope from that of your income tax return. You should keep a copy of Form 8697 and any attached schedules for your records.

Amended Form 8697.—You are required to file an amended Form 8697 only if the amount shown on line 6 for any prior year changes as a result of an error you made, an income tax examination, or the filing of an amended income tax return. To amend a previously filed Form 8697, file a corrected Form 8697 marked "Amended" in the margin at the top of the form.

Attachments.—If more space is needed, attach separate sheets to the back of Form 8697. Be sure to put the taxpayer's name and identifying number on each sheet.

Signature.—See the instructions for the "Signature" section of your Federal income tax return. You should sign only the Form 8697 in which you complete column (d). See note below.

Specific Instructions

Name and Address.—Enter the name shown on your Federal income tax return for the contract completion year and your current address. If you are an individual filing a joint return with your spouse, also enter your spouse's name as shown on Form 1040.

A. Identifying number.—If you are an individual, enter your social security number. Other filers must use their employer identification number.

Columns (a), (b), and (c).—Enter at the top of each column the ending month and year for: (1) each prior tax year in which you were required to report income from the completed long-term contract(s) or (2) any other tax year affected by such year(s).

Note: If there were more than 3 prior tax years, attach additional Forms 8697 as needed. On the additional Forms 8697 which you do not sign, enter your name, identifying number, and tax year; complete lines 1 through 8, but do not enter totals in column (d). Enter totals only in column (d) of the Form 8697 you sign.

Line 2.—In each column, show a net increase to income as a positive amount and a net decrease to income as a negative amount.

In figuring the net adjustment to be entered in each column on line 2, be sure to take into account any other income and expense adjustments that may result from the increase (or decrease) to income from long-term contracts (e.g., in the case of an individual, a change to adjusted gross income may affect investment expenses under section 212, medical expenses under section 213, etc.).

Attach a schedule that includes the following information:

(a) Identification of each completed long-term contract by contract number, job name, or any other reasonable method used in your records to identify each contract.

(b) For each contract, report in columns for each prior year: (1) the amount of income previously reported based on estimated contract price and costs, and (2) the amount of income allocable to each prior year based on actual contract price and costs. Total the columns for each prior year and show the net adjustment to income from long-term contracts.

(c) Any other adjustments that result from the change to income from long-term contracts must be identified and the amounts must be shown in the columns for the affected years so that the net adjustment shown in each column on the attached schedule agrees with the amounts shown on line 2.

An owner of an interest in a pass-through entity is not required to provide the detail listed in (a) and (b) above with respect to prior years. The entity should provide the line 2 amounts with Schedule K-1 or on a separate statement for its tax year in which the contracts are completed.

Note: Taxpayers reporting line 2 amounts from more than one Schedule K-1 (or similar statement) must attach a schedule detailing by entity the net change to income from long-term contracts.

Lines 4 and 5.—The tax liability to be entered on lines 4 and 5 must be reduced by allowable

credits (other than refundable credits; e.g., the credit for taxes withheld on wages, the earned income credit, the credit for Federal tax on gasoline and special fuels, etc.), but do not take into account any credit carrybacks to the prior year in computing the amount to enter on lines 4 and 5 (other than carrybacks that must be taken into account to properly compute interest under section 460). Include on lines 4 and 5 any taxes (such as alternative minimum tax) required to be taken into account in the computation of your tax liability (as originally reported or as redetermined).

Lines 7 and 8.—For the increase (or decrease) in tax for each prior year, interest due or to be refunded must be computed at the overpayment rate determined under section 6621(a)(1) and compounded on a daily basis from the due date (not including extensions) of the return for the prior year until the date this form is filed, except as provided below.

Exceptions:

(1) If a net operating loss, capital loss, or credit carryback is being increased or decreased as a result of the adjustment made to net income from long-term contracts, the interest due or to be refunded must be computed on the increase or decrease in tax attributable to the change to the carryback only from the due date (not including extensions) of the return for the prior year that generated the carryback and not from the due date of the return for the year in which the carryback was absorbed. See section 6611(f).

(2) In the case of a decrease in tax on line 6, if a refund has been allowed for any part of the income tax liability shown on line 5 for any year as a result of a net operating loss, capital loss, or credit carryback to such year, and the amount of the refund exceeds the amount on line 4, interest shall be allowed on the amount of such excess only until the due date (not including extensions) of the return for the year in which the carryback arose.

Note: If a different method of interest computation must be used to produce the correct result in your case, use that method and attach an explanation of how the interest was computed.

Tables of interest factors to compute daily compound interest were published in Rev. Proc. 83-7, 1983-1 C.B. 583. Annual interest rates to be compounded daily and the tables that apply for periods through June 30, 1988, are shown in the following table:

Period	Rate	Daily Rate Table in 1983-1 C.B.
Before 6/30/86	10%	Table 16, p. 599
7/1/86-12/31/86	9%	Table 15, p. 598
1/1/87-3/31/87	8%	Table 14, p. 597
4/1/87-6/30/87	8%	Table 14, p. 597
7/1/87-9/30/87	8%	Table 14, p. 597
10/1/87-12/31/87	9%	Table 15, p. 598
1/1/88-3/31/88	10%	Table 16, p. 599
4/1/88-6/30/88	9%	Table 15, p. 598

For periods beginning after June 30, 1988, use the overpayment rate under section 6621(a)(1) in the revenue rulings published quarterly in the Internal Revenue Bulletin.

Line 9.—This amount (or the amount refunded by IRS, if different) must be reported as interest income on your Federal income tax return for the tax year in which it is received or accrued.

Line 10.—This amount (or the amount computed by IRS, if different) is deductible, subject to any applicable limitations under section 163, as interest expense on your Federal income tax return for the tax year in which it is paid or accrued.