



# General Instructions

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

## Purpose of Form

A qualified zone academy bond is a taxable bond issued after 1997 by a state or local government, the proceeds of which are used to improve certain eligible public schools. In lieu of receiving periodic interest payments from the issuer, an eligible holder of the bond is generally allowed an annual income tax credit while the bond is outstanding. The qualified zone academy bond credit compensates the holder for lending money to the issuer and functions as interest paid on the bond. Eligible holders of qualified zone academy bonds use Form 8860 to claim this credit.

## Who May Claim the Credit

An eligible holder of a qualified zone academy bond files Form 8860 for each tax year it holds a bond on a credit allowance date. To be an eligible holder, the taxpayer must be a bank, insurance company, or other corporation actively engaged in the business of lending money. A taxpayer that is an ineligible holder cannot claim the credit. The credit allowance date is the last day of (a) the 1-year period beginning on the date the bond was issued and (b) each successive 1-year period thereafter. The credit is deemed paid on the credit allowance date.

## Specific Instructions

### Part I—Tentative Credit

#### Line 1, Column (c)

Enter the face amount of the bond minus any payments of principal received.

#### Line 1, Column (d)

The credit rate is 110% of the long-term applicable federal rate (AFR), compounded annually, for the month and year the bond is issued. The IRS announces the long-term AFR monthly in a revenue ruling published in the Internal Revenue Bulletin.

#### Line 2

The tentative credit on line 2 is deemed to be a payment of qualified stated interest (as defined in Regulations section 1.1273-1(c)) on the credit allowance date. Therefore, a holder on the accrual method must accrue the credit amount as taxable interest income over the 1-year period that ends on the credit allowance date.

If the holder buys a bond between credit allowance dates, the interest (credit) accrued at the time of purchase is not taxable as interest. Instead, the payment of the accrued interest (credit) is a return of principal that reduces the bond's remaining basis. If the holder sells a bond between credit allowance dates, part of the sales price is treated as interest accrued to the date of sale and must be reported as interest income.

## Part II—Tax Liability Limit

### Line 6e

If the corporation claimed only one of the credits that make up the general business credit, enter on line 6e the credit allowed for the current tax year (after the tax liability limit). See the instructions for **Form 3800**, General Business Credit, for a list of the credits included in the general business credit. If the corporation filed Form 3800 (but not **Form 8844**, Empowerment Zone Employment Credit), enter the credit from Form 3800, line 18. If the corporation filed both Forms 3800 and 8844, enter the sum of the credits from Form 3800, line 18, and Form 8844, line 21. If the corporation filed Form 8844 (but not Form 3800), enter the sum of the credit from Form 8844, line 21, plus any other general business credit allowed for the current tax year (after the tax liability limit).

### Line 8

If the holder cannot use all of the credit on line 2 because of the tax liability limit in Part II (i.e., line 2 is more than line 8), the holder's income is adjusted by deducting any unused credit for the tax year that includes the credit allowance date. Because this deduction may further reduce the tax liability limit, the holder may need to refigure the tax liability limit and the unallowed credit. Refigure the unallowed credit until it equals the deduction. It may be necessary to use the "trial and error" method.

**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.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

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

- Recordkeeping** . . . . . 4 hr., 47 min.
- Learning about the law or the form** . . . . . 12 min.
- Preparing and sending the form to the IRS** . . . . . 17 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.