

Qualified Zone Academy Bond Credit

▶ Attach to your tax return.
▶ See instructions on back.

Name	Employer identification number
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Part I Current Year Credit

(a) Bond issuer's name, city or town, and state	(b) Month and year bond issued	(c) Outstanding principal amount of bond	(d) Credit rate	(e) Credit ((c) x (d))
1				

2a Qualified zone academy bond credit from Schedule K-1 (Form 1120S), line 13	2a	
b Enter the S corporation's employer identification number (EIN)		
3 Current year qualified zone academy bond credit. Add line 2a and all amounts on line 1, column (e). Caution: You must include this amount in gross income before going to Part II below	3	

Part II Allowable Credit (S corporations, see instructions)

4 Regular tax before credits:				
<ul style="list-style-type: none"> • Individuals. Enter the amount from Form 1040, line 42 • Corporations. Enter the amount from Form 1120, Schedule J, line 3, or the applicable line of the corporation's return • Estates and trusts. Enter the sum of the amounts from Form 1041, Schedule G, lines 1a and 1b, or the amount from the applicable line of your return 	}	4		
5 Alternative minimum tax:				
<ul style="list-style-type: none"> • Individuals. Enter the amount from Form 6251, line 35 • Corporations. Enter the amount from Form 4626, line 15 • Estates and trusts. Enter the amount from Form 1041, Schedule I, line 56 	}	5		
6 Add line 4 and line 5		6		
7a Foreign tax credit	7a			
b Credit for child and dependent care expenses (Form 2441, line 11)	7b			
c Credit for the elderly or the disabled (Schedule R (Form 1040), line 24)	7c			
d Education credits (Form 8863, line 18)	7d			
e Credit for qualified retirement savings contributions (Form 8880, line 14)	7e			
f Child tax credit (Form 1040, line 50)	7f			
g Mortgage interest credit (Form 8396, line 11)	7g			
h Adoption credit (Form 8839, line 18)	7h			
i District of Columbia first-time homebuyer credit (Form 8859, line 11)	7i			
j Possessions credit (Form 5735)	7j			
k Credit for fuel from a nonconventional source	7k			
l Qualified electric vehicle credit (Form 8834, line 20)	7l			
m General business credit (see instructions).	7m			
n Credit for prior year minimum tax	7n			
o Add lines 7a through 7n		7o		
8 Net income tax. Subtract line 7o from line 6.		8		
9 Allowable credit. Enter the smaller of line 3 or line 8 here and on Form 1040, line 53; Form 1120, Schedule J, line 6f; Form 1041, Schedule G, line 3; or the applicable line of your return. Caution: If line 9 is smaller than line 3, you generally should deduct the unallowed credit in figuring your taxable income for this tax year. Because this deduction will affect the allowable credit, refigure the unallowed credit until it equals the deduction. However, you may be able to deduct the unallowed credit attributable to bonds sold after September 25, 2000, in the next tax year (see instructions)		9		

General Instructions

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

A Change To Note

S corporations may be eligible holders of a qualified zone academy bond (QZAB). This change applies to tax years ending after 1997.

Purpose of Form

Eligible holders of qualified zone academy bonds (QZABs) use Form 8860 to claim the QZAB bond credit. A QZAB 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 credit compensates the holder for lending money to the issuer and functions as interest paid on the bond.

Who May Claim the Credit

An eligible holder of a QZAB 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, or a shareholder of an S corporation that is an eligible holder. 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—Current Year Credit

Complete line 2, not line 1, for a credit you received as a shareholder of an S corporation. If you received a QZAB credit from more than one S corporation, attach a schedule showing the EIN and credit amount for each S corporation and enter the total credit on line 2a.

Line 1, Column (c)

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

Line 1, Column (d)

For bonds sold before July 1, 1999, 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 announced the long-term AFR monthly in a series of revenue rulings published in the Internal Revenue Bulletin.

For bonds sold after June 30, 1999, the credit rate is the rate published daily by the Bureau of the Public Debt under "SLGS and Other Special Investments" on its Internet Web Site at www.publicdebt.treas.gov. The rate is applied to the bond on the first day on which there is a binding contract in writing for the sale or exchange of the bond. The rate is determined by the Department of the Treasury based on its estimate of the yield on outstanding AA rated corporate bonds of a similar maturity for the business day immediately prior to the date on which there is a binding contract in writing for the sale or exchange of the bond.

Line 3

The current year credit on line 3 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 is an S corporation, the S corporation must include the entire credit amount in its gross income.

If the holder buys a bond between credit allowance dates, the interest (credit) accrued at the time of purchase is not interest income, and is not taxable as interest when paid. Instead, the payment of the interest (credit) on the credit allowance date is treated as a return of capital (to the extent of the accrued interest (credit) at the time of purchase), which reduces the holder's cost basis in the bond. 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—Allowable Credit

S corporations complete only Part I of Form 8860, include the credit amount on line 3 in the S corporation's gross income, and pro-rate the credit on line 3 to their shareholders.

Line 7m

If you are filing **Form 3800**, General Business Credit, enter the credit from Form 3800. If you are not filing Form 3800, enter the credit allowed for the current tax year (after the tax liability limit) from the general business credit form you are filing. See the instructions for Form 3800 to find out which credits are included in the general business credit. Also include any credit from **Form 8844**, Empowerment Zone and Renewal Community Employment Credit or **Form 8884**, New York Liberty Zone Business Employee Credit.

Line 9

If the holder cannot use all of the credit on line 3 because of the tax liability limit in Part II (i.e., line 3 is more than line 9), the holder's income generally 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. If the holder is an S corporation, the shareholder, not the S corporation, may take the deduction.

Note: *To the extent the unallowed credit is attributable to bonds sold after September 25, 2000, you may deduct the unallowed credit in the next tax year instead of the current tax year. See Regulations sections 1.1397E-1(f)(2) and (k).*

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The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 6 hr., 56 min; **Learning about the law or the form**, 18 min; **Preparing and sending the form to the IRS**, 25 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.

