

# Nonconventional Source Fuel Credit

▶ **Attach to your tax return.**  
 ▶ **See instructions.**

Name(s) shown on return _____	Identifying number _____
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**Part I Tentative Credit**

	(a) All qualified fuels sold in 2005	(b) Qualified coke and coke gas sold after 12/31/2005	(c) All other qualified fuels sold after 12/31/2005
<b>A</b> Type of qualified fuel (enter code) _____			
<b>B</b> Date the facility was placed in service _____			
<b>1</b> Barrel-of-oil equivalents . . . . .			
<b>2</b> Enter the product of \$3 multiplied by the inflation adjustment factor. See instructions . . . . .			
<b>3</b> Multiply line 2 by line 1 . . . . .			
<b>4</b> Phaseout adjustment. See instructions . . . . .			
<b>5</b> Subtract line 4 from line 3 in col. (a) and (c). In col. (b), enter the amount from line 3. If zero or less, enter zero . . . . .			
<b>6</b> Add columns (a) through (c) on line 5 . . . . .			<b>6</b>
<b>7a</b> Reduction due to government monies and subsidized financing. Enter the total of government grants, proceeds of tax-exempt government obligations, and subsidized energy financing for the project for this and all prior tax years . . . . .	<b>7a</b>		
<b>b</b> Enter the total of additions to the capital account for the project for this and all prior tax years . . . . .	<b>7b</b>		
<b>c</b> Divide line 7a by line 7b. Show as a decimal to at least 4 places . . . . .	<b>7c</b>		
<b>d</b> Multiply line 6 by line 7c . . . . .			<b>7d</b>
<b>8</b> Subtract line 7d from line 6 . . . . .			<b>8</b>
<b>9a</b> Reduction due to energy credit. Enter the total amount allowed under section 38 for this and all prior tax years by reason of the energy percentage with respect to the property used in the project . . . . .	<b>9a</b>		
<b>b</b> Enter the total amount recaptured with respect to the amount entered on line 9a under section 49(b) or 50(a) for this and any prior tax year, and under section 38 for any prior tax year . . . . .	<b>9b</b>		
<b>c</b> Subtract line 9b from line 9a. If zero or less, enter amount from line 8 on line 10 and go to line 11a			<b>9c</b>
<b>10</b> Subtract line 9c from line 8 . . . . .			<b>10</b>
<b>11a</b> Reduction due to enhanced oil recovery credit (Form 8830). Enter the total amount allowed for this and all prior tax years by reason of any enhanced oil recovery credit with respect to such project . . . . .	<b>11a</b>		
<b>b</b> Enter the total amount of enhanced oil recovery credit recapture with respect to the amount on line 11a for any prior tax year . . . . .	<b>11b</b>		
<b>c</b> Subtract line 11b from line 11a. If zero or less, enter the amount from line 10 on line 12 and go to line 13 . . . . .			
<b>12</b> Subtract line 11c from line 10 . . . . .			<b>12</b>
<b>13</b> Nonconventional source fuel credits from pass-through entities:			
<b>If you are a—</b>	<b>Then enter the total nonconventional source fuel credits from—</b>		
<b>a</b> Shareholder . . . . .	Schedule K-1 (Form 1120S), box 13, code F, G, or U		
<b>b</b> Partner . . . . .	Schedule K-1 (Form 1065), box 15, code F, G, or U, or Schedule K-1 (Form 1065-B), box 9, code A5 or J		
<b>c</b> Beneficiary . . . . .	Schedule K-1 (Form 1041), box 13, code P		
<b>14</b> <b>Tentative credit.</b> Add lines 12 and 13 . . . . .			<b>14</b>

If you are a fiscal year taxpayer whose tax year ends in 2006, **stop here**. Report the amount from line 14 on line 1s of Form 3800 (see instructions for exceptions). Do not complete Parts II and III of this form. If you are a calendar year 2005 filer, you must complete Parts II and III.

**Part II Passive Activity Limitation for Calendar Year 2005 Filers**

<b>15</b>	Passive activity credits included on line 14 (see instructions)	<b>15</b>	(		)
<b>16</b>	Passive activity credits allowed for 2005 (see instructions)	<b>16</b>			
<b>17</b>	Tentative credit. Combine lines 14, 15, and 16	<b>17</b>			

**Part III Allowable Credit for Calendar Year 2005 Filers**

<b>18</b>	Regular tax before credits: <ul style="list-style-type: none"> <li>• Individuals. Enter the amount from Form 1040, line 44</li> <li>• Corporations. Enter the amount from Form 1120, Schedule J, line 3</li> <li>• Other filers. Enter the regular tax before the credits from your return</li> </ul>	<b>18</b>		
<b>19</b>	Credits that reduce tax before the nonconventional source fuel credit: <b>a</b> Foreign tax credit <b>b</b> Credits from Form 1040, lines 48 through 54 <b>c</b> Possessions tax credit (Form 5735, line 17 or 27) <b>d</b> Add lines 19a through 19c		<b>19a</b>	
			<b>19b</b>	
			<b>19c</b>	
			<b>19d</b>	
<b>20</b>	Net regular tax. Subtract line 19d from line 18. If zero or less, <b>do not</b> file this form; you cannot claim this credit	<b>20</b>		
<b>21</b>	Tentative minimum tax (see instructions): <ul style="list-style-type: none"> <li>• Individuals. Enter the amount from Form 6251, line 33</li> <li>• Corporations. Enter the amount from Form 4626, line 12</li> <li>• Estates and trusts. Enter the amount from Form 1041, Schedule I, line 54</li> </ul>	<b>21</b>		
<b>22</b>	Subtract line 21 from line 20. If zero or less, <b>do not</b> file this form; you cannot claim this credit		<b>22</b>	
<b>23</b>	<b>Nonconventional source fuel credit.</b> Enter the smaller of line 17 or line 22 here and on Form 1040, line 55; Form 1120, Schedule J, line 6c; Form 1041, Schedule G, line 2b; or the appropriate line of your return. If line 22 is smaller than line 17, see instructions	<b>23</b>		

**General Instructions**

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



The Tax Relief and Health Care Act of 2006 made changes to the credit related to coke and coke gas. The act provides that coke or coke gas produced in a facility that produces coke or coke gas from petroleum-based products does not qualify for the credit. Also, qualified sales of coke and coke gas are not subject to a phaseout adjustment. These changes apply for all coke and coke gas sold after December 31, 2005.

**Purpose of Form**

Use Form 8907 to figure the nonconventional source fuel credit. This credit is allowed for a qualified fuel that you produced and that was sold by you to an unrelated person during the tax year. Qualified fuels for this credit are:

- Gas produced from biomass,
- Liquid, gaseous, or solid synthetic fuels produced from coal, and
- Coke or coke gas (if sold after December 31, 2005). The coke or coke gas must not be produced in a facility that produces coke or coke gas from petroleum-based products.

See *Qualified Fuels* below for more information.

**Changes to the Nonconventional Source Fuel Credit**

For tax years ending after December 31, 2005, the nonconventional source fuel credit becomes a general business credit. Section 29 was redesignated as section 45K.

**Coke and coke gas.** The credit has been extended to certain facilities that produce coke and coke gas fuel from

non-petroleum-based products. In order to qualify for the credit, the fuel must be produced and sold after December 31, 2005.

**Qualified Fuels**

**Gas produced from biomass.** This fuel qualifies for the credit if:

- It is produced by the taxpayer in a facility located in the United States or a U.S. possession that was originally placed in service after December 31, 1992, and before July 1, 1998, (pursuant to a binding written contract in effect before January 1, 1997), and
- The fuel is sold before January 1, 2008.

**Biomass** means any organic material other than oil, natural gas, and coal (including lignite), or any product thereof.

**Liquid, gaseous, or solid fuels produced from coal.** This includes lignite and any of these fuels when used as feedstocks. The fuel qualifies for the credit if:

- It is produced by the taxpayer in a facility located in the United States or a U.S. possession that was placed in service after December 31, 1992, and before July 1, 1998, (pursuant to a binding written contract in effect before January 1, 1997), and
- The fuel is sold before January 1, 2008.

**Coke and coke gas (for tax years ending after December 31, 2005).** The fuel qualifies for the credit if:

- It is not produced in a facility that produces coke or coke gas from petroleum-based products,
- It is produced by the taxpayer in a facility located in the United States or a U.S. possession that was placed in service before January 1, 1993, or after January 1, 1998, and before January 1, 2010, and

- The fuel is sold during the period beginning on the later of January 1, 2006, or the date the facility is placed in service and ending 4 years after the date the period began.



You cannot claim the credit for coke or coke gas if the facility used to produce coke or coke gas was used to produce other qualified fuels and a credit for those fuels was allowed by reason of section 29(g) for this tax year or any preceding tax year.

## Specific Instructions

**Filers with tax years ending on December 31, 2005.**  
Complete Parts I, II, and III.

**Fiscal-year filers with tax years ending after December 31, 2005.** Complete Part I and Form 3800 (see line 14 instructions for exceptions).

### Part I. Tentative Credit

#### Line A

Enter a code identifying the type of qualified fuel sold as follows:

- For gas produced from biomass, enter "A".
- For liquid, gaseous, or solid synthetic fuels produced from coal, enter "B".
- For coke or coke gas, enter "C".

#### Line B

Enter the date the facility was placed in service. If there is more than one facility, attach a statement showing separately for each facility the type of fuel it produced and the date it was placed in service.

#### Line 1

Enter the barrel-of-oil equivalent of the qualified fuel in the appropriate column. If you sold more than one type of fuel for any column, compute the barrel-of-oil equivalent separately for each type of fuel and enter the total in the appropriate column. Compute the barrel-of-oil equivalent separately for each type of qualified fuel by:

1. Determining the British Thermal Unit (BTU) value of the amount of qualified fuel sold during the year using prevailing industry standards, then
2. Dividing the BTU value of the fuel by 5.8 million.

**Note.** For liquid, gaseous, or solid synthetic fuels produced from coal, do not include the BTU value of any additives used to produce the fuel.



The average barrel-of-oil equivalent for coke and coke gas cannot exceed 4,000 barrels a day. When determining the average, do not take into account days before the date the facility was placed in service.

#### Line 2

The \$3 amount used to compute the credit must be adjusted by multiplying it by the inflation adjustment factor for the type of qualified fuel and the calendar year in which the sale occurs. The inflation adjustment factor for coke and coke gas will be different from the inflation adjustment factor for all other qualified fuels.

**Inflation adjustment factor.** The inflation adjustment factor for each calendar year and type of qualified fuel is provided in the Internal Revenue Bulletin in April of the following year. The Internal Revenue Bulletin is available at [www.irs.gov](http://www.irs.gov).

### Line 4 Columns (a) and (c)



The Tax Relief and Health Care Act of 2006 provides that sales of qualified coke and coke gas are not subject to a phaseout adjustment. Do not complete the worksheet below for entries made in column (b) of the form.

The amount of the credit for other than coke or coke gas is reduced if the reference price for domestic crude oil reaches a certain amount. Compute the phaseout adjustment separately for columns (a) and (c) of line 4 as follows:

- (a) Determine the reference price for the calendar year in which the fuel was sold. The reference price for each calendar year is provided in the Internal Revenue Bulletin in April of the following year (a) \_\_\_\_\_
- (b) Multiply \$23.50 by the appropriate inflation adjustment factor for the qualified fuel and calendar year in which the fuel was sold . . . . . (b) \_\_\_\_\_
- (c) Subtract line (b) from line (a). If zero or less, **stop here**; enter zero on line 4 and go to line 5 . . . . . (c) \_\_\_\_\_
- (d) Multiply \$6.00 by the appropriate inflation adjustment factor for the qualified fuel and calendar year in which the fuel was sold . . . . . (d) \_\_\_\_\_
- (e) Divide line (c) by line (d) . . . . . (e) \_\_\_\_\_
- (f) **Phaseout Adjustment.** Multiply line (e) by the amount from line 3 of the form. Enter this figure on line 4 and go to line 5 . . . . . (f) \_\_\_\_\_

#### Line 7a

Enter the sum, for this and all prior tax years, of:

- Grants provided by the United States, a state, or a political subdivision of the state for the project;
- Proceeds of a tax-exempt issue of state or local government obligations used to provide financing for the project; and
- The total amount of subsidized energy financing provided directly or indirectly under a federal, state, or local program provided for the project.

#### Line 14

### S Corporations and Partnerships

**Stop here.** Do not complete Parts II and III. Do not report the amount from line 14 on Form 3800. Instead, report the tentative credit from line 14 on the S corporation's or partnership's return. Attach Form 8907 to the return. An electing large partnership with a tax year beginning in 2005 and ending in 2006 must include the nonconventional source fuel credit in its general credits (see the instructions for Form 1065-B). S corporations and partnerships (except for electing large partnerships with a tax year ending in 2006), must report on Schedule K-1 each shareholder's or partner's share of the tentative credit.

### Estates and Trusts

Allocate the tentative credit on line 14 between the estate and trust and the beneficiaries in proportion to the income allocable to each. On the dotted line next to line 14, enter the estate's or trust's share of the tentative credit and label it "1041 portion". If the estate or trust has a tax year ending on December 31, 2005, use the "1041 portion" of the tentative credit to complete Parts II and III. If the estate has a fiscal year ending after December 31, 2005, stop here and report the "1041 portion" of the tentative credit on line 1s of Form 3800. Report on Schedule K-1 each beneficiary's share of the "beneficiary portion" of the tentative credit.

**All Other Filers**

**Calendar-year filers.** If your tax year ends on December 31, 2005, complete Parts II and III to determine the amount of your allowable credit.

**Fiscal-year filers.** If you have a fiscal tax year ending after December 31, 2005, stop here and report the amount from line 14 on line 1s of Form 3800. **Do not** complete Parts II and III.

**Part II. Passive Activity Limitation for Calendar Year 2005 Filers**

**Line 15**

In the brackets on line 15, enter the amount of any credits included on line 14 that are from a passive activity. Generally, a passive activity is a business activity in which you did not materially participate. Rental activities are generally passive activities, whether or not you materially participate. See Form 8582-CR, Passive Activity Credit Limitations, or Form 8810, Corporate Passive Activity Loss and Credit Limitations, for details.

**Line 16**

Enter the amount of nonconventional source fuel credit from passive activities allowable for 2005 from Form 8582-CR or Form 8810. See the instructions for the applicable form for more information.

**Line 17**

To figure the amount to enter on line 17, subtract line 15 from line 14 and add the net amount to line 16.

**Part III. Allowable Credit for Calendar Year 2005 Filers**

The credit allowed for calendar year 2005 may be limited based on your tax liability. Use Part III to figure the allowable credit.

**Line 21**

Although you may not owe alternative minimum tax (AMT), you generally must compute the tentative minimum tax (TMT) to figure your credit. For a small corporation exempt from the

AMT under section 55(e), enter zero. Otherwise, complete and attach the applicable AMT form or schedule and enter the applicable amount on line 21.

**Line 23**

If you cannot use part of the credit because of the tax liability limit, the unused credit is lost. The unused or excess credit cannot be carried back or forward to other tax years.

**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 burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

- Recordkeeping** . . . . . 11 hr., 28 min.
- Learning about the law or the form** . . . . . 30 min.
- Preparing and sending the form to the IRS** . . . . . 42 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.