1990 Department of the Treasury **Internal Revenue Service**

Instructions for Form 4952

Investment Interest Expense Deduction

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

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

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

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:

To figure the amount to use, compare the amount of the investment expenses included on line 21 of Schedule A with the total miscellaneous expenses on line 25 of Schedule A. The smaller of the investment expenses included on line 21 or the total of line 25 is the amount to use to figure the investment expense for line 2.

Example. Assume line 21 of Schedule A includes investment expenses of $3,000, and line 25 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 2. If investment expenses of $800 were included on line 21 and line 25 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 2.

Line 3—Phase-in of Passive Activity Losses.— Enter on this line any loss attributable to the phase-in allowed from a passive activity that is not a rental real estate activity with active participation.

Note: ***Form 8582,*** *Passive Activity Loss Limitations, must be completed before you can get the figure for this line. See* ***Computing Modified Adjusted Gross Income on Form 8582,*** *below, to see if your allowable investment interest expense affects the computation of modified adjusted gross income for line 6 of Form 8582.*

If you completed Form 8582, and line 2c of that form shows a loss and an amount is shown on line 15 of that form, you will have to include all or part of the amount from line 15 of Form 8582 on line 3 of Form 4952.

If you had a loss from a publicly traded partnership (PTP), include on line 3 of this form the loss attributable to the phase-in for each PTP. See example below.

If the amount on line 2c of Form 8582 is equal to or greater than the amount on line 12 of that form (treating both numbers as positive), all of the phase-in amount on line 15 is attributable to the amount on line 2c. Enter the entire amount from line 15 of Form 8582 on line 3 of this form.

If you have a loss on line 2c of Form 8582, as well as a loss attributable to rental real estate activities with active participation shown on line 1c, you may use only part of the amount on line 15. Figure the amount by dividing line 2c by line 12 and multiplying line 15 by the result.

Example. Taxpayer A has a loss of ($30,000) on line 1c and a loss of ($50,000) on line 2c of Form 8582. Line 3 of Form 8582 shows a total loss of ($80,000), and line 9 shows that the full $25,000 special allowance was allowed. The loss attributable to the phase-in was computed on lines 10 through 15 of Form 8582 as follows:

10. Combine lines 1c and 2c	80,000
11. Special allowance	25,000
12. Subtract line 11 from line 10	55,000
13. Subtract line 9 from line 3 (80,000 - 25,000)	55,000
14. Enter the smaller of line 12 or line 13	55,000
15. Multiply line 14 by 10%	5,500

Taxpayer A figures the amount to enter on line 3 of Form 4952 as follows:

$$\frac{\text{line 2c}}{\text{line 12}} \times \text{line 15} = \text{phase-in adjustment for line 3 of Form 4952}$$

$$\frac{\$50,000}{\$55,000} \times \$5,500 = \$5,000$$

Taxpayer A would include $5,000 on line 3 of Form 4952. If Taxpayer A also had a ($3,500) pre-enactment loss from a PTP, the $350 loss allowed for the PTP ($3,500 x .1 = $350) plus the $5,000 would be entered on line 3.

Computing Modified Adjusted Gross Income on Form 8582.—To compute modified adjusted gross income on line 6 of Form 8582, you must know how much of your deductible investment interest expense is attributable to royalty income. Skip these instructions if you do not have interest expense attributable to royalties, or if line 2c of Form 8582 shows income or no entry.

If you have investment interest expense attributable to royalty income, and you also have a loss on line 2c of Form 8582, complete Form 4952 as you usually would, but enter -0- on line 3 of Form 4952. Use the allowable investment interest expense attributable to the royalty income that is included on that Form 4952 to figure gain or loss for purposes of modified adjusted gross income on Form 8582. After completing Form 8582, refigure Form 4952 in the regular manner with the phase-in adjustment on line 3. Enter on Schedule E the allowable portion of investment interest expense attributable to the royalty income that is included on the refigured Form 4952.

Line 6—Investment Interest Expense.—Enter on line 6 the amount from line 1 minus any interest expense from a trade or business:

(a) that is not a passive activity, and

(b) in which you did not materially participate.

Line 7—Investment Income Reduced by Investment Expenses.—Enter on line 7 the amount from line 2 refigured without taking into account investment income or expenses from a trade or business:

(a) that is not a passive activity, and

(b) in which you did not materially participate.

Line 24.—This is your deductible investment interest expense.

Individuals. Enter the amount from line 24 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 24 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 24 of Form 4952 by the amount entered on Form 6198. See Form 6198 and its instructions for more information, 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.

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