



# Instructions for Form 8582-CR

## Passive Activity Credit Limitations

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

### General Instructions

#### 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 tax. You are required to give us this information.

#### Purpose of Form

Form 8582-CR is used to determine whether you have a passive activity credit for the current tax year and, if so, how much credit is allowed for the current year and the amount that is unallowed and carried forward.

#### Who Must File

Form 8582-CR is filed by individuals, estates, trusts, personal service corporations, and closely held C corporations with any of the following credits from passive activities:

- regular investment credit;
- rehabilitation investment credit;
- business energy credit;
- targeted jobs credit;
- alcohol fuels credit;
- research credit;
- low-income housing credit;
- section 936 credit;
- credit for clinical testing expenses; and
- credit for producing fuel from a nonconventional source.

#### Passive Activities

**Trade or business activity.**—Generally, any trade or business activity (including a research and experimentation activity) in which you did not materially participate is considered a passive activity. If you are considered to materially participate in a trade or business activity, do not treat it as a passive activity.

If you are **not a limited partner**, or if you are a limited partner and also own a general partner interest in the partnership at all times during the tax year, you are considered to materially participate in an activity for a tax year if:

- you participated in the activity for more than 500 hours; or
- your participation in the activity for the tax year constitutes substantially all of the participation in the activity of all individuals (including individuals who are not owners of interests in the activity for the year); or
- you participated in the activity for more than 100 hours during the tax year, and your participation in the activity for the tax year was not less than the participation of any other individual (including individuals

who are not owners of interests in the activity) for the year; or

- the activity is a significant participation activity for the tax year and your participation in all significant participation activities during the year totals more than 500 hours (see the definition of significant participation activity below); or
- you materially participated in the activity for any five (whether or not consecutive) of the 10 preceding tax years; or
- the activity is a personal service activity in which you materially participated for any three (whether or not consecutive) preceding tax years; or
- based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis.

A significant participation activity is any trade or business activity in which you participate for more than 100 hours during the tax year.

If you are a **limited partner**, you are not treated as materially participating in any activity of a limited partnership unless you materially participated in the activity for more than 500 hours during the tax year, you participated in the activity for any five (whether or not consecutive) of the 10 preceding tax years, or the activity is a personal service activity in which you materially participated for any three preceding tax years.

For a tax year beginning before 1987, you are considered to materially participate in an activity only if you participated in the activity for more than 500 hours during the tax year.

See section 1.469-5T of the temporary regulations for more information and examples of material participation.

Personal service corporations and closely held C corporations are treated as materially participating in an activity if, and only if, one or more shareholders, each of whom would be treated as materially participating in the activity if the shareholder owned an interest in all of the activities of the corporation, directly or indirectly hold stock representing more than 50% (by value) of the outstanding stock of the corporation. In addition, a closely held C corporation that is not a personal service corporation is treated as materially participating in an activity if:

- (1) for the prior 12-month period ending on the last day of the tax year, substantially all the services of at least one full-time employee of the corporation were devoted to active management of the activity;
- (2) during the same period, substantially all of the services of at least three full-time nonowner employees were directly related to the activity; and
- (3) the amount of the taxpayer's business deductions attributable to the activity, allowable solely under sections 162 and

404 exceeds 15 percent of the gross income from the activity for the tax year.

**Rental activities.**—In general, any rental activity (of real estate or tangible personal property such as equipment) is a passive activity regardless of the extent of your participation.

Different limitations apply to credits from rental activities depending on whether or not you "actively participated" in the rental activity. You are considered to actively participate in a rental real estate activity if you participated in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Management decisions that are relevant in this context include approving new tenants, deciding on rental terms, approving capital or repair expenses, and other similar decisions. As long as you participate in these kinds of decisions, you do not need to be involved in operations in a regular, continuous, and substantial way to be considered an active participant.

You do not actively participate in a rental real estate activity if your interest (including any interest of your spouse) in the activity at any time during the year is less than 10% (by value) of all interests in the activity. Except as provided by regulations, you do not actively participate in a rental real estate activity you own through an interest as a limited partner in a limited partnership.

**Caution:** *At the time these instructions went to print, regulations were being written that would further define "active participation."*

If you actively participated in a rental real estate activity, you are allowed an additional amount of credit. You may also be entitled to additional credits if the rental real estate activity involved rehabilitation investment credits or low-income housing credits, regardless of whether you actively participated in the activity.

#### Transitional Phase-In Rule

The limitations on passive activity credits from pre-enactment interests in activities are phased in gradually for tax years 1987 through 1990. For 1987, 65% of the current year passive activity credit from these activities is allowed.

A pre-enactment interest is a qualified interest in a pre-enactment activity. A qualified interest is any interest in an activity that was held by the taxpayer on October 22, 1986, or acquired by the taxpayer after October 22, 1986, pursuant to one or more written binding contracts to which the taxpayer was a party on October 22, 1986. An activity is a pre-enactment activity if the activity was being conducted by any person on October 22, 1986, or at least 50 percent (by value) of the property used in the activity during the tax year was in existence or under construction on August 16, 1986, or acquired or constructed by any person pursuant to a written binding contract in effect on August 16, 1986.

**Note:** Form 8582-CR and these instructions refer to "activities acquired before 10-23-86" and "activities acquired after 10-22-86." An "activity acquired before 10-23-86" means a pre-enactment interest in an activity, and an "activity acquired after 10-22-86" means an interest in an activity other than a pre-enactment interest. See section 1.469-11T(c) of the temporary regulations for the requirements for a "pre-enactment interest."

**Dispositions**

Unallowed passive activity credits, unlike unallowed passive activity losses, are not allowable when you dispose of your interest in an activity. However, you may elect to increase the basis of the credit property by the amount of the original basis reduction of the property to the extent that the credit has not been allowed by reason of the passive activity rules. No basis adjustment may be elected on a partial disposition of your interest in a passive activity.

**Credits Subject To Other Limitations**

The credit for research and development activities is limited to the amount of tax on the income from those activities. Since this limitation is applied before the passive credit limitations, figure it before completing Form 8582-CR.

The limitation that credits cannot offset more than 75% of your tax liability is applied after you complete Form 8582-CR. Complete Form 8582-CR to figure how much of your passive activity credits are allowed and then use the form(s) you would normally use to figure the other credit limitations.

**The Form Consists of Four Parts**

**Part I.—Computation of 1987 Passive Activity Credits.**—Use Part I to combine your credits from passive activities to determine if you have credits from passive activities for 1987.

If your credits from all passive activities exceed the tax attributable to net passive income, you will have a passive activity credit for 1987. Generally, you have net passive income if line 3 of **Form 8582, Passive Activity Loss Limitations**, shows income. See the instructions for line 5 of Form 8582-CR for exceptions.

**Part II.—Computation of the Special Allowance for Rental Real Estate Activities With Active Participation.**—Use Part II to figure the maximum credit allowed if you have any credits (other than

rehabilitation investment credits and low-income housing credits) from rental real estate activities with active participation. (See **Rental activities** on page 1 for details.)

**Part III.—Computation of Special Allowance for Rehabilitation Investment Credits and Low-Income Housing Credits From Rental Real Estate Activities.**—Use

Part III to figure the maximum credit allowed if you have any rehabilitation investment credits and low-income housing credits from rental real estate activities.

**Part IV.—Computation of Passive Activity Credit Allowed.**—Use Part IV to figure the amount of the passive activity credit (as determined in Part I) that is allowed for 1987 for all passive activities.

**Specific Instructions**

**Part I**

**Computation of 1987 Passive Activity Credits**

**Lines 1a through 1c.**—Individuals and qualifying estates (described below) who actively participated in rental real estate activities (other than rental real estate activities with rehabilitation investment credits or low-income housing credits) should include the credits from these activities on lines 1a through 1c. If you had more than one type of credit or credits from more than one source, use Worksheet 1 to figure the amounts to enter on lines 1a and 1b.

**Caution:** *Include the credits in Worksheet 3 and on lines 3a and 3b, but not on lines 1a and 1b, if you were married filing a separate return and lived with your spouse at any time during the year, even if you actively participated.*

A qualifying estate is one that is treated as actively participating for the 2 tax years of the estate following the death of the taxpayer if the taxpayer actively participated in the rental real estate activity for the tax year he or she died.

**Lines 2a through 2c.**—Individuals, including limited partners, and qualifying estates (described above) who had rehabilitation investment credits or low-income housing credits from rental real estate activities should include the credits from those activities on lines 2a and 2b. If they had more than one type of credit or credits from more than one source use Worksheet 2 to figure the amounts to enter on lines 2a and 2b.

**Caution:** *Include the credits in Worksheet 3, but not on lines 1a and 1b, if you were married filing a separate return and lived with your spouse at any time during the year.*

A qualifying estate can claim the rehabilitation investment credit or low-income housing credit from rental real estate activities for the 2 tax years of the estate following the death of the taxpayer.

**Lines 3a through 3c.**—Individuals should include on lines 3a through 3c credits from passive activities which were not entered on lines 1a through 1c or lines 2a through 2c. Estates (other than qualifying estates), trusts, and corporations should include credits from **ALL** passive activities on lines 3a through 3c. Use Worksheet 3 to figure the amounts to enter on lines 3a or 3b if you had more than one passive activity or more than one source of credit from the activity.

**Note:** *If you had only one type of credit from one passive activity, enter the credit on the appropriate line in Part I of Form 8582-CR. You do not need to complete the following worksheets. After entering the credit on the appropriate line and completing Part I, complete Parts II or III, and IV of the form and see the instructions for line 40.*

**Lines 1, 2, and 3.**—If you are using a different form to report credits from the same activity, keep them separate by listing the activity each time for each credit.

**Lines 1a and 1b.**—Use Worksheet 1 to figure the amounts to enter on lines 1a and 1b. Line 1a is used for rental real estate activities with active participation acquired before 10-23-86 and line 1b is used for those activities acquired after 10-22-86.

After you complete the worksheet below, enter the totals of columns (a) and (b) on the corresponding lines of Form 8582-CR and then complete line 1c.

**Note:** Rental real estate activities that have rehabilitation investment credits or low-income housing credits should be entered on Worksheet 2 even if you actively participated in the activity.

**Worksheet 1 for Lines 1a and 1b** (Keep for your records.)

Name of Activity	Form To Be Reported on	Activities acquired before 10-23-86	Activities acquired after 10-22-86
		(a) Credit line 1a	(b) Credit line 1b
<b>Totals.</b> Enter on lines 1a and 1b of Form 8582-CR . . . ▶			

**Lines 2a and 2b.**—Use Worksheet 2 to figure the amounts to enter on lines 2a and 2b. Line 2a is used for rehabilitation investment credits and low-income housing credits from rental real estate activities acquired before 10-23-86 and line 2b is used for activities acquired after 10-22-86.

After you complete the worksheet below, enter the total in columns (a) and (b) on the corresponding lines of Form 8582-CR and then complete line 2c.

**Worksheet 2 for Lines 2a and 2b (Keep for your records.)**

Name of Activity	Form To Be Reported on	Activities acquired before 10-23-86	Activities acquired after 10-22-86
		(a) Credit line 2a	(b) Credit line 2b
<b>Totals.</b> Enter on lines 2a and 2b of Form 8582-CR . . . ▶			

**Lines 3a and 3b.**—Use Worksheet 3 to figure the amounts to enter on lines 3a and 3b. Line 3a is used for activities acquired before 10-23-86 and line 3b is used for activities acquired after 10-22-86.

After you complete the worksheet below, enter the total in columns (a) and (b) on the corresponding lines of Form 8582-CR and then complete line 3c.

**Worksheet 3 for Lines 3a and 3b (Keep for your records.)**

Name of Activity	Form To Be Reported on	Activities acquired before 10-23-86	Activities acquired after 10-22-86
		(a) Credit line 3a	(b) Credit line 3b
<b>Totals.</b> Enter on lines 3a and 3b of Form 8582-CR . . . ▶			

**Line 5.**—If line 3 of **Form 8582**, Passive Activity Loss Limitations, shows net income or if you did not complete Form 8582 because you had net passive income, you will have to compute the tax attributable to the net passive income for line 5. If you have a loss on an entire disposition of your interest in a passive activity, be sure to reduce net passive income, if any, on line 3 of Form 8582 to the extent of the loss and use any remaining net passive income in the computation below. If you had a net passive activity loss, enter -0- on line 5 and go on to line 6.

Closely held C corporations, but not personal service corporations, should enter on line 5 the tax attributable to net income from passive activities and the tax attributable to net active income. See regulations section 1.469-1T(g) for the definition of "net active income tax liability."

Compute the tax attributable to net passive income as follows:

**Note:** When using taxable income in the following computation it is not necessary to recompute items which are based on a percentage of adjusted gross income.

- A. Taxable income including net passive income . . . \_\_\_\_\_
- B. Tax on line A. Use tax tables or tax rate schedules, whichever applies . . . . . \_\_\_\_\_
- C. Taxable income without net passive income . . . . . \_\_\_\_\_
- D. Tax on line C. Use tax tables or tax rate schedules, whichever applies . . . . . \_\_\_\_\_
- E. Subtract line D from line B and enter the result on line 5 of Form 8582-CR . . . . . \_\_\_\_\_

**Line 6.**—If line 6 is zero because the tax attributable to net passive income (plus the tax attributable to net active income in the case of a closely held C corporation) on line

5 is greater than your credits from passive activities on line 4, all of your passive activity credits are allowed. In this case, enter the amount from line 4 on line 40 and report the credits on the form you usually report them on.

**Part II  
Special Allowance for Credits From Rental Real Estate Activities With Active Participation**

Generally, individuals with credits from rental real estate activities in which they actively participate may be allowed to offset the tax attributable to the \$25,000 special allowance, or a lesser amount if applicable. Under this rule, the \$25,000 amount, or the tax attributable to the \$25,000 amount in the case of credits, is allowed first against losses from rental real estate activities with active participation, then against credits from rental real estate activities with active participation, and then against rehabilitation investment credits and low-income housing credits from rental real estate activities. See the special allowance rules for rehabilitation investment credits and low-income housing credits from rental real estate activities in Part III.

Only individuals and certain estates qualify for the special allowance for rental real estate activities with active participation. Complete Part II of the form to figure the amount. The estate of a deceased taxpayer can qualify for the special allowance for the first two tax years of the estate following the death of the taxpayer if the decedent actively participated in the activity for the year of death. **Trusts, corporations, and, except as provided by regulations, limited partners do not qualify for the special allowance and should not complete Part II of the form.**

Married individuals who lived apart at all times during the tax year may each qualify for the tax attributable to \$12,500 of the allowance, reduced by any of the special allowance allowed under the passive loss rules. **However, married individuals who file separate tax returns but did not live apart at all times during the taxable year do not qualify for any of the special allowance and should not complete Part II of the form.**

An estate that files a joint return with the surviving spouse is entitled to the tax attributable to \$25,000 of the allowance, reduced by any of the special allowance allowed under the passive loss rules. If the estate and the surviving spouse file separate returns, each may qualify for the tax attributable to \$12,500, reduced by any of the special allowance allowed under the passive loss rules if they qualify as active participants in rental real estate activities.

Complete Part I first to determine your credits from all rental real estate activities with active participation and your net passive activity credit. If line 6 shows an amount other than -0-, complete Part II if line 1c shows an amount and then complete Part III if line 2c shows an amount.

The allowance is reduced by 50% of the amount that your modified adjusted gross income exceeds \$100,000 (\$50,000 if married filing separately and you lived apart for the entire year). If modified adjusted gross income exceeds \$150,000 (\$75,000 if married filing separately and you lived apart for the entire year), none of the special allowance is available. See the instructions for lines 9 and 21 on page 4 for the definition of modified adjusted gross income.

**Lines 9 and 21.**—Modified adjusted gross income for purposes of lines 9 and 21 is computed without regard to taxable social security and railroad retirement benefits, the allowable deduction under section 219 for qualified retirement contributions for the taxable year, and any passive activity loss.

Include any overall net income from passive activities from publicly traded partnerships and any net income from column (d) of Worksheet A for significant participation passive activities. This worksheet can be found in the **1987 Supplemental Instructions for Form 8582**. If the total hours of activities entered in Worksheet A exceeded 500 hours, any of the net loss and net income from these activities is also included in the modified adjusted gross income computation.

**Line 14.**—Figure the tax attributable to the amount on line 13 as follows:

**Note:** When using taxable income in the following computation, it is not necessary to recompute items which are based on a percentage of adjusted gross income.

- A. Taxable income . . . . . \_\_\_\_\_
- B. Enter amount from line 15 of Form 8582 . . . . . \_\_\_\_\_
- C. Add lines A and B . . . . . \_\_\_\_\_
- D. Tax on line C. Use tax tables or tax rate schedules, whichever applies . . . . . \_\_\_\_\_
- E. Enter amount from line C above . . . . . \_\_\_\_\_
- F. Enter amount from line 13 of Form 8582-CR . . . . . \_\_\_\_\_
- G. Subtract line F from line E . . . . . \_\_\_\_\_
- H. Tax on line G. Use tax tables or tax rate schedules, whichever applies . . . . . \_\_\_\_\_
- I. Subtract line H from line D and enter the result on line 14 of Form 8582-CR . . . . . \_\_\_\_\_

**Part III  
Special Allowance for Credits From Rehabilitation and Low-Income Housing Without Active Participation**

**Caution:** You cannot claim the low-income housing credit on any qualified low-income housing project if you or any other individual were exempt from the passive loss rules under section 502 of the Tax Reform Act of 1986.

Rehabilitation investment credits and low-income housing credits from rental real estate activities may be allowed under the special allowance rule regardless of whether you actively participated in the rental real estate activities. Individuals can offset credits with the tax attributable to the \$25,000 special allowance, reduced by any of the special allowance allowed for losses and credits from rental real estate activities with active participation. Limited partners that are individuals or qualifying estates, also qualify for this special allowance. The estate of a deceased taxpayer can qualify for the special allowance for the first two tax years of the estate following the death of the taxpayer if the decedent actively participated in the activity for the year of death. **Trusts and corporations do not qualify for the special allowance and should not complete Part III of the form.**

Married individuals who file separate tax returns and who lived apart at all times during the tax year may each offset credits with the tax attributable to \$12,500 of the special allowance, reduced by any of the special allowance allowed for losses and credits from rental real estate activities with active participation. **However, married individuals who file separate tax returns but did not live apart at all times during the tax year do not qualify for any of the special allowance and should not complete Part III of the form.**

An estate that files a joint return with the surviving spouse is entitled to credits on the tax attributable to the \$25,000 special allowance (\$12,500 if filing separate returns), reduced by any of the special allowance allowed for losses or credits from rental real estate activities with active participation.

If line 6 shows an amount other than -0-, complete Part II if line 1c shows an amount. Also complete Part III if line 2c shows an amount.

The allowance is reduced by 50% of the amount that your modified adjusted gross income exceeds \$200,000 (\$100,000 if married filing separately and you lived apart for the entire year). If modified adjusted gross income exceeds \$250,000 (\$125,000 if married filing separately and you lived apart for the entire year), none of the special allowance is available. See the instructions for lines 9 and 21 above for the definition of modified adjusted gross income.

**Line 20.**—You can skip lines 20 through 25 if you completed Part II of this form and your modified adjusted gross income on line 9 in Part II was \$100,000 (\$50,000, if married filing separately and you lived apart for the entire year) or less. If this was the case, subtract line 15 from line 14 and enter that amount on line 26.

**Line 26.**—Figure the tax attributable to the amount on line 26 as follows:

**Note:** When using taxable income in the following computation, it is not necessary to recompute items which are based on a percentage of adjusted gross income.

- A. Taxable income . . . . . \_\_\_\_\_
- B. Enter amount from line 15 of Form 8582 . . . . . \_\_\_\_\_
- C. Add lines A and B . . . . . \_\_\_\_\_
- D. Tax on line C. Use tax tables or tax rate schedules, whichever applies . . . . . \_\_\_\_\_
- E. Enter the amount from line C above . . . . . \_\_\_\_\_
- F. Enter amount from line 25 of Form 8582-CR . . . . . \_\_\_\_\_
- G. Subtract line F from line E . . . . . \_\_\_\_\_
- H. Tax on line G. Use tax tables or tax rate schedules, whichever applies . . . . . \_\_\_\_\_
- I. Subtract line H from line D and enter the result on line 26 of Form 8582-CR . . . . . \_\_\_\_\_

**Part IV  
Computation of Passive Activity Credit Allowed**

**Line 32.**—Figure the tax attributable to net income from interests acquired before October 23, 1986.

**Note:** When using taxable income in the following computation, it is not necessary to recompute items which are based on a percentage of adjusted gross income.

- A. Add lines 1c and 2c from Form 8582, and enter the result. If the result is a loss, skip the rest of this computation and enter -0- on line 32 of Form 8582-CR . . . . . \_\_\_\_\_
- B. Taxable income . . . . . \_\_\_\_\_
- C. Tax on line B. Use tax tables or tax rate schedules, whichever applies . . . . . \_\_\_\_\_
- D. Taxable income from line B . . . . . \_\_\_\_\_
- E. Enter net income from line A . . . . . \_\_\_\_\_
- F. Subtract line E from line D . . . . . \_\_\_\_\_
- G. Tax on line F. Use tax tables or tax rate schedules, whichever applies . . . . . \_\_\_\_\_
- H. Subtract line G from line C. Enter this amount on line 32 of Form 8582-CR. This is the tax attributable to passive income from activities acquired before 10-23-86 . . . . . \_\_\_\_\_

**Line 34a.**—If you did not complete Form 8582, Passive Activity Loss Limitations, or if you did complete Form 8582 and lines 9 and 11 of that form were the same amount, skip the following computation and enter the smaller of line 1a or 14 of Form 8582-CR on line 34a.

- A. Enter line 11 of Form 8582-CR . . . . . \_\_\_\_\_
- B. Enter line 11 of Form 8582 . . . . . \_\_\_\_\_
- C. Subtract line B from line A. If -0-, skip the rest of this computation and enter -0- on line 34a . . . . . \_\_\_\_\_
- D. Divide line 14 of Form 8582-CR by line 13 of Form 8582-CR and enter the ratio . . . . . \_\_\_\_\_
- E. Multiply line C by line D . . . . . \_\_\_\_\_
- F. Enter the smaller of line 1a of Form 8582-CR or line E on line 34a of Form 8582-CR . . . . . \_\_\_\_\_

**Line 34b.**—If you did not complete Form 8582, Passive Activity Loss Limitations, or if you did complete Form 8582 and lines 9 and 11 of that form were the same amount, skip the following computation and enter the smaller of line 2a or 28 of Form 8582-CR on line 34b.

- A. Enter line 23 of Form 8582-CR . . . . . \_\_\_\_\_
- B. Enter line 11 of Form 8582 . . . . . \_\_\_\_\_
- C. Subtract line B from line A. If -0-, skip the rest of this computation and enter -0- on line 34b . . . . . \_\_\_\_\_
- D. Divide line 26 of Form 8582-CR by line 25 of Form 8582-CR and enter the ratio . . . . . \_\_\_\_\_
- E. Multiply line C by line D . . . . . \_\_\_\_\_
- F. Enter the amount, if any, from line E of the line 34a computation . . . . . \_\_\_\_\_
- G. Subtract line F from line E . . . . . \_\_\_\_\_
- H. Enter the smaller of line 2a of Form 8582-CR or line G here and on line 34b of Form 8582-CR . . . . . \_\_\_\_\_

**Line 40.**—If you did not need to use Worksheet 1, 2, or 3 on pages 2 and 3, the amount on line 40 is the credit allowed for the year. This amount should be entered on the form that it is normally reported on. Your unallowed credit would be line 4 minus line 40.

If you used Worksheet 1, 2, or 3 on pages 2 and 3, you will have to figure how much of the credit on line 40 is allowed for each activity. Use the appropriate worksheets on pages 5 and 6 to figure the allowed and unallowed credits. You must keep a record of this unallowed amount and the activity to which it belongs to take the credit if it becomes allowable.

**Instructions for Worksheet 4**

Complete Worksheet 4 if you have an amount on line 1c and you have credits from more than one activity.

**Column (a).**—Enter the credits from Worksheet 1, columns (a) and (b) in column (a) of this worksheet.

**Column (b).**—Divide each of the credits shown in column (a) by the total of the credits in column (a) and enter the ratio for each of the activities in column (b). The total of all ratios should equal 1.00.

**Column (c).**—Multiply line 15 of Form 8582-CR by the ratios in column (b) and enter the result in column (c). If the total of this column is the same as the total of column (a), all of the credits for the activities in column (a) of this worksheet are allowed. Report them on the forms you normally report them on and complete Worksheet 5 if you have credits shown in Worksheets 2 and 3. If the total of column (a) is more than the total of column (c), complete column (d).

**Column (d).**—Subtract column (c) from column (a) and enter the results in this column. Also enter the name of the activities and the form the credit should be reported on in Worksheet 6 and enter the amount from column (d) of this worksheet in column (a) of Worksheet 6. Also complete Worksheet 5 if you have credits on line 2c and/or 3c.

**Worksheet 4 for Credits on Lines 1a and/or 1b (Keep for your records.)**

Name of Activity	Form To Be Reported on	(a) Credits (See instructions.)	(b) Ratios (See instructions.)	(c) Special Allowance	(d) Subtract column (c) from column (a)
<b>Totals</b> . . . . .	▶		<b>1.00</b>		

**Instructions for Worksheet 5**

Complete Worksheet 5 if you have credits on line 2c of Form 8582-CR and you have credits from more than one activity.

**Column (a).**—The credits shown in column (a) should be the same as the credits shown in columns (a) and (b) of Worksheet 2.

**Column (b).**—Divide each of the individual credits shown in column (a) by the total of all of the credits in column (a) and enter the ratios for each of the activities in column (b). The total of all the ratios should equal 1.00.

**Column (c).**—Multiply line 29 of Form 8582-CR by the ratios in column (b) and enter the result in column (c). If the total of this column is the same as the total of column (a), all of the credits for the activities in column (a) of this worksheet are allowed. Report them on the forms you normally report them on and complete Worksheet 6 if you have credits shown in Worksheet 3 and/or amounts in column (d) of Worksheet 4. If the total of column (a) is more than the total of column (c), complete column (d).

**Column (d).**—Subtract column (c) from column (a) and enter the results in this column. Also enter the name of the activities and the form the credit should be reported on in Worksheet 6 and enter the amount from column (d) of this worksheet in column (a) of Worksheet 6.

**Worksheet 5 for Credits on Lines 2a and/or 2b (Keep for your records.)**

Name of Activity	Form To Be Reported on	(a) Credits (See instructions.)	(b) Ratios (See instructions.)	(c) Special Allowance (See instructions.)	(d) Subtract column (c) from column (a)
<b>Totals</b> . . . . .	▶		<b>1.00</b>		

**Instructions for Worksheet 6**

Complete Worksheet 6 if you have amounts in column (d) of Worksheets 4 and/or 5 or amounts in Worksheet 3.

**Column (a).**—Enter the amounts, if any, from column (d) of Worksheets 4 and 5. Also enter amounts from columns (a) and (b) of Worksheet 3.

**Column (b).**—Divide each of the credits in column (a) by the total of all of the credits in column (a). The total of all the ratios should equal 1.00.

**Column (c).**—Complete the following computation:

A. Enter line 4 of Form 8582-CR . . . . . \_\_\_\_\_

B. Enter line 40 of Form 8582-CR . . . . . \_\_\_\_\_

C. Subtract line B from line A . . . . . \_\_\_\_\_

Multiply line C by the ratios in column (b) and enter the results in column (c). Complete Worksheet 7 to determine the credits allowed for 1987.

**Worksheet 6 — Allocation of Unallowed Credits (Keep for your records.)**

Name of Activity	Form To Be Reported on	(a) Credits (See instructions.)	(b) Ratios (See instructions.)	(c) Unallowed Credits (See instructions.)
<b>Totals</b> . . . . .	▶		<b>1.00</b>	

**Instructions for Worksheet 7**

**Column (a).**—Enter all of the activities shown in Worksheet 6. The credits entered in column (a) of this worksheet should be the credits shown in columns (a) and (b) of Worksheets 1, 2, and 3 for the activities listed in Worksheet 6.

**Column (b).**—Enter the amounts from column (c) of Worksheet 6 in this column. These are your unallowed credits for 1987. Keep a record of these amounts so the credits can be used in a subsequent year.

**Column (c).**—Subtract column (b) from column (a). These are the credits allowed for 1987. The amounts in this column should be reported on the forms you usually report the credits on.

**Worksheet 7—Allowed Credits (Keep for your records.)**

Name of Activity	Form To Be Reported on	(a) Credits (See instructions.)	(b) Unallowed Credits (See instructions.)	(c) Allowed Credits (See instructions.)
<b>Totals</b>	▶			

**Credits From Publicly Traded Partnerships**

A credit from a passive activity of a publicly traded partnership is allowed to the extent of net income from passive activities from that partnership. In addition, if the credit is from a rehabilitation investment credit or low-income housing credit from a rental real estate activity, the credit is allowed to the extent of the remaining \$25,000 special allowance. Before the credits can be applied to the \$25,000 (or less, if applicable) special allowance, the special allowance is reduced by the amount used under the passive loss rules and the amount used for credits which were not from a publicly traded partnership.

The transitional phase-in rule applies to passive activity credits from publicly traded partnerships which were acquired before October 23, 1986. See the **Transitional Phase-In Rule** on page 2 of these instructions to see if interests acquired after that date are eligible for the phase-in rule.

Since the credits from publicly traded partnerships cannot offset net income from other passive activities or net income from other publicly traded partnerships, credits from these partnerships cannot be included on Form 8582-CR. A separate computation will have to be made to find how much of these credits are allowed. Use the following steps to compute the amount allowed and unallowed. You may be able to skip some of the steps below. Here is a list of what the steps compute.

**(1)** Steps 1 through 3 are used to compute tax attributable to net income from passive activities of the partnership. You can skip Steps 1 through 3 if your partnership does not have both a credit and net income from passive activities.

**(2)** Steps 4 and 5 are used to compute the special allowance for rehabilitation and low-income housing rental real estate interests. If you **do not** have rehabilitation investment tax credits or low-income housing credits, skip Steps 4 and 5.

**(3)** Steps 6 through 13 are used to compute the phase-in rule for interests acquired before October 23, 1986. If all of your partnership interests were acquired after October 22, 1986, skip Steps 6 through 13.

**(4)** Steps 14 and 15 compute the credits allowed and unallowed for each publicly traded partnership. Report the allowed credits on the form that they are normally reported on and keep a record of the unallowed credits for use in a future year.

**Computation of Passive Activity Credits Allowed for Publicly Traded Partnerships**

**Step 1.**—Calculate tax attributable to net income from passive activities for each partnership with passive activity credits.

**Step 2.**—Use the smaller of the tax attributable to net income from passive activities of the partnership or the credit from passive activities of the partnership as the amount allowed.

**Step 3.**—Reduce any rehabilitation investment credits and low-income housing credits from rental real estate activities by any tax attributable to net income from passive activities from those partnerships which was figured in Steps 1 and 2.

**Step 4.**—Figure the \$25,000 special allowance available for rehabilitation investment credits and low-income housing credits from rental real estate activities. This is done by computing the tax attributable to the \$25,000 special allowance after it has been reduced by the amount used under the passive loss rules (line 9 of Form 8582), and the amount used for credits which were not from publicly traded partnerships (lines 15 and 29 of Form 8582-CR).

**Note:** *If you completed Part III of Form 8582-CR, you can skip this computation and get the answer for this step by subtracting line 29 from line 28.*

**Step 5.**—Rehabilitation investment credits and low-income housing credits from rental real estate activities allowed under the \$25,000 special allowance rule are the smaller of Step 3 or Step 4. Allocate the special allowance to partnerships with rehabilitation investment credits and low-income housing credits from rental real estate activities.

**Step 6.**—Add all the credits from interests acquired before 10-23-86.

**Step 7.**—Add the credits allowed in Step 2 and Step 5 for interests acquired before 10-23-86. If Step 5 includes interests

acquired before 10-23-86 and interests acquired after 10-22-86, use only the credits allowed for the interests acquired before 10-23-86.

**Step 8.**—Subtract Step 7 from Step 6.

**Step 9.**—Total credits from all publicly traded partnerships. (Include credits from interests acquired before and after 10-23-86).

**Step 10.**—Add Steps 2 and 5.

**Step 11.**—Subtract Step 10 from Step 9.

**Step 12.**—Enter the smaller of Step 8 or Step 11.

**Step 13.**—Multiply Step 12 by 65%.

**Step 14.**—Add Steps 2, 5, and 13. These are the credits allowed from passive activities of publicly traded partnerships.

**Step 15.**—Figure the allowed and unallowed credits for each partnership. Report the allowed credits on the form that they are normally reported on and keep a record of the unallowed credits for use in a future year.

**Example:** Taxpayer A has interests in 5 publicly traded partnerships.

**1.** Partnership A was acquired before 10-23-86, has net income from passive activities of \$1,000, and a \$500 rehabilitation investment credit from a rental real estate activity.

**2.** Partnership B was acquired before 10-23-86, has a net loss from passive activities of (\$700), and a \$400 low income housing credit from rental real estate activity.

**3.** Partnership C was acquired before 10-23-86, has net income from passive activities of \$300, and a \$100 research credit.

**4.** Partnership D was acquired before 10-23-86, has a net loss from passive activities of (\$1500), and a \$200 low-income housing credit from a rental real estate activity.

**5.** Partnership E was acquired after 10-22-86, has net income from passive activities of \$200, and a \$150 rehabilitation investment credit from a rental real estate activity.

Taxpayer A would figure the credits from publicly traded partnerships as follows:

**Step 1 and Step 2.**—Calculate tax attributable to net income from passive activities from each partnership with credits.

Partnerships A, C, and E have net income from passive activities and credits.

Taxpayer A has taxable income of \$97,000 and modified adjusted gross income (not including a passive activity loss of \$22,150) of \$112,000.

a. Credit from Partnership A . . . . .	500
b. Taxable income . . . . .	<u>97,000</u>
c. Tax on line b. Use tax tables or tax rate schedules, whichever applies . . . . .	<u>27,285</u>
d. Taxable income without net income from passive activities of Partnership A (\$97,000 – \$1,000) . . . . .	<u>96,000</u>
e. Tax on line d. Use tax tables or tax rate schedules, whichever applies . . . . .	<u>26,900</u>
f. Subtract line e from line c . . . . .	<u>385</u>
g. Enter the smaller of line a or line f . . . . .	<u>385</u>

Taxpayer A would repeat the above computation for Partnerships C and E. Tax attributable to net income from passive activities for Partnership C is \$100 (the smaller of tax attributable to net income from passive activities or the research credit) and \$77 for Partnership E.

Partnerships	Credits	Allowed Credits	Remaining Credits
Partnership A . . . . .	500	385	115
Partnership C . . . . .	100	100	-0-
Partnership E . . . . .	<u>150</u>	<u>77</u>	<u>73</u>
<b>Total</b> . . . . .	<b>▶ 750</b>	<b>562</b>	<b>188</b>

**Step 3.**—Reduce any rehabilitation investment credits and low-income housing credits from rental real estate activities by any tax attributable to net income from passive activities of those partnerships which were figured in Steps 1 and 2.

Partnerships	Rehabilitation Investment Credits and Low-income Housing Credits	Credits allowed in Steps 1 and 2	Remaining Credits
Partnership A . . . . .	500	385	115
Partnership B . . . . .	400	-0-	400
Partnership D . . . . .	200	-0-	200
Partnership E . . . . .	<u>150</u>	<u>77</u>	<u>73</u>
<b>Totals</b> . . . . .	<b>▶ 1,250</b>	<b>462</b>	<b>788</b>

**Step 4.**—Figure the \$25,000 special allowance available for rehabilitation investment credits and low-income housing credits from rental real estate activities. This is done by computing the tax attributable to the \$25,000 special allowance after it has been reduced by the amount used under the passive loss rules (line 9 of Form 8582), and the amount used for credits which were not from publicly traded partnerships (lines 15 and 29 of Form 8582-CR).

a. Taxable income . . . . .	97,000
b. Enter amount from line 15 of Form 8582 . . . . .	<u>7,150</u>
c. Add lines a and b . . . . .	104,150
d. Tax on line c. Use tax tables or tax rate schedules, whichever applies . . . . .	30,038
e. Enter amount from line c, above . . . . .	104,150
f. Enter amount from line 25 of Form 8582-CR . . . . .	<u>10,000</u>
g. Subtract line f from line e . . . . .	94,150
h. Tax on line g. Use tax tables or tax rate schedules, whichever applies . . . . .	<u>26,188</u>
i. Subtract line h from line d . . . . .	3,850
j. Enter amount from line 30 of Form 8582-CR . . . . .	<u>3,800</u>
k. Subtract line j from line i. This is the tax attributable to the remaining special allowance . . . . .	50

**Step 5.**—Rehabilitation investment credits and low-income housing rental real estate activities credits allowed under the \$25,000 special allowance rule are the smaller of Step 3 or Step 4. Allocate the special allowance to the partnerships with rehabilitation investment credits and low-income housing credits from rental real estate activities.

Step 3 . . . . .	788
Step 4 . . . . .	50
Smaller of Step 3 or Step 4 . . . . .	<b>▶ 50</b>

**Allocation of the Special Allowance to Partnerships with Rehabilitation and Low-Income Housing Rental Real Estate Credits**

Partnerships	Remaining Credits after Step 3	Ratio	Credits Allowed from Step 5	Remaining Credits
Partnership A . . . . .	.115	.15	8	107
Partnership B . . . . .	.400	.51	25	375
Partnership D . . . . .	.200	.25	12	188
Partnership E . . . . .	<u>.73</u>	<u>.09</u>	<u>5</u>	<u>68</u>
<b>Totals</b> . . . . .	<b>▶ 788</b>	<b>1.00</b>	<b>50</b>	<b>738</b>

**Step 6.**—Add all of the credits from interests acquired before 10-23-86.

Partnerships	Credits
Partnership A . . . . .	500
Partnership B . . . . .	400
Partnership C . . . . .	100
Partnership D . . . . .	<u>200</u>
<b>Total</b> . . . . .	<b>▶ 1,200</b>

**Step 7.**—Add the credits allowed in Step 2 and Step 5 for interests acquired before 10-23-86.

1. Credits allowed in Step 2 attributable to activities acquired before 10-23-86 . . . . .	485
2. Credits allowed in Step 5 for interests acquired before 10-23-86 . . . . .	<u>45</u>
3. Add lines 1 and 2 . . . . .	530

Rehabilitation investment and low-income housing credits of 530 are allowed for rehabilitation and low-income housing rental real estate interests acquired before 10-23-86.

**Step 8.**—Subtract Step 7 from Step 6.

1. Amount from Step 6 . . . . .	1,200
2. Amount from Step 7 . . . . .	<u>530</u>
3. Subtract line 2 from line 1 . . . . .	<u>670</u>

670 of the credits from interests acquired before 10-23-86 are remaining after allowing tax attributable to net income from passive activities and the special allowance.

**Step 9.**—Total credits from all publicly traded partnerships.

Partnerships	Credits
Partnership A . . . . .	500
Partnership B . . . . .	400
Partnership C . . . . .	100
Partnership D . . . . .	200
Partnership E . . . . .	<u>150</u>
<b>Total</b> . . . . .	<b>▶ 1,350</b>

**Step 10.**—Add Steps 2 and 5.

1. Tax attributable to net income from passive activities of all partnerships with net income from passive activities—Step 2 . . . . .	562
2. Tax attributable to the special allowance for all rehabilitation and low-income housing rental real estate interests—Step 5 . . . . .	<u>50</u>
3. Add lines 1 and 2. Total credits allowed due to tax attributable to net income from passive activities and the special allowance . . . . .	612

**Step 11.**—Subtract Step 10 from Step 9.

1. Total credits from all publicly traded partnerships—Step 9 . . . . .	1,350
2. Total credits allowed due to tax attributable to net income from passive activities and the special allowance—Step 10 . . . . .	<u>612</u>
3. Subtract line 2 from line 1. Total remaining credits from all publicly traded partnerships . . . . .	738

**Step 12.**—Enter the smaller of Step 8 or Step 11.

1. Total remaining credits from interests acquired before 10-23-86—Step 8 . . . . .	670
2. Total remaining credits from all interest—Step 11 . . . . .	<u>738</u>
3. The smaller of Step 8 or Step 11 is . . . . .	670

**Step 13.**—Multiply Step 12 by 65%.

Amount from Step 12 . . . . .	670
x .65	
436	

**Step 14.**—Add Steps 2, 5, and 13. These are the credits allowed from publicly traded partnerships.

1. Credits allowed because of tax attributable to net income from passive activities—Step 2 . . . . .	562
2. Credits allowed because of the special allowance—Step 5 . . . . .	50
3. Credits allowed because of phase-in—Step 13 . . . . .	<u>436</u>
4. Add lines 1, 2, and 3. Total credits allowed . . . . .	1,048

**Step 15.**—Figure the credits allowed and unallowed for each publicly traded partnership.

Partnerships	(a) Credits	(b) Allowed in Step 2	(c) Allowed in Step 5	(d) Allowed in Step 13	(e) Allowed Credits (Add cols. (b), (c), and (d).)	(f) Unallowed Credits (Subtract col. (e) from col. (a).)
Partnership A	500	385	8	70	463	37
Partnership B	400	-0-	25	244	269	131
Partnership C	100	100	-0-	-0-	100	-0-
Partnership D	200	-0-	12	122	134	66
Partnership E	<u>150</u>	<u>77</u>	<u>5</u>	<u>-0-</u>	<u>82</u>	<u>68</u>
<b>Totals</b>	1,350	562	50	436	1,048	302