



# Instructions for Form 8582-CR

## Passive Activity Credit Limitations

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 form will vary depending on individual circumstances. The estimated average time is:

**Recordkeeping** . . . . . 2 hr., 5 min.

**Learning about the law or the form** . . . . . 4 hr., 22 min.

**Preparing the form.** . . . . . 3 hr., 25 min.

**Copying, assembling, and sending the form to the IRS** . . . . . 2 hr., 18 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.

## General Instructions

### Changes To Note

- For tax years beginning after 1993, certain individuals who materially participate in real property trades or businesses are not subject to the passive activity limitations on credits from those rental real estate activities in which they materially participate. For details, see **Activities That Are Not Passive Activities** on page 2.
- Final regulations defining the term "activity" have been issued. See **Grouping Your Activities** on page 4 for details.
- New **Part VI**, Election To Increase Basis of Credit Property, must be completed if you disposed of your entire interest in a passive activity (or former passive activity) and you elect to increase the basis of credit property used in the activity by the unallowed credit that reduced the property's basis.

### Purpose of Form

Form 8582-CR is used by noncorporate taxpayers to figure any passive activity credit for the current tax year (including any prior year unallowed credits) and the

amount of credit allowed for the current year.

Passive activity credits that are not allowed in the current year are carried forward until they are allowed against the tax on either net passive income or the special allowance, if applicable.

Different rules apply to your activities and the related credit, depending on the type of activity. Generally, passive activities include (1) trade or business activities in which you did not materially participate for the tax year, and (2) rental activities regardless of your participation. See **Trade or Business Activities** on page 3 and **Rental Activities** on page 2.

**Note:** Corporations subject to the passive activity rules must use **Form 8810, Corporate Passive Activity Loss and Credit Limitations**.

### Who Must File

Form 8582-CR is filed by individuals, estates, and trusts with any of the following credits from passive activities:

- Investment credit (including the rehabilitation credit, energy credit, and reforestation credit);
- Jobs credit;
- Credit for alcohol used as fuel;
- Credit for increasing research activities;
- Low-income housing credit;
- Enhanced oil recovery credit;
- Disabled access credit;
- Renewable electricity production credit;
- Empowerment zone employment credit;
- Indian employment credit;
- Credit for employer social security and Medicare taxes paid on certain employee tips;
- Credit for contributions to selected community development corporations;
- Orphan drug credit;
- Nonconventional source fuel credit; and
- Qualified electric vehicle credit.

Credits from passive activities are any of the above credits from:

- A trade or business activity in which you did not materially participate. See **Trade or Business Activities** on page 3.
- A rental activity (other than a rental real estate activity in which you materially participated, if you were a real estate professional). See **Rental Activities** on page 2.

## Overview of Form

The form consists of six parts.

### Part I—1994 Passive Activity Credits

Use Part I to combine your credits from passive activities to determine if you have a passive activity credit for 1994.

If your credits from all passive activities exceed the tax attributable to net passive income, you will have a passive activity credit for 1994. Generally, you have net passive income if line 3 of **Form 8582, Passive Activity Loss Limitations**, shows income. See the instructions for line 6 of Form 8582-CR on page 9 for exceptions.

### Part II—Special Allowance for Rental Real Estate Activities With Active Participation

Use Part II to figure the credit allowed if you have any credits from rental real estate activities in which you actively participated (other than rehabilitation credits and low-income housing credits). (See **Rental Activities** on page 2 for details.)

### Part III—Special Allowance for Rehabilitation Credits From Rental Real Estate Activities and Low-Income Housing Credits for Property Placed in Service Before 1990 (or From Pass-Through Interests Acquired Before 1990)

Use Part III to figure the credit allowed if you have any rehabilitation credits or low-income housing credits for property placed in service before 1990. Also use this part if your low-income housing credit is from a partnership, S corporation, or other pass-through entity in which you acquired your interest before 1990, regardless of the date the property was placed in service.

### Part IV—Special Allowance for Low-Income Housing Credits for Property Placed in Service After 1989

Use Part IV to figure the credit allowed if you have any low-income housing credits for property placed in service after 1989. If you held an indirect interest in the property through a partnership, S corporation, or other pass-through entity, use this part only if your interest in the pass-through entity was also acquired after 1989.

## Part V—Passive Activity Credit Allowed

Use Part V to figure the amount of the passive activity credit (as determined in Part I) that is allowed for 1994 for all passive activities.

## Part VI—Election to Increase Basis of Credit Property

Complete Part VI if you disposed of your entire interest in a passive activity and you elect to increase the basis of the credit property used in the activity by the unallowed credit that reduced the basis of the property.

**Note:** Before reading the instructions that follow, see **Example of How To Complete Form 8582-CR**, which begins on page 5. The example goes through a four-step analysis of how the form and worksheets should be completed for a partner in a limited partnership that has a low-income housing credit. This example may provide enough information to complete the form and worksheets without reading all of the instructions.

## Activities That Are Not Passive Activities

The following are not passive activities:

1. Trade or business activities in which you materially participated for the tax year.
2. For tax years beginning after 1993, any rental real estate activity in which you materially participated, if you were a "real estate professional" for the tax year. You were a real estate professional only if you met both of the following conditions:
  - a. More than half of the personal services you performed in trades or businesses were performed in real property trades or businesses in which you materially participated, and
  - b. You performed more than 750 hours of services in real property trades or businesses in which you materially participated.

For purposes of this rule, each interest in rental real estate is a separate activity, unless you elect to treat all interest in rental real estate as one activity.

If you were married filing jointly, either you or your spouse must separately meet both of the above conditions without taking into account services performed by the other spouse.

A real property trade or business is any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Services you performed as an employee are not treated as performed in a real property trade or business unless you owned more than 5% of the stock (or more than 5% of the capital or profits interest) in the employer.

3. An interest in an oil or gas well drilled or operated under a working interest if at any time during the tax year you held the working interest directly or through an

entity that did not limit your liability (such as a general partner interest in a partnership). This exception applies regardless of whether you materially participated in the activity for the tax year.

If, however, your liability was not unlimited for the entire year (e.g., you converted your general partner interest to a limited partner interest during the year), some of your income and losses from the working interest may be treated as passive activity gross income and passive activity deductions. See Temporary Regulations section 1.469-1T(e)(4)(ii).

4. The rental of a dwelling unit you used as a residence if section 280A(c)(5) applies. This exception applies if you rented out a dwelling unit that you also used as a home during the year for a number of days that exceeds the greater of 14 days or 10% of the number of days during the year that the home was rented at a fair rental.

5. An activity of trading personal property for the account of owners of interests in the activity. See Temporary Regulations section 1.469-1T(e)(6).

6. An interest as a qualified investor in a qualified low-income housing project under section 502 of the Tax Reform Act of 1986 for any tax year in the relief period. See **Pub. 925**, Passive Activity and At-Risk Rules.

Credits from activities that are not passive activities should not be entered on Form 8582-CR. However, they may be subject to other limitations.

## Rental Activities

A rental activity is a passive activity even if you materially participated in the activity (other than a rental real estate activity in which you materially participated, if you were a real estate professional).

However, if you meet any one of the six exceptions listed below, the rental of the property is not treated as a rental activity. See **Reporting Credits From the Activities** on page 3 if you meet any of the exceptions.

An activity is a rental activity if tangible property (real or personal) is used by customers or held for use by customers, and the gross income (or expected gross income) from the activity represents amounts paid (or to be paid) mainly for the use of the property. The activity is considered a rental activity even if the use is under a lease, a service contract, or some other arrangement that is not called a lease.

## Exceptions

An activity is **not** a rental activity if:

1. The **average period of customer use** of the rental property is 7 days or fewer.

Figure the average period of customer use for a class of property by dividing the total number of days in all rental periods by the number of rentals during the tax year. If the activity involves renting more than one class of property, multiply the average period of customer use of each class by the ratio of the gross rental

income from that class to the activity's total gross rental income. The activity's average period of customer use equals the sum of these class-by-class average periods weighted by gross income. See Regulations section 1.469-1(e)(3)(iii).

2. The **average period of customer use** (defined above) of the rental property is 30 days or less, and **significant personal services** were provided in making the rental property available for customer use.

**Significant personal services** include only services performed by individuals. In determining whether personal services are significant, all the relevant facts and circumstances are considered. Facts and circumstances include the frequency of the services, the type and amount of labor required to perform the services, and the value of the services relative to the amount charged for use of the property.

3. **Extraordinary personal services** were provided in making the rental property available for customer use.

Services provided in making rental property available for customer use are **extraordinary personal services** only if the services are performed by individuals, and the customers' use of the rental property is incidental to their receipt of the services.

4. The rental of the property is **incidental** to a nonrental activity.

The rental of property is **incidental** to an activity of holding property for investment if the main purpose of holding the property is to realize a gain from the appreciation of the property, and the gross rental income is less than 2% of the smaller of the **unadjusted basis** of the property or the fair market value of the property.

**Unadjusted basis** means the cost of the property without regard to depreciation deductions or any other adjustment described in section 1016 that reduces basis.

The rental of property is **incidental** to a trade or business activity if:

- a. You own an interest in the trade or business activity during the tax year;
- b. The rental property was mainly used in the trade or business activity during the tax year or during at least 2 of the 5 preceding tax years; and
- c. The gross rental income from the property is less than 2% of the smaller of the unadjusted basis of the property or the fair market value of the property.

Lodging provided for the employer's convenience to an employee or the employee's spouse or dependents is incidental to the activity or activities in which the employee performs services.

5. You customarily make the rental property available during defined business hours for nonexclusive use by various customers.

6. You provide property for use in a nonrental activity of a partnership, an S corporation, or joint venture in your capacity as an owner of an interest in such partnership, S corporation, or joint venture.

## Reporting Credits From the Activities

If you meet any of the six exceptions listed above, your rental of the property is not a rental activity. You then must determine whether your rental of the property is a trade or business activity and, if so, whether you materially participated in the activity for the tax year (see **Trade or Business Activities** and **Material Participation** below). If the activity is a trade or business activity in which you did not materially participate, enter the credits from the activity in Worksheet 4 on page 11.

If you meet any of the six exceptions listed above, and the activity is a trade or business activity in which you materially participated, report the credits from the activity on the form you normally use.

If you **did not** meet any of the six exceptions, the rental activity is generally a passive activity. Special rules apply if you conduct the rental activity through a publicly traded partnership (PTP). See **Publicly Traded Partnerships (PTPs)** on page 14. If the rental activity is not conducted through a PTP, the passive rental activity is entered in Worksheet 1, 2, 3, or 4 on pages 10 and 11.

Worksheet 1 is for credits (other than rehabilitation credits and low-income housing credits) from passive rental real estate activities in which you actively participated. However, married individuals who file separate tax returns but did not live apart at all times during the tax year must use Worksheet 4 even if there was active participation.

Worksheet 2 is for rehabilitation credits from passive rental real estate activities and low-income housing credits for property placed in service before 1990. This worksheet is also used for low-income housing credits from a partnership, S corporation, or other pass-through entity if your interest in the pass-through entity was acquired before 1990, regardless of the date the property was placed in service.

Worksheet 3 is for low-income housing credits for property placed in service after 1989 (unless held through a pass-through entity in which you acquired your interest before 1990).

Worksheet 4 is for credits from passive trade or business activities in which you did not materially participate and passive rental real estate activities without active participation (but not rehabilitation credits from passive rental real estate activities and low-income housing credits).

See **Special Allowance for Credits From Active Participation in Rental Real Estate Activities** below.

### Special Allowance for Credits From Active Participation in Rental Real Estate Activities

If you actively participated in a passive rental real estate activity, you may be able to claim credits from the activity for the tax attributable to a special allowance of up to

\$25,000, reduced by any passive losses allowed under this exception on Form 8582. The special allowance also applies to low-income housing credits and rehabilitation credits from a rental real estate activity, even if you did not actively participate in the activity. The credits allowed under the special allowance are in addition to the credits allowed for the tax attributable to net passive income.

Married individuals filing separate returns who did not live apart at all times during the year and trusts cannot use the special allowance. An estate can use the special allowance only for its tax years ending less than 2 years after the decedent's death.

Only individuals and qualifying estates can actively participate in a rental real estate activity. Limited partners cannot actively participate unless future regulations provide an exception. In addition, you are not considered to actively participate in a rental real estate activity if at any time during the tax year your interest (including your spouse's interest) in the activity was less than 10% (by value) of all interests in the activity.

Active participation is a less stringent requirement than material participation (see **Material Participation** on page 4). You may be treated as actively participating if you participated, for example, in making management decisions or arranging for others to provide services (such as repairs) in a significant and bona fide sense. Management decisions that can count as active participation include approving new tenants, deciding on rental terms, approving capital or repair expenditures, and other similar decisions.

An estate is treated as actively participating for tax years ending less than 2 years after the date of the decedent's death if the decedent would have satisfied the active participation requirements for the activity for the tax year in which the decedent died. Such an estate is a qualifying estate.

The maximum special allowance that single individuals and married individuals filing a joint return for the tax year can qualify for is \$25,000. The maximum is \$12,500 in the case of married individuals who file separate returns for the tax year but only if they lived apart at all times during the tax year. The maximum special allowance for which an estate can qualify is \$25,000 reduced by the special allowance for which the surviving spouse qualified.

If your modified adjusted gross income (as defined in the instructions for line 10 on page 9) is \$100,000 or less (\$50,000 or less if married filing separately), figure your credits based on the amount of the maximum special allowance referred to in the preceding paragraph. If your modified adjusted gross income is more than \$100,000 (\$50,000 if married filing separately), the special allowance is limited to 50% of the difference between \$150,000 (\$75,000 if married filing separately) and your modified adjusted gross income. When modified adjusted gross income is \$150,000 or more

(\$75,000 or more if married filing separately), there is no special allowance.

However, for low-income housing credits for property placed in service before 1990, and rehabilitation credits, the limits on modified adjusted gross income are increased. If your modified adjusted gross income is more than \$200,000 (\$100,000 if married filing separately), the special allowance is limited to 50% of the difference between \$250,000 (\$125,000 if married filing separately), and your modified adjusted gross income. When modified adjusted gross income is \$250,000 or more (\$125,000 or more if married filing separately), there is no special allowance.

The modified adjusted gross income limitation does not apply when figuring the special allowance for low-income housing credits for property placed in service after 1989 (other than from a pass-through entity in which you acquired your interest before 1990).

**Reporting credits from rental real estate activities.**—Complete Part I first to determine your credits from all rental real estate activities and your passive activity credit. You have a passive activity credit if line 7 shows an amount other than zero. Complete Part II if you have credits (other than low-income housing and rehabilitation credits) from rental real estate activities in which you actively participated. Complete Part III if you have low-income housing credits from property placed in service before 1990 (or any low-income housing credits from a pass-through entity in which you acquired your interest before 1990), or rehabilitation credits from rental real estate activities. Complete Part IV if you have low-income housing credits for property placed in service after 1989 (other than from a pass-through entity in which you acquired your interest before 1990).

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

## Trade or Business Activities

A trade or business activity is an activity (other than a rental activity or an activity treated as incidental to an activity of holding property for investment) that:

1. Involves the conduct of a trade or business (within the meaning of section 162),
2. Is conducted in anticipation of starting a trade or business, or
3. Involves research or experimental expenditures deductible under section 174 (or that would be if you chose to deduct rather than capitalize them).

## Reporting Credits From the Activities

**Trade or business activities with material participation.**—If you materially participated in a trade or business activity, the activity is not a passive activity. Report

the credits from the activity on the form you normally use.

**Trade or business activities without material participation.**—If you did not materially participate in a trade or business activity, the activity is a passive activity. In general, you must use Worksheet 4 on page 11 to determine the amount to enter on Form 8582-CR for each trade or business activity in which you did not materially participate. However, if you held the activity through a PTP, special rules apply. See **Publicly Traded Partnerships (PTPs)** on page 14.

## Material Participation

**In general.**—Participation, for purposes of the material participation tests listed below, generally includes any work you did for an activity if you owned an interest in the activity at the time you did the work. The capacity in which you did the work does not matter. However, work is not treated as participation if it is not work that an owner would customarily do in the same type of activity and one of your main reasons for doing the work was to avoid the disallowance of losses or credits from the activity under the passive activity rules.

Work you did as an investor in an activity is not treated as participation unless you were directly involved in the day-to-day management or operations of the activity. Work done as an investor includes:

1. Studying and reviewing financial statements or reports on operations of the activity.
2. Preparing or compiling summaries or analyses of the finances or operations of the activity for your own use.
3. Monitoring the finances or operations of the activity in a nonmanagerial capacity.

You may prove your participation in an activity by any reasonable means. You do not have to maintain contemporaneous daily time reports, logs, or similar documents if you can establish your participation by other reasonable means. Reasonable means for this purpose may include, but are not limited to, identifying services performed over a period of time and the approximate number of hours spent performing the services during that period, based on appointment books, calendars, or narrative summaries.

Participation by your spouse during the tax year in an activity you own may be counted as your participation in the activity. Your spouse's participation may be included as your participation even if your spouse did not own an interest in the activity and whether or not you and your spouse file a joint return for the tax year.

**Tests for individuals.**—You materially participated for the tax year in an activity if you satisfy one or more of the following tests:

1. You participated in the activity for more than 500 hours.
2. Your participation in the activity for the tax year was substantially all of the participation in the activity of all individuals

(including individuals who did not own any interest in the activity) for the year.

3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other individual (including individuals who did not own any interest in the activity) for the year.

4. The activity is a significant participation activity for the tax year, and you participated in all significant participation activities during the year for more than 500 hours. A **significant participation activity** is any trade or business activity in which you participated for more than 100 hours during the year and in which you did not materially participate under any of the other material participation tests.

5. You materially participated in the activity for any 5 (whether or not consecutive) of the 10 preceding tax years. When determining whether you materially participated in tax years beginning before 1987 (other than a tax year of a partnership, an S corporation, an estate, or a trust ending after 1986), you materially participated only if you participated for more than 500 hours during the tax year.

6. The activity is a personal service activity in which you materially participated for any 3 (whether or not consecutive) preceding tax years. When determining whether you materially participated for tax years beginning before 1987 (other than a tax year of a partnership, an S corporation, an estate, or trust ending after 1986), you materially participated only if you participated for more than 500 hours during the tax year.

An activity is a personal service activity if it involves performing personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.

7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year.

You did not materially participate in the activity under this seventh test, however, if you participated in the activity for 100 hours or less during the tax year. Your participation in managing the activity does not count in determining whether you materially participated under this test if:

- a. Any person (except you) received compensation for performing services in the management of the activity; or
- b. Any individual spent more hours during the tax year than you spent performing services in the management of the activity (regardless of whether the individual was compensated for the management services).

**Special rules for limited partners.**—If you owned your interest in an activity as a limited partner, you generally **did not** materially participate in the activity. You **did** materially participate in the activity, however, if you met material participation tests 1, 5, or 6 above for the tax year.

You are not treated as a limited partner for the material participation tests, however, if you were a general partner in the partnership at all times during the partnership's tax year ending with or within your tax year (or, if shorter, during the portion of the partnership's tax year in which you directly or indirectly owned your limited partner interest).

**Special rules for certain retired or disabled farmers and surviving spouses of farmers.**—Certain retired or disabled farmers and surviving spouses of farmers are treated as materially participating in a farming activity if the real property used in the activity meets the estate tax rules for special valuation of farm property passed from a qualifying decedent. See Temporary Regulations section 1.469-5T(h)(2).

**Estates and trusts.**—The passive activity credit limitations apply to an estate or trust. See Temporary Regulations sections 1.469-1T(b)(2) and (3). The rules for determining material participation for this purpose have not yet been issued.

## Grouping Your Activities

**Note:** *These rules are based on final Regulations section 1.469-4 and generally are effective for tax years ending after May 10, 1992. However, if your tax year began before October 4, 1994, you may choose to apply the rules in Proposed Regulations section 1.469-4 (and explained in the 1993 Instructions for Form 8582-CR), rather than these rules.*

Generally, one or more trade or business activities or rental activities may be treated as a single activity if the activities make up an appropriate economic unit for the measurement of gain or loss under the passive activity rules. Whether activities make up an appropriate economic unit depends on all the relevant facts and circumstances. The factors given the greatest weight in determining whether activities make up an appropriate economic unit are:

1. Similarities and differences in types of trades or businesses,
2. The extent of common control,
3. The extent of common ownership,
4. Geographical location, and
5. Interdependencies between the activities.

**Example.** You have a significant ownership interest in a bakery and a movie theater in Baltimore and in a bakery and a movie theater in Philadelphia. Depending on all the relevant facts and circumstances, there may be more than one reasonable method for grouping your activities. For instance, the following groupings may or may not be permissible: a single activity, a movie theater activity and a bakery activity, a Baltimore activity and a Philadelphia activity, or four separate activities.

Once you choose a grouping under these rules, you must continue using that grouping in later tax years unless a material change in the facts and circumstances makes it clearly inappropriate.

The IRS may regroup your activities if your grouping fails to reflect one or more appropriate economic units and one of the primary purposes of your grouping is to circumvent the passive activity limitations.

**Limitation on grouping certain activities.**—The following activities may not be grouped together:

1. A rental activity with a trade or business activity unless the activities being grouped together make up an appropriate economic unit, and

a. The rental activity is insubstantial relative to the trade or business activity or vice versa, or

b. Each owner of the trade or business activity has the same proportionate ownership interest in the rental activity. If so, the portion of the rental activity involving the rental of property to be used in the trade or business activity may be grouped with the trade or business activity.

2. An activity involving the rental of real property with an activity involving the rental of personal property (except for

personal property provided in connection with the real property or vice versa).

3. Any activity with another activity in a different type of business and in which you hold an interest as a limited partner or as a limited entrepreneur (as defined in section 464(e)(2)), if that other activity engages in holding, producing, or distributing motion picture films or videotapes; farming; leasing section 1245 property; or exploring for (or exploiting) oil and gas resources or geothermal deposits.

**Activities conducted through partnerships or S corporations, and C corporations subject to section 469.**—

Once a partnership or corporation determines its activities under these rules, a partner or shareholder may use these rules to group those activities with each other, with activities conducted directly by the partner or shareholder, and with activities conducted through other partnerships and corporations. A partner or shareholder may not treat as separate activities those activities grouped together by the partnership or corporation.

**Partial disposition of an activity.**—You may treat the disposition of substantially all of an activity as a separate activity if you can prove with reasonable certainty:

1. The prior year unallowed losses, if any, allocable to the part of the activity disposed of, and

2. The net income or loss for the year of disposition allocable to the part of the activity disposed of.

**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. To make the election, complete Part VI of Form 8582-CR. No basis adjustment may be elected on a partial disposition of your interest in a passive activity.

**Example of How To Complete Form 8582-CR**

In 1994, John Jones purchased an interest as a limited partner in Partnership A. Mr. Jones is married and files a joint return. During 1994, the partnership placed in service a residential rental building that qualified for the low-income housing credit.

Mr. Jones received a Schedule K-1 from the partnership. The low-income housing credit is shown on line 13(b)(3) of Schedule K-1 because the property was placed in service after 1989 (post-1989 low-income housing credit).

Mr. Jones's net passive income for 1994 is zero.

**Schedule K-1:**

<b>Credits</b>	<b>13a</b> Credit for income tax withheld . . . . .	<b>13a</b>		See Partner's Instructions for Schedule K-1 (Form 1065).  } Form 8586, line 5  } See Partner's Instructions for Schedule K-1 (Form 1065).
	<b>b</b> Low-income housing credit:			
	<b>(1)</b> From section 42(j)(5) partnerships for property placed in service before 1990 . . . . .	<b>b(1)</b>		
	<b>(2)</b> Other than on line 13b(1) for property placed in service before 1990 . . . . .	<b>b(2)</b>		
	<b>(3)</b> From section 42(j)(5) partnerships for property placed in service after 1989 . . . . .	<b>b(3)</b>	12,000	
	<b>(4)</b> Other than on line 13b(3) for property placed in service after 1989 . . . . .	<b>b(4)</b>		
	<b>c</b> Qualified rehabilitation expenditures related to rental real estate activities (see instructions) . . . . .	<b>13c</b>		
	<b>d</b> Credits (other than credits shown on lines 13b and 13c) related to rental real estate activities (see instructions) . . . . .	<b>13d</b>		
	<b>e</b> Credits related to other rental activities (see instructions) . . . . .	<b>13e</b>		
	<b>14</b> Other credits (see instructions) . . . . .	<b>14</b>		

For Paperwork Reduction Act Notice, see Instructions for Form 1065.

Cat. No. 11394R

Schedule K-1 (Form 1065) 1994

**Step 1.**—Mr. Jones will need the following forms to report the low-income housing credit:

**Form 8586**, Low-Income Housing Credit.

**Form 8582-CR**, Passive Activity Credit Limitations.

Mr. Jones follows the instructions for line 13(b) of Schedule K-1 and enters the employer identification number (EIN) of the partnership and the \$12,000 low-income housing credit on line 5 of Form 8586, and completes line 6.

Form <b>8586</b>  Department of the Treasury Internal Revenue Service	<h2 style="margin:0;">Low-Income Housing Credit</h2> <p style="margin:0; font-weight: normal;">▶ <b>Attach to your return.</b></p>	OMB No. 1545-0984  <div style="font-size: 2em; font-weight: bold; margin: 0;">1994</div> Attachment Sequence No. <b>36b</b>
Name(s) shown on return  John and Mary Jones		Identifying number  123-00-4567

<b>Part I</b>		<b>Current Year Low-Income Housing Credit</b> (See instructions.)											
<b>1</b>	Number of Forms 8609 attached . . . . . ▶	<b>2</b>											
<b>2</b>	Eligible basis of building(s) (total from attached Schedule(s) A (Form 8609), line 1) . . . . .	<b>3a</b>											
<b>3a</b>	Qualified basis of low-income building(s) (total from attached Schedule(s) A (Form 8609), line 3) . . . . .	<b>3b</b>											
<b>b</b>	Has there been a decrease in the qualified basis of any building(s) since the close of the preceding tax year? <input type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b> If "Yes," enter the building identification number (BIN) of the building(s) that had a decreased basis. If more space is needed, attach a schedule to list the BINs. <b>(i)</b> . . . . . <b>(ii)</b> . . . . . <b>(iii)</b> . . . . . <b>(iv)</b> . . . . .	<b>4</b>											
<b>4</b>	Current year credit (total from attached Schedule(s) A (Form 8609), see instructions) . . . . .	<b>5</b>	12,000										
<b>5</b>	Credits from flow-through entities (if from more than one entity, see instructions):	<b>6</b>	12,000										
	<table border="1" style="width:100%; border-collapse: collapse; margin-left: 20px;"> <tr> <td style="width:20%;">If you are a—</td> <td style="width:50%;">Then enter total of current year housing credit(s) from—</td> <td style="width:30%;"></td> </tr> <tr> <td><b>a</b> Shareholder</td> <td>Schedule K-1 (Form 1120S), lines 12b(1) through (4)</td> <td rowspan="3" style="font-size: 2em; vertical-align: middle;">} 10 - 5566650 . . . . . EIN of flow-through entity</td> </tr> <tr> <td><b>b</b> Partner</td> <td>Schedule K-1 (Form 1065), lines 13b(1) through (4)</td> </tr> <tr> <td><b>c</b> Beneficiary</td> <td>Schedule K-1 (Form 1041), line 13</td> </tr> </table>	If you are a—	Then enter total of current year housing credit(s) from—		<b>a</b> Shareholder	Schedule K-1 (Form 1120S), lines 12b(1) through (4)	} 10 - 5566650 . . . . . EIN of flow-through entity	<b>b</b> Partner	Schedule K-1 (Form 1065), lines 13b(1) through (4)	<b>c</b> Beneficiary	Schedule K-1 (Form 1041), line 13	<b>7</b>	
If you are a—	Then enter total of current year housing credit(s) from—												
<b>a</b> Shareholder	Schedule K-1 (Form 1120S), lines 12b(1) through (4)	} 10 - 5566650 . . . . . EIN of flow-through entity											
<b>b</b> Partner	Schedule K-1 (Form 1065), lines 13b(1) through (4)												
<b>c</b> Beneficiary	Schedule K-1 (Form 1041), line 13												
<b>6</b>	Total current year credit. Add lines 4 and 5. (See instructions to see if you complete Part II or file Form 3800.)	<b>7</b>	12,000										
<b>7</b>	<b>Passive activity credit</b> or <b>total current year credit</b> for 1994 (see instructions) . . . . .	<b>7</b>											

**Step 2.**—Line 7 of Form 8586 asks for the passive activity credit for 1994. The amount is figured on Form 8582-CR and the worksheets.

Worksheet 3 of Form 8582-CR is used for post-1989 low-income housing credits.

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

Name of Activity	From Form	Current Year Credits	Prior Year Unallowed Credits	Total Credits
		(a) Credit line 3a	(b) Credit line 3b	(c) Add cols. (a) and (b)
Partnership A	8586	12,000		
<b>Total.</b> Enter on lines 3a and 3b of Form 8582-CR . . . ▶		12,000		

Mr. Jones follows the instructions for Worksheet 3 and enters the total credits from column (a) of that worksheet on line 3a of Form 8582-CR. He enters the total credits on line 3c and completes lines 5 through 7 of the form. Mr. Jones can skip Parts II and III and go to Part IV because the only credit he has is from a post-1989 low-income housing rental real estate activity. He must also complete the worksheet for line 35 in the instructions to get the amount to enter on line 35 of the form.

Form **8582-CR**

## Passive Activity Credit Limitations

OMB No. 1545-1034

1994

Attachment  
Sequence No. **88a**

Department of the Treasury  
Internal Revenue Service

▶ See separate instructions.

▶ Attach to Form 1040 or 1041.

Name(s) shown on return

John and Mary Jones

Identifying number

123-00-4567

### Part I 1994 Passive Activity Credits

**Caution:** If you have credits from a publicly traded partnership, see **Publicly Traded Partnerships (PTPs)** on page 14 of the instructions.

<b>Credits From Rental Real Estate Activities With Active Participation (Other Than Rehabilitation Credits and Low-Income Housing Credits)</b> (See Lines 1a through 1c on page 9 of the instructions.)			
1a Credits from Worksheet 1, column (a) . . . . .	1a		
b Prior year unallowed credits from Worksheet 1, column (b) . . . . .	1b		
c Add lines 1a and 1b . . . . .			<b>1c</b>
<b>Rehabilitation Credits from Rental Real Estate Activities and Low-Income Housing Credits for Property Placed in Service Before 1990 (or From Pass-Through Interests Acquired Before 1990)</b> (See Lines 2a through 2c on page 9 of the instructions.)			
2a Credits from Worksheet 2, column (a) . . . . .	2a		
b Prior year unallowed credits from Worksheet 2, column (b) . . . . .	2b		
c Add lines 2a and 2b . . . . .			<b>2c</b>
<b>Low-Income Housing Credits for Property Placed in Service After 1989</b> (See Lines 3a through 3c on page 9 of the instructions.)			
3a Credits from Worksheet 3, column (a) . . . . .	3a	12,000	
b Prior year unallowed credits from Worksheet 3, column (b) . . . . .	3b		
c Add lines 3a and 3b . . . . .			<b>3c</b> 12,000
<b>All Other Passive Activity Credits</b> (See Lines 4a through 4c on page 9 of the instructions.)			
4a Credits from Worksheet 4, column (a) . . . . .	4a		
b Prior year unallowed credits from Worksheet 4, column (b) . . . . .	4b		
c Add lines 4a and 4b . . . . .			<b>4c</b>
5 Add lines 1c, 2c, 3c, and 4c . . . . .			<b>5</b> 12,000
6 Enter the tax attributable to net passive income (see instructions) . . . . .			<b>6</b> -0-
7 Subtract line 6 from line 5. If line 6 is more than or equal to line 5, enter -0- and see the instructions			<b>7</b> 12,000

### Part IV Special Allowance for Low-Income Housing Credits for Property Placed in Service After 1989

**Note:** Complete Part IV if you have an amount on line 3c. Otherwise, go to Part V.

31 If you completed Part III, enter the amount from line 19. Otherwise, subtract line 16 from line 7	31	12,000	
32 Enter the amount from line 30 . . . . .	32	-0-	
33 Subtract line 32 from line 31. If zero, enter -0- here and on line 36 . . . . .	33	12,000	
34 Enter the smaller of line 3c or line 33 . . . . .	34	12,000	
35 Tax attributable to the remaining special allowance (see instructions) . . . . .	35	9,900	
36 Enter the smaller of line 34 or line 35 . . . . .	36	9,900	

**Line 35 computation:**

**Line 35.**—Figure the tax attributable to the remaining special allowance as follows:

A. Taxable income . . . . .	305,000
B. Tax on line A. Use tax table, tax rate schedules, or Schedule D Tax Worksheet (or Schedule D (Form 1041)), whichever applies . . . . .	97,085
C. Enter \$25,000 (\$12,500 if married filing separate return and you and your spouse lived apart at all times during the year) . . . . .	25,000
D. Enter amount from line 9 of Form 8582, if any . . . . .	-0-
E. Subtract line D from line C . . . . .	25,000
F. Subtract line E from line A . . . . .	280,000

G. Tax on line F. Use tax table, tax rate schedules, or Schedule D Tax Worksheet (or Schedule D (Form 1041)), whichever applies . . . . .	87,185
H. Subtract line G from line B . . . . .	9,900
I. Add lines 16 and 30 of Form 8582-CR and enter the total . . . . .	-0-
J. Subtract line I from line H. Tax attributable to the remaining special allowance. Enter the result on line 35 of Form 8582-CR . . . . .	9,900

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

Mr. Jones completes Part V of Form 8582-CR:

**Part V Passive Activity Credit Allowed**

**37 Passive Activity Credit Allowed.** Add lines 6, 16, 30, and 36. If you have any credits from a publicly traded partnership, see **Publicly Traded Partnerships (PTPs)** on page 14 of the instructions.

37	9,900
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**Note:** Use Worksheets 5 through 9, whichever apply, to allocate the allowed and unallowed credits if you have credits from more than one passive activity. Also use the worksheets if you must allocate the credits because they are reported on different forms.

**Step 3.**—After completing Form 8582-CR, Mr. Jones determines his allowed and unallowed credit. Because he has only one type of credit from a single passive activity, he does not need to complete Worksheets 5 through 9. His allowed low-income housing credit for 1994 is the amount on line 37, or \$9,900. His unallowed credit of \$2,100 is determined by subtracting the allowed credit on line 37 from the total credit on line 5 (\$12,000 – \$9,900).

**Step 4.**—Mr. Jones enters the allowed passive activity credit of \$9,900 on line 7 of Form 8586 and completes Part II of that form according to the instructions for Form 8586. The unallowed credit of \$2,100 is carried forward and used to figure the passive activity credit allowed for 1995.

Form <b>8586</b>  Department of the Treasury Internal Revenue Service	<h2 style="margin: 0;">Low-Income Housing Credit</h2> <p style="margin: 0;">▶ Attach to your return.</p>	OMB No. 1545-0984  <h1 style="margin: 0;">1994</h1> Attachment Sequence No. <b>36b</b>
Name(s) shown on return John and Mary Jones		Identifying number 123-00-4567

**Part I Current Year Low-Income Housing Credit** (See instructions.)

1	Number of Forms 8609 attached . . . . .												
2	Eligible basis of building(s) (total from attached Schedule(s) A (Form 8609), line 1) . . . . .	2											
3a	Qualified basis of low-income building(s) (total from attached Schedule(s) A (Form 8609), line 3)	3a											
b	Has there been a decrease in the qualified basis of any building(s) since the close of the preceding tax year? <input type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," enter the building identification number (BIN) of the building(s) that had a decreased basis. If more space is needed, attach a schedule to list the BINs. (i) . . . . . (ii) . . . . . (iii) . . . . . (iv) . . . . .												
4	Current year credit (total from attached Schedule(s) A (Form 8609), see instructions) . . . . .	4											
5	Credits from flow-through entities (if from more than one entity, see instructions):												
	<table border="0" style="width: 100%;"> <tr> <td style="width: 20%;">If you are a—</td> <td style="width: 50%;">Then enter total of current year housing credit(s) from—</td> <td style="width: 30%;"></td> </tr> <tr> <td>a Shareholder</td> <td>Schedule K-1 (Form 1120S), lines 12b(1) through (4)</td> <td rowspan="3" style="font-size: 2em; vertical-align: middle;">} 10 - 5566650</td> </tr> <tr> <td>b Partner</td> <td>Schedule K-1 (Form 1065), lines 13b(1) through (4)</td> </tr> <tr> <td>c Beneficiary</td> <td>Schedule K-1 (Form 1041), line 13</td> </tr> </table>	If you are a—	Then enter total of current year housing credit(s) from—		a Shareholder	Schedule K-1 (Form 1120S), lines 12b(1) through (4)	} 10 - 5566650	b Partner	Schedule K-1 (Form 1065), lines 13b(1) through (4)	c Beneficiary	Schedule K-1 (Form 1041), line 13	5	12,000
If you are a—	Then enter total of current year housing credit(s) from—												
a Shareholder	Schedule K-1 (Form 1120S), lines 12b(1) through (4)	} 10 - 5566650											
b Partner	Schedule K-1 (Form 1065), lines 13b(1) through (4)												
c Beneficiary	Schedule K-1 (Form 1041), line 13												
6	Total current year credit. Add lines 4 and 5. (See instructions to see if you complete Part II or file Form 3800.)	6	12,000										
7	<b>Passive activity credit</b> or <b>total current year credit</b> for 1994 (see instructions) . . . . .	7	9,900										



# Specific Instructions

## Part I

### Current Year Credits

Convert any current year qualified expenditures into credits before beginning Worksheet 1, 2, 3, or 4.

**Form 3800, General Business Credit.**—Enter the credits from line 2 of Form 3800 in column (a) of Worksheet 1, 2, 3, or 4. If the credits are from more than one activity or more than one type of credit, separate the credits by activity or type before making entries in the worksheets. For example, if you have a low-income housing credit from one activity and a research credit from a different activity, enter the low-income housing credit in column (a) of Worksheet 2 and make a separate entry for the research credit in column (a) of Worksheet 4.

**Form 6765, Credit for Increasing Research Activities (or for claiming the orphan drug credit).**—Complete Part I if you have an orphan drug credit. Enter the portion of the credit attributable to passive activities from line 4 of Form 6765 in column (a) of Worksheet 4.

**Form 8586, Low-Income Housing Credit.**—If you are not required to file Form 3800, enter the portion of the credit attributable to passive activities credit from line 6 of Form 8586 in column (a) of Worksheet 2 or 3.

**Form 8834, Qualified Electric Vehicle Credit.**—Enter the credits from line 8 of Form 8834 in column (a) of Worksheet 1 or 4. If the credits are from more than one activity, separate the credits by activity before making entries in the worksheet.

**Form 8844, Empowerment Zone Employment Credit.**—Enter the credits from line 5 of Form 8844 in column (a) of Worksheet 1 or 4. If the credits are from more than one activity, separate the credits by activity before making entries in the worksheet.

**Nonconventional source fuel credit.**—Figure your credit from passive activities for fuel produced from a nonconventional source and enter the credit in column (a) of Worksheet 4.

See section 29 for more information on the credit for fuel produced from a nonconventional source.

### Prior Year Unallowed Credits

In figuring this year's passive activity credit, you must take into account any credits from passive activities disallowed for prior years and carried forward to this year.

If you had only one type of prior year unallowed credit from a single passive activity, you can figure your prior year unallowed credit by subtracting line 37 of your 1993 Form 8582-CR from line 5 of your 1993 Form 8582-CR. Otherwise, your prior year unallowed credits are the amounts shown in column (b) of Worksheet 9 in the 1993 Instructions for Form 8582-CR. Enter the prior year unallowed

credits in column (b) of Worksheet 1, 2, 3, or 4, whichever apply.

### 1994 Passive Activity Credits

**Lines 1a through 1c.**—Individuals and qualifying estates that actively participated in rental real estate activities (other than rental real estate activities with rehabilitation credits or low-income housing credits) should include the credits from these activities on lines 1a through 1c. Use Worksheet 1 to figure the amounts to enter on lines 1a and 1b.

See **Special Allowance for Credits From Rental Real Estate Activities** on page 3.

**Caution:** *Include the credits in Worksheet 4 and on lines 4a and 4b, 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.*

**Caution:** *You may take credits that arose in a prior tax year (other than low-income housing and rehabilitation credits) under the special allowance only if you actively participated in the rental real estate activity for both that prior year and this year. If you did not actively participate for both years, include the credits in Worksheet 4 and on lines 4a and 4b, but not in Worksheet 1 or on lines 1a and 1b.*

**Lines 2a through 2c.**—Individuals, including limited partners, and qualifying estates who had rehabilitation credits from rental real estate activities or low-income housing credits for property placed in service before 1990 should include the credits from those activities on lines 2a and 2b.

However, if you have low-income housing credits for property placed in service after 1989, include those credits on lines 3a and 3b instead of lines 2a and 2b. If you held an indirect interest in the property through a partnership, S corporation, or other pass-through entity, use lines 3a and 3b only if you also acquired your interest in the pass-through entity after 1989.

**Caution:** *Include the credits in Worksheet 4 and on lines 4a and 4b, but not on lines 2a, 2b, 3a, and 3b, if you were married filing a separate return and lived with your spouse at any time during the year.*

**Lines 3a through 3c.**—Individuals, including limited partners, and qualifying estates who had low-income housing credits from rental real estate activities for property placed in service after 1989, include those credits on lines 3a through 3c instead of lines 2a through 2c. If you held an indirect interest in the property through a partnership, S corporation, or other pass-through entity, use lines 3a through 3c only if you also acquired your interest in the pass-through entity after 1989.

**Lines 4a through 4c.**—Individuals should include on lines 4a through 4c credits from passive activities that were not entered on lines 1a through 1c, lines 2a through 2c, or lines 3a through 3c. Trusts should include

credits from **ALL** passive activities on lines 4a through 4c.

**Line 6.**—If line 3 of Form 8582 shows net income, or if you did not complete Form 8582 because you had net passive income, you will have to figure the tax on the net passive income. If you have an overall loss on an entire disposition of your interest in a passive activity, reduce net passive income, if any, on line 3 of Form 8582 to the extent of the loss (but not below zero) and use only the remaining net passive income in the computation below. If you had a net passive activity loss, enter zero on line 6 and go on to line 7.

Figure the tax on net passive income as follows:

- A. Taxable income including net passive income . . . . . \_\_\_\_\_
- B. Tax on line A. Use tax table, tax rate schedules, or Schedule D Tax Worksheet (or Schedule D (Form 1041)), whichever applies . . . . . \_\_\_\_\_
- C. Taxable income without net passive income . . . . . \_\_\_\_\_
- D. Tax on line C. Use tax table, tax rate schedules, or Schedule D Tax Worksheet (or Schedule D (Form 1041)), whichever applies . . . . . \_\_\_\_\_
- E. Subtract line D from line B and enter the result on line 6 of Form 8582-CR \_\_\_\_\_

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

**Line 7.**—If line 7 is zero because the tax on the net passive income on line 6 is greater than your credits from passive activities on line 5, all your credits from passive activities are allowed. In this case, enter the amount from line 5 on line 37 and report the credits on the form you normally use. Do not complete Worksheets 5 through 9.

## Part II

**Line 9.**—Married persons filing separate returns who lived apart at all times during the year should enter \$75,000 on line 9 instead of \$150,000. Married persons filing separate returns who lived together at any time during the year are not eligible to complete Part II.

**Line 10.**—To figure **modified adjusted gross income** for this line, combine all of the amounts you would use to figure adjusted gross income, except do not take into account:

- Any passive activity loss as defined in section 469(d)(1),
- Rental real estate losses allowed under section 469(c)(7) to real estate professionals (defined under **Activities That Are Not Passive Activities** on page 2),
- Any taxable social security or equivalent railroad retirement benefits,
- Any deductible contributions to an IRA or certain other qualified retirement plans under section 219,
- The deduction allowed under section 164(f) for one-half of self-employment taxes, or

• The exclusion from income of interest from series EE U.S. savings bonds used to pay higher education expenses.

An overall loss from an entire disposition of an interest in a passive activity is taken into account when figuring modified adjusted gross income if you do not have any net income after combining net income and losses from all other passive activities (i.e., line 3 of Form 8582 is a loss or zero). If you do have net income when you combine all of the net losses and net income from all other passive activities, the overall loss from the activity disposed of is passive to the extent of the net income and nonpassive to the extent that it exceeds the net income. Take into account the nonpassive portion of the loss when figuring modified adjusted gross income.

Include any overall net income from passive activities from publicly traded partnerships, any net income from significant participation passive activities, and any other net passive income treated as nonpassive income under Temporary Regulations section 1.469-2T(f) or Regulations section 1.469-2(f).

**Line 12.**—Do not enter more than \$12,500 on line 12 if you are married filing a separate return and you and your spouse lived apart at all times during the year. Married persons filing separate returns who lived together at any time during the year are not eligible to complete Part II.

**Line 15.**—Figure the tax attributable to the amount on line 14 as follows:

- A. Taxable income . . . . . \_\_\_\_\_
- B. Tax on line A. Use tax table, tax rate schedules, or Schedule D Tax Worksheet (or Schedule D (Form 1041)), whichever applies . . . . . \_\_\_\_\_
- C. Enter amount from line A above . . . . . \_\_\_\_\_
- D. Enter amount from line 14 of Form 8582-CR . . . . . \_\_\_\_\_
- E. Subtract line D from line C . . . . . \_\_\_\_\_
- F. Tax on line E. Use tax table, tax rate schedules, or Schedule D Tax Worksheet (or Schedule D (Form 1041)), whichever applies . . . . . \_\_\_\_\_
- G. Subtract line F from line B and enter the result on line 15 of Form 8582-CR . . . . . \_\_\_\_\_

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

**Lines 1a and 1b.**—Use Worksheet 1 to figure the amounts to enter on lines 1a and 1b. Line 1a is used for credits from rental real estate activities with active participation for the current year and line 1b is used for prior year unallowed credits from rental real estate activities with active participation in both the prior year in which the credit arose and the current year. See instructions for **Special Allowance for Credits From Rental Real Estate Activities** on page 3 for a definition of active participation.

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:** Rehabilitation credits from rental real estate activities and low-income housing credits should be entered in Worksheet 2 or 3, whichever applies, even if you actively participated in the activity.

**Worksheet 1 for Lines 1a and 1b**

(keep for your records)

Name of Activity	From Form	Current Year Credits	Prior Year Unallowed Credits	Total Credits
		(a) Credit line 1a	(b) Credit line 1b	(c) Add cols. (a) and (b)
<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 credits and low-income housing credits from rental real estate activities for the current year and line 2b is used for prior year unallowed credits from those activities. However, use Worksheet 3 instead of Worksheet 2 if you have any low-income housing credits for property placed in service after 1989. If you held an indirect interest in the property through a partnership, S corporation, or other pass-through entity, use Worksheet 3 only if you also acquired your interest in the pass-through entity after 1989. Use this worksheet if you do not meet both requirements.

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 2c.

**Worksheet 2 for Lines 2a and 2b**

(keep for your records)

Name of Activity	From Form	Current Year Credits	Prior Year Unallowed Credits	Total Credits
		(a) Credit line 2a	(b) Credit line 2b	(c) Add cols. (a) and (b)
<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 for low-income housing credits for property placed in service after 1989. If you held an indirect interest in the property through a partnership, S corporation, or other pass-through entity, use Worksheet 3 only if you also acquired your interest in the pass-through entity after 1989. Line 3a is used for the current year credits and line 3b is used for prior year unallowed credits for those activities.

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 3c.

**Worksheet 3 for Lines 3a and 3b**

(keep for your records)

Name of Activity	From Form	Current Year Credits	Prior Year Unallowed Credits	Total Credits
		(a) Credit line 3a	(b) Credit line 3b	(c) Add cols. (a) and (b)
<b>Total.</b> Enter on lines 3a and 3b of Form 8582-CR . . . ▶				

**Lines 4a and 4b.**—Use Worksheet 4 to figure the amounts to enter on lines 4a and 4b. Line 4a is used for credits from all other passive activities for the current year and line 4b is used for prior year unallowed credits from those activities.

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 4c of Form 8582-CR.

**Worksheet 4 for Lines 4a and 4b**

(keep for your records)

Name of Activity	From Form	Current Year Credits	Prior Year Unallowed Credits	Total Credits
		(a) Credit line 4a	(b) Credit line 4b	(c) Add cols. (a) and (b)
<b>Totals.</b> Enter on lines 4a and 4b of Form 8582-CR . . . ▶				

**Part III**

**Line 21.**—Married persons filing separate returns who lived apart at all times during the year should enter \$125,000 on line 21 instead of \$250,000. Married persons filing separate returns who lived together at any time during the year are not eligible to complete Part III.

Skip lines 21 through 26 if you completed Part II of this form and your modified adjusted gross income on line 10 in Part II was \$100,000 or less (\$50,000 or less if married filing separately and you lived apart from your spouse for the entire year). If this was the case, enter the amount from line 15 on line 27.

**Line 24.**—Do not enter more than \$12,500 on line 24 if you are married filing a separate return and you and your spouse lived apart at all times during the year. Married persons filing separate returns who lived together at any time during the year are not eligible to complete Part III.

**Line 27.**—Figure the tax attributable to the amount on line 26 as follows:

- A. Taxable income . . . . . \_\_\_\_\_
- B. Tax on line A. Use tax table, tax rate schedules, or Schedule D Tax Worksheet (or Schedule D (Form 1041)), whichever applies . . . . . \_\_\_\_\_
- C. Enter amount from line A above . . . . . \_\_\_\_\_
- D. Enter amount from line 26 of Form 8582-CR . . . . . \_\_\_\_\_
- E. Subtract line D from line C . . . . . \_\_\_\_\_
- F. Tax on line E. Use tax table, tax rate schedules, or Schedule D Tax Worksheet (or Schedule D (Form 1041)), whichever applies . . . . . \_\_\_\_\_
- G. Subtract line F from line B and enter the result on line 27 of Form 8582-CR \_\_\_\_\_

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

**Part IV**

**Note:** *Married persons filing separate returns who lived together at any time during the year are not eligible to complete Part IV.*

**Line 35.**—Figure the tax attributable to the remaining special allowance as follows:

- A. Taxable income . . . . . \_\_\_\_\_
- B. Tax on line A. Use tax table, tax rate schedules, or Schedule D Tax Worksheet (or Schedule D (Form 1041)), whichever applies . . . . . \_\_\_\_\_
- C. Enter \$25,000 (\$12,500 if married filing separate return and you and your spouse lived apart at all times during the year) . . . . . \_\_\_\_\_
- D. Enter amount from line 9 of Form 8582, if any . . . . . \_\_\_\_\_
- E. Subtract line D from line C . . . . . \_\_\_\_\_
- F. Subtract line E from line A . . . . . \_\_\_\_\_
- G. Tax on line F. Use tax table, tax rate schedules, or Schedule D Tax Worksheet (or Schedule D (Form 1041)), whichever applies . . . . . \_\_\_\_\_
- H. Subtract line G from line B . . . . . \_\_\_\_\_
- I. Add lines 16 and 30 of Form 8582-CR and enter the total . . . . . \_\_\_\_\_
- J. Subtract line I from line H. Tax attributable to the remaining special allowance. Enter the total on line 35 of Form 8582-CR . . . . . \_\_\_\_\_

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

## Part V

### Computation of Passive Activity Credit Allowed

**Line 37.**—If you have only one type of credit, the amount on line 37 is the credit allowed for the year. Enter this amount on the form where it is normally reported. Your unallowed credit would be line 5 minus line 37.

Use Worksheets 5 through 9, whichever apply, below and on page 13, to allocate the allowed and unallowed credits if you have credits from more than one activity. Also use the worksheets if you must allocate the credits because they are reported on different forms.

Keep a record of each unallowed credit and the activity to which it belongs so you can claim the credit if it becomes allowable in a future year.

### Part VI—Election To Increase Basis of Credit Property

**Line 38.**—Check the box if the corporation elects to increase the basis of credit property it used in a passive activity by the unallowed credit that reduced the property's basis. The election is available for a fully taxable disposition of an entire interest in an activity for which a basis adjustment was made as a result of placing in service property for which a credit was taken. On such a disposition,

you may elect to increase the basis of the credit property immediately before the disposition (by an amount no greater than the amount of the original basis reduction) to the extent that the credit had not been previously allowed because of the passive credit limitations. The amount of the unallowed credit that may then be applied against tax is reduced by the amount of the basis adjustment.

No basis adjustment may be elected on a partial disposition of your interest in a passive activity or if the disposition is not fully taxable. The amount of any unallowed credit, however, remains available to offset the tax attributable to net passive and net active income.

#### Instructions for Worksheet 5

Complete Worksheet 5 if you have an amount on line 1c of Form 8582-CR and you have credits from more than one activity.

**Column (a).**—Enter the credits from Worksheet 1, column (c), 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 16 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 2. Also complete Worksheet 7 or 8 if you have credits shown in Worksheet 3 or 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 result in this column. Also enter the name of each activity and the form the credit should be reported on in Worksheet 8 and enter the amount from column (d) of this worksheet in column (a) of Worksheet 8. Also complete Worksheet 6 or 7 if you have credits on line 2c or 3c of Form 8582-CR.

#### Worksheet 5 for Credits on Line 1a 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 (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 credits on line 2c of Form 8582-CR and you have credits from more than one activity.

**Column (a).**—Enter the credits from Worksheet 2, column (c), in column (a) of this worksheet.

**Column (b).**—Divide each of the individual credits shown in column (a) by the total of all 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 30 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 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 7 or 8 if you have credits shown in Worksheet 3 or 4 or amounts in column (d) of Worksheet 5. 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 result in this column. Also enter the name of each activity and the form the credit should be reported on in Worksheet 8 and enter the amount from column (d) of this worksheet in column (a) of Worksheet 8.

#### Worksheet 6 for Credits on Line 2a 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 7**

Complete Worksheet 7 if you have credits on line 3c of Form 8582-CR and you have credits from more than one activity.

**Column (a).**—Enter the credits from Worksheet 3, column (c), in column (a) of this worksheet.

**Column (b).**—Divide each of the individual credits shown in column (a) by the total of all 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 36 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 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 8 if you have credits shown in Worksheet 4 or amounts in column (d) of Worksheet 5 or 6. 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 result in this column. Also enter the name of each activity and the form the credit should be reported on in Worksheet 8 and enter the amount from column (d) of this worksheet in column (a) of Worksheet 8.

**Worksheet 7 for Credits on Line 3a or 3b** (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 8**

Complete Worksheet 8 if you have credits on line 4c of Form 8582-CR from more than one activity or reported on different forms, or you have amounts in column (d) of Worksheets 5, 6, or 7.

**Column (a).**—Enter the amounts, if any, from column (c) of Worksheet 4 and column (d) of Worksheets 5, 6, and 7.

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

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

- A. Enter line 5 of Form 8582-CR . . . . . \_\_\_\_\_
- B. Enter line 37 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 9 to determine the credits allowed for 1994.

**Worksheet 8—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 9**

**Column (a).**—Enter all the activities shown in Worksheet 8. The credits entered in column (a) of this worksheet should be the credits shown in column (c) of Worksheets 1, 2, 3, and 4 for the activities listed in Worksheet 8.

**Column (b).**—Enter the amounts from column (c) of Worksheet 8 in this column. These are your **unallowed credits for 1994**.

**Column (c).**—Subtract column (b) from column (a). These are the **credits allowed for 1994**. The amounts in this column should be reported on the forms you normally use to report the credits.

**Worksheet 9—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> . . . . . ▶				

## Reporting Allowed Credits on Your Tax Return

**Form 3800.**—Enter on line 4 of Form 3800 the total passive activity general business credit allowed from column (c) of Worksheet 9.

**Form 6765.**—Enter any allowed orphan drug credit on line 4 and identify it as “PAC” on Form 6765. Also complete Part II of that form.

**Form 8586.**—If you are not required to file Form 3800, enter on line 7 of Form 8586 any allowed low-income housing credit.

**Form 8834.**—Enter on line 10 of Form 8834 the passive activity qualified electric vehicle credit allowed from column (c) of Worksheet 9.

**Form 8844.**—Enter on line 7 of Form 8844 the passive activity empowerment zone employment credit allowed from column (c) of Worksheet 9.

**Nonconventional source fuel credit.**—If you have an allowed passive activity credit for fuel produced from a nonconventional source, see section 29 for limitations and adjustments to the credit. Attach a separate schedule to your tax return showing how you figured the credit. If you have both passive and nonpassive credits, combine the credits before applying the limitations and adjustments. Report the credit on the line specified by the instructions for the tax return you file.

## Publicly Traded Partnerships (PTPs)

A PTP is a partnership whose interests are traded on an established securities market or are readily traded on a secondary market (or its substantial equivalent).

An established securities market includes any national securities exchange and any local exchange registered under the Securities Exchange Act of 1934 or exempted from registration because of the limited volume of transactions. It also includes any over-the-counter market.

A secondary market is generally indicated by the existence of a person standing ready to make a market in the interest. An interest is treated as readily tradable if the interest is regularly quoted by persons, such as brokers or dealers, who are making a market in the interest.

The substantial equivalent of a secondary market exists where there is no identifiable market maker, but the holder of an interest has a readily available, regular, and ongoing opportunity to sell or exchange his or her interest through a public means of obtaining or providing information of offers to buy, sell, or exchange interests. Similarly, the substantial equivalent of a secondary market exists where the prospective buyers and sellers have the opportunity to buy, sell, or exchange interests in a timeframe and with the regularity and

continuity that the existence of a market maker would provide.

## Credits From PTPs

A credit from a passive activity held through a PTP is allowed to the extent of the tax attributable to net passive income from that partnership. In addition, rehabilitation credits and low-income housing credits from rental real estate activities held through PTPs are allowed to the extent of any special allowance that remains after taking into account losses and credits from rental real estate activities not owned through PTPs. See **Special Allowance for Credits From Rental Real Estate Activities** on page 3.

Do not enter credits from PTPs on the worksheets or on Form 8582-CR. Instead, use the following steps to figure the allowed and unallowed credits from passive activities held through PTPs.

### Computation of Passive Activity Credits Allowed From PTPs

*Complete Steps 1 and 2 only if you have net passive income from a PTP with passive activity credits (including prior year unallowed credits).*

**Step 1.**—Figure the tax attributable to net passive income from each PTP with passive activity credits (including prior year unallowed credits) by following the steps shown in the worksheet in the line 6 instructions. Complete a separate tax computation for each PTP with net passive income.

**Step 2.**—Passive activity credits from each PTP are allowed to the extent of the tax attributable to net passive income from that same PTP. Credits in excess of the tax attributable to net passive income may be allowed under one or more steps below.

*Complete Steps 3 through 5 only if you have rehabilitation credits from rental real estate activities from a PTP, low-income housing credits for property placed in service before 1990 from a PTP, or low-income housing credits from a PTP in which you acquired your interest before 1990 (regardless of the date placed in service) (including prior year unallowed credits).*

**Step 3.**—Reduce rehabilitation credits from rental real estate activities from each PTP, low-income housing credits for property placed in service before 1990 from each PTP, and any low-income housing credits from each PTP in which you acquired your interest before 1990 (regardless of the date placed in service) (including prior year unallowed credits) to the extent of the tax attributable to net passive income from that PTP, which was figured in Step 1.

**Step 4.**—Before beginning this step, you must complete Form 8582-CR if you have any passive credits that are not from PTPs. Subtract the total of lines 16, 30, and 36, if any, of Form 8582-CR, from the amount on line 27 of Form 8582-CR, to figure the

tax attributable to the special allowance available for the credits in Step 3.

If your only passive credits are from PTPs, complete lines 21 through 27 of Form 8582-CR as a worksheet. The amount on line 27 is the tax attributable to the special allowance available for the credits in Step 3.

**Step 5.**—Rehabilitation credits from rental real estate activities of each PTP, low-income housing credits for property placed in service before 1990 by each PTP, and any low-income housing credits from a PTP in which you acquired your interest before 1990 (regardless of the date placed in service) allowed under the special allowance are the smaller of the total credits from Step 3 or the amount figured in Step 4. If Step 4 is smaller than Step 3, allocate the amount in Step 4 pro rata to the credits from each PTP in Step 3.

*Complete Steps 6 through 8 only if you have low-income housing credits for property placed in service after 1989 from a PTP in which you also acquired your interest after 1989 (including prior year unallowed credits).*

**Step 6.**—Reduce low-income housing credits for property placed in service after 1989 from a PTP in which you also acquired your interest after 1989 (including prior year unallowed credits) to the extent of the tax attributable to net passive income from that PTP, which was figured in Step 1.

**Step 7.**—Before beginning this step, you must complete Form 8582-CR if you have any passive credits that are not from PTPs. Subtract the sum of the credits allowed in Step 5 above and line 36 of Form 8582-CR from the amount on line 35 of Form 8582-CR to figure the tax attributable to the special allowance available for the credits in Step 6.

If your only passive credits are from PTPs, complete the steps shown in the worksheet in the line 35 instructions. Subtract the credits allowed in Step 5 above from the tax figured on line J of that worksheet. The result is the tax attributable to the special allowance available for the credits in Step 6.

**Step 8.**—Low-income housing credits allowed under the special allowance for property placed in service after 1989 from a PTP in which you also acquired your interest after 1989 are the smaller of the total credits from Step 6 or the amount figured in Step 7. If Step 7 is smaller than Step 6, allocate the amount in Step 7 pro rata to the credits from each PTP in Step 6.

**Step 9.**—Add Steps 2, 5, and 8. These are the total credits allowed from passive activities of PTPs.

**Step 10.**—Figure the allowed and unallowed credits from each PTP. Report the allowed credits on the form normally used. Keep a record of the unallowed credits to be carried forward to 1995.

