



Instructions for Form 8697

(Rev. November 2002)

Interest Computation Under the Look-Back Method for Completed Long-Term Contracts

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

General Instructions

Changes To Note

- For a mid-contract change in taxpayer after May 14, 2002, see Regulations section 1.460-4(k).
- The address when filing Form 8697 separately has changed. See **If Interest Is To Be Refunded to You** on page 2.

Purpose of Form

Use Form 8697 to figure the interest due or to be refunded under the look-back method of section 460(b)(2) on certain long-term contracts that are accounted for under either the percentage of completion method or the percentage of completion-capitalized cost method. For guidance concerning these methods, see Notice 89-15, 1989-1 C.B. 634. For details and computational examples illustrating the use of the look-back method, see Regulations section 1.460.

Who Must File

General Rule

You must file Form 8697 for each tax year in which you completed a long-term contract entered into after February 28, 1986, that you accounted for using either the percentage of completion method or the percentage of completion-capitalized cost method for Federal income tax purposes. You also must file Form 8697 for any tax year in which the contract price or contract costs are adjusted for one or more of these long-term contracts from a prior year.

A pass-through entity (partnership, S corporation, or trust) that is not closely held must apply the look-back method at the entity level to any contract for which at least 95% of the gross income is from U.S. sources. A pass-through entity is considered closely held if, at any time during any tax year for which there is income under the contract, 50% or more (by value) of the beneficial interests in the entity is held (directly or indirectly) by or for five or fewer persons. For this purpose, rules similar to the constructive ownership rules of section 1563(e) apply.

If you are an owner of an interest in a pass-through entity for every year in which a long-term contract was being accounted for under the percentage of completion method or the percentage of completion-capitalized cost method and the pass-through entity is not subject to the look-back method at the entity level, you must file this form for your tax year that ends with or includes the end of the entity's tax year in which the contract was completed or adjusted.

If the taxpayer reporting income from a long-term contract changes prior to the year of completion of the contract, the taxpayer as of the date of completion will be responsible for the payment of interest, if any, due from any year in which the contract was being accounted for under either the percentage of completion method or the percentage of completion-capitalized cost method. Generally, only the taxpayer that had accounted for a long-term contract in a year that an overpayment occurred may request a refund of interest on the overpayment.

Exception for Certain Construction Contracts

The look-back method does not apply to the regular taxable income from:

- Any home construction contract (as defined in section 460(e)(6)(A)) or
- Any other construction contract entered into by a taxpayer: **(a)** who estimates the contract will be completed within 2 years from the date the contract begins and **(b)** whose average annual gross receipts for the 3 tax years preceding the tax year in which the contract is entered into do not exceed \$10 million. See section 460(e).

However, the look-back method does apply to the alternative minimum taxable income from any such contract that must be accounted for using the percentage of completion method for alternative minimum tax purposes. See section 56(a)(3) for details.

Small Contract Exception

The look-back method does not apply to any contract completed within 2 years of the contract start date if the gross price of the contract (as of contract completion) does not exceed the smaller of:

- \$1 million or
- 1% of the taxpayer's average annual gross receipts for the 3 tax years before the tax year of contract completion.

See section 460(b)(3)(B) for details.

De Minimis Exception

You may elect not to apply the look-back method in certain de minimis cases for contracts completed in tax years ending after August 5, 1997. The look-back method does not apply in the following cases if the election is made.

1. In the completion year if, for each prior contract year, the cumulative taxable income (or loss) actually reported under the contract is within 10% of the cumulative look-back income (or loss). Cumulative look-back income (or loss) is the amount of taxable income (or loss) that you would have reported if you had used actual

contract price and costs instead of estimated contract price and costs.

2. In a post-completion year if, as of the close of the post-completion year, the cumulative taxable income (or loss) under the contract is within 10% of the cumulative look-back income (or loss) under the contract as of the close of the most recent year in which the look-back method was applied to the contract (or would have been applied if the election had not been made).

For purposes of item 2, discounting under section 460(b)(2) does not apply.

To make the election, attach a statement to your timely filed income tax return (determined with extensions) for the first tax year of the election. Write at the top of the statement "NOTIFICATION OF ELECTION UNDER SECTION 460(b)(6)." Include on the statement your name, identifying number, and the effective date of the election. Also identify the trades or businesses that involve long-term contracts. Once made, the election applies to all contracts completed during the election year and all later tax years, and may not be revoked without IRS consent. See Regulations section 1.460-6(j) for more details. If you timely filed your return without making the election, you may make the election on an amended return filed no later than 6 months after the due date of your tax return (excluding extensions). Write "Filed pursuant to section 301.9100" at the top of the amended return.

Filing Instructions

If You Owe Interest (or No Interest Is To Be Refunded to You)

Attach Form 8697 to your income tax return. Neither you nor any paid preparer is required to complete the Signature section of Form 8697.

For taxpayers other than partnerships (that are not electing large partnerships), include any interest due in the amount to be entered for **total tax** (after credits and other taxes) on your return (e.g., 2002 Form 1040, line 61; 2002 Form 1120, Schedule J, line 11, etc.). Write on the dotted line to the left of the entry space "From Form 8697" and the amount of interest due.

For partnerships (other than electing large partnerships), write "From Form 8697" and any interest due in the bottom margin of the tax return and attach a check or money order for the full amount payable to "United States Treasury". Write the partnership's employer identification number (EIN), daytime phone number, and "Form 8697 Interest" on the check or money order.

If Interest Is To Be Refunded to You

Do not attach Form 8697 to your income tax return. Instead, file Form 8697 separately with the IRS at the applicable address listed below.

- Individuals:
Philadelphia, PA 19255-0001
 - All others:
Cincinnati, OH 45999-0001
- Complete the Signature section of Form 8697 following the instructions for the Signature section of your income tax return. If additional Forms 8697 are needed (to show more than 3 prior tax years), sign only the first Form 8697.

File Form 8697 by the date you are required to file your income tax return (including extensions). Keep a copy of Form 8697 and any attached schedules for your records.

Filing a Corrected Form 8697

You must file a corrected Form 8697 only if the amount shown on Part I, line 6, or Part II, line 7, for any prior year changes as a result of an error you made, an income tax examination, or the filing of an amended tax return.

When completing Part I, line 1, of the corrected Form 8697, follow the instructions on the form but do not enter the adjusted taxable income from Part I, line 3, of the original Form 8697. When completing Part I, line 5 (or Part II, line 6), of the corrected Form 8697, **do not** include the interest due, if any, from Part I, line 10 (or Part II, line 11), of the original Form 8697 that was included in your total tax when Form 8697 was filed with your tax return.

- If both the original and corrected Forms 8697 show an amount on the line for interest you owe, file an amended income tax return.
- If both the original and corrected Forms 8697 show an amount on the line for interest to be refunded to you, write "Amended" in the top margin of the corrected Form 8697, and file it separately.
- If your original Form 8697 shows an amount on the line for interest you owe and the corrected Form 8697 shows an amount on the line for interest to be refunded to you, you must:
 1. File an amended income tax return showing \$0 interest from Form 8697 and
 2. File the corrected Form 8697 separately (but do not write "Amended" at the top of the form because this is the first Form 8697 that you will file separately).
- If the original Form 8697 shows an amount on the line for interest to be refunded to you and the corrected Form 8697 shows an amount on the line for interest you owe, you must:
 1. File the corrected Form 8697 separately (with "Amended" written at the top) showing \$0 interest to be refunded and
 2. File an amended income tax return and attach a copy of the corrected Form 8697.

Attachments

If you need more space, attach separate sheets to the back of Form 8697. Put your name and identifying number on each sheet.

Applying the Look-Back Method Under Special Situations

10% Method

For purposes of the percentage of completion method, a taxpayer may elect to postpone recognition of income and expense under a long-term contract entered into after July 10, 1989, until the first tax year as of the end of which at least 10% of the **estimated** total contract costs have been incurred. For purposes of the look-back method, the recognition of income and expense must be postponed for such contracts until the first tax year as of the end of which at least 10% of the **actual** total contract costs have been incurred. Therefore, income and expense will be allocated to a different tax year if the first tax year that the 10% threshold is exceeded based on actual costs differs from the first tax year that the 10% threshold is exceeded based on estimated costs. The election to use the 10% method applies to all long-term contracts entered into during the tax year for which the election is made and all later years. See section 460(b)(5) for more details.

Change Orders

A change order for a contract is not treated as a separate contract for purposes of applying the look-back method unless the change order would be treated as a separate contract under the rules for severing and aggregating contracts provided in Regulations section 1.460-1(e). Therefore, if a change order is not treated as a separate contract, that portion of the actual contract price and contract costs attributable to the change order must be taken into account in allocating contract income to all tax years of the contract, including tax years before the change order was agreed to.

Post-Completion Adjustments

General Rule

If the contract price or costs are revised to reflect amounts properly taken into account after the contract completion date for any reason, you must apply the look-back method in the year such amounts are properly taken into account, even if no other contract is completed in that year. Generally, the amount of each such post-completion adjustment to total contract price or contract costs is discounted, solely for look-back purposes, from its value at the time the amount is taken into account in computing taxable income to its value at the time the contract was completed. The discount rate for this purpose is the Federal mid-term rate under section 1274(d) in effect at the time the amount is properly taken into account.

However, you may elect not to discount post-completion adjustments for any contract. To make this election, attach a

statement to your timely filed income tax return (determined with extensions) for the first tax year after completion in which you take into account any adjustment to the contract price or contract costs. Indicate on the statement that you are making an election not to discount post-completion adjustments under Regulations section 1.460-6(c)(1)(ii)(C)(2) and identify the contracts to which the election applies. Once made, the election is binding for all post-completion adjustments that apply to a contract under an election.

Delayed Reapplication Method

For purposes of reapplying the look-back method after the year of contract completion, you may elect the delayed reapplication method. Under this method, the look-back method is reapplied after the contract completion year (or after a later reapplication of the look-back method) only when one of the following conditions is met for that contract:

1. The net undiscounted value of increases or decreases in the contract price occurring from the time of the last application of the look-back method exceeds the smaller of \$1 million or 10% of the total contract price at that time,
2. The net undiscounted value of increases or decreases in contract costs occurring from the time of the last application of the look-back method exceeds the smaller of \$1 million or 10% of the total actual contract costs at that time,
3. The taxpayer goes out of existence,
4. The taxpayer reasonably believes the contract is finally settled and closed, or
5. None of the above conditions (1-4) are met by the end of the 5th tax year that begins after the last previous application of the look-back method.

To elect the delayed reapplication method, attach a statement to your timely filed income tax return (determined with extensions) for the first tax year of the election. Indicate on the statement that you are making an election under Regulations section 1.460-6(e) to use the delayed reapplication method. Once made, the election is binding for all long-term contracts for which you would reapply the look-back method in the absence of the election in the year of the election and all later years, unless the IRS consents to a revocation of the election. See Regulations section 1.460-6(e) for more details.

Specific Instructions

All filers must complete the information at the top of the form above Part I according to the following instructions and complete either Part I or Part II as appropriate. Also sign the form at the bottom of page 2 unless you are filing the form with your tax return.

Filing Year

Fill in the filing year line at the top of the form to show the tax year in which the contracts for which this form is being filed were completed or adjusted. If you were an owner of an interest in a pass-through entity that has completed or adjusted one or more contracts, enter your tax year that ends with or includes the end of the entity's tax year in

which the contracts were completed or adjusted.

Name

Enter the name shown on your Federal income tax return for the filing year. If you are an individual filing a joint return, also enter your spouse's name as shown on Form 1040.

Address

Enter your address only if you are filing this form separately. Include the apartment, suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and you have a P.O. box, show the box number instead.

Item A—Identifying Number

If you are an individual, enter your social security number. Other filers must use their EIN.

Part I—Regular Method

Use Part I only if you are not electing, do not have an election in effect, or are not required to use the simplified marginal impact method as described in the instructions for Part II on page 4.

Columns (a), (b), and (c)

Enter at the top of each column the ending month and year for:

- Each prior tax year in which you were required to report income from the completed long-term contract(s) and
- Any other tax year affected by such years.

Note: *If there were more than 3 prior tax years, attach additional Forms 8697 as needed. On the additional Forms 8697, enter your name, identifying number, and tax year. Complete lines 1 through 8 (as applicable), but do not enter totals in column (d). Enter totals only in column (d) of the first Form 8697.*

Line 1

Do not reduce taxable income or increase a loss on line 1 by any carryback of a net operating loss, capital loss, or net section 1256 contracts loss, except to the extent that carryback resulted from or was adjusted by the redetermination of your income from a long-term contract for look-back purposes.

Line 2

In each column, show a net increase to income as a positive amount and a net decrease to income as a negative amount.

In figuring the net adjustment to be entered in each column on line 2, be sure to take into account any other income and expense adjustments that may result from the increase (or decrease) to income from long-term contracts (e.g., a change to adjusted gross income affecting investment expenses under section 212, medical expenses under section 213, etc.); and the deduction for state income taxes by an accrual basis taxpayer).

Include the following on an attached schedule.

1. Identify each completed long-term contract by contract number, job name, or any other reasonable method used in your records to identify each contract.

2. For each contract, report in columns for each prior year: (a) the amount of income previously reported based on estimated contract price and costs and (b) the amount of income allocable to each prior year based on actual contract price and costs. Total the columns for each prior year and show the net adjustment to income from long-term contracts.

3. Identify any other adjustments that result from a change in income from long-term contracts and show the amounts in the columns for the affected years so that the net adjustment shown in each column on the attached schedule agrees with the amounts shown on line 2.

An owner of an interest in a pass-through entity is not required to provide the detail listed in 1 and 2 above with respect to prior years. The entity should provide the line 2 amounts with Schedule K-1 or on a separate statement for its tax year in which the contracts are completed or adjusted.

Note: *Taxpayers reporting line 2 amounts from more than one Schedule K-1 (or a similar statement) must attach a schedule detailing by entity the net change to income from long-term contracts.*

Lines 4 and 5

Reduce the tax liability to be entered on lines 4 and 5 by allowable credits (other than refundable credits, e.g., the credit for taxes withheld on wages, the earned income credit, the credit for Federal tax on fuels, etc.), but do not take into account any credit carrybacks to the prior year in computing the amount to enter on lines 4 and 5 (other than carrybacks that resulted from or were adjusted by the redetermination of your income from a long-term contract for look-back purposes). Include on lines 4 and 5 any taxes (such as alternative minimum tax) required to be taken into account in the computation of your tax liability (as originally reported or as redetermined).

Lines 7 and 8

For the increase or decrease in tax for each prior year, interest due or to be refunded must be computed at the applicable interest rate and compounded on a daily basis, generally from the due date (not including extensions) of the return for the prior year until the earlier of:

- The due date (not including extensions) of the return for the filing year or
- The date the return for the filing year is filed and any income tax due for that year has been fully paid.

Exceptions:

- If a net operating loss, capital loss, net section 1256 contracts loss, or credit carryback is being increased or decreased as a result of the adjustment made to net income from long-term contracts, the interest due or to be refunded must be computed on the increase or decrease in tax attributable to the change to the carryback only from the due date (not including extensions) of the return for the prior year that generated the carryback and **not** from the due date of the return for the year in

which the carryback was absorbed. See section 6611(f).

- In the case of a decrease in tax on line 6, if a refund has been allowed for any part of the income tax liability shown on line 5 for any year as a result of a net operating loss, capital loss, net section 1256 contracts loss, or credit carryback to such year, and the amount of the refund exceeds the amount on line 4, interest is allowed on the amount of such excess only until the due date (not including extensions) of the return for the year in which the carryback arose.

Note: *If a different method of interest computation must be used to produce the correct result in your case, use that method and attach an explanation of how the interest was computed.*

Applicable Interest Rates

Tables of interest factors to compute daily compound interest were published in Rev. Proc. 95-17, 1995-1 C.B. 556. The annual interest rate in effect and the table and corresponding page number in 1995-1 C.B. for periods through March 31, 2003, are shown in the tables on page 5. For periods beginning after March 31, 2003, use the applicable overpayment rate under section 6621(a)(1) in the revenue rulings published quarterly in the Internal Revenue Bulletin.

Contracts completed in tax years ending after August 5, 1997.

For contracts completed in tax years ending after August 5, 1997, an interest rate is determined for each interest accrual period. The interest accrual period starts on the day after the return due date (not including extensions) for each prior tax year and ends on the return due date for the following tax year. The interest rate in effect for the entire interest accrual period is the overpayment rate determined under section 6621(a)(1) applicable on the first day of the interest accrual period. The applicable interest rates for taxpayers other than corporations are shown in **Table 1** (for interest accrual periods beginning through 1994) and **Table 2** (for interest accrual periods beginning after 1994). Corporations also use **Table 1** for interest accrual periods beginning through 1994. For interest accrual periods beginning after 1994, corporations use **Table 3** for the first \$10,000, and use **Table 4** for the portion (if any) of the increase or decrease in tax exceeding \$10,000.

Contracts completed in tax years ending before August 6, 1997.

The applicable interest rates for taxpayers other than corporations are shown in **Table 1** (for periods through 1994) and **Table 2** (for periods after 1994). Corporations use **Table 1** for periods through 1994. For periods after 1994, corporations use **Table 3** for the first \$10,000, and use **Table 4** for the portion (if any) of the increase or decrease in tax exceeding \$10,000.

Line 9

See **If Interest Is To Be Refunded to You** on page 2 for where to file Form 8697. Additional interest to be refunded for periods after the due date of the return, if any, will be computed by the IRS and included in your refund. Report the amount on line 9 (or the amount refunded by the IRS if different) as interest income on your income tax return

for the tax year in which it is received or accrued.

Line 10

See **If You Owe Interest** under **Filing Instructions** on page 1 for how to report this amount on your tax return. Corporations (other than S corporations) may deduct this amount (or the amount computed by the IRS if different) as interest expense for the tax year in which it is paid or incurred. For individuals and other taxpayers, this interest is not deductible.

Part II—Simplified Marginal Impact Method

Part II is used only by pass-through entities required to apply the look-back method at the entity level (see **Who Must File** on page 1) and taxpayers electing (or with an election in effect) to use the simplified marginal impact method. Under the simplified method, prior year hypothetical underpayments or overpayments in tax are figured using an assumed marginal tax rate, which is generally the highest statutory rate in effect for the prior year under section 1 (for an individual) or section 11 (for a corporation). This method eliminates the need to refigure your tax liability based on actual contract price and actual contract costs each time the look-back method is applied.

To elect the simplified marginal impact method, attach a statement to your timely filed income tax return (determined with extensions) for the first tax year of the election. Indicate on the statement that you are making an election under Regulations section 1.460-6(d) to use the simplified marginal impact method. Once made, the election applies to all applications of the look-back method in the year of the election and all later years, unless the IRS consents to a revocation of the election.

Columns (a), (b), and (c)

Enter at the top of each column the ending month and year for each prior tax year in which you were required to report income from the completed long-term contract.

Note: *If there were more than 3 prior tax years, attach additional Forms 8697 as needed. On the additional Forms 8697, enter your name, identifying number, and tax year. Complete lines 1 through 9 (as applicable), but do not enter totals in column (d). Enter totals only in column (d) of the first Form 8697.*

Line 1

In each column, show a net increase to income as a positive amount and a net decrease to income as a negative amount.

On an attached schedule:

- Identify each completed long-term contract by contract number, job name, or any other reasonable method used in your records to identify each contract; and
- For each contract, report in columns for each prior year: **(a)** the amount of income previously reported based on estimated

contract price and costs and **(b)** the amount of income allocable to each prior year based on actual contract price and costs. Total the columns for each prior year and show the net adjustment to income from long-term contracts.

An owner of an interest in a pass-through entity is not required to provide the detail listed in **(a)** and **(b)** above for prior years. The entity should provide the line 1 amounts with Schedule K-1 or on a separate statement for its tax year in which the contracts are completed or adjusted.

Note: *Taxpayers reporting line 1 amounts from more than one Schedule K-1 (or a similar statement) must attach a schedule detailing by entity the net change to income from long-term contracts.*

Line 2

Multiply the amount on line 1 by the applicable regular tax rate for each prior year shown in column (a), (b), or (c). The applicable regular tax rate is as follows:

1. Individuals and pass-through entities in which, at all times during the year, more than 50% of the interests in the entity are held by individuals directly or through other pass-through entities:

a. Tax years beginning before 1987	50%
b. Tax years beginning in 1987	38.5%
c. Tax years beginning in 1988, 1989, or 1990	28%
d. Tax years beginning in 1991 or 1992	31%
e. Tax years beginning in 1993 through 2000	39.6%
f. Tax years beginning in 2001	39.1%
g. Tax years beginning in 2002 or 2003	38.6%
h. Tax years beginning in 2004 or 2005	37.6%
i. Tax years beginning in 2006 or later	35.0%

2. Corporations (other than S corporations) and pass-through entities not included in 1 above:

- a. Tax years ending before July 1, 1987 46%
- b. For tax years beginning before July 1, 1987, that include July 1, 1987, the rate is 34% plus the following:

$$\frac{\text{Number of days in tax year before 7/1/87}}{\text{Number of days in tax year}} \times 12\%$$

- c. Tax years beginning after June 30, 1987, and ending before 1993 34%
- d. For tax years beginning before 1993 that include January 1, 1993, the rate is 34% plus the following:

$$\frac{\text{Number of days in tax year after 12/31/92}}{\text{Number of days in tax year}} \times 1\%$$

- e. Tax years beginning after 1992 35%

Line 3

See the instructions for Part II, line 1, on this page and complete line 3 in the same manner, using only income and deductions allowed for alternative minimum tax (AMT) purposes.

Line 4

Multiply the amount on line 3 by the applicable AMT rate, which is as follows:

1. Individuals and pass-through entities in which, at all times during the year, more than 50% of the interests in the entity are held by individuals directly or through other pass-through entities:
 - a. Tax years beginning in 1987 through 1990 21%
 - b. Tax years beginning in 1991 or 1992 24%
 - c. Tax years beginning in 1993 or later 28%
2. Corporations (other than S corporations) and pass-through entities not included in 1 above 20%

Line 5

If both lines 2 and 4 are negative, enter whichever amount is greater. Treat both numbers as positive when making this comparison, but enter the amount as a negative number. (If the amount on one line is negative, but the amount on the other line is positive, enter the positive amount.)

Lines 8 and 9

For the increase (or decrease) in tax for each prior year, interest due or to be refunded must be computed at the applicable interest rate and compounded on a daily basis from the due date (not including extensions) of the return for the prior year until the earlier of:

- The due date (not including extensions) of the return for the filing year or
- The date the return for the filing year is filed and any income tax due for that year has been fully paid.

See **Applicable Interest Rates** in the instructions for Part I, lines 7 and 8, on page 3.

Line 10

See the instructions for Part I, line 9, on page 3.

Line 11

See the instructions for Part I, line 10, on this page.

Table 1
Interest Rates for All Taxpayers,
for periods Through 1994

From	Through	Rate	Table	Page
—	6/30/86	10%	25	579
7/1/86	12/31/86	9%	23	577
1/1/87	9/30/87	8%	21	575
10/1/87	12/31/87	9%	23	577
1/1/88	3/31/88	10%	73	627
4/1/88	9/30/88	9%	71	625
10/1/88	12/31/88	10%	73	627
1/1/89	3/31/89	10%	25	579
4/1/89	9/30/89	11%	27	581
10/1/89	3/31/91	10%	25	579
4/1/91	12/31/91	9%	23	577
1/1/92	3/31/92	8%	69	623
4/1/92	9/30/92	7%	67	621
10/1/92	12/31/92	6%	65	619
1/1/93	6/30/94	6%	17	571
7/1/94	9/30/94	7%	19	573
10/1/94	12/31/94	8%	21	575

Table 2
Interest Rates for Taxpayers Other
Than Corporations,
for Periods After 1994

From	Through	Rate	Table	Page
1/1/95	3/31/95	8%	21	575
4/1/95	6/30/95	9%	23	577
7/1/95	12/31/95	8%	21	575
1/1/96	3/31/96	8%	69	623
4/1/96	6/30/96	7%	67	621
7/1/96	12/31/96	8%	69	623
1/1/97	3/31/98	8%	21	575
4/1/98	3/31/99	7%	19	573
4/1/99	12/31/99	8%	21	575
1/1/00	3/31/00	8%	69	623
4/1/00	12/31/00	9%	71	625
1/1/01	3/31/01	9%	23	577
4/1/01	6/30/01	8%	21	575
7/1/01	12/31/01	7%	19	573
1/1/02	12/31/02	6%	17	571
1/1/03	3/31/03	5%	15	569

Table 3
Interest Rates for Corporate
Increases or Decreases in Tax
of \$10,000 or Less
for Periods After 1994

From	Through	Rate	Table	Page
1/1/95	3/31/95	8%	21	575
4/1/95	6/30/95	9%	23	577
7/1/95	12/31/95	8%	21	575
1/1/96	3/31/96	8%	69	623
4/1/96	6/30/96	7%	67	621
7/1/96	12/31/96	8%	69	623
1/1/97	3/31/98	8%	21	575
4/1/98	12/31/98	7%	19	573
1/1/99	3/31/99	6%	17	571
4/1/99	12/31/99	7%	19	573
1/1/00	3/31/00	7%	67	621
4/1/00	12/31/00	8%	69	623
1/1/01	3/31/01	8%	21	575
4/1/01	6/30/01	7%	19	573
7/1/01	12/31/01	6%	17	571
1/1/02	12/31/02	5%	15	569
1/1/03	3/31/03	4%	13	567

Table 4
Interest Rates for Corporate
Increases or Decreases in Tax
Exceeding \$10,000
for Periods After 1994

From	Through	Rate	Table	Page
1/1/95	3/31/95	6.5%	18	572
4/1/95	6/30/95	7.5%	20	574
7/1/95	12/31/95	6.5%	18	572
1/1/96	3/31/96	6.5%	66	620
4/1/96	6/30/96	5.5%	64	618
7/1/96	12/31/96	6.5%	66	620
1/1/97	3/31/98	6.5%	18	572
4/1/98	12/31/98	5.5%	16	570
1/1/99	3/31/99	4.5%	14	568
4/1/99	12/31/99	5.5%	16	570
1/1/00	3/31/00	5.5%	64	618
4/1/00	12/31/00	6.5%	66	620
1/1/01	3/31/01	6.5%	18	572
4/1/01	6/30/01	5.5%	16	570
7/1/01	12/31/01	4.5%	14	568
1/1/02	12/31/02	3.5%	12	566
1/1/03	3/31/03	2.5%	10	564

Privacy Act and Paperwork Reduction Act Notice. The Privacy Act of 1974 and Paperwork Reduction Act of 1980 say that when we ask you for information we must tell you our legal right to ask for it, why we are asking for it, and how it will be used. We must also tell you what could happen if we do not receive it and whether your response is voluntary or mandatory under the law.

Section 460 provides special rules for computing interest under the look-back method for completed long-term contracts. Section 6001 and its regulations say that you must file a return or statement with us for any tax you are liable for. Your response is mandatory under this section and its regulations. Section 6109 and its regulations say that you must show your identifying number (social security number or employer identification number) on what you file. This is so we know who you are and can process your return and other papers.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return

information are confidential, as required by section 6103.

We ask for the information on this form to carry out the Internal Revenue laws of the United States. We need this information to ensure that you are complying with these laws and to figure and collect or refund the correct amount of interest.

We may give the information to the Department of Justice and to other Federal agencies, as provided by law. We may give it to cities, states, the District of Columbia, and U.S. commonwealths or possessions to carry out their tax laws. We may give it to foreign governments because of tax treaties they have with the United States. We may also disclose this information to Federal and state agencies to enforce Federal nontax criminal laws and to combat terrorism.

If you do not file Form 8697, do not provide the information we ask for, or provide fraudulent information, you may forfeit any refund of interest otherwise owed to you, be charged penalties, or be subject to criminal prosecution.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping

Part I	8 hr., 36 min.
Part II	9 hr., 19 min.

Learning about the law or the form

Part I	2 hr., 22 min.
Part II	2 hr., 5 min.

Preparing, copying, assembling, and sending the form to the IRS

Part I	2 hr., 37 min.
Part II	2 hr., 19 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. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send the tax form to this address. Instead, see **Filing Instructions** on page 1.