2026

Instructions for Form 8810

Corporate Passive Activity Loss and Credit Limitations

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

Future Developments

For the latest information about developments related to Form 8810 and its instructions, such as legislation enacted after they were published, go to *IRS.gov/Form8810*.

General Instructions

Purpose of Form

Personal service corporations and closely held corporations use Form 8810 to figure the amount of any passive activity loss (PAL) or credit for the current tax year and the amount of losses and credits from passive activities allowed on the corporation's tax return. Form 8810 is also used to make the election to increase the basis of credit property when the corporation disposes of its interest in an activity for which it has an unused credit.

Generally, passive activities include trade or business activities in which the corporation did not materially participate for the tax year, and rental activities regardless of its participation.

Note: Individuals subject to the passive activity rules use Form 8582, Passive Activity Loss Limitations.

Who Must File

Personal service corporations and closely held corporations that have losses or credits (including prior year unallowed losses and credits) from passive activities must file Form 8810.

Passive activity loss (PAL). A personal service corporation has a PAL for the year if the total losses (including prior year unallowed losses) from its passive activities exceed the total income from its passive activities. A closely held corporation has a PAL for the year if the total losses (including prior year unallowed losses) from all its passive activities exceed the sum of the total income from all its passive activities and its net active income.

Passive activity credit. A personal service corporation has a passive activity credit for the year if its credits from passive activities (including prior year unallowed credits) exceed the tax attributable to net passive income. A closely held corporation has a passive activity credit for the year if its credits from passive activities (including prior year unallowed credits) exceed the sum of the tax attributable to net passive income and the tax attributable to net active income.

For more information, see Pub. 925, Passive Activity and At-Risk Rules.

Definitions

Except as otherwise indicated, the following terms are defined below.

Personal service corporation. A personal service corporation is a corporation whose principal activity for the testing period (defined below) for the tax year is the performance of personal services. The services must be substantially performed by employee-owners. Employee-owners must own more than 10% of the fair market value (FMV) of the corporation's outstanding stock on the last day of the testing period.

Testing period. Generally, the testing period for a tax year is the prior tax year. The testing period for a new corporation starts with the first day of its first tax year and ends on the earlier of:

- The last day of its first tax year, or
- The last day of the calendar year in which the first tax year began.

Principal activity. The principal activity of a corporation is considered to be the performance of personal services if, during the testing period, the corporation's compensation costs for the performance of personal services are more than 50% of its total compensation costs.

Performance of personal services. Personal services are those performed in the health, law, engineering, architecture, accounting, actuarial science, performing arts, or consulting field (as defined in Temporary Regulations section 1.448-1T(e)). The term "performance of personal services" includes any activity involving the performance of personal services in these areas.

Substantial performance by employee-owners. Personal services are substantially performed by employee-owners if, for the testing period, more than 20% of the corporation's compensation costs for the performance of personal services are for services performed by employee-owners.

Employee-owner. A person is considered to be an employee-owner if the person is an employee of the corporation on any day of the testing period, and owns any outstanding stock of the corporation on any day of the testing period. Stock ownership is determined under the attribution rules of section 318, except that "any" is substituted for "50% or more in value" in section 318(a)(2)(C).

Closely held corporation. A corporation is a closely held corporation if at any time during the last half of the tax year more than 50% in value of its outstanding stock is directly or indirectly owned by or for not more than five individuals, and the corporation is not a personal service corporation.

Certain organizations are treated as individuals for this test (see section 542(a)). For rules of determining stock ownership, see section 544 (as modified by section 465(a)(3)).

Other Passive Activity Terms

Some additional terms are defined below.

Net income. The excess of current year income over current year deductions from the activity. This includes any current year gains or losses from the disposition of assets or an interest in the activity.

Net loss. The excess of current year deductions over current year income from the activity. This includes any current year gains or losses from the disposition of assets or an interest in the activity.

Overall gain. The excess of the net income from the activity over the prior year unallowed losses from the activity.

Overall loss. The excess of the prior year unallowed losses from the activity over the net income from the activity or the prior year unallowed losses from the activity plus the net loss from the activity.

Prior year unallowed losses. The deductions and losses from an activity that were disallowed under the PAL limitations in a prior year and carried forward to the tax year under section 469(b). See Regulations section 1.469-1(f)(4).

Coordination With Other Limitations

Generally, items of deduction or loss from a passive activity are subject to other limitations before they are subject to the

PAL limitations. Once a deduction or loss becomes allowable under these other limitations, the corporation must determine whether the deduction or loss is limited under the PAL rules. Examples of other limitations include the following.

- Basis.
- Section 163(j) interest deduction limitations.
- At-risk limitations. See Form 6198, At-Risk Limitations, for details on the at-risk rules.

In addition, certain allowances under the PAL rules may be limited under other rules. These include the following.

- Capital losses allowable under the PAL rules may be limited under the capital loss limitations of section 1211(a).
- Percentage depletion deductions allowable under the PAL rules may be limited under section 613A(d).

Special Rules for Consolidated Group

The passive activity loss and passive activity credit of an affiliated group of corporations filing a consolidated return for the tax year (a consolidated group) are determined by taking into account the following items of each member of the group.

- Passive activity gross income and deductions.
- Gain or loss on dispositions.
- Net active income (for a consolidated group treated as a closely held corporation).
- Credits from passive activities.

Activities That Are Not Passive Activities

The following are not classified as passive activities. Generally, income, losses, and credits from these activities are not entered on Form 8810. However, losses and credits from these activities may be subject to limitations other than the passive activity loss and credit rules.

1. Trade or business activities in which the corporation materially participated for the tax year.

2. Any rental real estate activity in which the corporation materially participated if the corporation was a closely held corporation that derived more than 50% of its gross receipts from real property trades or businesses in which it materially participated. For these purposes, gross receipts do not include portfolio income, as defined later under *Passive Activity Income*.

For purposes of this rule, each interest in rental real estate is a separate activity, unless the corporation elects to treat all interests in rental real estate as one activity. The corporation makes the election by attaching a statement to its original income tax return for the tax year. See Regulations section 1.469-9(g) for details on how to make or revoke this election. For information on making a late election, see Revenue Procedure 2011-34, 2011-24 I.R.B. 875, available at *IRS.gov/irb/2011-24_IRB*.

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.

Note: If an activity qualifies for the exception described above in 2026, but has a prior year unallowed PAL, the prior year unallowed loss is treated as a loss from a former passive activity. See *Former Passive Activities*, later.

3. A working interest in an oil or gas well held directly or through an entity that does not limit the corporation's liability (such as a general partner's interest in a partnership). In this case, it does not matter whether the corporation materially participated in the activity for the tax year.

If, however, the corporation's liability was limited for part of the year (for example, the corporation converted its general partnership interest to a limited partnership interest during the year), some of the corporation's 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) for more details.

4. An activity of trading personal property for the account of owners of interests in the activity. For purposes of this rule, personal property means property that is actively traded, such as stocks, bonds, and other securities. See Temporary Regulations section 1.469-1T(e)(6) for more details.

Rental Activities

A rental activity is a passive activity even if the corporation materially participated in the activity unless it meets the requirements described in item 2 under *Activities That Are Not Passive Activities*, earlier. In addition, if the corporation meets any of the five exceptions listed later, the rental of the property is not treated as a rental activity. See *Reporting Income, Deductions, Losses, and Credits From Rental Activities*, later, if the corporation meets 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. It does not matter whether the use of the property is under a lease, a service contract, or some other arrangement.

Exceptions

An activity is not a rental activity if any of the following apply.

1. The average period of customer use (see below) of the rental property is:

   a. 7 days or less, or

   b. 30 days or less and significant personal services (see below) were provided in making the rental property available for customer use.

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) for more details.

Significant personal services include only services performed by individuals. To determine if personal services are significant, all the relevant facts and circumstances are taken into consideration, including 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 the use of the property. Significant personal services do not include:

   a. Services needed to permit the lawful use of the property;

   b. Services to repair or improve property that would extend its useful life for a period substantially longer than the average rental period; and

   c. Services that are similar to those commonly provided with long-term rentals of real estate, such as cleaning and maintenance of common areas, routine repairs, trash collection, elevator service, and security at entrances or perimeters.

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

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

3. 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 for holding the property during the tax year is to realize a gain from its appreciation and the gross rental income is less than 2% of the smaller of the unadjusted basis or the FMV of the property.

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

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

a. The corporation owned 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 or the FMV 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.

4. The corporation customarily makes the rental property available during defined business hours for nonexclusive use by various customers.

5. The corporation provides property for use in a nonrental activity of a partnership or joint venture in its capacity as an owner of an interest in the partnership or joint venture.

Example. If a partner contributes the use of property to a partnership, none of the partner's distributive share of partnership income is income from a rental activity unless the partnership is engaged in a rental activity.

Also, a partner's gross income attributable to a guaranteed payment under section 707(c) is not income from a rental activity. The determination of whether the property used in the activity is provided in the partner's capacity as an owner of an interest in the partnership is made on the basis of all the facts and circumstances.

Reporting Income, Deductions, Losses, and Credits From Rental Activities

If the corporation meets any of the five exceptions listed above, the corporation's rental of the property is not a rental activity. The corporation then must determine:

1. Whether the rental of the property is a trade or business activity (see *Trade or Business Activities*, later) and, if so,

2. Whether the corporation materially participated in the activity for the tax year.

To report income, deductions, losses, or credits from a trade or business activity in which the corporation did not materially participate, see *Trade or business activities without material participation* under *Reporting Income, Deductions, Losses, and Credits From Trade or Business Activities*, later.

If the corporation meets any of the five exceptions and the activity is a trade or business activity in which the corporation materially participated, report any income, deduction, loss, or credit from the activity on the forms or schedules normally used.

If the rental activity did not meet any of the five exceptions, it is generally a passive activity. Special rules apply if the corporation conducted the rental activity through a publicly traded partnership (PTP) or if any of the rules described under *Recharacterization of Passive Income*, later, apply. See *PAL rules for partners in PTPs* under *Special Instructions for PTPs*, later.

If none of the special rules apply, use Worksheets 1 and 2 to determine the amount to enter in Part I of Form 8810 for each passive rental activity. If the corporation has credits from passive rental activities, use Worksheet 5 to figure the amount to enter in Part II of Form 8810. The worksheets are located later in the instructions.

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 the corporation chose to deduct rather than capitalize them).

Reporting Income, Deductions, Losses, and Credits From Trade or Business Activities

Trade or business activities with material participation. If the corporation materially participated in a trade or business activity, that activity is not a passive activity. Report the income, deductions, losses, and credits from the activity on the form or schedule normally used.

Trade or business activities without material participation. In general, use Worksheets 1 and 2 to determine the amount to enter in Part I of Form 8810 for each trade or business activity in which the corporation did not materially participate. If, however, the corporation held the activity through a PTP or the activity is a significant participation activity, special rules apply. See *Publicly Traded Partnerships (PTPs)*, later. See *Significant Participation Passive Activities* under *Recharacterization of Passive Income* in Pub. 925 for details about how to report income or losses from significant participation passive activities.

In general, if the corporation has credits from passive activities, use Worksheet 5 to figure the amount to enter in Part II of Form 8810. However, if the corporation held the activity through a PTP, special rules apply. See *Credits From PTPs*, later, for details about how to report credits from these activities.

Material Participation

Personal service corporations and closely held corporations materially or significantly participate in an activity if one or more individuals, each of whom would materially or significantly participate in the activity if the corporation's activity were the individual's activity, directly or indirectly own more than 50% (by value) of the corporation's outstanding stock. For this purpose, an individual's participation in all activities other than activities of the corporation is disregarded.

A closely held corporation also materially participates in an activity if the corporation satisfies the qualifying business requirements of section 465(c)(7)(C) (without regard to section 465(c)(7)(C)(iv) for the excluded business exception from the at-risk limitations).

These requirements are met if:

1. During the entire 12-month period ending on the last day of the tax year, substantially all the services of at least one full-time employee of the corporation were in the active management of the activity;

2. During the same period, substantially all the services of at least three full-time nonowner employees were directly related to the activity; and

3. The deductions attributable to the activity and allowed solely under sections 162 and 404 exceed 15% of the gross income from the activity for the tax year.

Participation. For purposes of the material participation tests listed later, participation generally includes any work the individual did (without regard to the capacity in which the individual did it) in connection with an activity in which the corporation owned an interest at the time the individual did the work.

Work is not treated as participation, however, if the work is not work that

an owner of that type of activity would customarily do, and if one of the individual's main reasons for doing the work is to avoid the disallowance of losses or credits from the activity under the passive activity loss and credit rules.

Proof of participation. Participation in an activity can be proven by any reasonable means. Contemporaneous daily time reports, logs, or similar documents are not required if participation can be established by other reasonable means. Reasonable means for this purpose may include, but are not limited to, the identification of 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.

Tests for investors. Work done as an investor in an activity is not treated as participation unless the individual was directly involved in the day-to-day management or operations of the activity. For purposes of this test, work done as an investor includes the following activities.

- Studying and reviewing financial statements or reports on operations of the activity.
- Preparing or compiling summaries or analyses of the finances or operations of the activity for the individual's own use.
- Monitoring the finances or operations of the activity in a nonmanagerial capacity.

If the individual is married for the tax year, the individual's participation in an activity includes any participation in the activity during the tax year by that individual's spouse, whether or not the spouse owned any interest in the activity and whether or not the individual and spouse file a joint return for the tax year.

Tests for individuals. An individual materially participates in an activity of the corporation if one or more of the following tests are satisfied.

1. The individual participated in the activity for more than 500 hours during the tax year.

2. The individual's 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 corporation or the activity) for the year.

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

4. The activity is a significant participation activity for the individual for the tax year, and the individual participated in all significant participation activities during the year for more than 500 hours. For this purpose, an individual's participation in all activities other than activities of the corporation is disregarded.

A significant participation activity is any trade or business activity in which the individual participated for more than 100 hours during the year and in which the individual did not materially participate under any of the material participation tests (other than this fourth test). For more information regarding significant participation, see Pub. 925.

5. The individual materially participated in the activity (other than by meeting this fifth test) for any 5 (whether or not consecutive) of the 10 immediately preceding tax years.

6. The activity is a personal service activity in which the individual materially participated for any 3 (whether or not consecutive) preceding tax years.

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

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

The individual does not materially participate in the activity under this seventh test; however, if the individual participated in the activity for 100 hours or less during the tax year. Participation in managing the activity does not count in determining whether the individual materially participated under the test if:

a. Any person (except that individual) received compensation for performing services in the management of the activity, or

b. Any person in the activity spent more hours during the tax year than that individual 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. Generally, a limited partner cannot materially participate in an activity. However, the corporation is considered to materially participate in an activity in which it holds a limited partnership interest if one or more individuals (each of whom would materially participate in the activity under test 1, 5, or 6, discussed above, for the tax year if the corporation's activity were the individual's activity) directly or indirectly own more than 50% (by value) of the corporation's outstanding stock.

The corporation is not treated as a limited partner; however, if the corporation was also a general partner in the partnership at all times during the partnership's tax year ending with or within the corporation's tax year (or, if shorter, during the portion of the partnership's tax year in which the corporation directly or indirectly owned a limited partnership interest).

Consolidated groups. See Regulations section 1.469-1(h)(4) for rules for determining whether a consolidated group materially or significantly participates.

Grouping of Activities

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 or among the activities. This includes the extent to which the activities purchase or sell goods between or among themselves, involve products or services that are normally provided together, have the same customers, have the same employees, or are accounted for with a single set of books and records.

Example. A corporation has 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 the 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.
- Four separate activities.

Once the corporation chooses a grouping under these rules, it must continue using that grouping in later tax years unless either:

- The corporation determines that the original grouping was clearly inappropriate, or

- A material change in the facts and circumstances makes that grouping clearly inappropriate.

The IRS may regroup the corporation's activities if any of the activities resulting from the corporation's groupings are not an appropriate economic unit and one of the primary purposes of the grouping (or failure to regroup as required under Regulations section 1.469-4(e)) is to avoid the underlying purposes of the passive activity rules.

The corporation must comply with disclosure requirements for certain changes to the corporation's groupings as described in *Disclosure Requirement*, later.

Limitation on grouping certain activities. The following activities cannot 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 rental activity portion involving the rental of property used in the trade or business activity can be grouped with the trade or business activity. See *Rental activities* under *Grouping Your Activities* in Pub. 925 for an example.

2. An activity involving the rental of real property with an activity involving the rental of personal property (except 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 the corporation holds an interest as a limited partner or as a limited entrepreneur if that other activity is 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 and other C corporations subject to section 469. Once a partnership or corporation determines its activities under these rules, a partner or shareholder can use these rules to group those activities with:

- Each other,
- Activities conducted directly by the partner or shareholder, or
- Activities conducted through other partnerships and corporations.

A partner or shareholder cannot treat as separate activities those activities grouped together by the partnership or corporation.

Partial disposition of an activity. The corporation can, for the tax year in which there is a disposition of substantially all of an activity, treat the part disposed of as a separate activity if it can prove with reasonable certainty:

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

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

Disclosure Requirement

A corporation is required to report to the IRS certain changes to the corporation's groupings that occur during the tax year. For more information on these disclosure requirements, see Revenue Procedure 2010-13, 2010-4 I.R.B. 329, available at *IRS.gov/irb/2010-04_IRB*.

New grouping. The corporation must file a written statement with its original income tax return for the first tax year in which two or more activities are originally grouped as a single activity. The statement must provide the names, addresses, and employer identification numbers (EINs), if applicable, for the activities being grouped as a single activity. In addition, the statement must contain a declaration that the grouped activities make up an appropriate economic unit for the measurement of gain or loss under the passive activity rules.

Addition to an existing grouping. The corporation must file a written statement with its original income tax return for the tax year in which the corporation adds a new activity to an existing grouping. The statement must provide the name, address, and EIN, if applicable, for the activity that is being added and for the activities in the existing grouping. In addition, the statement must contain a declaration that the activities make up an appropriate economic unit for the measurement of gain or loss under the passive activity rules.

Regrouping. The corporation must file a written statement with its original income tax return for the tax year in which the corporation regroups activities under Regulations section 1.469-4(e)(2). The statement must provide the names, addresses, and EINs, if applicable, for the activities that are being regrouped. If the corporation regroups two or more activities into a single activity, the statement must contain a declaration that the regrouped activities make up an appropriate economic unit for the measurement of gain or loss under the passive activity rules. In addition, the statement must contain an explanation of why the original grouping was clearly inappropriate or the nature of the material change in the facts and circumstances that made the original grouping clearly inappropriate.

Reporting of pre-existing groupings required only upon change. The corporation is not required to file a written statement reporting the grouping of the trade or business activities and rental activities that have been made for tax years beginning before January 25, 2010 (pre-existing groupings), until the corporation makes a change to the grouping.

Effect of failure to report. If the corporation fails to report these changes, each trade or business activity or rental activity will be treated as a separate activity. The corporation will be considered to have made a timely disclosure if it has filed all affected income tax returns consistent with the claimed grouping and makes the required disclosure on the income tax return for the year in which the corporation first discovered the failure to disclose. If the IRS first discovers the failure to disclose, however, the corporation must also have reasonable cause for not making the required disclosure.

Passive Activity Income and Deductions

Take into account only passive activity income and passive activity deductions to figure the corporation's overall gain or overall loss from all passive activities or any passive activity. In figuring the PAL, a closely held corporation subtracts both passive activity income and net active income from its passive activity deductions. See the instructions for line 2, later, for the definition of net active income.

Self-Charged Interest

Certain "self-charged" interest income or expense can be treated as passive activity gross income or passive activity deductions if the loan proceeds are used in a passive activity. Generally, self-charged interest income and expense result from loans between the corporation and a partnership in which the corporation had a direct or indirect ownership interest. It may also result from loans between one partnership and another if each owner in the borrowing entity has the same proportional ownership interest in the lending entity. The self-charged interest rules do not apply to the corporation's partnership interest if the partnership made an election under Regulations section 1.469-7(g) to avoid the application of these rules. See Regulations section 1.469-7 for details.

Passive Activity Income

Passive activity income includes all income from passive activities, including (with certain exceptions described in Temporary Regulations section 1.469-2T(c)(2) and Regulations section 1.469-2(c)(2)) gain from the disposition of an interest in a passive activity or property used in a passive activity at the time of the disposition.

Passive activity income does not include the following.

- Income from activities that are not passive activities, discussed earlier.
- Portfolio income, including interest, dividends, annuities, and royalties not derived in the ordinary course of a trade or business, and gain or loss from the disposition of property that produces portfolio income or is held for investment (see section 163(d)(5)). See Temporary Regulations section 1.469-2T(c)(3). See *Self-Charged Interest*, earlier, for an exception.
- Personal service income, including commissions and income from trade or business activities in which the corporation materially participated for the tax year. See Temporary Regulations section 1.469-2T(c)(4).
- Income from positive section 481 adjustments allocated to activities other than passive activities. See Temporary Regulations section 1.469-2T(c)(5).
- Income or gain from investments of working capital.
- Income from an oil or gas property if the corporation treated any loss from a working interest in the property for any tax year beginning after 1986 as a nonpassive loss under the rule excluding working interests in oil and gas wells from passive activities, as discussed in item 3 under *Activities That Are Not Passive Activities*, earlier. See Regulations section 1.469-2(c)(6).
- Any income treated as income not from a passive activity under Temporary Regulations section 1.469-2T(f) and Regulations section 1.469-2(f). See *Recharacterization of Passive Income*, later.
- Overall gain from any interest in a PTP. See *Publicly Traded Partnerships (PTPs)*, later.
- State, local, and foreign income tax refunds.
- Any reimbursement of a casualty or theft loss included in income as recovery of all or part of a prior year loss deduction, if the deduction for the loss was not treated as a passive activity deduction.
- Cancellation of debt income to the extent that at the time the debt was discharged it was not properly allocable under Temporary Regulations section 1.163-8T to passive activities.

Recharacterization of Passive Income

Certain income from passive activities can be recharacterized and excluded from passive activity income. The amount of income recharacterized equals the net income from the sources described below. If during the tax year the corporation received net income from any of these sources (either directly or through a partnership), see *Recharacterization of Passive Income* in Pub. 925 for details on reporting net income or loss from these sources.

Income from the following sources may be subject to the net income recharacterization rules.

- Significant participation passive activities. A significant participation passive activity is any trade or business activity (see *Trade or Business Activities*, earlier) in which the corporation is treated as having participated for more than 100 hours during the tax year but did not materially participate.
- Rental of property when less than 30% of the unadjusted basis of the property is subject to depreciation.
- Passive equity-financed lending activities.
- Rental of property incidental to a development activity.
- Rental of property to a nonpassive activity.
- Acquisition of an interest in a pass-through entity that licenses intangible property.

Passive Activity Deductions

Passive activity deductions include all deductions from activities that are passive activities for the current tax year and all deductions from passive activities that were disallowed under the PAL rules in prior tax years and carried forward to the current tax year under section 469(b).

Passive activity deductions include losses from dispositions of property used in a passive activity at the time of the disposition and losses from a disposition of less than an entire interest in a passive activity. See *Dispositions*, later, for the treatment of losses upon certain dispositions of an entire interest in an activity.

Passive activity deductions do not include the following.

- Deductions for expenses (other than interest expense) that are clearly and directly allocable to portfolio income.
- Dividends-received deductions for dividends not included in passive activity gross income.
- Interest expense, other than interest expense properly allocable under Temporary Regulations section 1.163-8T to passive activities or self-charged interest treated as a passive activity deduction (see *Self-Charged Interest*, earlier). For example, capitalized interest expense is not a passive activity deduction.
- Losses from dispositions of property that produce portfolio income or property held for investment.
- State, local, and foreign income taxes.
- Charitable contribution deductions.
- Net operating loss deductions, percentage depletion carryovers under section 613A(d), and capital loss carrybacks and carryovers.
- Deductions and losses that would have been allowed for tax years beginning before 1987 but for basis or at-risk limitations.
- Net negative section 481 adjustments allocated to activities other than passive activities. See Temporary Regulations section 1.469-2T(d)(7).
- Deductions for losses from fire, storm, shipwreck, or other casualty, or from theft, if losses similar in cause and severity do not regularly recur in the activity.

Former Passive Activities

A former passive activity is any activity that was a passive activity in a prior tax year but is not a passive activity in the current tax year. A prior year unallowed loss from a former passive activity is allowed to the extent of current year income from the activity. The following apply.

- If the current year net income from the activity is less than the prior year unallowed loss, enter the prior year unallowed loss and any current year net income from the activity on Form 8810 and the applicable worksheets.
- If the current year net income from the activity is more than or equal to the prior year unallowed loss from the activity, report the income and loss on the forms and schedules normally used; do not enter the amounts on Form 8810.
- If the activity has a net loss for the current year, enter the prior year unallowed loss (but not the current year loss) on Form 8810 and the applicable worksheets.

For rules about prior year unallowed credits from former passive activities, see section 469(f). To report a disposition of a former passive activity, follow the rules under *Dispositions* next.

Dispositions

Disposition of Less Than an Entire Interest

Gains and losses from the disposition of less than an entire interest in an activity are treated as part of the net income or net loss from the activity for the current year.

Note: A disposition of less than substantially all of an entire interest does

not trigger the allowance of prior year unallowed losses.

Disposition of an Entire Interest

If the corporation disposed of its entire interest in a passive activity or a former passive activity to an unrelated party in a fully taxable transaction during the tax year, the losses allocable to the activity for the year are not limited by the PAL rules. A fully taxable transaction is a transaction in which all the realized gain or loss is recognized.

If the corporation is using the installment method to report this kind of disposition, figure the loss for the current year that is not limited by the PAL rules by multiplying the corporation's overall loss (which does not include losses allowed in prior years) by the following fraction.

$$\frac{\text{Gain recognized in the current year}}{\text{Unrecognized gain as of the beginning of the current year}}$$

Unallowed passive activity credits, unlike unallowed PALs, are not allowable when the corporation disposes of its interest in an activity. However, the corporation can 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 under the passive activity rules. Unallowed passive activity credits that are not used to increase the basis of the credit property are carried forward until they are allowed. To make the election, complete Part III of Form 8810. No basis adjustment can be elected on a partial disposition of the corporation's interest in a passive activity.

A partner in a PTP is not treated as having disposed of an entire interest in an activity of a PTP until there is an entire disposition of the partner's interest in the PTP.

See *Dispositions* in Pub. 925 for additional information about dispositions, including rules for dispositions by gift or death.

Reporting an Entire Disposition

When the corporation completely disposes of an entire interest in a passive activity or a former passive activity, there may be net income or loss and prior year unallowed losses from the activity. Combine all income, gains, deductions, and losses (including any prior year unallowed losses) from the activity for the tax year to see if the corporation has an overall gain or loss.

If the corporation has an overall gain from a passive activity and also has other passive activities to report on Form 8810, include the income, gains, deductions, and losses (including prior year unallowed losses) on Worksheet 1. If this is the corporation's only passive activity or a former passive activity, report the income, gains, deductions, and losses (including prior year unallowed losses) on the forms and schedules normally used, but do not enter them on the worksheets or on Form 8810.

If the corporation has an overall loss when combining all income, gains, deductions, and losses (including any prior year unallowed losses) from the activity, report all the income, gains, deductions, and losses on the forms and schedules normally used, but do not enter them on the worksheets or on Form 8810.

Note: Members of a consolidated group, see Regulations section 1.469-1(h)(6) and Temporary Regulations sections 1.469-1T(h)(7) and (8) for rules on applying the PAL rules to dispositions of property and other intercompany transactions.

Worksheet 1—Computation of Income, Gains, Deductions, and Losses for Worksheet 2

	Name of activity:	Name of activity:
1. Gross receipts		
2. Schedule D and Form 8949 gains (see instructions)		
3. Form 4797 gains		
4. Other passive income		
5. **Total income.** Add lines 1 through 4. Enter the result here and in Worksheet 2, column (a) ▶		
6. **Deductions:**		
a. Cost of goods sold		
b. Compensation of officers		
c. Salaries and wages		
d. Repairs and maintenance		
e. Bad debts		
f. Rents		
g. Taxes and licenses		
h. Interest		
i. Depreciation		
j. Depletion		
k. Advertising		
l. Other deductions		
7. **Total deductions.** Add lines 6a through 6l		
8. Schedule D and Form 8949 losses (see instructions)		
9. Form 4797 losses		
10. **Total deductions and losses.** Add lines 7 through 9. Enter the result here and in Worksheet 2, column (b) ▶		

Specific Instructions

Note: Complete Worksheets 1 and 2 before completing Form 8810, Part I.

Worksheet 1

Use Worksheet 1 to figure the total current year income, gains, deductions, and losses for each passive activity.

Lines 1 through 4. Enter on these lines the gross receipts and other income from passive activities and passive activity gains reported on Schedule D (Form 1120), Capital Gains and Losses, and Form 8949, Sales and Other Dispositions of Capital Assets, as applicable, and Form 4797, Sales of Business Property.

Line 5. Enter total income on this line and in Worksheet 2, column (a).

Lines 6a through 6l. Enter passive activity deductions.

Lines 8 and 9. Enter on line 8 losses from passive activities reported on Schedule D (Form 1120) and Form 8949, as applicable. Enter on line 9 losses from passive activities reported on Form 4797.

Line 10. Enter total deductions and losses on this line and in Worksheet 2, column (b).

Gross receipts, gains from the sale of business assets, capital gains, and other passive income should also be entered on the forms and schedules normally used. Allowable passive activity deductions and losses are entered on the forms and schedules after Form 8810 is completed and the deductions and losses are allocated to the activities.

Worksheet 2

Columns (a) and (b). Enter in column (a) the total income for the current year shown on Worksheet 1, line 5. Enter in column (b) the total deductions and losses shown on Worksheet 1, line 10.

Column (c). Enter the prior year unallowed losses from Worksheet 4, column (c), located in the 2025 Instructions for Form 8810.

Totals. Enter the totals from Worksheet 2, columns (a), (b), and (c), on Form 8810, lines 1a, 1b, and 1c, respectively.

Columns (d) and (e). Combine income, deductions, and losses in columns (a) through (c) for each activity. Enter any overall gain in column (d) or any overall loss in column (e). Do not enter the amounts from columns (d) and (e) on Form 8810. These amounts will be used when Form 8810 is completed to figure the loss allowed for the current year.

Part I. 2026 Passive Activity Loss

Lines 1d and 3

If line 1d or 3 shows net income or zero, all the deductions and losses are allowed, including any prior year unallowed losses entered on line 1c. Enter the deductions on the appropriate lines of Form 1120, U.S. Corporation Income Tax Return. Also enter any losses from Form 4797 or Form 8949 (and Schedule D (Form 1120)) on Form 1120, if applicable, including any prior year unallowed losses that are properly entered on those forms.

If the prior year unallowed losses include deductions that would have been reported on Form 1120, page 1, instead of on Form 4797 or Form 8949 (and Schedule D (Form 1120), as applicable), include the prior year unallowed losses on the appropriate line along with any current year deduction or loss from that line.

Example. The corporation had $1,000 of deductions for current year repairs and maintenance and $500 of deductions for prior year unallowed repairs and maintenance. Enter $1,500 as the deduction for repairs and maintenance allowed from passive activities on the proper line.

Line 2. Closely Held Corporations

Closely held corporations can offset the loss, if any, on line 1d with net active income. Net active income is the corporation's taxable income for the tax year, determined without regard to the following items.

- Net passive income or loss.
- Portfolio income. See *Passive Activity Income,* earlier.
- Deductions attributable to portfolio income described in Temporary Regulations sections 1.469-2T(d)(2)(i), (ii), and (iv).
- Interest expense allocated under Temporary Regulations section 1.163-8T to a portfolio expenditure (within the meaning of Temporary Regulations section 1.163-8T(b)(6)).
- Gain on the disposition of substantially appreciated property formerly held for investment. See Regulations section 1.469-2(c)(2)(iii)(F).
- Gross income from certain oil or gas properties treated under Regulations section 1.469-2(c)(6) as not from a passive activity.
- Gross income and deductions from any trade or business activity of trading certain personal property described in Temporary Regulations section 1.469-1T(e)(6), but only if the corporation did not materially participate in the activity for the tax year.

If the corporation disposed of its entire interest in a passive activity to an unrelated party in a fully taxable transaction, figure net active income by taking into account an overall loss from that activity only to the extent it exceeds overall gain from all other passive activities (the gain, if any, shown on Form 8810, line 1d).

If there is an overall loss from all other passive activities (Form 8810, line 1d, is a loss), figure net active income by taking into account all of the overall loss from that activity.

Line 4. Total Deductions and Losses Allowed

Worksheet 2, columns (d) and (e), show whether an activity had an overall gain or loss.

Overall gain. A corporation with an overall gain for any of the activities in Worksheet 2, column (d), will report all of the deductions and losses listed in Worksheet 1 and any prior year unallowed losses in Worksheet 2 for that activity on the appropriate lines of Form 1120 and on Form 8949 and Schedule D (Form 1120), or Form 4797, as applicable.

Overall loss. A corporation uses Worksheets 3 and 4 for any of the activities that show an overall loss in column (e). Use Worksheet 3 to figure the unallowed deductions and losses to be carried forward to Worksheet 4. Use Worksheet 4 to figure the allowed deductions and losses to report on the forms and schedules for 2026.

Worksheet 2 for Form 8810, Lines 1a, 1b, and 1c

Name of activity	Current year		Prior year	Overall gain or loss	
	(a) Income (line 1a)	(b) Deductions and losses (line 1b)	(c) Unallowed losses (line 1c)	(d) Gain	(e) Loss
Totals. Enter on Form 8810, lines 1a, 1b, and 1c ▶					

Worksheet 3—Allocation of Unallowed Deductions and Losses

If the corporation has activities in Worksheet 2 with an overall loss in column (e), use Worksheet 3 to figure the unallowed deductions and losses for each activity.

If any of the activities in Worksheet 2 had an overall gain in column (d), all of the deductions and losses (including prior year unallowed losses) for that activity are allowed in full. Enter the deductions on the appropriate line of Form 1120 and enter any losses on Form 4797, Form 8949, and Schedule D (Form 1120), as applicable.

Prior year unallowed losses from 2025. If there were prior year unallowed losses from 2025, include the prior year unallowed losses on the appropriate line along with any current year deduction or loss for that line. See the example in the instructions for lines 1d and 3, earlier. Prior year unallowed losses from Form 4797 and Form 8949 should have been kept separate in 2025, and should be identified as "prior year unallowed losses" on Form 4797 and Form 8949.

Column (a). Enter the loss from Worksheet 2, column (e).

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

Column (c). Multiply the unallowed loss from Form 8810, line 3, by each of the ratios in column (b) and enter the results in column (c).

Name of activity	(a) Loss from Worksheet 2, column (e)	(b) Ratio	(c) Unallowed deductions and losses
Totals ▶		**1.00**	

Worksheet 4

Use Worksheet 4 to allocate the unallowed deductions and losses for each activity among Form 1120 deductions and any losses to be reported on Form 4797, or Form 8949 and Schedule D (Form 1120), as applicable.

If the unallowed loss is reported on one form or schedule, skip the following example and complete Worksheet 4.

If the unallowed loss is from losses reported on more than one form or schedule, allocate the unallowed loss from among the net losses as follows.

Example. The corporation has one passive activity. The activity has an unallowed loss of $18,000 in Worksheet 3, column (c), and the following net losses and net gain.

Worksheet 4—Allowed Deductions and Losses

Name of Activity:	(a) Deductions and losses	(b) Ratio	(c) Unallowed deductions and losses	(d) Allowed deductions and losses
1. Form 1120 deductions: **a.** Cost of goods sold				
b. Compensation of officers				
c. Salaries and wages				
d. Repairs and maintenance				
e. Bad debts				
f. Rents				
g. Taxes and licenses				
h. Interest				
i. Depreciation				
j. Depletion				
k. Advertising				
l. Other deductions				
Total Form 1120 deductions . . . . . ▶		**1.00**		
2. Schedule D and Form 8949 losses				
3. Form 4797 losses				

Name of Activity:	(a) Deductions and losses	(b) Ratio	(c) Unallowed deductions and losses	(d) Allowed deductions and losses
1. Form 1120 deductions: **a.** Cost of goods sold				
b. Compensation of officers				
c. Salaries and wages				
d. Repairs and maintenance				
e. Bad debts				
f. Rents				
g. Taxes and licenses				
h. Interest				
i. Depreciation				
j. Depletion				
k. Advertising				
l. Other deductions				
Total Form 1120 deductions . . . . . ▶		**1.00**		
2. Schedule D and Form 8949 losses				
3. Form 4797 losses				

Form 1120	
Gross receipts	$100,000
Deductions	120,000
Net loss	($20,000)

Form 8949		Form 4797	
Gain	$1,000	Gain	$5,000
Loss	(2,000)	Loss	(2,000)
Net loss	($1,000)	Net gain	$3,000

Add the net losses of $20,000 and $1,000, for a total of $21,000. Divide the net loss reported on each form by the total of the net losses, and multiply the result by the unallowed loss of $18,000, as shown below.

Form 1120: $\frac{\$20,000}{\$21,000} \times \$18,000 = \$17,143$

Form 8949: $\frac{\$1,000}{\$21,000} \times \$18,000 = \$857$

On Form 4797, report the $2,000 loss and the $5,000 gain. On Worksheet 4, enter the $17,143 of unallowed deductions allocated to Form 1120 in column (c) on the line for total Form 1120 deductions. Enter the $857 of unallowed Form 8949 losses in column (c) of line 2. Use Worksheet 4 to allocate the $17,143 to the Form 1120 deductions and show the allowed and unallowed Form 8949 loss.

Line 1, column (a). Enter the current year deductions for each Form 1120 expense (Worksheet 1, lines 6a through 6l) plus any prior year unallowed Form 1120 deduction for that activity. For example, if Worksheet 1, line 6i, shows current year depreciation for the activity of $2,200, and the activity had prior year unallowed depreciation of $1,200, enter $3,400 on Worksheet 4, line 1i, column (a).

Line 2, column (a). Enter any Form 8949 losses (or any Schedule D (Form 1120) losses, as applicable) from Worksheet 1, line 8, plus any prior year unallowed losses from the 2025 Form 8949 for that activity.

Line 3, column (a). Enter any Form 4797 losses from Worksheet 1, line 9, plus any prior year unallowed Form 4797 losses for that activity.

Line 1, column (b). Divide each of the individual Form 1120 deductions shown in column (a) by the total of all of the Form 1120 deductions in column (a) and enter the ratio for each of the deductions in column (b). The total of the ratios must equal 1.00.

Column (c). Allocate the portion of the loss in Worksheet 3, column (c), among the Form 1120 deductions by multiplying the unallowed loss attributable to the total Form 1120 deductions by each of the ratios in column (b). Enter the portion of the unallowed loss in Worksheet 3, column (c), that is attributable to a Form 8949 (or Schedule D (Form 1120)) or Form 4797 loss in column (c) of this worksheet.

Column (d). Subtract column (c) from column (a) and enter the results in this column. Enter the deductions allowed for Form 1120 on the proper lines of Form 1120. Enter the allowed losses on the appropriate forms.

Publicly Traded Partnerships (PTPs)

A PTP is a partnership whose interests are traded on an established securities market or are readily tradable 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 generally exists where a person stands 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 holders of interests have a readily available, regular, and ongoing opportunity to sell or exchange interests through a public means of obtaining or providing information on offers to buy, sell, or exchange interests. Similarly, the substantial equivalent of a secondary market exists where prospective buyers and sellers have the opportunity to buy, sell, or exchange interests in a time frame and with the regularity and continuity that the existence of a market maker would provide.

Special Instructions for PTPs

Section 469(k) provides that the passive activity rules and limitations must be applied separately to items from each PTP.

Losses from passive activities the corporation holds through a PTP can generally be used only to offset income or gain from passive activities of the same PTP. Any unallowed loss from a PTP passive activity is carried forward and allowed in a tax year when the corporation has passive income from the same PTP or when the corporation disposes of its entire interest in that PTP to an unrelated person in a fully taxable transaction.

Income from passive activities the corporation holds through a PTP cannot be used to offset losses from passive activities the corporation holds through another PTP or losses from any other passive activities.

PAL rules for partners in PTPs. Do not include any income, gains, deductions, or losses from PTP passive activities on Form 8810. Instead, use the following rules to figure and report income, gains, deductions, and losses from passive activities held through each PTP that the corporation owned an interest in during the tax year.

1. Combine any current year income, gains, deductions, and losses, and prior year unallowed losses to see if there is an overall gain or loss. Include only the same types of income and losses that would be included in figuring net income or loss from a non-PTP passive activity (see *Passive Activity Income and Deductions*, earlier).

2. If there is an overall gain, the net gain portion (total income in excess of total deductions and losses) is nonpassive income. Report the income, deductions, and losses on the forms and schedules normally used.

3. If there is an overall loss (other than in a year in which the corporation disposed of its entire interest in the PTP), the deductions and losses are allowed to the extent of the income, and the excess deductions and losses are carried forward for use in a future year when there is income to offset them. Report the income and the loss allowed to the extent of income on the form or schedule normally used.

Part II. 2026 Passive Activity Credits

Use Form 8810, Part II, to figure the amount of credits allowed from passive activities for the current year and the amount that is unallowed and carried forward.

Worksheet 5

Complete Worksheet 5 before completing Part II. Use Worksheet 5 to figure the amounts to enter on Form 8810, lines 5a and 5b.

Column (a). Convert any current year qualified expenditures into credits and complete Form 3800, General Business Credit, before beginning Worksheet 5. See *Cooperatives* next for special instructions for certain cooperatives.

Enter the credits from Form 3800, lines 2, 23, and 32, in Worksheet 5, column (a). Enter "Form 3800, line" followed by the appropriate line number (2, 23, or 32) in the “From Form” column. Separate the credits by activity and by type before making entries in the worksheet. For

Worksheet 5—For Form 8810, Lines 5a and 5b *Keep for Your Records*

Name of activity	From form	(a) Current year credits (line 5a)	(b) Prior year unallowed credits (line 5b)	(c) Total credits (add columns (a) and (b))
Totals. Enter on Form 8810, lines 5a and 5b . . . . . ▶				

example, a corporation has a distilled spirits credit from each of two passive activities. Enter each distilled spirits credit on separate lines in Worksheet 5, column (a). A corporation has a distilled spirits credit and a disabled access credit from the same passive activity. Enter the distilled spirits credit and the disabled access credit on separate lines in Worksheet 5, column (a).

Cooperatives. A closely held cooperative that is allocating part or all of a general business credit to patrons will need to enter the credits being allocated on Worksheet 5 so that the passive activity rules can be applied before any part of the credit is allocated to patrons. For this purpose, Form 3800 should be completed using only credits that will not be allocated to patrons. Credits that are being allocated to patrons should be picked up from the separate credit forms.

Column (b). In figuring this year's passive activity credit, the corporation must take into account any credits from passive activities disallowed for prior years and carried forward to this year adjusted, if required, for items such as recaptured credits (see Regulations section 1.469-3(f)). Enter in Worksheet 5, column (b), the prior year unallowed credits from Worksheet 6, column (c), located in the 2025 Instructions for Form 8810 (adjusted if required).

For rules about prior year unallowed credits from former passive activities, see section 469(f).

Line 7

If any of the following apply, enter -0- on line 7 and do not complete Part I or Part II of the Computation for Line 7, later.

- The corporation is a personal service corporation with a loss or zero on Form 8810, line 1d.
- The corporation is a personal service corporation with net passive income on Form 8810, line 1d, and the corporation has an overall loss from the entire disposition of a passive activity that is equal to or greater than the net income on line 1d.
- The corporation is a closely held corporation with a loss or zero on Form 8810, line 1d, and that amount is equal to or greater than the net active income on Form 8810, line 2.
- The corporation is a closely held corporation with net income on Form 8810, line 3, and the corporation has an overall loss from an entire disposition that is equal to or greater than the net income on line 3.

Computation for Line 7

Part I. Tax Attributable to Net Passive Income

A. Income tax before credits from Form 1120, Schedule J, line 2* . . . . . _____
B. Taxable income from Form 1120 . . . . . _____
C. Net passive income. See instructions for line C . . . . . _____
D. Subtract line C from line B. If zero or less, enter -0- here and on line E . . . . . _____
E. Tax attributable to line D. Figure the tax on the line D amount as if it were the corporation's only taxable income . . . . . _____
F. **Tax attributable to net passive income.** Subtract line E from line A. Closely held corporations that do not have net active income and personal service corporations enter the amount here and on Form 8810, line 7 . . . . . _____

Part II. Tax Attributable to Net Active Income

G. Enter amount from line E if Part I is completed. Otherwise, enter income tax before credits from Form 1120, Schedule J, line 2* . . . . . _____
H. Taxable income from Form 1120 . . . . . _____
I. Net active income . . . . . _____
J. Net passive income or loss. See instructions for line J . . . . . _____
K. Combine lines I and J. If less than zero, enter as a negative amount . . . . . _____
L. Subtract line K from line H. If zero or less, enter -0- here and on line M . . . . . _____
M. Tax attributable to line L. Figure the tax on the line L amount as if it were the corporation's only taxable income . . . . . _____
N. Subtract line M from line G. If zero or less, enter -0- here and on line P . . . . . _____
O. Enter the corporation's nonpassive credits without regard to the tax liability limitations . . . . . _____
P. Tax attributable to net active income. Subtract line O from line N . . . . _____

Worksheet 6—Allowed and Unallowed Credits

Use Worksheet 6 to allocate the allowed and unallowed credits for each activity.

Column (a). Enter the total credits from Worksheet 5, column (c).

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

Column (c). Multiply Form 8810, line 8, by the ratios in column (b) and enter the results in column (c). These are the unallowed credits for 2026. Keep a record of these amounts so the credits can be carried to the next year.

Column (d). Subtract column (c) from column (a). These are the allowed credits for 2026. The amounts in this column are generally reported on Form 3800. See *Reporting Allowed Credits on Tax Return*, later.

Name of activity	Form to be reported on	(a) Credits	(b) Ratio	(c) Unallowed credits	(d) Allowed credits
Totals ▶			**1.00**		

Q. Tax attributable to net passive income and net active income. Add lines F and P. Enter the result here and on Form 8810, line 7 . . _____

* Subtract any decrease in taxes due (negative amount) from Form 8978, Partner's Additional Reporting Year Tax, included on Form 1120, Schedule J, line 5f, from the amount entered on lines A and G.

Computation for Line 7, Part I. This part is used by personal service corporations and closely held corporations with net passive income.

Computation for Line 7, Part II. This part is used by closely held corporations that have net active income. See the instructions for line 2, earlier, for the definition of net active income. If the corporation has both net passive income and net active income, complete Part I and Part II and enter the amount from line Q on Form 8810, line 7.

Note: When using taxable income in the computation for line 7, it is not necessary to refigure items based on taxable income, such as the contributions deduction, the dividends-received deduction, and the net operating loss deduction.

See the instructions for the tax return filed for information on how to figure tax.

Line C. Enter the net income, if any, from Form 8810, line 1d. If the corporation has an overall loss from the entire disposition of a passive activity, the amount to enter on line C is the net income from line 1d reduced by the overall loss, but not below zero. If the result is zero, skip the rest of the Part I computation.

Line J. If the corporation has net passive income, enter the amount from line C on this line. If the corporation has a net loss from Form 8810, line 1d, enter that amount on line J as a negative amount.

Line 9

If the corporation has one type of credit, the amount on line 9 is the credit allowed for the year. See *Reporting Allowed Credits on Tax Return* next.

If the corporation has more than one type of credit or has credits from more than one activity, use Worksheet 6 to figure how much of the credit on line 9 is allowed for each activity. Keep a record of the unallowed credit and the activity to which it belongs to figure the credit allowed next year.

Reporting Allowed Credits on Tax Return

Form 3800. Include on the applicable line (3, 24, or 33) of Form 3800 each passive activity general business credit allowed from Worksheet 6, column (d).

Cooperatives. A closely held cooperative that is allocating part or all of a general business credit to patrons will show any allocation of the credit allowed from Worksheet 6, column (d), on the applicable lines of the separate credit forms.

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 PTP. See *Publicly Traded Partnerships (PTPs)*, earlier, for the definition of a PTP.

Do not enter credits from PTPs on Form 8810 or the worksheets. Instead, use the following steps to figure the allowed and unallowed credits from passive activities held through PTPs.

1. Figure the tax attributable to net passive income for each PTP with current year passive activity credits or prior year unallowed credits.

2. Use the smaller of the tax attributable to net income from passive activities of the PTP or the credit (including prior year unallowed credits) from passive activities of the PTP as the amount allowed. Report the allowed credits on the forms normally used and keep a record of the unallowed credits to be carried to the next year.

Part III. Election To Increase Basis of Credit Property

Line 10

Check the box on this line if the corporation elects to increase the basis of credit property it used in a passive activity or former 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. The corporation can 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 has not previously been allowed because of the passive credit limitations. The amount of the unallowed credit that can then be applied against tax is reduced by the amount of the basis adjustment. Once the election is made, it is irrevocable.

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

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The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-0123 and is included in the estimates shown in the instructions for their business income tax return.

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.
