



Instructions for Form 3468

Investment Credit

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

Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

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

Recordkeeping. . . . 12 hr., 40 min.

Learning about the law or the form . . . 3 hr., 28 min.

Preparing and sending the form to the IRS . . . 3 hr., 50 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 IRS at the address listed in the instructions for the tax return with which this form is filed.

Items To Note

Except as noted below, the 1995 investment credit consists of:

1. The rehabilitation credit (see the instructions for lines 1a–1e),
2. The energy credit (see the instructions for lines 2a and 2b), and
3. The reforestation credit (see the instructions for line 3).

Note: *Because of transitional and certain computation rules, you may be able to claim a current year regular or energy investment credit for the following section 38 property (as defined in section 48(a) as in effect on November 4, 1990, before amendment by the Revenue Reconciliation Act of 1990):*

1. Regular percentage for transition property (as defined in section 49(e) as in effect on November 4, 1990).
2. Regular percentage for progress expenditure property that is transition property when placed in service (see section 46(d) as in effect on November 4, 1990).
3. Energy percentage for certain long-term energy projects (as defined in section 46(b)(2)(C) as in effect on November 4, 1990).

Recapture of credit.—You may have to refigure the credit and recapture all or a portion of it if:

- You dispose of the property before the end of the property class life or life years,
- You change the use of the property,
- The business use of the property decreases so that it no longer qualifies (in whole or in part) as investment credit property,
- You reduce your proportionate interest in a partnership or other “pass-through” entity that allocated the cost or basis of property to you for which you claimed a credit, or
- You return leased property (on which you claimed a credit) to the lessor before the end of the recapture period or useful life.

For more information, get **Form 4255**, Recapture of Investment Credit.

General Instructions

Purpose of Form

Use Form 3468 to claim a rehabilitation, energy, or reforestation credit. Also, use Form 3468 to claim a regular investment credit for certain transition property.

If you are a partner in a partnership, beneficiary of an estate or trust, shareholder in an S corporation, or lessee, use Form 3468 to figure the credit based on your share of the investment that was allocated to you by the partnership, estate, trust, S corporation, or lessor.

Investment Credit Property

You may claim an investment credit for property placed in service only if it qualifies as one of the properties listed under **Items To Note**. Enter only the business part if property is for both business and personal use.

Exceptions. You cannot claim an investment credit for property that is:

1. Used mainly outside the United States,
2. Used by governmental units or foreign persons or entities,
3. Used by a tax-exempt organization (other than a section 521 farmers’ cooperative) unless the property is used mainly in an unrelated trade or business, or
4. Used for lodging or for furnishing the lodging (see section 50(b)(2) for exceptions).

Election for certain leased property.—

If you lease property to someone else, you may elect to treat all or part of your investment in new property as if it were made by the person who is leasing it from you. Lessors and lessees should see section 48(d), as in effect on November 4, 1990, and related regulations for rules on making this election. For limitations, see sections 46(e)(3) and 48(d), as in effect on November 4, 1990.

At-Risk Limitation for Individuals and Closely Held Corporations

The cost or basis of property for investment credit purposes may be limited if you borrowed against the property and are protected against loss, or if you borrowed money from a person who is related or who has other than a creditor interest in the business activity. The cost or basis must be reduced by the amount of this “nonqualified nonrecourse financing” related to the property as of the close of the tax year in which it is placed in service. If, at the close of a tax year following the year property was placed in service, the nonqualified nonrecourse financing for any property has increased or decreased, then the credit base for the property changes accordingly. The changes may result in an increased credit or a recapture of the credit in the year of the change. See sections 49 and 465 for details.

Specific Instructions

Partnerships, S Corporations, Estates, and Trusts

To figure the cost or basis of property to pass through to the individual partners, shareholders, or beneficiaries, complete only the following lines:

- The qualified rehabilitation expenditures shown on lines 1a through 1e,
- The basis of energy property placed in service shown on line 2a and the basis and credit rate of any transitional energy property shown on the attachment to line 2b,

- The amortizable basis of qualified timber property shown on line 3, and
- The qualified investment for transitional regular investment credit property shown on line 4.

Attach the form (with applicable lines of Part I completed) to the partnership, S corporation, estate, or trust income tax return to show the total cost or basis (or unused credit from a cooperative) that is passed through.

Special Limitations for Lines 1a Through 1e, 4, and 12

The qualified rehabilitation expenditures on lines 1a through 1e, the qualified investment on line 4, and the tax liability on line 12 are limited as follows:

- For mutual savings institutions, the amounts on lines 1, 4, and 12 are limited to 50% of the amounts otherwise determined.
- For regulated investment companies and real estate investment trusts, the amounts on lines 1, 4, and 12 are limited to a percentage of the amounts otherwise determined. Figure this percentage by dividing taxable income for the year by taxable income figured without regard to the corporation's deduction for dividends paid.

See Regulations section 1.46-4 for other details.

Part I—Current Year Investment Credit

Lines 1a–1e—Rehabilitation credit.—

You are allowed a credit for certain capital costs incurred for additions or improvements to qualified existing buildings and for rehabilitation of certified historic structures. The expenditures must be added to the basis of the building, depreciated by the straight-line method, and incurred in connection with the rehabilitation of a qualified rehabilitated building.

Reduce the depreciable basis by the amount of the credit.

For filers placing property in service in 1995, the qualified rehabilitation expenditures must be for:

1. Nonresidential real property,
2. Residential rental property (certified historic structures only—see Regulations section 1.48-1(h)), or
3. Real property that has a class life of more than 12½ years.

Your building must also meet the following requirements:

1. The building must be substantially rehabilitated.
2. The building must have been placed in service before the beginning of rehabilitation. This requirement is met if the building was placed in service by any person at any time before the rehabilitation begins.

3. At least 75% of the external walls must be retained with 50% or more kept in place as external walls. Also, at least 75% of the existing internal structural framework of the building must be retained in place. This does not apply to certified historic structures.

A building is considered to be “substantially rehabilitated” if your rehabilitation expenses during a 24-month period that you select and that ends with or within your tax year are more than the greater of:

1. \$5,000, or
2. Your adjusted basis in the building and its structural components.

Figure your adjusted basis on the 1st day of the 24-month period or the 1st day of your holding period, whichever is later.

If you are rehabilitating the building in phases under a written architectural plan and specifications that were completed before the rehabilitation began, substitute “60-month period” for “24-month period.”

Enter in the applicable entry space next to lines 1a and 1b the qualified rehabilitation expenditures for rehabilitation property. This is property that is not covered by the transition rules. To qualify for the credit, the building must have been originally placed in service before 1936 or must be a certified historic structure. See section 47(c) for details.

Enter in the applicable entry space next to lines 1c, 1d, and 1e the qualified rehabilitation expenditures for transition rehabilitation property and certain projects. See section 251(d) of the Tax Reform Act of 1986 for details.

If you are claiming a credit for a certified historic structure on line 1b or 1e, you must attach a copy of your request for final National Park Service (NPS) certification (NPS Form 10-168c). Enter the building number assigned by the NPS in the space provided. If the qualified rehabilitation expenditures are from a partnership, S corporation, estate, or trust, enter the identifying number of the flow-through entity in the space provided.

Line 2a—Energy credit.—Enter the basis of energy property placed in service during the tax year. Energy property is equipment that uses solar energy to generate electricity, to heat or cool (or provide hot water for use in) a structure, or to provide solar process heat. Energy property is also equipment used to produce, distribute, or use energy derived from a geothermal deposit (within the meaning of section 613(e)(2)). For electricity produced by geothermal power, include equipment up to, but not including, the electrical transmission stage.

To qualify, the property must be constructed, reconstructed, or erected

by the taxpayer. If acquired by the taxpayer, the original use of such property must commence with the taxpayer. The property must be subject to depreciation (or amortization instead of depreciation). The property must meet the performance and quality standards, if any, that have been prescribed by regulations and are in effect at the time the property is acquired.

Energy property does not include any property that is public utility property as defined by section 46(f)(5) as in effect on November 4, 1990.

If energy property is financed in whole or in part by subsidized energy financing or by tax-exempt private activity bonds, the amount that you can claim as basis is a fraction that is 1 reduced by the fraction, the numerator of which is that portion of the basis allocable to such financing or proceeds, and the denominator of which is the basis of the property. For example, if the basis of the property is \$100,000 and the portion allocable to such financing or proceeds is \$20,000, the fraction of the basis that you may claim the credit on is 4/5 (i.e., 1 minus \$20,000/\$100,000).

Subsidized energy financing means financing provided under a Federal, state, or local program, a principal purpose of which is to provide subsidized financing for projects designed to conserve or produce energy.

You must reduce the basis by 50% of the energy credit determined.

Line 2b—Transition energy property.—If you have energy property that is transition property defined in section 49(e) as in effect on November 4, 1990, attach a statement showing how you figured the allowable credit.

Reduce any credit by 35% as required by section 49(c) as in effect on November 4, 1990.

Line 3—Reforestation credit.—Enter the portion of the amortizable basis of any qualified timber property that was acquired during the tax year and is taken into account under section 194. Only direct costs for planting and seeding can be amortized. These include costs for site preparation, seed, seedlings, labor, tools, and depreciation on equipment such as tractors, trucks, and tree planters used in planting or seeding. Depreciation is a direct cost only for the period of time the equipment is used in these activities.

You cannot claim more than \$10,000 (or \$5,000 in the case of a married person filing a separate return) of amortizable basis acquired during the tax year. For more information, see Regulations sections 1.194-2 and 1.48-1(p).

You must reduce the amortizable basis by 50% of the reforestation credit determined.

Line 4—Regular investment credit for transition property.—Enter the qualified investment of any property that qualified for “regular” investment credit as transition property (as defined in section 49(e) as in effect on November 4, 1990). You must reduce the regular 10% credit for transition property by 35%, thus making the credit for this type of property 6.5%.

You must reduce the basis in the property by the amount of the credit.

Line 5—Credit from cooperatives.—Section 1381(a) cooperative organizations may claim the investment credit. If the cooperative cannot use any of the credit because of the tax liability limitation, the unused credit must be allocated to the patrons of the cooperative. The recapture provisions of section 50 apply as if the cooperative had kept the credit and not allocated it. Patrons should enter their unused regular investment credit and their unused energy credit from cooperatives.

Who Must File Form 3800

If for this year you have more than one of the credits included in the general business credit listed below, or have a carryback or carryforward of any of the credits, or have an investment credit from a passive activity, you must complete **Form 3800**, General Business Credit, instead of completing Part II of Form 3468 to figure the tax liability limitation.

The general business credit consists of the following credits:

- Investment (Form 3468),
- Jobs (Form 5884),
- Alcohol used as fuel (Form 6478),
- Research (Form 6765),
- Low-income housing (Form 8586),
- Enhanced oil recovery (Form 8830),
- Disabled access (Form 8826),
- Renewable electricity production (Form 8835),
- Indian employment (Form 8845),
- Employer social security and Medicare taxes paid on certain employee tips (Form 8846),
- Contributions to selected community development corporations (Form 8847), and
- Trans-Alaska pipeline liability fund.

The empowerment zone employment credit (Form 8844), while a component of the general business credit, is figured separately on Form 8844 and is never carried to Form 3800.

C corporations that are required to file **Form 4626**, Alternative Minimum Tax—Corporations, may also use Schedule A of Form 3800 to determine if they are entitled to an additional general business credit for any regular investment credit carryforward to 1995 for property placed in service before January 1, 1991, under section 38(c)(2) before amendment by the Revenue Reconciliation Act of 1990.

Part II—Tax Liability Limitation

If you must file Form 3800, do **not** complete Part II of Form 3468.

Line 8g—Credit for fuel from a nonconventional source.—

Corporations, enter the nonconventional source fuel credit from Form 1120, Schedule J, line 4c. For individuals, the credit is included in the total for line 45 of Form 1040 (report only the portion of line 45 that is the nonconventional source fuel credit). Other filers, enter the credit from the appropriate line of your return.

Line 10—Tentative minimum tax.—

Enter the tentative minimum tax (TMT) that was figured on the appropriate alternative minimum tax (AMT) form or schedule. Although you may not owe AMT, you must still compute the TMT to figure your credit.

Line 12.—If a husband and wife file separate returns, each must use \$12,500 instead of \$25,000. But if one of them has no investment credit (or no carryforwards or carrybacks to the current year), then the other may use the entire \$25,000.

A member of a controlled group must enter only its apportioned share of the \$25,000.

A mutual savings institution, a regulated investment company, or a real estate investment trust should see **Special Limitations for Lines 1a Through 1e, 4, and 12** on page 2.

For estates and trusts, the \$25,000 limitation is reduced by the same proportionate share of income that was allocated to the beneficiaries.

Line 14.—If you cannot use all of the credit because of the tax liability limitation (line 13 is smaller than line 6), carry the excess back 3 years and then forward 15 years. See the separate Instructions for Form 3800 for details.

