1995

Department of the Treasury
Internal Revenue Service

Instructions for Form 4626

Alternative Minimum Tax—Corporations

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	18 hr., 53 min.
Learning about the law or the form	14 hr., 42 min.
Preparing and sending the form to the IRS	15 hr., 40 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

General Instructions

Pending Legislation

At the time these instructions were printed, Congress was considering legislation that would repeal the depreciation adjustment for property placed in service after 1995. For further developments, see **Pub. 553,** Highlights of 1995 Tax Changes.

Purpose of Form

Use Form 4626 to figure the alternative minimum tax **(AMT)** imposed on a corporation by section 55. Also use Form 4626 to figure the environmental tax imposed on a corporation (excluding a regulated investment company (RIC) or a real estate investment trust (REIT)) if modified alternative minimum taxable income is over $2 million (section 59A).

Note: *For an affiliated group filing a consolidated return under the rules of section 1501, AMT must be figured on a consolidated basis.*

Who Must File

File Form 4626 if the corporation's taxable income or (loss) before the net operating loss **(NOL)** deduction plus its adjustments and preferences total more than $40,000 or, if smaller, its allowable exemption amount.

Also, file Form 4626 if the corporation owes the environmental tax, even if no alternative minimum tax is owed.

Recordkeeping

For the AMT, certain items of income, deductions, etc., receive different tax treatment than for the regular tax. Therefore, some items must be refigured for the AMT. In some cases, it may be helpful to complete the applicable tax form a second time. If another form is completed, **do not** attach it to the corporation's tax return. Instead, keep it for the corporation's records.

For the regular tax, some deductions and credits may result in carrybacks or carryforwards to other tax years. Examples are a net operating loss, a capital loss, and the foreign tax credit. Because these items may have to be refigured for the AMT, the carryback or carryforward amount may be different for the AMT. Therefore, the corporation should keep records of these different amounts.

The corporation must also keep a "running balance" of the excess of its total increases in alternative minimum taxable income **(AMTI)** from prior tax year adjusted current earnings **(ACE)** adjustments over the total reductions in AMTI from prior year ACE adjustments (line 4d). See the instructions for line 4d on page 5.

Short Period Return

If the corporation is filing for a period of less than 12 months, AMTI must be placed on an annual basis and the AMT prorated based on the number of months in the short period. To do so, multiply AMTI for the short period by 12. Divide the result by the number of months in the short period. Enter this result on line 7 and write "Sec. 443(d)(1)" on the dotted line to the left of the entry space. Complete lines 8 through 12. Subtract line 12 from line 11 to figure tentative minimum tax based on the annualized AMTI. Multiply the result by a fraction, the numerator of which is the number of months in the short period and the denominator of which is 12. Enter the result on line 13 and write "Sec. 443(d)(2)" on the dotted line to the left of the entry space. Complete the rest of the form in the normal manner.

Allocating Differently Treated Items Between Certain Entities and Their Investors

For a regulated investment company, a real estate investment trust, or a common trust fund, see section 59(d) for details on allocating certain differently treated items between the entity and its investors.

Credit for Prior Year Minimum Tax

A corporation may be able to take a minimum tax credit against the regular tax for AMT incurred in prior years. See **Form 8827,** Credit for Prior Year Minimum Tax—Corporations, for details.

Specific Instructions

Line 1—Taxable Income or (Loss) Before Net Operating Loss Deduction

Enter the corporation's taxable income or (loss) before the NOL deduction and after the special deductions (e.g., if filing Form 1120, subtract line 29b from line 28 of that form).

Important: *If the corporation is subject to the environmental tax, figure that tax on line 16 before completing line 1. See instructions for line 16 on page 6.*

Line 2—Adjustments and Preferences

Line 2a. Depreciation of post-1986 property.—

Caution: *Do not include depreciation adjustments for passive activities or tax shelter farm activities on line 2a. Instead, include them on line 2j or 2k.*

The depreciation allowable for the regular tax under section 167 for any tangible property placed in service after 1986 (or after July 31, 1986, if you made the transitional election under section 203(a)(1)(B) of the Tax Reform Act of 1986) must be refigured for the AMT under the alternative depreciation system **(ADS)** described in section 168(g) as follows:

- For any section 1250(c) real property (generally nonresidential real and residential rental), use the straight line method over 40 years with the same mid-month convention used for the regular tax.
- For any tangible property (other than section 1250(c) real property) depreciated using the straight line method for the

regular tax, refigure the depreciation using the straight line method over the property's class life with the same convention used for the regular tax.

- For all other tangible property, use the 150% declining balance method, switching to the straight line method for the first tax year it gives a larger deduction, over the property's class life. Use the same convention used for the regular tax.

In applying the above rules:

1. The class life used for the AMT is not necessarily the same as the recovery period used for the regular tax. The class lives for AMT are listed in Rev. Proc. 87-56, 1987-2 C.B. 674, and in **Pub. 946,** How To Depreciate Property. Use 12 years for any tangible personal property not assigned a class life.

2. See Rev. Proc. 87-57, 1987-2 C.B. 687, for optional tables (14 through 18) that can be used to figure AMT depreciation. These optional tables also appear in Pub. 946.

3. Do not make an adjustment for **(a)** property for which the corporation made an election to use the ADS for the regular tax, **(b)** property expensed under section 179 for the regular tax, or **(c)** property described in sections 168(f)(1) through (4).

4. You must consider the transitional rules (described in section 56(a)(1)(C)) and the normalization rules (described in section 56(a)(1)(D)).

Subtract the AMT depreciation from the regular tax depreciation and enter the result on line 2a. If the AMT depreciation is more than the regular tax depreciation, enter the difference as a negative amount.

Note: *Depreciation that is capitalized to inventory under the uniform capitalization rules must be refigured using the rules described above.*

Line 2b. Amortization of certified pollution control facilities.—For facilities placed in service after 1986, figure the amortization deduction for the AMT using the ADS described in section 168(g) (i.e., the straight line method over the facility's class life).

Note: *Section 168(g) applies to 100% of the asset's amortizable basis. Do not reduce the corporation's AMT basis by the 20% section 291 adjustment that applied for the regular tax.*

Subtract the AMT deduction from the regular tax deduction and enter the result on line 2b. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount.

Line 2c. Amortization of mining exploration and development costs.—

Note: *Do not make this adjustment for costs for which the corporation elected the optional 10-year writeoff under section 59(e) for the regular tax.*

The regular tax deduction under sections 616(a) and 617(a) for costs paid or incurred after 1986 is not allowed for the AMT. Instead, capitalize those costs and amortize them ratably over a 10-year period beginning with the tax year in which the corporation paid or incurred them.

Note: *The 10-year amortization applies to 100% of the mining development and exploration costs paid or incurred during the tax year. Do not reduce the corporation's AMT basis by the 30% section 291 adjustment that applied for the regular tax.*

Subtract the AMT deduction from the regular tax deduction and enter the result on line 2c. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount. See section 56(a)(2)(B) if the corporation had a loss from any mine or other natural deposit (other than an oil, gas, or geothermal well).

Line 2d. Amortization of circulation expenditures.—This adjustment applies only to personal holding companies.

Note: *Do not make this adjustment for expenditures for which the corporation elected the optional 3-year writeoff under section 59(e) for the regular tax.*

The regular tax deduction (under section 173) for these expenditures incurred after 1986 is not allowed for the AMT. Instead, capitalize these expenditures and amortize them ratably over 3 years beginning with the tax year in which the corporation made them.

Subtract the AMT deduction from the regular tax deduction and enter the result on line 2d. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount. See section 56(b)(2)(B) if the corporation had a loss from circulation expenditures deducted under section 173.

Line 2e. Adjusted gain or loss.—If, during the tax year, the corporation disposed of property for which it is making (or previously made) any of the adjustments described on lines 2a through 2d above, refigure the property's adjusted basis for the AMT. Then refigure the gain or loss on the disposition.

The property's adjusted basis for the AMT is its cost minus all applicable depreciation or amortization deductions allowed for the AMT during the current tax year and previous tax years. Subtract this AMT basis from the sales price to get the AMT gain or loss.

Note: *The corporation may also have gains or losses from lines 2j, 2k, and 2l that must be considered on line 2e. For example, if for the regular tax the corporation reports a loss from the disposition of an asset used in a passive activity, include the loss in the computations for line 2k to determine if any passive activity loss is limited for the AMT. Then, include the AMT passive activity loss allowed that relates to the disposition of the asset on line 2e in determining the corporation's AMT basis adjustment. It may be helpful to refigure Form 8810 and related worksheets and Schedule D (Form 1120), Form 4684 (Section B), or Form 4797 for the AMT.*

Enter the difference between the regular tax gain or loss and the AMT gain or loss. Enter the difference as a negative amount if:

1. The AMT gain is less than the regular tax gain, OR

2. The AMT loss is more than the regular tax loss, OR

3. The corporation has an AMT loss and a regular tax gain.

Line 2f. Long-term contracts.—For the AMT, use the percentage-of-completion method described in section 460(b) to determine the taxable income from any long-term contract (defined in section 460(f)) entered into after February 28, 1986. However, this rule does not apply to **(a)** any home construction contract (as defined in section 460(e)(6)) entered into after June 20, 1988, if the corporation meets the small home construction contract requirements of section 460(e)(1)(B) or **(b)** any home construction contract entered into in a tax year that began after September 30, 1990, even if the corporation does not meet the small home construction contract requirements.

Note: *For a contract described in section 460(e)(1), determine the percentage of the contract completed using the simplified procedures for allocating costs outlined in section 460(b)(4).*

Subtract the regular tax income from the AMT income and enter the difference on line 2f. If the AMT income is less than the regular tax income, enter the difference as a negative amount.

Line 2g. Installment sales.—If the corporation used the installment method for the regular tax for either of the following, refigure its income for the AMT without regard to the installment method:

1. Any disposition after March 1, 1986, of property used or produced in the corporation's farming business that it held primarily for sale to customers.

2. Any nondealer disposition of property that occurred after August 16, 1986, but before the first day of the corporation's tax year that began in 1987, if an obligation that arose from the disposition was an installment obligation to which the proportionate disallowance rule applied.

Enter on line 2g the difference between the AMT income and the regular tax income. If the regular tax income is more than the AMT income, enter the difference as a negative amount.

Line 2h. Merchant marine capital construction funds.—Amounts deposited after 1986 in these funds (established under section 607 of the Merchant Marine Act of 1936) are not deductible for the AMT. Earnings on these funds are not excludable from gross income for the AMT. If the corporation deducted these amounts or excluded them from income for the regular tax, add them back on line 2h. See section 56(c)(2) for more details.

Line 2i. Section 833(b) deduction.—This deduction is not allowed for the AMT. If the corporation took this deduction for the regular tax, add it back on line 2i.

Line 2j. Tax shelter farm activities.—This adjustment applies only to personal service corporations. Complete this line only if the corporation has a gain or loss from a tax shelter farm activity (as defined in section 58(a)(2)) that is **not** a passive activity. If the tax shelter farm activity **is** a passive activity, the corporation must include the gain or loss in the computations for line 2k below.

Refigure all gains and losses reported for the regular tax from tax shelter farm activities by taking into account any AMT adjustments and preferences. Determine the AMT gain or loss using the same rules used for the regular tax with the following modifications:

- No loss is allowed except to the extent the personal service corporation is insolvent (see section 58(c)(1)).
- Do not use a loss in the current tax year to offset gains from other tax shelter farm activities. Instead, suspend any loss and carry it forward indefinitely until the corporation has a gain in a subsequent tax year from that same tax shelter farm activity, OR it disposes of the activity.

Important: *To avoid duplication, do not include any AMT adjustment or preference included on line 2j in the amounts to be entered on any other line of this form.*

Note: *Any tax shelter farm activity loss that is not deductible (and is therefore carried forward) for the AMT may differ from the amount (if any) that is suspended and carried forward for the regular tax. Keep adequate records for both the AMT and regular tax.*

Enter on line 2j the difference between the AMT gain or loss and the regular tax gain or loss. Enter the difference as a negative amount if the corporation had:

1. An AMT loss and a regular tax gain, OR

2. An AMT loss that exceeds the regular tax loss, OR

3. A regular tax gain that exceeds the AMT gain.

Line 2k. Passive activities.—This adjustment applies only to closely held corporations and personal service corporations. Refigure all passive activity gains and losses reported for the regular tax by taking into account the corporation's AMT adjustments and preferences, and AMT prior year unallowed losses.

Important: *To avoid duplication, do not include any AMT adjustment or preference taken into account on line 2k in the amounts to be entered on any other line of this form.*

Determine the corporation's AMT passive activity gain or loss using the same rules used for the regular tax. If the corporation is insolvent, see section 58(c)(1).

Disallowed losses of a personal service corporation are suspended until the corporation has income from that (or any other) passive activity or until the passive activity is disposed of (i.e., its passive losses cannot offset "net active income" (defined in section 469(e)(2)(B)) or "portfolio income"). Disallowed losses of a closely held corporation that is not a personal service corporation are treated the same except that, in addition, they may be used to offset "net active income."

Note: *Any passive activity loss that is not deductible (and is therefore suspended and carried forward) for the AMT may differ from the amount (if any) that is carried forward for the regular tax. Keep adequate records for both the AMT and regular tax.*

Enter on line 2k the difference between the AMT gain or loss and the regular tax gain or loss. Enter the difference as a negative amount if the corporation had:

1. An AMT loss and a regular tax gain, OR

2. An AMT loss that exceeds the regular tax loss, OR

3. A regular tax gain that exceeds the AMT gain.

Tax shelter farm activities that are passive activities.—Refigure all gains and losses reported for the regular tax by taking into account the corporation's AMT adjustments and preferences, and AMT prior year unallowed losses.

Important: *To avoid duplication, do not include any AMT adjustment or preference taken into account here in the amounts to be entered on any other line of this form.*

Take into account these gains and losses when figuring the AMT passive activity gain or loss. Use the same rules outlined above, with the following modifications:

- AMT gains from tax shelter farm activities that are passive activities may be used to offset AMT losses from other passive activities.
- AMT losses from tax shelter farm activities that are passive activities may not be used to offset AMT gains from other passive activities. AMT losses from tax shelter farm activities that are passive activities are disallowed and must be suspended and carried forward as explained in the instructions for line 2j.

Line 2l. Loss limitations.—Refigure gains and losses reported for the regular tax from at-risk activities and partnerships by taking into account the corporation's AMT adjustments and preferences. If the corporation has recomputed losses that must be limited for the AMT (under section 59(h)) by section 465 or by section 704(d) OR if, for the regular tax, the corporation reported losses from at-risk activities or partnerships that were limited by those sections, figure the difference between the loss limited for the AMT and the loss limited for the regular tax for each applicable at-risk activity or partnership. "Loss limited" means the amount of loss that is not allowable for the year because of the limitation of section 465 or 704(d).

Enter on line 2l the excess of the loss limited for the AMT over the loss limited for the regular tax. If the loss limited for the regular tax is more than the loss limited for the AMT, enter the difference as a negative amount.

Line 2m. Depletion.—Refigure the depletion deduction for AMT purposes. Use only income and deductions allowed for the AMT when refiguring the limit based on taxable income from the property under section 613(a) and the limit based on taxable income, with certain adjustments, under section 613A(d)(1). Also, the depletion deduction for mines, wells, and other natural deposits under section 611 is limited to the property's adjusted basis at the end of the year, as refigured for the AMT, unless the corporation is an independent producer or royalty owner claiming percentage depletion for oil and gas wells under section 613A(c). Figure this limit separately for each property. When refiguring the property's adjusted basis, take into account any AMT adjustments the corporation made this year or in previous years that affect basis (other than the current year's depletion). Do not include in the property's adjusted basis any unrecovered costs of depreciable tangible property used to exploit the deposits (e.g., machinery, tools, pipes, etc.).

Enter on line 2m the difference between the regular tax and the AMT deduction. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount.

Note: *For iron ore and coal (including lignite), apply the section 291 adjustment before figuring this preference.*

Line 2n. Tax-exempt interest from specified private activity bonds.—Enter interest earned on specified private activity bonds reduced by any deduction that would have been allowable if the interest were includible in gross income for the regular tax. Generally, a specified private activity bond is any private activity bond (as defined in section 141) issued after August 7, 1986. See section 57(a)(5) for exceptions and for more details.

Line 2o. Charitable contributions.—Refigure the charitable contributions deduction for the AMT. Use only income and deductions allowed for the AMT when refiguring the limit based on taxable income under section 170(b)(2). Also, any AMT carryover of charitable contributions is limited to the cost or other basis (instead of fair market value) for any contribution of capital gain or section 1231 property for which the preference for charitable contributions of appreciated property applied. The preference for charitable contributions of appreciated property does not apply to any contribution made after 1992 or to any contribution of tangible personal property made in a tax year beginning after 1990. It also does not apply to contributions of property for which the corporation elected under section 170(b)(1)(C)(iii) to figure the deduction using the property's adjusted basis rather than its fair market value.

Enter on line 2o the difference between the regular tax and the AMT deduction. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount.

Line 2p. Intangible drilling costs.—

Note: *Do not make this adjustment for costs for which the corporation elected the optional 60-month writeoff under section 59(e) for the regular tax.*

Intangible drilling costs **(IDCs)** from oil, gas, and geothermal properties are a preference if excess IDCs exceed 65% of the net income from the properties. The preference for all geothermal deposits is figured separately from the preference for all oil and gas properties that are not geothermal deposits.

Excess IDCs are the excess of **(a)** the amount of IDCs the corporation paid or incurred for oil, gas, or geothermal properties that it elected to expense for the regular tax under section 263(c) (not including any section 263(c) deduction for nonproductive wells) reduced by the section 291(b)(1) adjustment for integrated oil companies and increased by any amortization of IDCs allowed under section 291(b)(2); over **(b)** the amount that would have been allowed if the corporation had amortized that amount over a 120-month period starting with the month the well was placed in production.

Note: *If the corporation prefers not to use the 120-month period, it can elect any method that is permissible in determining cost depletion.*

Net income is the gross income the corporation received or accrued from all oil, gas, and geothermal wells minus the deductions allocable to these properties (reduced by the excess IDCs). When refiguring net income, use only income and deductions allowed for the AMT.

Exception. The preference for IDCs from oil and gas wells does not apply to corporations that are independent producers (i.e., not integrated oil companies as defined in section 291(b)(4)). However, this benefit may be limited. First, figure the IDC preference as if this exception did not apply. Then, for purposes of this exception, complete a second Form 4626 through line 5, including the IDC preference. If the amount of the IDC preference exceeds 40% of the amount figured for line 5, enter the excess on line 2p (the benefit of this exception is limited). If the amount of the IDC preference is equal to or less than 40% of the amount figured for line 5, do not enter an amount on line 2p (the benefit of this exception is not limited).

Line 2q. Reserves for losses on bad debts of financial institutions.—Enter the excess of **(a)** the deduction allowable for a reasonable addition to a reserve for bad debts of a financial institution to which section 593 applies, over **(b)** the amount that would have been allowable had the financial institution maintained its bad debt reserve for all tax years on the basis of actual experience.

Line 2r. Accelerated depreciation of real property (pre-1987).—Enter the excess of the depreciation claimed for the property for the regular tax using the pre-1987 rules over the depreciation allowable for the AMT as refigured using the straight line method. Use a recovery period of 19 years for 19-year real property and 15 years for low-income housing property. Figure this amount separately for each property and include only positive adjustments on line 2r.

Line 2s. Accelerated depreciation of leased personal property (pre-1987).— This preference applies only to personal holding companies.

For leased personal property other than recovery property, enter the excess of the depreciation claimed for the property for the regular tax using the pre-1987 rules over the depreciation allowable for the AMT as refigured using the straight line method.

For leased 10-year recovery property and leased 15-year public utility property, enter the amount by which the regular tax depreciation exceeds the depreciation allowable using the straight line method with a half-year convention, no salvage value, and a recovery period of 15 years (22 years for 15-year public utility property).

Figure this amount separately for each property and include only positive adjustments on line 2s.

Line 2t. Other adjustments.—Include on this line:

- **Income eligible for the possessions tax credit.—**If this income was included in the corporation's taxable income for the regular tax, include this amount on line 2t as a negative amount.
- **Income from the alcohol fuel credit.—** If this income was included in the corporation's income for the regular tax, include this amount on line 2t as a negative amount.
- **Income as the beneficiary of an estate or trust.—**If the corporation is the beneficiary of an estate or trust, include the minimum tax adjustment from Schedule K-1 (Form 1041), line 8.
- **Patron's AMT adjustment.—** Distributions the corporation received from a cooperative may be includible in income. Unless the distributions are nontaxable, include on line 2t the total AMT patronage dividend adjustment reported to the corporation from the cooperative.
- **Cooperative's AMT adjustment.—**If the corporation is a cooperative, refigure the cooperative's deduction for patronage dividends by taking into account the cooperative's AMT adjustments and preferences. Subtract the cooperative's AMT deduction for patronage dividends from its regular tax deduction for patronage dividends. Enter the difference as a negative amount if the AMT deduction is more than the regular tax deduction.
- **Related adjustments.—**AMT adjustments and preferences may affect deductions that are based on an income limit. Refigure these deductions using the income limit as modified for the AMT. Include on line 2t an adjustment for the difference between the regular tax and AMT amounts for all such deductions. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount.

Note: *Do not make an adjustment on line 2t for an item refigured on another line of this form (e.g., line 2m or 2o).*

Example. The corporation has taxable income from the active conduct of a trade or business of $9,000 (before the net operating loss deduction, special deductions, and the section 179 expense deduction). During the year, the corporation purchased a business asset for $10,000 for which it elects the section 179 expense deduction. The corporation also has an AMT depreciation adjustment of $700 for other depreciable assets. The section 179 expense deduction is limited to $9,000 (taxable income from the active conduct of a trade or business (before the net operating loss deduction, special deductions, and the section 179 expense deduction)). The $1,000 excess is a section 179 expense deduction carryforward for the regular tax. But, for the AMT, the section 179 taxable income limit is $9,700. For the AMT, the corporation has a section 179 expense deduction of $9,700 and a section 179 expense deduction carryforward of $300. Therefore, it includes a $700 negative adjustment on line 2t because its section 179 expense deduction for the AMT is $700 greater than its allowable regular tax deduction. In the following year, when the corporation uses the $1,000 regular tax carryforward, it will have a $700 positive adjustment for the AMT because its AMT carryforward is only $300.

Line 4—Adjusted Current Earnings (ACE) Adjustment

Note: *For a regulated investment company or a real estate investment trust, skip lines 4a through 4e; they do not apply. For an affiliated group filing a consolidated return under the rules of section 1501, figure line 4b on a consolidated basis.*

Line 4b.—The following examples illustrate the manner in which line 3 is subtracted from line 4a to get the amount to enter on line 4b.

Example 1. Corporation A has line 4a ACE of $25,000. If Corporation A has line 3 pre-adjustment AMTI in the amounts shown below, its line 3 pre-adjustment AMTI and line 4a ACE would be combined as shown below to determine the amount to enter on line 4b:

Line 4a ACE	$25,000	$25,000	$25,000
Line 3 pre-adjustment AMTI	10,000	30,000	(50,000)
Amount to enter on line 4b	$15,000	$(5,000)	$75,000

Example 2. Corporation B has line 4a ACE of $(25,000). If Corporation B has line 3 pre-adjustment AMTI in the amounts shown below, its line 3 pre-adjustment AMTI and line 4a ACE would be combined as shown below to determine the amount to enter on line 4b:

Line 4a ACE	$(25,000)	$(25,000)	$(25,000)
Line 3 pre-adjustment AMTI	(10,000)	(30,000)	50,000
Amount to enter on line 4b	$(15,000)	$5,000	$(75,000)

Line 4d.—A potential negative ACE adjustment (i.e., a negative amount on line 4b multiplied by 75%) is allowed as a negative ACE adjustment on line 4e only if the corporation's total increases in AMTI from prior year ACE adjustments exceed its total reductions in AMTI from prior year ACE adjustments (line 4d). The purpose of line 4d is to provide a "running balance" of this limitation amount. As such, the corporation must keep adequate records (e.g., a copy of Form 4626 completed at least through line 5) from year to year (even in years in which it does not owe any AMT).

Any potential negative ACE adjustment that is not allowed as a negative ACE adjustment in a tax year because of the line 4d limitation may not be used to reduce a positive ACE adjustment in any other tax year.

Combine lines 4d and 4e of the 1994 Form 4626 and enter the result here on line 4d of the 1995 Form 4626. Do not enter a negative amount on line 4d for the reason given in the preceding paragraph.

Example. Corporation C, a calendar-year corporation, was incorporated January 1, 1991. Its ACE and pre-adjustment AMTI for 1991 through 1995 were as follows:

Year	ACE	Pre-adjustment AMTI
1991	$700,000	$800,000
1992	900,000	600,000
1993	400,000	500,000
1994	(100,000)	300,000
1995	250,000	100,000

Corporation C subtracts its pre-adjustment AMTI from its ACE in each of the years and then multiplies the result by 75% to get the following potential ACE adjustments for 1991 through 1995:

Year	ACE minus pre-adjustment AMTI	Potential ACE adjustment
1991	$(100,000)	$(75,000)
1992	300,000	225,000
1993	(100,000)	(75,000)
1994	(400,000)	(300,000)
1995	150,000	112,500

Under these facts, Corporation C has the following increases or reductions in AMTI for 1991 through 1995:

Year	Increase or (reduction) in AMTI from ACE adjustment
1991	$0
1992	225,000
1993	(75,000)
1994	(150,000)
1995	112,500

Explanation of Example

In 1991, Corporation C was not allowed to reduce its AMTI by any part of the potential negative ACE adjustment because it had no increases in AMTI from prior year ACE adjustments.

In 1992, Corporation C had to increase its AMTI by the full amount of its potential ACE adjustment. It was not allowed to use any part of its 1991 unallowed potential negative ACE adjustment of $75,000 to reduce its 1992 positive ACE adjustment of $225,000.

In 1993, Corporation C was allowed to reduce its AMTI by the full amount of its potential negative ACE adjustment because that amount is less than its line 4d limit of $225,000.

In 1994, Corporation C was allowed to reduce its AMTI by only $150,000. Its potential negative ACE adjustment of $300,000 was limited to its 1992 increase in AMTI of $225,000 minus its 1993 reduction in AMTI of $75,000.

In 1995, Corporation C must increase its AMTI by the full amount of its potential ACE adjustment. It may not use any part of its 1994 unallowed potential negative ACE adjustment of $150,000 to reduce its 1995 positive ACE adjustment of $112,500. Corporation C would complete the relevant portion of its 1995 Form 4626 as follows:

Line	Amount
4a	$250,000
4b	150,000
4c	112,500
4d	-0-
4e	112,500

Line 6—Alternative Tax Net Operating Loss Deduction (ATNOLD)

The alternative tax net operating loss deduction is the aggregate of the alternative tax net operating loss (ATNOL) carrybacks and carryovers to the tax year, subject to the limitation explained below. Figure the ATNOLD as follows:

1. For a loss year that began after 1986, the ATNOL is the excess of the deductions allowed in figuring AMTI (excluding the ATNOLD) over the income included in AMTI. This excess is figured with the modifications in section 172(d), taking into account the adjustments in sections 56 and 58 and preferences in section 57 (i.e., the section 172(d) modifications must be separately computed in figuring the ATNOL).

2. In applying the rules relating to the determination of the amount of carrybacks and carryovers, use the modification to those rules described in section 56(d)(1)(B)(ii).

3. If, for any tax year that began before 1987, the corporation had minimum tax that was deferred under section 56(b) (as in effect before the enactment of the Tax Reform Act of 1986) and that deferred tax has not been paid, reduce the amount of ATNOL carryovers that may be carried over to this year by the corporation's preferences that caused the deferred add-on minimum tax. (Section 701(f)(2)(B) of the Tax Reform Act of 1986.)

4. The corporation's ATNOLD is limited. To figure the ATNOLD limitation, first figure AMTI without the ATNOLD. To do this, use a second Form 4626 as a worksheet. Complete the form through line 5, but when figuring lines 2m, 2o, and 2t, treat line 6 as if it were zero. Multiply line 5 of the second Form 4626 used as a worksheet by 90%. This is the corporation's ATNOLD limitation.

Note: *The amount of any ATNOL that is not deductible may be carried back or carried over using the rules outlined in section 172(b). An election under section 172(b)(3) to forego the carryback period for the regular tax also applies for the AMT. The ATNOL carried back or carried over may differ from the NOL (if any) that is carried back or carried over for the regular tax. Keep adequate records for both the AMT and the regular tax.*

Line 9—Exemption Phase-out Computation

Line 9a.—If this Form 4626 is for a member of a controlled group of corporations, subtract $150,000 from the combined AMTI of all members of the controlled group. Divide the result among the members of the group in the same manner as the $40,000 tentative exemption is divided among the members. Enter this member's share on line 9a. The tentative exemption must be divided equally among the members, unless all members consent to a different allocation. See section 1561 for more details.

Line 9c.—If this Form 4626 is for a member of a controlled group of corporations, reduce the member's share of the $40,000 tentative exemption by the amount entered on line 9b.

Line 12—Alternative Minimum Tax Foreign Tax Credit

Refigure the regular tax foreign tax credit claimed for each separate limitation category of income as follows:

1. Refigure both the numerator (foreign source taxable income) and the denominator (worldwide taxable income) of the limitation fraction by considering the corporation's AMT adjustments and preferences;

2. Substitute line 11 of Form 4626 for the "total U.S. income tax against which credit is allowed";

3. Multiply the fraction in **1** above by the amount in **2** above to determine the refigured limitation;

4. Subtract the smaller of the total foreign taxes paid for that separate limitation and the refigured limitation from **3** above.

Add the credits you refigured for each separate limitation. Enter the result on line 12.

Note: *In determining if any income is "high-taxed" in applying the separate income category limitations for the AMT foreign tax credit, use the AMT rate instead of the regular rate.*

The AMT foreign tax credit is subject to a 90% limit (i.e., the credit cannot be more than the amount on line 11 minus 10% of the amount that would be on that line if Form 4626 were refigured using zero on line 6 and if the exception for intangible drilling costs under section 57(a)(2)(E) did not apply). The 90% limit does not apply to certain corporations that meet the requirements of section 59(a)(2)(C).

Note: *For any separate limitation category, any AMT foreign tax credit the corporation cannot claim (because of the limitation fraction or the 90% limit discussed above) may be carried back or carried over according to the rules outlined in section 904(c). Also, any foreign tax credit that the corporation cannot claim (and can therefore be carried back or carried over) for the AMT may differ from the amount (if any) that is carried back or carried over for the regular tax. Keep adequate records for both the AMT and the regular tax.*

Line 14

Enter the corporation's regular tax liability for the tax year (as defined in section 26(b)) minus any foreign tax credit and possessions tax credit (e.g., for Form 1120, Schedule J, line 3, minus the sum of Schedule J, lines 4a and 4b). Be sure to **include** any tax on accumulation distribution of trusts you figured on Form 4970. **Do not include** any recapture of investment credit (under section 49(b) or 50(a)) figured on Form 4255 or any recapture of low-income housing credit (under section 42(j) or (k)) figured on Form 8611.

Line 16—Environmental Tax

Note: *Line 16 does not apply to a regulated investment company or a real estate investment trust.*

Figure the environmental tax as follows:

1. Complete line 1 of Form 4626 without the environmental tax deduction.

2. Complete lines 2a through 5.

3. Skip lines 6 through 15 and figure the environmental tax on line 16.

Note: *If line 16 is completed for a member of a controlled group of corporations, all members of the controlled group are limited to one $2-million exemption, which must be divided equally among the members (unless all of the members consent to an unequal allocation). See section 1561 for additional information.*

Then figure the AMT. Complete line 1 of Form 4626 taking into account the deduction the corporation is allowed for the environmental tax. Next, complete lines 2a through 15 in the normal manner.

ACE Worksheet Instructions

Treatment of Certain Ownership Changes

If a corporation with a net unrealized built-in loss (within the meaning of section 382(h)) undergoes an ownership change (within the meaning of Regulations section 1.56(g)-1(k)(2)), refigure the adjusted basis of each asset of the corporation (immediately after the ownership change). The new adjusted basis of each asset is its proportionate share (based on respective fair market values) of the fair market value of the corporation's assets (determined under section 382(h)) immediately before the ownership change.

To determine if the corporation has a net unrealized built-in loss, use the aggregate adjusted basis of its assets used for computing its ACE.

Note: *Use these new adjusted bases for all future ACE calculations (such as depreciation and gain or loss on disposition of an asset).*

Line 2—ACE Depreciation Adjustment

Line 2a. AMT depreciation.—Generally, the amount entered on this line is: **(a)** the depreciation the corporation claimed for the regular tax (Form 4562, line 21), modified by **(b)** the AMT depreciation adjustments reported on lines 2a, 2r, and 2s of Form 4626.

Line 2b(1). Post-1993 property.—For property placed in service after 1993, the ACE depreciation is the same as the AMT depreciation. Therefore, enter on line 2b(1) the same depreciation expense you entered on line 2a for such property.

Line 2b(2). Post-1989, pre-1994 property.—For property placed in service in a tax year that began after 1989, and before 1994, use the ADS described in section 168(g). However, for property **(a)** placed in service in a tax year that began after 1989, and **(b)** described in sections 168(f)(1) through (4), use the same depreciation claimed for the regular tax and enter it on line 2b(5).

Line 2b(3). Pre-1990 MACRS property.—For property placed in service in a tax year that began after 1986 and before 1990 (MACRS property), use the straight line method over the remainder of the recovery period for the property under the ADS of section 168(g). In doing so, use the convention that would have applied to the property under section 168(d). For more information (including an example that illustrates the application of these rules), see Regulations section 1.56(g)-1(b)(2).

Line 2b(4). Pre-1990 original ACRS property.—For property placed in service in a tax year that began after 1980 and before 1987 (to which the original accelerated cost recovery system (ACRS) applies), use the straight line method over the remainder of the recovery period for the property under the ADS of section 168(g). In doing so, use the convention that would have applied to the property under section 168(d) (without regard to section 168(d)(3)). For more information (including an example that illustrates the application of these rules), see Regulations section 1.56(g)-1(b)(3).

Line 2b(5). Property described in sections 168(f)(1) through (4).—Use the regular tax depreciation, regardless of when the property was placed in service.

Note: *Line 2b(5) takes priority over lines 2b(1), 2b(2), 2b(3), and 2b(4) (i.e., for property that is described in sections 168(f)(1) through (4), use line 2b(5) instead of the line (2b(1), 2b(2), 2b(3), or 2b(4)) that would otherwise apply).*

Line 2b(6). Other property.—Use the regular tax depreciation for **(a)** property placed in service before 1981 AND **(b)** property placed in service after 1980, in a tax year that began before 1990, that is excluded from MACRS by section 168(f)(5)(A)(i) or original ACRS by section 168(e)(4), as in effect before the Tax Reform Act of 1986.

Line 2c. ACE depreciation adjustment.—Subtract line 2b(7) from line 2a and enter the result on line 2c. If line 2b(7) exceeds line 2a, enter the difference as a negative amount.

Line 3—Inclusion In ACE of Items Included In Earnings and Profits (E&P)

In general, any income item that is not taken into account (see below) in determining the corporation's pre-adjustment AMTI but that is taken into account in determining its E&P must be included in ACE. Any such income item may be reduced by all items related to that income item and that would be deductible when figuring pre-adjustment AMTI if the income items to which they relate were included in the corporation's pre-adjustment AMTI for the tax year. Examples of adjustments for these income items include: **(a)** interest income from tax-exempt obligations excluded under section 103 minus any costs incurred in carrying these tax-exempt obligations; and **(b)** proceeds of life insurance contracts excluded under section 101 minus the basis in the contract for purposes of ACE.

Note: *Do not make an adjustment for any income from discharge of indebtedness excluded from gross income under section 108 or any corresponding provision of prior law.*

An income item is considered taken into account without regard to the timing of its inclusion in a corporation's pre-adjustment AMTI or its E&P. Only income items that are permanently excluded from pre-adjustment AMTI are included in ACE. An income item will not be considered taken into account merely because the proceeds from that item might eventually be reflected in a corporation's pre-adjustment AMTI (e.g., that of a shareholder) on the liquidation or disposal of a business.

Line 3d.—Include in ACE the income on life insurance contracts (as determined under section 7702(g)) for the tax year minus the part of any premium attributable to insurance coverage.

Line 3e.—Do not include any adjustment related to the E&P effects of any charitable contribution (section 56(g)(4)(J)).

Line 4—Disallowance of Items Not Deductible From E&P

Generally, no deduction is allowed when figuring ACE for items not taken into account (see below) in computing E&P for the tax year. These amounts increase ACE if they are deductible in computing pre-adjustment AMTI (i.e., they would be positive adjustments). However, there are exceptions. Do not add back: **(a)** any deduction allowable under section 243 or 245 for any dividend that qualifies for a

100% dividends-received deduction under section 243(a), 245(b), or 245(c); and **(b)** any dividend received from a 20% owned corporation (see section 243(c)(2)), but only if the dividend is from income of the paying corporation that is subject to Federal income tax. Also see sections 56(g)(4)(C)(iii) and (iv) for special rules for dividends from section 936 corporations and certain dividends received by certain cooperatives.

An item is considered taken into account without regard to the timing of its deductibility in computing pre-adjustment AMTI or E&P. Therefore, only deduction items that are permanently disallowed in computing E&P are disallowed in computing ACE.

Items described in Regulations section 1.56(g)-1(e) for which no adjustment is necessary.—Generally, no deduction is allowed for an item in computing ACE if the item is not deductible in computing pre-adjustment AMTI (even if the item is deductible in computing E&P). The only exceptions to this general rule are the related reductions to an income item described in the second sentence of the instructions for line 3 above. Deductions that are not allowed in computing ACE include:

- Capital losses that exceed capital gains;
- Bribes, fines, and penalties disallowed under section 162;
- Charitable contributions that exceed the limitations of section 170;
- Meals and entertainment expenses that exceed the limitations of section 274;
- Federal taxes disallowed under section 275; and
- Golden parachute payments that exceed the limitation of section 280G.

Note: *No adjustment is necessary for these items since they were not allowed in computing pre-adjustment AMTI.*

Line 4e.—Do not include any adjustment related to the E&P effects of any charitable contribution (section 56(g)(4)(J)).

Line 5—Other Adjustments

Line 5a. Intangible drilling costs.—Except as noted below, in figuring ACE, determine the deduction for intangible drilling costs (section 263(c)) under section 312(n)(2)(A).

Subtract the ACE expense (if any) from the AMT expense (used to figure line 2p of Form 4626) and enter the result on line 5a. If the ACE expense exceeds the AMT amount, enter the result as a negative amount.

Exception. The above rule does not apply to amounts paid or incurred in a tax year that began after 1992 for any oil and gas well by corporations other than integrated oil companies (as defined in section 291(b)(4)). If this exception applies, do not enter an amount on line 5a.

Line 5b. Circulation expenditures.—

Note: *Do not make this adjustment for expenditures for which the corporation elected the optional 3-year writeoff under section 59(e) for the regular tax.*

When figuring ACE, section 173 does not apply to amounts paid or incurred in tax years that began after 1989. Therefore, for ACE, treat circulation expenditures using the case law that existed before section 173 was enacted.

Subtract the ACE expense (if any) from the regular tax expense (or for a personal holding company, from the AMT expense used to figure line 2d of Form 4626) and enter the result on line 5b. If the ACE expense exceeds the regular tax amount (or for a personal holding company, the AMT amount), enter the result as a negative amount.

Line 5c. Organizational expenditures.—When figuring ACE, the amortization provisions of section 248 do not apply to amounts paid or incurred in tax years that began after 1989. Therefore, for ACE, all organizational expenditures are charged to a capital account and are not taken into account until the corporation is sold or otherwise disposed of.

Enter on line 5c all amortization deductions for organizational expenditures paid or incurred in tax years that began after 1989 that were taken for the regular tax during the tax year.

Line 5d. LIFO inventory adjustments.—The adjustments provided in section 312(n)(4) apply in figuring ACE. See Regulations section 1.56(g)-1(f)(3) for more details.

Line 5e. Installment sales.—For any installment sale in a tax year that began after 1989, the corporation generally cannot use the installment method to figure ACE. However, it may use the installment method for the applicable percentage (as determined under section 453A) of the gain from any installment sale to which section 453A(a)(1) applies.

Subtract the installment sale income reported for AMT from the ACE income from the sales and enter the result on line 5e. If the ACE income from the sales is less than the AMT amount, enter the difference as a negative amount.

Line 6. Disallowance of loss on exchange of debt pools.—When figuring ACE, the corporation may not recognize any loss on the exchange of any pool of debt obligations for another pool of debt obligations having substantially the same effective interest rates and maturities. Add back (i.e., enter as a positive adjustment) on line 6 any such loss to the extent recognized for the regular tax.

Line 7. Acquisition expenses of life insurance companies for qualified foreign contracts.—For ACE, acquisition expenses of life insurance companies for qualified foreign contracts (as defined in section 807(e)(4) without regard to the treatment of reinsurance contract rules of section 848(e)(5)) must be capitalized and amortized by applying the treatment generally required under generally accepted accounting principles (and as if this rule applied to such contracts for all applicable tax years).

Subtract the ACE expense (if any) from the regular tax expense and enter the result on line 7. If the ACE expense exceeds the regular tax expense, enter the result as a negative amount.

Line 8. Depletion.—When figuring ACE, the allowance for depletion for any property placed in service in a tax year that began after 1989 generally must be determined under the cost depletion method of section 611.

Subtract the ACE expense (if any) from the AMT expense (used to figure line 2m of Form 4626) and enter the result on line 8 of the worksheet. If the ACE expense exceeds the AMT amount, enter the result as a negative amount.

Exception. Independent oil and gas producers and royalty owners that figured their regular tax depletion deduction under section 613A(c) do not have an adjustment for ACE purposes.

Line 9. Basis adjustments in determining gain or loss from sale or exchange of pre-1994 property.—If, during the tax year, the corporation disposed of property for which it is making (or has previously made) any of the ACE adjustments described in section 56(g), refigure the property's adjusted basis for ACE and then refigure the property's gain or loss.

Enter the difference between the AMT gain or loss (used to figure line 2e of Form 4626) and the ACE gain or loss. Enter the difference as a negative amount if:

- The ACE gain is less than the AMT gain, OR
- The ACE loss is more than the AMT loss, OR
- The corporation had an ACE loss and an AMT gain.

Adjusted Current Earnings Worksheet

► See ACE Worksheet Instructions (which begin on page 6).

1	Pre-adjustment AMTI. Enter the amount from line 3 of Form 4626			**1**	
2	ACE depreciation adjustment:				
a	AMT depreciation		**2a**		
b	ACE depreciation:				
	(1) Post-1993 property	**2b(1)**			
	(2) Post-1989, pre-1994 property	**2b(2)**			
	(3) Pre-1990 MACRS property	**2b(3)**			
	(4) Pre-1990 original ACRS property	**2b(4)**			
	(5) Property described in sections 168(f)(1) through (4)	**2b(5)**			
	(6) Other property	**2b(6)**			
	(7) Total ACE depreciation. Add lines 2b(1) through 2b(6)		**2b(7)**		
c	ACE depreciation adjustment. Subtract line 2b(7) from line 2a			**2c**	
3	Inclusion in ACE of items included in earnings and profits (E&P):				
a	Tax-exempt interest income		**3a**		
b	Death benefits from life insurance contracts		**3b**		
c	All other distributions from life insurance contracts (including surrenders)		**3c**		
d	Inside buildup of undistributed income in life insurance contracts		**3d**		
e	Other items (see Regulations sections 1.56(g)-1(c)(6)(iii) through (ix) for a partial list)		**3e**		
f	Total increase to ACE from inclusion in ACE of items included in E&P. Add lines 3a through 3e			**3f**	
4	Disallowance of items not deductible from E&P:				
a	Certain dividends received		**4a**		
b	Dividends paid on certain preferred stock of public utilities that are deductible under section 247		**4b**		
c	Dividends paid to an ESOP that are deductible under section 404(k)		**4c**		
d	Nonpatronage dividends that are paid and deductible under section 1382(c)		**4d**		
e	Other items (see Regulations sections 1.56(g)-1(d)(3)(i) and (ii) for a partial list)		**4e**		
f	Total increase to ACE because of disallowance of items not deductible from E&P. Add lines 4a through 4e			**4f**	
5	Other adjustments based on rules for figuring E&P:				
a	Intangible drilling costs		**5a**		
b	Circulation expenditures		**5b**		
c	Organizational expenditures		**5c**		
d	LIFO inventory adjustments		**5d**		
e	Installment sales		**5e**		
f	Total other E&P adjustments. Combine lines 5a through 5e			**5f**	
6	Disallowance of loss on exchange of debt pools			**6**	
7	Acquisition expenses of life insurance companies for qualified foreign contracts			**7**	
8	Depletion			**8**	
9	Basis adjustments in determining gain or loss from sale or exchange of pre-1994 property			**9**	
10	**Adjusted current earnings.** Combine lines 1, 2c, 3f, 4f, and 5f through 9. Enter the result here and on line 4a of Form 4626			**10**	

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