

# 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** . . . . . 22 hrs.

**Learning about the law or the form** . . . . . 7 hrs., 3 min.

**Preparing and sending the form to IRS** . . . . . 7 hrs., 43 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the IRS and the Office of Management and Budget at the addresses listed in the instructions of the tax return with which this form is filed.

### Items You Should Note

Section 11813 of the Revenue Reconciliation Act of 1990 eliminated expired or obsolete investment tax credit provisions, generally effective for property placed in service after December 31, 1990. Code section references in these instructions do **not** reflect changes made by this "deadwood" provision.

Generally, you cannot claim an investment credit for property placed in service after December 31, 1985. However, you may claim a current year investment credit for "section 38 property" (as defined in section 48(a)) that is:

- Transition property (see Specific Instructions for Schedule A) placed in service before January 1, 1991;
  - Progress expenditure property that is transition property when placed in service (see Specific Instructions for Schedule A);
- Note:** Except for qualified timber property and properties listed in paragraphs (8) and (12) of section 204(a) of the Tax Reform Act of 1986, the regular percentage investment credit expires for property placed in service after December 31, 1990.
- Qualified timber property (see Specific Instructions for Schedule A);
  - Certain building rehabilitation property (see Specific Instructions for Part I, lines 2 and 3); or
  - Business energy property (see Specific Instructions for Schedule B).

The business energy investment credit for solar energy property and geothermal property has been extended through

December 31, 1991. The business energy credit for ocean thermal property expired for property placed in service after September 30, 1990.

Energy property must meet the same requirements as regular investment credit property, except that the provisions of sections 48(a)(1) and 48(a)(3) do not apply. The property must be acquired new. See sections 46(b)(2) and 48(l)(1) through (17) for details.

See section 48(l)(17) for special rules on public utility property, and section 48(l)(11) for special rules on property financed by industrial development bonds.

### General Instructions

**A. Purpose of Form.**—Use Form 3468 to claim a regular, rehabilitation, or business energy investment credit. If you are a partner of 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.

**Caution:** 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 had claimed a credit; or
- you returned leased property (on which you had taken a credit) to the lessor before the end of the recapture period or useful life.

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

For more details on investment credit, see the regulations under sections 46 and 48.

**B. Who Must File Form 3800, General Business Credit.**—The general business credit consists of the investment credit, jobs credit, credit for alcohol used as fuel, credit for increasing research activities, low-income housing credit and disabled access credit. If you have:

- (1) more than one of these credits for 1990, (2) a carryback or a carryforward of any of these credits, or (3) an investment credit for a passive activity, do not complete Part II. Instead, attach the appropriate credit forms and summarize them on 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 additional general business credit under section 38(c)(2).

**C. How To Figure the Credit.**—For recovery property (i.e., property that is depreciated under the Accelerated Cost Recovery System (ACRS)), the class of property determines the percentage qualifying for investment credit. For nonrecovery property (i.e., property that is not depreciated under ACRS), the useful life of the property for investment credit must be the same as the useful life for depreciation.

See section 48 for special rules on movie and television films, sound recordings, and sale-leasebacks.

**D. Investment Credit Property.**—You may claim an investment credit for property placed in service only if it qualifies as one of the items listed above under "Items You Should 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 U.S.;
- (2) 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;
- (3) Used by governmental units and foreign persons and entities;
- (4) Used for lodging or for furnishing the lodging (see section 48(a)(3) for exceptions, i.e., hotel or motel furnishings);
- (5) Amortized or depreciated under section 167(k), 184, or 188; or
- (6) Acquired or constructed with "excluded cost-sharing payments" from grants under any program listed in section 126(a) or by grants under the Energy Security Act.

**E. 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) and related regulations for rules on making this election. For limitations, see sections 46(e)(3) and 48(d)(6).

**F. 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. See sections 46(c)(8) and 465 for details. If there is an increase during a later year of this nonqualified nonrecourse financing, you may have to refigure the credit on Form 4255.

## 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:

- item A in Part I;
- columns (2) and (4) (and column (3) if applicable) for line 1 of Schedule A;
- the qualified investment on lines 2 and 3 of Part I;
- the qualified investment on line 3 of Schedule A; and
- columns (2), (3), and (5) for line 1, Schedule B (you should also inform the partners, shareholders, or beneficiaries how much of the column (5) amount to enter on lines 3 or 4 of Schedule B).

Attach the completed form 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.

### Part I—Current Year Investment Credit

**Item A.** Shipbuilders that make “qualified withdrawals” (described in section 46(g)(1)) from a capital construction fund for the acquisition, construction, or reconstruction of a qualified vessel are deemed to have made (at the time of the withdrawal) a qualified investment of 50% of the “applicable percentage” (specified in section 46(c)(2)) of the qualified withdrawal. If you are claiming credit under section 46(g)(3), check the box in item A.

#### Lines 2 and 3—Rehabilitation

**Expenditures.**—You may take 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. The applicable percentage for qualified rehabilitation expenditures is 100%.

Decrease the depreciable basis by the allowed credit.

For filers placing property in service in 1990, the expenditures must be for either:

- (1) nonresidential real property.
- (2) residential rental property, 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:

- (1) \$5,000, or
- (2) Your adjusted basis in the building and its structural components, if this amount is more than \$5,000.

Figure your adjusted basis on the first day of the 24-month period or the first 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 on the applicable entry space under line 2 the qualified rehabilitation expenditures for transitional rehabilitation property and certain rehabilitation projects. See section 251(d) of the Tax Reform Act of 1986 for details on the transition rules and certain rehabilitation projects.

Enter on the applicable entry space under line 3 the qualified expenditures for any other 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 48(g) for details.

If you are claiming a credit for a certified historic structure on line 2c or 3b, 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 credit is a flow-through from a partnership, S corporation, estate, or trust, enter the identifying number of the flow-through entity in the space provided.

**Limitations for lines 2 and 3 of Part I, line 12 of Part II, and lines 1a through 2 of Schedule A.**—Mutual savings institutions, regulated investment companies, and real estate investment trusts are subject to special limitations for the amounts to be entered on these lines. See Regulations section 1.46-4.

**Line 4—Credit from Cooperative.**—Section 1381(a) cooperative organizations may claim the investment credit. If the cooperative cannot use any of the credit because of its tax liability limitation, the unused credit must be allocated to the patrons of the cooperative. The recapture provisions of section 47 apply as if the cooperative had kept the credit and not allocated it. Patrons should enter their unused regular investment credit from a cooperative on line 4.

### Part II—Current Year Investment Credit Tax Liability Limitation

Do not complete Part II (instead go to Form 3800) if item (1), (2), or (3) listed in General Instruction B, “When To File Form 3800, General Business Credit,” on page 1 applies.

**Line 8f.**—Corporations enter the nonconventional source fuel credit from Form 1120, Schedule J, line 4d. For individuals, the credit is included in the total for line 46 of Form 1040 (report only the portion of line 46 of Form 1040 that is the

nonconventional source fuel credit). Other filers enter the credit from the appropriate line of their returns.

**Line 11c—Other Filers.**—Enter the sum of line 9 and your alternative minimum tax from the alternative minimum tax form you file.

**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 enters only its apportioned share of the \$25,000.

A mutual savings institution, a regulated investment company, or a real estate investment trust should see the Specific Instructions for “Limitations for lines 2 and 3 of Part I, line 12 of Part II, and lines 1a through 2 of Schedule A” above.

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

**Carryback and Carryforward of Unused Credits.**—If you cannot use all of the credit because line 6 is greater than line 13, you may carry the excess back 3 years and then forward 15 years. See General Instruction B on page 1.

### Schedule A

Generally, the regular investment credit is not allowed for property placed in service after December 31, 1985. However, you may claim regular investment credit for the current year for “section 38 property” (as defined in section 48(a)) that is:

(a) transition property, (b) progress expenditure property, or (c) qualified timber property.

**(a) Transition property.**—Generally, transition property that is placed in service before January 1, 1991, is eligible for the regular investment credit in this year if:

(1) the property has a class life of 20 years or more and was constructed, reconstructed, or acquired under a written contract that was binding on December 31, 1985;

(2) you began construction or reconstruction of property (that has a class life of 20 years or more) by December 31, 1985, and you incurred or committed the lesser of \$1,000,000 or 5% of the cost of such property;

(3) you began construction of an equipped building or “plant facility” (as defined in section 203(b)(4) of the Tax Reform Act of 1986) that has a class life of 20 years or more by December 31, 1985, under a written specific plan and you have incurred or committed more than one-half of the cost of such property by such date;

(4) the property is part of specific projects listed in section 204(a) of the Tax Reform Act of 1986.

Transition property (except for the properties described in paragraphs (8) and (12) of section 204(a) of the Tax Reform Act of 1986) must be placed in service before January 1, 1991.

**Note:** The term “class life” (as used above) is defined in section 203(b)(2)(C) of the Tax Reform Act of 1986.

You must reduce the basis for depreciation by the full amount of the credit claimed.

See section 49(e) for additional information.

#### **(b) Progress Expenditure**

**Property.**—Property for which qualified progress expenditures (QPEs) were claimed in prior years must be placed in service before January 1, 1991. Investment credit is not allowed for QPEs in the year property is placed in service or for the year in which recapture is required for the property.

The allowable credit for the year the property is placed in service is based on the entire qualified investment in the property reduced by the QPEs included as qualified investment in earlier tax years.

If the property is not placed in service before January 1, 1991, all post-1985 QPEs must be recaptured. See section 46(d) and related regulations for more information.

You must reduce the depreciable basis of progress expenditure property by the full amount of the credit claimed, even if you made a section 48(q)(4) election in a prior year. See section 49(d) for additional information.

**(c) Qualified Timber Property.**—Regular investment credit may be claimed for the portion of the basis of “qualified timber property” that qualifies for amortization under section 194. You may not claim regular investment credit for the portion of such amortizable basis attributable to the capitalization of depreciation or cost recovery on property that already qualifies for the investment credit.

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. However, in figuring the amount qualifying for investment credit, you cannot include depreciation on equipment that itself qualifies for investment credit.

You cannot claim more than \$10,000 (or \$5,000 in the case of a married person filing a separate return) of investment on line 3, Schedule A. For more information, see Regulations sections 1.194-2 and 1.48-1(p).

For timber property you must reduce the amortizable basis by one-half of the credit taken.

#### **Lines 1a through 1d—Recovery**

**Property.**—Enter the basis of recovery property in column (2). This is generally the cost of the property reduced by any personal-use factor and by any portion that was expensed under section 179. It includes all items properly included in the depreciable basis, such as installation and freight costs. *Recovery property* is tangible personal property used in a trade or business or held for the production of income, and depreciated under the Accelerated Cost Recovery System (ACRS).

#### **Lines 1e through 1h—Nonrecovery**

**Property.**—Nonrecovery property includes:

- property you elect to depreciate using a method not expressed in terms of years;
- property you elect to amortize (e.g., leasehold improvements);
- property transferred or acquired merely to bring the property under ACRS;
- property acquired in certain nonrecognition transactions;
- certain property used outside the U.S.;
- public utility property if you do not use the normalization method of accounting.

Enter the amortizable basis in forestation and reforestation expenditures on line 3 of Schedule A.

See section 46(c)(5) for rules for certain pollution control facilities.

#### **Lines 1c, 1d, 1g, and 1h—Used Property**

**Dollar Limitation.**—In general, you may not take into account more than \$150,000 of the cost of used property in any one year. This does not include the basis of any property traded in unless the trade-in caused the recapture of all or part of an investment credit allowed earlier or a reduction in an investment credit carryback or carryforward. Determine the \$150,000 amount before applying the percentages based on the class of property or useful life. Enter the cost (subject to the dollar limitation) of used property placed in service during the year. Property inherited, received as a gift, or acquired from certain related persons does not qualify for the investment credit.

If a husband and wife file separate returns, each may claim up to \$75,000. If one of them has *no* qualifying used property, the other may claim up to \$150,000.

The \$150,000 limitation applies to a partnership, S corporation, estate, or trust. The \$150,000 must be divided among the estate or trust and its beneficiaries based on the income of the estate or trust allocable to each beneficiary. A \$150,000 limitation also applies to each partner, shareholder, or beneficiary. Controlled corporate groups must apportion the limitation among all its members. See section 48(c) and related regulations.

**Lines 1b, 1d, 1f, and 1h—Other.**—Use these lines to claim a credit for any transition property with a class life of fewer than 20 years. Enter the applicable percentage for the property in column (3). **Line 2.**—You must reduce the regular 10% credit for transition property by 35%, thus making the credit for this type of property 6.5%. If you use **all** of the transition credit in the current year, then none of the reduction may be carried to any other year.

If you are able to use **only a portion** of the reduced credit in the current year because line 13, Part II is smaller than line 6, Part I, you may carry forward to your next tax year the unused portion of the reduced credit and a corresponding portion of the 35% reduction.

If, for example, you are able to use half of the reduced credit in 1990, you may carry forward the other half of the reduced credit and half of the reduction.

If you are **not** able to use **any** of the reduced credit because of the tax liability limitations, you may carry forward to your next tax year the entire credit (both the reduced credit and the reduction).

### **Schedule B**

**Line 1—Column (2).**—Use the code letters from the following list to indicate the kind of property for which you are claiming a credit. If you enter more than one kind of property on a line, enter the code letter for each kind of property in column (2) and the code letter and dollar amount of each kind of property in the right hand margin.

The code letters are:

- a. Solar energy property
  - b. Geothermal property
  - c. Ocean thermal property
- See sections 48(l)(4) and 48(l)(3)(A)(viii) and (ix) for definitions and special rules that apply to these kinds of property.

**Lines 3a, 3b, and 3c.**—The business energy investment credit for ocean thermal property expired for property placed in service after September 30, 1990. If property was under construction before October 1, 1990, see section 48(m) for transitional rules.

**Lines 4a and 4b.**—You must reduce the basis for depreciation by the full amount of the credit claimed.

If the installed capacity of hydroelectric generating property is more than 25 megawatts, the energy credit on line 4b is allowed for only part of the qualified investment. See section 48(l)(13)(C).

In the margin to the left of line 4b, enter the megawatt capacity of the generator as shown on its nameplate.

You must reduce the 10% credit on line 4a and the 11% credit on line 4b by 35%, thus making the credit for this type of property 6.5% and 7.15%, respectively.

If you use **all** of the reduced credit in the current year, none of the reduction may be carried to any other year.

If you are able to use **only a portion** of the reduced credit in the current year because line 13, Part II is smaller than line 6, Part I, you may carry forward to your next tax year the unused portion of the reduced credit and a corresponding portion of the 35% reduction. If, for example, you are able to use half of the reduced credit in 1990, you may carry forward the other half of the reduced credit and half of the reduction.

If you are **not** able to use **any** of the reduced credit because of the tax liability limitations, you may carry forward to your next tax year the entire credit (both the reduced credit and the reduction).