

FORM **40** Alabama **2007**  
**Individual Income Tax Return**  
**RESIDENTS & PART-YEAR RESIDENTS**



For the year Jan. 1 - Dec. 31, 2007, or other tax year: Beginning: Ending: ●

Your social security number ● Spouse's SSN if joint return ●

Your first name ● Initial Last name ●

Spouse's first name ● Initial Last name ●

Present home address (number and street or P.O. Box number) ●

City, town or post office ● State ZIP code ●

**USE BLACK INK TO COMPLETE RETURN**

**Filing Status/ Exemptions**

- 1 ●  \$1,500 Single 3 ●  \$1,500 Married filing separate. Complete Spouse SSN \_\_\_\_\_
- 2 ●  \$3,000 Married filing joint 4 ●  \$3,000 Head of Family (with qualifying person).

**Income and Adjustments**

		A - Alabama tax withheld		B - Income	
5	Wages, salaries, tips, etc. (list each employer and address separately):	5a	● 00	5a	● 00
a	_____	5b	● 00	5b	● 00
b	_____	5c	● 00	5c	● 00
c	_____	5d	● 00	5d	● 00
d	_____				
6	Interest and dividend income (also attach Schedule B if over \$1,500) .....	6	●	00	
7	Other income (from page 2, Part I, line 9) .....	7	●	00	
8	<b>Total income.</b> Add amounts in the income column for line 5a through line 7 .....	8	●	00	
9	Total adjustments to income (from page 2, Part II, line 8) .....	9	●	00	
10	<b>Adjusted gross income.</b> Subtract line 9 from line 8 .....	10	●	00	

**Deductions**

You Must Attach page 2 of Federal Form 1040, Federal Form 1040A, Federal Form 1040NR, or page 1 of 1040EZ, if claiming a deduction on line 12.

		Box a or b MUST be checked	
11	Check box a, if you <b>itemize deductions</b> , and enter amount from Schedule A, line 26. Check box b, if you <b>do not</b> itemize deductions, and enter <b>standard deduction</b> (see instr.) ● <input type="checkbox"/> <b>a</b> Itemized Deductions ● <input type="checkbox"/> <b>b</b> Standard Deduction .....	11	● 00
12	Federal tax deduction (see instructions) .....	12	● 00
13	Personal exemption (from line 1, 2, 3, or 4) .....	13	● 00
14	Dependent exemption (from page 2, Part III, line 2) .....	14	● 00
15	<b>Total deductions.</b> Add lines 11, 12, 13, and 14 .....	15	● 00

**Tax**

16	<b>Taxable income.</b> Subtract line 15 from line 10 .....	16	● 00
17	<b>Income Tax due.</b> Enter amount from tax table or check if from ● <input type="checkbox"/> Form NOL-85A .....	17	● 00
18	Less <b>credits</b> from: ● <input type="checkbox"/> Schedule CR and/or ● <input type="checkbox"/> Schedule OC .....	18	● 00
19a	<b>Net tax due Alabama.</b> Subtract line 18 from line 17 .....	19a	● 00
b	Consumer Use Tax (use worksheet on page 10) .....	19b	● 00
20	<b>Alabama Election Campaign Fund.</b> You may make a voluntary contribution to the following:		
a	Alabama Democratic Party <input type="checkbox"/> \$1 <input type="checkbox"/> \$2 <input type="checkbox"/> none .....	20a	● 00
b	Alabama Republican Party <input type="checkbox"/> \$1 <input type="checkbox"/> \$2 <input type="checkbox"/> none .....	20b	● 00
21	<b>Total tax liability and voluntary contribution.</b> Add lines 19a, 19b, 20a, and 20b .....	21	● 00

**Payments**

22	<b>Alabama income tax withheld</b> (from Forms W-2, W-2G, and/or 1099) .....	22	● 00
23	Amount paid with extension (attach Form 4868A) .....	23	● 00
24	2007 estimated tax payments (see instructions on page 11) .....	24	● 00
25	<b>Total payments.</b> Add lines 22 through 24 .....	25	● 00

**AMOUNT YOU OWE**

26	If line 21 is larger than line 25, subtract line 25 from line 21, and enter <b>AMOUNT YOU OWE.</b> Place payment, along with Form 40V, loose in the mailing envelope. (FORM 40V MUST ACCOMPANY PAYMENT.)	26	● 00
27	Estimated tax penalty. Also include on line 26 (see instructions page 11) .....	27	● 00

**OVERPAID**

28	If line 25 is larger than line 21, subtract line 21 from line 25, and enter amount <b>OVERPAID</b> .....	28	● 00
29	Amount of line 28 to be applied to your <b>2008 estimated tax</b> .....	29	● 00

**Donation Check-offs**

30	<b>Total Donation Check-offs</b> from Schedule DC, line 2 .....	30	● 00
31	<b>Total.</b> Add line 29 and line 30 .....	31	● 00

**REFUND**

32	<b>REFUNDED TO YOU.</b> (CAUTION: You must sign this return on the reverse side.) Subtract line 31 from line 28. For Direct Deposit, check here ● <input type="checkbox"/> and complete Part V, Page 2 .....	32	● 00
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**WHERE TO FILE FORM 40**



If you are not making a payment, mail your return to:  
**Alabama Department of Revenue**  
**P. O. Box 154**  
**Montgomery, AL 36135-0001**

If you are making a payment, mail your return, Form 40V, and payment to:  
**Alabama Department of Revenue**  
**P. O. Box 2401**  
**Montgomery, AL 36140-0001**

Mail **only** your 2007 Form 40 to one of the above addresses. Prior year returns, amended returns, and all other correspondence should be mailed to Alabama Department of Revenue, P.O. Box 327464, Montgomery, AL 36132-7464.



PART I

Other Income

(See page 12)

Table with 9 rows for Other Income. Columns include line number, description, and amount. Total other income is 00.

PART II

Adjustments to Income

(See page 15)

Table with 8 rows for Adjustments to Income. Columns include line number, description, and amount. Total adjustments is 00.

PART III

Dependents

Do not include yourself or your spouse

(See page 9)

Table for Dependents with 2 rows. Columns include dependent name, social security number, relationship, and support status. Total number of dependents is 0.

PART IV

General Information

All Taxpayers Must Complete This Section.

Form for General Information including Residency, Alabama tax return status, employer information, and income reporting.

PART V

Direct Deposit

Form for Direct Deposit of refund, including routing and account numbers.

Sign Here In Black Ink

Keep a copy of this return for your records.

Signature section for taxpayer and preparer, including declaration of accuracy.

Paid Preparer's Use Only

Form for Paid Preparer's Use Only, including firm name, address, and contact information.

**SCHEDULES**  
**A, B, CR, & DC**  
**(FORM 40)**



ALABAMA DEPARTMENT OF REVENUE  
**Schedule A—Itemized Deductions**

**2007**

(Schedules B, CR and DC are on back page)

ATTACH TO FORM 40 — SEE INSTRUCTIONS FOR SCHEDULE A

Name(s) as shown on Form 40

Your social security number

The itemized deductions you may claim for the year 2007 are similar to the itemized deductions claimed on your Federal return, however, the amounts may differ. Please see instructions before completing this schedule. **PART-YEAR RESIDENTS:** A resident of Alabama for only a part of the year should list below only those deductions actually paid while a resident of Alabama.

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26
<b>Medical and Dental Expenses</b> (See page 18)	<b>CAUTION:</b> Do not include expenses reimbursed or paid by others.																										
	1 Medical and dental expenses.....	1		00																							
	2 Enter amount from Form 40, line 10.....	2		00																							
	3 Multiply the amount on line 2 by 4% (.04). Enter the result.....	3		00																							
4 Subtract line 3 from line 1. Enter the result. If zero or less, enter -0-.....	4				●																						00
<b>Taxes You Paid</b> (See page 18)	5 Real estate taxes.....	5		00																							
	6 FICA Tax (Social Security and Medicare) and Federal Self-Employment Tax.....	6		00																							
	7 Railroad Retirement (Tier 1 only).....	7		00																							
	8 Other taxes. (List — include personal property taxes.) ▶	8		00																							
9 Add the amounts on lines 5 through 8. Enter the total here.....	9				●																						00
<b>Interest You Paid</b> (See page 19)	<b>NOTE:</b> Personal interest is not deductible.																										
	10a Home mortgage interest and points reported to you on Federal Form 1098.....	10a		00																							
	b Home mortgage interest not reported to you on Federal Form 1098. (If paid to an individual, show that person's name and address.) ▶	10b		00																							
	11 Points not reported to you on Form 1098.....	11		00																							
12 Investment interest. (Attach Form 4952A.).....	12		00																								
13 Add the amounts on lines 10a through 12. Enter the total here.....	13				●																						00
<b>Gifts to Charity</b> (See page 19)	<b>CAUTION:</b> If you made a charitable contribution and received a benefit in return, see page 19.																										
	14 Contributions by cash or check.....	14		00																							
	15 Other than cash or check. (You <b>MUST</b> attach Federal Form 8283 if over \$500.).....	15		00																							
	16 Carryover from prior year.....	16		00																							
17 Add the amounts on lines 14 through 16. Enter the total here.....	17				●																						00
<b>Casualty and Theft Loss</b> (Attach Form 4684)	18a Enter the amount from Federal Form 4684, line 16 (See page 20).....	18a		00																							
	b Enter 10% of your Adjusted Gross Income (Form 40, line 10).....	18b		00																							
	c Subtract line 18b from line 18a. If zero or less, enter -0-.....	18c				●																					00
<b>Job Expenses and Most Other Miscellaneous Deductions</b> (See page 20)	19 Unreimbursed employee expenses — job travel, union dues, job education, etc. (You <b>MUST</b> attach Federal Form 2106 if required. See instructions.) ▶	19		00																							
	20 Other expenses (investment, tax preparation, safe deposit box, etc.). List type and amount. ▶	20		00																							
	21 Add the amounts on lines 19 and 20. Enter the total.....	21		00																							
	22 Multiply the amount on Form 40, line 10 by 2% (.02). Enter the result here.....	22		00																							
23 Subtract line 22 from line 21. Enter the result. If zero or less, enter -0-.....	23				●																						00
<b>Other Miscellaneous Deductions</b>	24 Other (from list on page 21 of instructions). List type and amount. ▶	24				●																					
																											00
<b>Qualified Long-Term Care Ins. Premiums</b>	<b>CAUTION:</b> Do not include medical premiums.																										
	25 Enter amount here.....	25				●																					00
<b>Total Itemized Deductions</b>	26 Add the amounts on lines 4, 9, 13, 17, 18c, 23, 24, and 25. Enter the total here. Then enter on Form 40, page 1, line 11.....	26				●																					00



Name(s) as shown on Form 40 (Do not enter name and social security number if shown on other side)

Your social security number

**SCHEDULE B – Interest And Dividend Income**

If you received more than \$1500 of interest and dividend income, you must complete Schedule B. See instructions on page 21.

List Payers and Amounts		A Exempt Interest		B Taxable Interest and Dividends	
1 I N T E R E S T			00		00
			00		00
			00		00
			00		00
		1	00	1	00
			00		00
			00		00
			00		00
2 D I V I D E N D S					00
					00
					00
					00
				2	00
					00
					00
					00
3	<b>TOTAL TAXABLE INTEREST AND DIVIDENDS</b> Enter here and on Form 40, page 1, line 6			3	00

**SCHEDULE CR – Credit For Taxes Paid To Other States**

See instructions on page 21.

**PLEASE NOTE:** You may need to fill out the worksheet on page 22 before completing this schedule. This credit will **NOT** be allowed unless you file a nonresident income tax return with the other state **and attach** a copy of that 2007 return to your Alabama return.

1	2007 taxable income as shown on the _____ state return. _____ <small>(name of state)</small>	1	00	If more than one "other" state use Schedule CR worksheet. If using the worksheet, line 5 (below) will equal worksheet Part 5, line 21.
2	Tax due the other state using Alabama tax rates. _____	2	00	
3	Tax due the other state as shown on that state's return or Form W-2G. _____	3	00	
4	Tax due Alabama from Form 40, page 1, line 17. _____	4	00	
5	<b>CREDIT ALLOWABLE.</b> Enter the amount from line 2, 3, 4, or the amount from the worksheet on page 22 of the booklet, whichever is smallest. If you have no other credits, enter amount from line 5 to Form 40, page 1, line 18. If you have other credits, enter the amount from line 5 to Schedule OC, Part A, line 1, and complete. _____	5	00	

**SCHEDULE DC – Donation Check-Offs**

1 You may donate all or part of your overpayment. (Enter the amount in the appropriate boxes.)

a	Senior Services Trust Fund	•	00	i	Mental Health		00
b	Alabama Arts Development Fund	•	00	j	Neighbors Helping Neighbors		00
c	Alabama Nongame Wildlife Fund	•	00	k	Alabama Breast & Cervical Cancer Program		00
d	Child Abuse Trust Fund	•	00	l	Alabama 4-H Club		00
e	Alabama Veterans Program	•	00	m	Alabama Organ Center Donor Awareness Fund		00
f	Alabama Indian Children's Scholarship Fund	•	00	n	Alabama National Guard Foundation Incorporated		00
g	Penny Trust Fund	•	00	o	Cancer Research Institute		00
h	Foster Care Trust Fund	•	00	p	Alabama Alternative Fuels Fund		00

2 **Total Donations.** Add lines 1a, b, c, d, e, f, g, h, i, j, k, l, m, n, o, and p. Enter here and on Form 40, page 1, line 30



**SCHEDULE E**  
**(FORM 40)**



**Supplemental Income and Loss 2007**

(From Rental Real Estate, Royalties, Partnerships, S Corporations, Estates, Trusts, REMICs, etc.)

▶ ATTACH TO FORM 40. ▶ SEE INSTRUCTIONS FOR SCHEDULE E (FORM 40).

Name(s) shown on return

Your social security number

**PART I** **Income or Loss From Rental Real Estate and Royalties**  
**Note:** Report income and expenses from your business of renting personal property on Schedule C or C-EZ.

<b>1</b> Show the kind and location of each <b>Rental Real Estate Property</b> :	<b>2</b> For each rental real estate property listed on line 1, did you or your family use it during the tax year for personal purposes for more than the greater of: • 14 days, or • 10% of the total days rented at fair rental value?	<b>A</b>	<b>Yes</b>	<b>No</b>
		<b>B</b>		
		<b>C</b>		

Income:	Properties						Totals	
		A	B	C			(Add Columns A, B, and C)	
<b>3</b> Rents received	<b>3</b>	00	00	00	<b>3</b>			00
<b>4</b> Royalties received	<b>4</b>	00	00	00	<b>4</b>			00
<b>Expenses:</b>								
<b>5</b> Advertising	<b>5</b>	00	00	00				
<b>6</b> Auto and travel	<b>6</b>	00	00	00				
<b>7</b> Cleaning and maintenance	<b>7</b>	00	00	00				
<b>8</b> Commissions	<b>8</b>	00	00	00				
<b>9</b> Insurance	<b>9</b>	00	00	00				
<b>10</b> Legal and other professional fees	<b>10</b>	00	00	00				
<b>11</b> Management fees	<b>11</b>	00	00	00				
<b>12</b> Mortgage interest	<b>12</b>	00	00	00	<b>12</b>			00
<b>13</b> Other interest	<b>13</b>	00	00	00				
<b>14</b> Repairs	<b>14</b>	00	00	00				
<b>15</b> Supplies	<b>15</b>	00	00	00				
<b>16</b> Taxes	<b>16</b>	00	00	00				
<b>17</b> Utilities	<b>17</b>	00	00	00				
<b>18</b> Other (list) ▶	<b>18</b>	00	00	00				
		00	00	00				
		00	00	00				
		00	00	00				
		00	00	00				
<b>19</b> Add lines 5 through 18	<b>19</b>	00	00	00	<b>19</b>			00
<b>20</b> Depreciation expense or depletion	<b>20</b>	00	00	00	<b>20</b>			00
<b>21</b> Total expenses. Add lines 19 and 20	<b>21</b>	00	00	00				
<b>22</b> Income or (loss). Subtract line 21 from line 3 (rents) or line 4 (royalties)	<b>22</b>	00	00	00				
<b>23</b> Total Real Estate and Royalty income or (loss). Add columns A, B, and C from line 22 and enter the result here	<b>23</b>							00

<b>PART II</b> <b>Income from Partnerships, S Corporations, Estates and Trusts</b>	(h) <b>Name and Address</b>	Check One			(i) <b>Employer Identification Number</b>	(j) <b>Amount</b>
		Partnership	Estate or Trust	S Corporation		
						00
						00
						00
						00
<b>24 TOTAL INCOME FROM PARTNERSHIPS, S CORPORATIONS, ESTATES, AND TRUSTS.</b> Add the amounts in column (j). Enter the total here and include on line 25 below.					<b>24</b>	00
<b>25 TOTAL INCOME OR (LOSS).</b> Combine lines 23 and 24. Enter the total here and on Form 40, page 2, Part I, line 6.					<b>25</b>	00



SCHEDULE

OC

(FORM 40 OR 40NR)

ALABAMA DEPARTMENT OF REVENUE
Other Available Credits

ATTACH TO FORM 40 OR 40NR

2007

Name(s) as shown on Form 40 or 40NR

Your social security number

PART A - Credit For Taxes Paid To Other States

NOTE: CR Credits are NOT allowable for Nonresidents

1 CREDIT ALLOWABLE. Enter the amount from Schedule CR, line 5

1

PART B - Basic Skills Education Credit

Attach this schedule to your Alabama return along with a copy of your approved certification notice issued by the Alabama Department of Education. Enter your assigned Department of Education Certification Number

1 Name of employer/firm sponsoring the education program

2 Name of approved provider Location

3 Were all participants for whom you are claiming a tax credit continuously employed by you for at least 16 weeks? Yes No

4 If the answer to line 3 is yes, did employee(s) work at least 24 hours each week? Yes No

5 If the answer to lines 3 and 4 above is yes, enter the total expenses available for credit

(see instructions)

5

6 Total maximum credit available. Multiply line 5 by 20% (.20)

6

7 Tax due Alabama from Form 40, page 1, line 17, or Form 40NR, page 1, line 19a

7

8 CREDIT ALLOWABLE. Enter the amount from line 6 or 7, whichever is smaller

8

PART C - Rural Physician Credit

1 Name of hospital and community where you live and provide medical services

2 Tax due Alabama from Form 40, page 1, line 17, or Form 40NR, page 1, line 19a

2

3 Maximum Rural Physician Credit

3 \$5,000 00

4 CREDIT ALLOWABLE. Enter the amount from line 2 or 3, whichever is smaller

4

PART D - Coal Credit

1 CREDIT ALLOWABLE

1

PART E - Alabama Enterprise Zone Act Credit

1 Enter amount from Schedule EZK1, Part II, page 2, line 13, or Schedule EZ, Part IV, page 2, line 13

1

PART F - Capital Credit

You must attach Form K-RCC to your Alabama return.

1 Enter your Project Number assigned by the Alabama Department of Revenue

1

2 Name of project entity entitled to the Capital Credit

3 Enter tax due from Form 40, page 1, line 17, or Form 40NR, page 1, line 19a

3

4 Less credits:

a. CR Credit. Enter amount from Schedule OC, Part A, line 1

4a

b. Basic Skills Education Credit. Enter amount from Schedule OC, Part B, line 8

4b

c. Rural Physician Credit. Enter amount from Schedule OC, Part C, line 4

4c

d. Coal Credit. Enter amount from Schedule OC, Part D, line 1

4d

e. Enterprise Zone Act Credit. Enter amount from Schedule OC, Part E, line 1

4e

5 Total all credits other than Capital Credit. Add 4a, 4b, 4c, 4d, and 4e

5

6 Tax due before Capital Credit. If line 3 is larger than line 5, subtract line 5 from line 3, and enter the difference on line 6. If line 3 is smaller than line 5, enter zero on line 6

6

7 Enter Capital Credit available from Schedule K-RCC, line 7

7

8 CAPITAL CREDIT ALLOWABLE. Enter the lesser of line 6 or 7

8

PART G - Summary

1 TOTAL CREDITS ALLOWABLE. Add Part A, line 1, Part B, line 8, Part C, line 4, Part D, line 1, Part E, line 1 and Part F, line 8. Enter the total here and on Form 40, page 1, line 18 for residents or Form 40NR, page 1, line 19b for nonresidents, and check the appropriate box(es)

1



**Schedule CR Worksheet**

Name(s) as shown on Form 40

Your social security number

Complete one part for each state that you are claiming credit. If there is not enough space, additional forms may be completed as needed.

<b>PART 1</b>				
1	2007 taxable income as shown on the _____ state return. . . . . <small>(name of state)</small>		00	
2	Tax due the other state using Alabama tax rates. . . . .		00	
3	Tax due the other state as shown on that state's return or Form W-2G. . . . .		00	
4	Tax due Alabama from Form 40, page 1, line 17. . . . .		00	
5 <b>CREDIT ALLOWABLE.</b> Enter the amount from line 2, 3, 4, or the amount from the worksheet on page 22 of the booklet, whichever is smallest. . . . .			5	00

<b>PART 2</b>				
6	2007 taxable income as shown on the _____ state return. . . . . <small>(name of state)</small>		00	
7	Tax due the other state using Alabama tax rates. . . . .		00	
8	Tax due the other state as shown on that state's return or Form W-2G. . . . .		00	
9	Tax due Alabama from Form 40, page 1, line 17 . . . . .		00	
10 <b>CREDIT ALLOWABLE.</b> Enter the amount from line 7, 8, 9, or the amount from the worksheet on page 22 of the booklet, whichever is smallest. . . . .			10	00

<b>PART 3</b>				
11	2007 taxable income as shown on the _____ state return. . . . . <small>(name of state)</small>		00	
12	Tax due the other state using Alabama tax rates. . . . .		00	
13	Tax due the other state as shown on that state's return or Form W-2G. . . . .		00	
14	Tax due Alabama from Form 40, page 1, line 17 . . . . .		00	
15 <b>CREDIT ALLOWABLE.</b> Enter the amount from line 12, 13, 14, or the amount from the worksheet on page 22 of the booklet, whichever is smallest. . . . .			15	00

<b>PART 4</b>				
16	2007 taxable income as shown on the _____ state return. . . . . <small>(name of state)</small>		00	
17	Tax due the other state using Alabama tax rates. . . . .		00	
18	Tax due the other state as shown on that state's return or Form W-2G. . . . .		00	
19	Tax due Alabama from Form 40, page 1, line 17 . . . . .		00	
20 <b>CREDIT ALLOWABLE.</b> Enter the amount from line 17, 18, 19, or the amount from the worksheet on page 22 of the booklet, whichever is smallest. . . . .			20	00

<b>PART 5 Total of Parts 1, 2, 3 and 4</b>				
21	Total credit – add lines 5, 10, 15 and 20 from Parts 1-4 – enter here. . . . .	21		00

If you have no other credits, enter amount from Part 5 line 21 on Schedule CR line 5 and Form 40, page 1, line 18. If you have other credits, enter the amount from Part 5 line 1 on Schedule OC, Part A, line 1.



ATTACH TO YOUR TAX RETURN

Name(s) as shown on your return	Identifying number
---------------------------------	--------------------

Type of return  Individual  Estate  Trust

1 Interest expense on investment debts paid or accrued in 2007. See instructions. ....	1		
2 Disallowed investment interest expense from 2006 Form 4952A, line 5. ....	2		
3 Total investment interest expense. Add lines 1 and 2. ....	3		
4 <b>Net investment income.</b> See instructions. ....	4		
5 <b>Disallowed investment interest expense to be carried forward to 2008.</b> Subtract line 4 from line 3. If zero or less, enter -0-. ....	5		
6 <b>Investment interest expense deduction.</b> Enter the smaller of line 3 or line 4. See instructions. .... ▶	6		

**GENERAL INSTRUCTIONS**

**PURPOSE OF FORM**

Interest expense paid by an individual, estate, or a trust on a loan that is allocable to property held for investment (defined below), may not be fully deductible in the current year. Form 4952A is used to figure the amount of investment interest expense deductible for the current year and the amount, if any, to carry forward to future years.

For more details, refer to Federal Publication 550, Investment Income and Expenses.

**CAUTION: The investment interest deduction for Alabama is computed as if the federal passive income limitation did not exist. Net capital gain from the disposition of investment property is included in investment income for Alabama purposes.**

**WHO MUST FILE**

If you are an individual, estate, or a trust, and you claim a deduction for investment interest expense, you must complete and attach Form 4952A to your tax return unless all of the following apply:

- Your only investment income was from interest or dividends;
- You have no other deductible expenses connected with the production of interest or dividends,
- Your investment interest expense is not more than your investment income; and
- You have no carryovers of investment interest expense from 2006.

**ALLOCATION OF INTEREST EXPENSE UNDER TEMPORARY FEDERAL REGULATIONS SECTION 1.163-8T**

If you paid or accrued interest on a loan and you used the proceeds of the loan for more than one purpose, you may have to allocate the interest paid. This is necessary because of the different rules that apply to investment interest, personal interest, trade or business interest, and home mortgage interest. See Federal Publication 550, Investment Income and Expenses.

**SPECIFIC INSTRUCTIONS**

**LINE 1 – INVESTMENT INTEREST EXPENSE**

Enter the investment interest paid or accrued during the tax year, regardless of when the indebtedness was incurred. Include interest paid or accrued on a loan (or part of a loan) that is allocable to property held for investment.

Be sure to include investment interest expense reported to you on Schedule K-1 from a partnership or an S corporation. Include amortization of bond premium on taxable bonds purchased after October 22, 1986, but before January 1, 1988, unless you elected to offset amortizable bond premium against the interest payments on the bond. A taxable bond is a bond on which the interest is includible in gross income.

Investment interest expense does not include the following:

- Home mortgage interest;
- Any interest expense that is capitalized, such as construction interest subject to Federal Section 263A.

**LINE 4 – NET INVESTMENT INCOME**

Net investment income is the excess, if any, of investment income over investment expenses. Include investment income and expenses reported to you on Schedule K-1 from a partnership or an S corporation. Also include net investment income from an estate or a trust.

**INVESTMENT INCOME**

Investment income includes income (not derived in the ordinary course of a trade or business) from interest, dividends (reduced by qualified dividends per federal instructions), annuities, royalties, and net gain from the disposition of property held for investment (including capital gain distributions from mutual funds).

**PROPERTY HELD FOR INVESTMENT**

Property held for investment includes property that produces investment income. Property held for investment also includes an interest in an activity of conducting a trade or business in which you did not materially participate.

**INVESTMENT EXPENSES**

Investment expenses are your allowed deductions, other than interest expense, directly connected with the production of investment income. For example, depreciation or depletion allowed on assets that produce investment income is an investment expense.

If you have investment expenses that are included as a miscellaneous itemized deduction on line 20 of Schedule A (Form 40), or line 25 of Schedule A (Form 40NR), you may not have to use all of the amount for purposes of line 4 of Form 4952A. The 2% adjusted gross income limitation on Schedule A may reduce the amount.

To figure the amount to use, compare the amount of the investment expenses included on line 20 of Schedule A (Form 40) with the total miscellaneous expenses on line 23 of Schedule A. If you filed Schedule A (Form 40NR), compare the amount on line 25 with the amount on line 28. The smaller of the investment expenses included on line 20 (or line 25) or the total of line 23 (or line 28) is the amount to use to figure the investment expenses from Schedule A for line 4.

Example. Assume line 20 of Schedule A (Form 40) includes investment expenses of \$3,000, and line 23 is \$1,300 after the 2% adjusted gross income limitation. Investment expenses of \$1,300 are used to figure the amount of investment expense for line 4. If investment expenses of \$800 were included on line 20 and line 23 was \$1,300, investment expenses of \$800 would be used.

If you have investment expenses reported on a form or schedule other than Schedule A, include those expenses when figuring investment expenses for line 4.

**LINE 6 – INVESTMENT INTEREST EXPENSE DEDUCTION**

This is the amount you may deduct as investment interest expense.

**INDIVIDUALS**

Enter the amount from line 6 on line 12 of Schedule A (Form 40 or 40NR), even if all or part of it is attributable to a partnership or an S corporation. However, if any portion of this amount is attributable to royalties, enter that portion of the interest expense on Schedule E (Form 40 or 40NR).

**ESTATES AND TRUSTS**

Enter the amount from line 6 on line 1, Part III, of Form 41.