Form **4255**
(Rev. Dec. 1970)
Department of the Treasury
Internal Revenue Service

Tax from Recomputing a Prior Year Investment Credit

(Computation of Recapture Tax)

► **Attach to your income tax return.**

(See General Instructions on the back for exceptions to the recapture tax.)

For the calendar year 19 ...., or other taxable year beginning ...., 19 ...., and ending ...., 19 ....

Name	Identifying number as shown on page 1 of your tax return

If there is an unused investment credit attributable to the disposed asset, compute the recapture tax on a separate schedule. (See example (c) on the back.) Do not use this form.

1.	Original Investment Credit						Recomputed Investment Credit					Recapture Tax
(1) Description of property (also state whether new or used)	(2) Date placed in service	(3) Cost or basis	(4) Estimated useful life	(5) Applicable percentage	(6) Qualified investment (column 3 x column 5)	(7) Original investment credit (column 6 x 7%)	(8) Date item ceased to be investment credit property	(9) Actual useful life	(10) Applicable percentage	(11) Qualified investment (column 3 x column 10)	(12) Recomputed investment credit (column 11 x 7%)	(13) Column 7 less column 12
(A)												
(B)												
(C)												
(D)												
(E)												
(F)												
(G)												

2. Total tax from recomputing a prior year investment credit—add lines 1(A) through 1(G) and, if applicable, combine this total tax (line 2) with any other recapture tax that has been computed on a separate schedule as indicated by example (c) on the back. Enter on the line provided on your tax return . . . .

Note: The recapture tax is an addition to your income tax for the year in which you dispose of investment credit property. Do not use the recapture tax to offset the current year's investment credit on Form 3468.

General Instructions

(References are to the Internal Revenue Code.)

Individuals, estates, trusts or corporations that dispose of investment credit property subject to recapture tax before the end of the useful life years category used in computing the credit, may use this form to compute the recapture tax if the maximum credit allowable has been allowed at the time of disposition.

Small business corporations, partnerships, and estates and trusts (which apportioned the investment between the estate or trust and the beneficiaries) must inform their shareholders, partners or beneficiaries of any early dispositions and furnish them with the information needed to compute the recapture tax. (See sections 1.47–4, 1.47–5, and 1.47–6 of the regulations.)

Exception: The recapture tax does not apply to the disposed property if, after April 18, 1969, such property ceases to be section 38 property due to: (a) fire, theft or other casualty, or (b) if the taxpayer replaces section 38 property within 6 months after the disposition with property that would be section 38 property but for section 49. In the case of (b) above, the recapture tax does not apply to the extent of the investment credit produced by the replacement property (determined as if such property were section 38 property). This replacement property must be similar or related in service or in use to the property being replaced. (See section 47 (a) (4) and (5).)

Specific Instructions

Column 2.—The date that section 38 property is placed in service is the first day of the month in which such property is placed in service. (See sections 1.46–3(d) and 1.47–1(c) of the regulations.)

Column 3.—Enter the cost or basis used to compute the investment in qualified property.

Column 5.—Enter the applicable percentage based on the estimated useful life shown in column 4.

Estimated Useful Life	Applicable Percentage
(a) 4 years or more but less than 6	33⅓
(b) 6 or more but less than 8	66⅔
(c) 8 or more	100

Column 7.—If the limitation did not apply (or if the limitation did apply but the full credit was taken by means of carrybacks and carryovers) in the year the investment credit was claimed, the amount of credit allowed will be 7% of column 6. For public utility property, use 3%.

Column 8.—Enter the date of the event which caused section 38 property to cease being section 38 property—e.g., the date of sale of such property. (See section 1.47–1(c) of the regulations.)

Column 10.—Enter the applicable percentage based on the number of years the property was actually held as shown in column 9.

Actual Useful Life	Applicable Percentage
(a) less than 4 years	0
(b) 4 or more but less than 6	33⅓
(c) 6 or more but less than 8	66⅔

Column 12.—For public utility property, enter 3% of column 11.

The following three examples show the investment credit recaptured (a) in full; (b) in part; and (c) when there is an unused investment credit at time of disposition.

(a) In full.—On January 1, 1966, D, an individual on a calendar year basis, placed into service qualified property with an 8-year life and a basis of $9,000. D deducted $630 ($9,000 x 100% x 7%) investment credit which he used in full to reduce his 1966 tax liability. On November 1, 1969, D sold this property. Since it was held less than 4 years, no investment credit is allowable. Accordingly, D must add $630 to his 1969 tax liability (the difference between the $630 credit allowed and the recomputed credit of zero).

(b) In part.—Assume the same facts in (a) above except D sold the property on November 1, 1970. D would add $420 to his 1970 tax liability as follows:

Col.	Original Investment Credit		Col.	Recomputed Investment Credit	
3	Cost or basis	$9,000	8	Cost or basis	$9,000
4	Estimated life	8 years	9	Actual life	4 years
5	Applicable percentage	100	10	Applicable percentage	33⅓
6	Qualified investment (col. 3 x col. 5)	$9,000	11	Qualified investment (col. 3 x col. 10)	$3,000
7	Original investment credit allowed (col. 6 x 7%)	$630	12	Recomputed investment credit (col. 11 x 7%)	$210
	TAX from recomputing a prior year investment credit (col. 7 less col. 12)				$420

(c) Unused investment credit at time of disposition.—E, an individual, on a calendar year basis, placed in service on January 1, 1968, $50,000 of qualified property having a useful life of 10 years. Although the tentative investment credit was $3,500 ($50,000 x 100% x 7%) the investment credit was limited to E's tax liability of $1,000. The excess $2,500 ($3,500 less $1,000) was an unused investment credit carryback. Of this $2,500, E used $600 in 1965, $500 in 1966, and $200 in 1967. The total credit taken by E through 1968, therefore, was $2,300. In 1969, E sold the property. Since the property was held less than 4 years, no investment credit is allowable. Accordingly, E must add $2,300 to his 1969 tax liability (the difference between the $2,300 credit taken and the recomputed credit of zero). E would attach a schedule to his tax return showing this computation and enter the recapture tax of $2,300 on the line provided on his tax return.

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