Form **4255**
(Rev. Dec. 1976)
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.

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

Do not use this form if (1) there is an unused investment credit attributable to the disposed asset or (2) the disposed asset is progress expenditure property. (See example (c) and instructions for line 2, column 13 on the back.) Compute the recapture tax for these items on separate schedules.

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 applicable rate)	(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 applicable rate)	(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 (A) through (G), column (13), and, if applicable, combine this total tax (line 2) with any other recapture tax that has been computed on separate schedule(s). Enter this total 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 the information needed to compute the recapture tax. (See sections 1.47–4, 1.47–5, and 1.47–6 of the regulations.)

Special disposition rules apply regarding certain motion picture films and video tapes (see section 47(a)(7)) and certain ships (see section 46(g)(4)).

See section 301(d)(8)(A) of the Tax Reduction Act of 1975 as amended by 803(c)(3) of the Tax Reform Act of 1976 regarding special rules where the recapture of 11% investment credit allowed for corporations is applicable.

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
Property acquired before August 16, 1971 unless ordered after March 31, 1971		Property acquired after August 15, 1971 or ordered and acquired after March 31, 1971		
At least	But less than	At least	But less than	
(a) 4 years	6 years	3 years	5 years	33⅓
(b) 6 years	8 years	5 years	7 years	66⅔
(c) 8 years or more		7 years or more		100
Progress expenditure property				
1975 expenditures 7 years or more				20
1976 expenditures 7 years or more				40

Column 7.—If the limitation did not apply (or if the limitation did apply but the full credit was taken by a carryback and carryover) in the year the investment credit was claimed, the amount of credit allowed will be the applicable rate times column 6. The applicable rate for section 38 property was 7% prior to January 22, 1975. (For public utility property ordered and acquired after March 31, 1971, or acquired after August 15, 1971 and before January 22, 1975 use 4% (otherwise use 3%).) For property (including public utility property) acquired or constructed after January 21, 1975 and placed in service during the taxable year, the rate is 10%. Corporate taxpayers (including public utilities) may qualify for an 11% rate after January 21, 1975 and before January 1, 1981. (See section 46(a)(2)(B)(i).)

In the case of property completed and placed into service after January 21, 1975 and before January 1, 1981, that portion of the property which was completed before January 22, 1975 qualifies for a 7% rate while the portion completed after January 21, 1975 and before January 1, 1981 qualifies for a 10% rate. (See section 46(a)(2)(C) and (D).)

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
At least	But less than	
—	3 years	0
3 years	5 years	33⅓
5 years	7 years	66⅔

Column 12.—The applicable rate to be used for column 12 is whichever rate was used initially for the property in column 7.

Line 2, column 13.—Progress expenditure property: Compute the recapture tax for early disposition of progress expenditure property on a separate schedule and include this amount with line 2 total and enter it on the line provided on your tax return. (See section 47(a)(3)(A) through (D) for recapture in respect to progress expenditure property.)

Unused credit.—If you have an unused credit for a year in which you also have an early disposition of an asset, in recomputing the recapture tax, you must take into account the current year's unused credit that may be carried back **solely** because of recomputation of the investment credit for the prior year. Attach a computation. (See section 1.47–1(d) of the regulations and Revenue Ruling 72–221, 1972–1, C.B. 15.)

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, 1972, 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 was used in full to reduce D's 1972 tax liability. On November 1, 1974, D sold this property. Since it was held less than 3 years, no investment credit is allowable. Accordingly, $630 must be added to D's 1974 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 March 1, 1975, D would add $420 to D's 1975 tax liability as follows:

Original Investment Credit

Col.		
3	Cost or basis	$9,000
4	Estimated Life	8 years
5	Applicable percentage	100
6	Qualified investment (col. 3 x col. 5)	$9,000
7	Original investment credit allowed (col. 6 x 7%)	$630

Recomputed Investment Credit

Col.		
3	Cost or basis	$9,000
9	Actual life	3 years
10	Applicable percentage	33½
11	Qualified investment (col. 3 x col. 10)	$3,000
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 December 1, 1974, $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 $300 in 1971, $400 in 1972, and $400 in 1973. The total credit taken by E through 1974, therefore, was $2,100. In 1975, E sold the property. Since the property was held less than 3 years, no investment credit is allowable. Accordingly, $2,100 must be added to E's 1975 tax liability (the difference between the $2,100 credit taken and the recomputed credit of zero). E would attach a schedule to the tax return showing this computation and enter the recapture tax of $2,100 on the line provided on the tax return.

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