

# Investment Interest Expense Deduction

▶ Attach to your tax return.

|                         |                    |
|-------------------------|--------------------|
| Name(s) shown on return | Identifying number |
|-------------------------|--------------------|

|  |          |  |
|--|----------|--|
| <b>Part I Total Investment Interest Expense</b>                                  |          |  |
| 1 Investment interest expense paid or accrued in 1998. See instructions. . . . . | <b>1</b> |  |
| 2 Disallowed investment interest expense from 1997 Form 4952, line 7 . . . . .   | <b>2</b> |  |
| <b>3 Total investment interest expense.</b> Add lines 1 and 2 . . . . .          | <b>3</b> |  |

|   |           |  |
|---|-----------|--|
| <b>Part II Net Investment Income</b>  |           |  |
| 4a Gross income from property held for investment (excluding any net gain from the disposition of property held for investment) . . . . .                               | <b>4a</b> |  |
| b Net gain from the disposition of property held for investment . . . . .   | <b>4b</b> |  |
| c Net capital gain from the disposition of property held for investment . . . . .   | <b>4c</b> |  |
| d Subtract line 4c from line 4b. If zero or less, enter -0- . . . . .   | <b>4d</b> |  |
| e Enter all or part of the amount on line 4c that you elect to include in investment income. Do not enter more than the amount on line 4b. See instructions . . . . . ▶ | <b>4e</b> |  |
| f Investment income. Add lines 4a, 4d, and 4e. See instructions . . . . .   | <b>4f</b> |  |
| 5 Investment expenses. See instructions . . . . .   | <b>5</b>  |  |
| <b>6 Net investment income.</b> Subtract line 5 from line 4f. If zero or less, enter -0- . . . . .  | <b>6</b>  |  |

|   |          |  |
|---|----------|--|
| <b>Part III Investment Interest Expense Deduction</b>   |          |  |
| 7 Disallowed investment interest expense to be carried forward to 1999. Subtract line 6 from line 3. If zero or less, enter -0- . . . . . | <b>7</b> |  |
| <b>8 Investment interest expense deduction.</b> Enter the smaller of line 3 or 6. See instructions. . . . .                               | <b>8</b> |  |

Section references are to the Internal Revenue Code unless otherwise noted.

## General Instructions

### Purpose of Form

Interest expense paid by an individual, estate, or trust on a loan allocable to property held for investment may not be fully deductible in the current year. Use Form 4952 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, see **Pub. 550**, Investment Income and Expenses.

### 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 4952 to your tax return, unless **all** of the following apply.

- Your investment interest expense is not more than your investment income from interest and ordinary dividends.
- You have no other deductible expenses connected with the production of interest or dividends.
- You have no disallowed investment interest expense from 1997.

## Allocation of Interest Expense Under Temporary Regulations Section 1.163-8T

If you paid or accrued interest on a loan and used the loan proceeds for more than one purpose, you may have to allocate the interest. This is necessary because different rules apply to investment interest, personal interest, trade or business interest, home mortgage interest, and passive activity interest. See **Pub. 535**, Business Expenses.

## Specific Instructions

### Part I—Total Investment Interest Expense

#### Line 1

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

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 any of the following:

- Home mortgage interest.
- Interest expense that is properly allocable to a passive activity. Generally, a passive activity is any business activity in which you **do not** materially participate and any rental activity. See the separate instructions for **Form 8582**, Passive Activity Loss Limitations, for more details.
- Any interest expense that is capitalized, such as construction interest subject to section 263A.
- Interest expense related to tax-exempt interest income under section 265.
- Interest expense, disallowed under section 264, on indebtedness with respect to life insurance, endowment, or annuity contracts issued after June 8, 1997, even if the proceeds were used to purchase any property held for investment.

**Property held for investment.** Property held for investment includes property that produces income (unless derived in the ordinary course of a trade or business) from interest, dividends, annuities, or royalties; and gains from the disposition of property that produces those types of income or is held for investment. However, it does not include an interest in a passive activity.

Property held for investment also includes an interest in an activity of conducting a trade or business in which you did not materially participate and that is not a passive activity. For example, a working interest in an oil or gas property that you held directly or through an entity that did not limit your liability is property held for investment if you did not materially participate in the activity.

**Part II—Net Investment Income**

**Line 4a**

Gross income from property held for investment to enter on line 4a includes income (unless derived in the ordinary course of a trade or business) from:

- Interest,
- Ordinary dividends (except Alaska Permanent Fund dividends),
- Annuities, and
- Royalties.

If you are filing **Form 8814**, Parents' Election To Report Child's Interest and Dividends, part or all of your child's income may be included on line 4a. See Form 8814 for details.

Also, include on line 4a net income from the following passive activities:

- Rental of substantially nondepreciable property,
- Equity-financed lending activities, and
- Acquisition of certain interests in a pass-through entity licensing intangible property.

See Regulations section 1.469-2(f)(10) for details.

Also include on line 4a (or 4b, if applicable) net passive income from a passive activity of a publicly traded partnership (as defined in section 469(k)(2)). See Notice 88-75, 1988-2 C.B. 386, for details.

Include investment income 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.

**Caution: Do not include on line 4a any net gain from the disposition of property held for investment. Instead, enter this amount on line 4b.**

**Line 4b**

Net gain from the disposition of property held for investment is the excess, if any, of total gains over total losses from the disposition of property held for investment. When figuring this amount, include capital gain distributions from mutual funds.

**Line 4c**

Net capital gain from the disposition of property held for investment is the excess, if any, of net long-term capital gain over net short-term capital loss from the disposition of property held for investment. Capital gain distributions from mutual funds are treated as long-term capital gains.

**Line 4e**

Net capital gain from the disposition of property held for investment is excluded from investment income. However, you may elect to include in investment income all or part of the net capital gain from the disposition of property held for investment. If you make the election, you also must reduce the amount of net capital gain eligible for capital gains tax rates by the amount of net capital gain you included in investment income. Therefore, you should consider the effect on your tax using the capital gains tax rates before making this election. You must make the election no later than the due date (including extensions) of your income tax return. Once made, the election may not be revoked without IRS consent.

To make the election, enter all or part of the amount on line 4c, but not more than the amount on line 4b, that you elect to include in investment income. Also enter this amount on line 21 of Schedule D (Form 1040), or on line 20 of Schedule D (Form 1041), if applicable.

**Line 5**

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.

Include investment expenses reported to you on Schedule K-1 from a partnership or an S corporation.

Investment expenses **do not** include any deductions taken into account in determining your income or loss from a passive activity.

If you have investment expenses that are included as a miscellaneous itemized deduction on Schedule A (Form 1040), line 22, you may not have to use the entire amount for purposes of Form 4952, line 5. The 2% adjusted gross income limitation on Schedule A (Form 1040), line 25, may reduce the amount you must include on Form 4952, line 5.

Include on Form 4952, line 5, only the **smaller** of:

- The investment expenses included on Schedule A (Form 1040), line 22, or
- The total on Schedule A (Form 1040), line 26.

**Example.** Assume Schedule A, line 22, includes investment expenses of \$3,000, and line 26 is \$1,300 after the 2% adjusted gross income limitation. Investment expenses from Schedule A of \$1,300 are used to figure the amount of investment expenses for line 5. If investment expenses of \$800 were included on line 22 and line 26 was \$1,300, investment expenses from Schedule A of \$800 would be used.

**Part III—Investment Interest Expense Deduction**

**Line 8**

You may deduct the amount on line 8 as investment interest expense.

**Individuals.** Generally, enter the amount from line 8 on Schedule A (Form 1040), line 13, 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 part of the interest expense on Schedule E (Form 1040). Also, if any portion is attributable to a trade or business in which you did not materially participate and that is not a passive activity, enter that part of the interest expense on the schedule where you report other expenses for that trade or business.

**Estates and trusts.** Enter the amount from line 8 on Form 1041, line 10.

**Form 6198.** If any portion of the deductible investment interest expense is attributable to an activity for which you are not at risk, you must also use **Form 6198**, At-Risk Limitations, to figure your deductible investment interest expense. Enter the portion attributable to the at-risk activity on Form 6198, line 4. Reduce Form 4952, line 8, by the amount entered on Form 6198. See Form 6198 and its instructions for more details, especially the instructions for line 4 of that form.

**Alternative minimum tax (AMT).** Deductible interest expense may be an adjustment for the AMT. For details, see **Form 6251**, Alternative Minimum Tax—Individuals, or Form 1041, Schedule I, for estates and trusts.

**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.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

|   |         |
|---|---------|
| <b>Recordkeeping</b> . . . . .  | 13 min. |
| <b>Learning about the law or the form</b> . . . . .                   | 16 min. |
| <b>Preparing the form</b> . . . . .                                   | 21 min. |
| <b>Copying, assembling, and sending the form to the IRS</b> . . . . . | 10 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.

