

Caution: DRAFT FORM

This is an advance proof copy of an IRS tax form. It is subject to change and OMB approval before it is officially released. You can check the scheduled release date on our web site (www.irs.gov).

If you have any comments on this draft form, you can submit them to us on our web site. Include the word DRAFT in your response. You may make comments anonymously, or you may include your name and e-mail address or phone number. We will be unable to respond to all comments due to the high volume we receive. However, we will carefully consider each suggestion. So that we can properly consider your comments, please send them to us within 30 days from the date the draft was posted.

Department of the Treasury
Internal Revenue Service

▶ See separate instructions.

▶ Attach to Form 1040 or 1041.

Name(s) shown on return

Identifying number

Part I 2006 Passive Activity Credits

Caution: If you have credits from a publicly traded partnership, see **Publicly Traded Partnerships (PTPs)** on page 15 of the instructions.

Credits From Rental Real Estate Activities With Active Participation (Other Than Rehabilitation Credits and Low-Income Housing Credits) (See Lines 1a through 1c on page 9.)

1a	Credits from Worksheet 1, column (a)	1a		
b	Prior year unallowed credits from Worksheet 1, column (b)	1b		
c	Add lines 1a and 1b	1c		

Rehabilitation Credits From Rental Real Estate Activities (See Lines 2a through 2c on page 9.)

2a	Credits from Worksheet 2, column (a)	2a		
b	Prior year unallowed credits from Worksheet 2, column (b)	2b		
c	Add lines 2a and 2b	2c		

Low-Income Housing Credits (See Lines 3a through 3c on page 9.)

3a	Credits from Worksheet 3, column (a)	3a		
b	Prior year unallowed credits from Worksheet 3, column (b)	3b		
c	Add lines 3a and 3b	3c		

All Other Passive Activity Credits (See Lines 4a through 4c on page 9.)

4a	Credits from Worksheet 4, column (a)	4a		
b	Prior year unallowed credits from Worksheet 4, column (b)	4b		
c	Add lines 4a and 4b	4c		

5 Add lines 1c, 2c, 3c, and 4c

6 Enter the tax attributable to net passive income (see page 9)

7 Subtract line 6 from line 5. If line 6 is more than or equal to line 5, enter -0- and see page 10

Note: If your filing status is married filing separately and you lived with your spouse at any time during the year, **do not** complete Part II, III, or IV. Instead, go to line 37.

Part II Special Allowance for Rental Real Estate Activities With Active Participation

Note: Complete this part only if you have an amount on line 1c. Otherwise, go to Part III.

8 Enter the smaller of line 1c or line 7

9 Enter \$150,000. If married filing separately, see page 10

10 Enter modified adjusted gross income, but not less than zero (see page 10). If line 10 is equal to or more than line 9, skip lines 11 through 15 and enter -0- on line 16

11 Subtract line 10 from line 9

12 Multiply line 11 by 50% (.50). **Do not** enter more than \$25,000. If married filing separately, see page 11

13a Enter the amount, if any, from line 10 of Form 8582

b Enter the amount, if any, from line 14 of Form 8582

c Add lines 13a and 13b

14 Subtract line 13c from line 12

15 Enter the tax attributable to the amount on line 14 (see page 11)

16 Enter the **smaller** of line 8 or line 15

Part III Special Allowance for Rehabilitation Credits From Rental Real Estate Activities

Note: Complete this part only if you have an amount on line 2c. Otherwise, go to Part IV.

17	Enter the amount from line 7				17		
18	Enter the amount from line 16				18		
19	Subtract line 18 from line 17. If zero, enter -0- here and on lines 30 and 36, and then go to Part V				19		
20	Enter the smaller of line 2c or line 19				20		
21	Enter \$250,000. If married filing separately, see page 12. (See page 12 to find out if you can skip lines 21 through 26.)			21			
22	Enter modified adjusted gross income, but not less than zero. (See instructions for line 10 on page 10.) If line 22 is equal to or more than line 21, skip lines 23 through 29 and enter -0- on line 30			22			
23	Subtract line 22 from line 21			23			
24	Multiply line 23 by 50% (.50). Do not enter more than \$25,000. If married filing separately, see page 12			24			
25a	Enter the amount, if any, from line 10 of Form 8582	25a					
b	Enter the amount, if any, from line 14 of Form 8582	25b					
c	Add lines 25a and 25b			25c			
26	Subtract line 25c from line 24			26			
27	Enter the tax attributable to the amount on line 26 (see page 12)			27			
28	Enter the amount, if any, from line 18			28			
29	Subtract line 28 from line 27				29		
30	Enter the smaller of line 20 or line 29				30		

Part IV Special Allowance for Low-Income Housing Credits

Note: Complete this part only if you have an amount on line 3c. Otherwise, go to Part V.

31	If you completed Part III, enter the amount from line 19. Otherwise, subtract line 16 from line 7				31		
32	Enter the amount from line 30				32		
33	Subtract line 32 from line 31. If zero, enter -0- here and on line 36				33		
34	Enter the smaller of line 3c or line 33				34		
35	Tax attributable to the remaining special allowance (see page 12)				35		
36	Enter the smaller of line 34 or line 35				36		

Part V Passive Activity Credit Allowed

37	Passive Activity Credit Allowed. Add lines 6, 16, 30, and 36. See page 12 to find out how to report the allowed credit on your tax return and how to allocate allowed and unallowed credits if you have more than one credit or credits from more than one activity. If you have any credits from a publicly traded partnership, see Publicly Traded Partnerships (PTPs) on page 15				37		
----	---	--	--	--	----	--	--

Part VI Election To Increase Basis of Credit Property

38	If you disposed of your entire interest in a passive activity or former passive activity in a fully taxable transaction, and you elect to increase your basis in credit property used in that activity by the unallowed credit that reduced your basis in the property, check this box. See page 16 <input type="checkbox"/>						
39	Name of passive activity disposed of ▶						
40	Description of the credit property for which the election is being made ▶						
41	Amount of unallowed credit that reduced your basis in the property ▶ \$						