

2006 Form 8835
Renewable Electricity, Refined Coal, and Indian Coal
Production Credit

- Purpose:** This is the first circulated draft of the 2006 Form 8835 and its instructions for your review and comments. Major changes made to the form are explained below.
- TPCC meeting:** No meeting is planned, but you may request one by contacting Sharon Dewsbury
- Prior Revisions** The 2005 Form 8835 and its instructions may be accessed at:
<http://publish.no.irs.gov/FORMS/PUBLIC/PDF/14954Y05.PDF>
- Other products** Circulations of draft tax forms and instructions are posted at
http://taxforms.web.irs.gov/draft_products.html . Draft publications are not available.
- Comments** Please email, fax, call, or mail any comments by May 22, 2006.

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Major changes to the 2006 Form 8835

Line reference changes were made throughout the form to reflect the changes below.

- **Section A.** The heading for *Part I* was deleted.
- **Section A.** The text on line 9 was revised to delete the references to codes.
- **Section A.** The text “*Current year credit*” was deleted from line 10. Reporting instructions were added to this line.
- **Section A.** New lines 11 and 12 were added to allocate portions of the credit to patrons and beneficiaries.
- **Section A.** Part II was deleted since the allowable credit is now figured on Form 3800.
- **Section B.** The text on line 23 was revised to delete the references to codes.
- **Section B.** Reporting instructions were added to line 24 for partnerships and S corporations.
- **Section B.** The text “*Current year credit*” was deleted from line 30. Reporting instructions were added to this line.
- **Section B.** New lines 31 and 32 were added to allocate portions of the credit to patrons and beneficiaries. The subsequent lines were renumbered accordingly.
- **Section B.** The possessions tax credit and nonconventional source fuel credit were deleted from renumbered lines 36c and 36d. The specified credits are now shown on lines 36c through 36e.
- **Section B.** The text on line 43 was revised to clarify the reporting instructions for cooperatives, estates, and trusts.
- **Page 3.** The *What’s New* section was revised to highlight current changes to the form.

**Renewable Electricity, Refined Coal,
and Indian Coal Production Credit**

▶ Attach to your tax return.

Name(s) shown on return

Identifying number

Section A. Electricity produced at qualified facilities placed in service prior to October 23, 2004

1	Kilowatt-hours produced and sold (see instructions)	×	0.019	1		
2	Phaseout adjustment (see instructions)	\$	×	2		
3	Credit before reduction. Subtract line 2 from line 1			3		
Reduction for government grants, subsidized financing, and other credits:						
4	Total of government grants, proceeds of tax-exempt government obligations, subsidized energy financing, and any other credits allowed for the project for this and all prior tax years			4		
5	Total of additions to the capital account for the project for this and all prior tax years			5		
6	Divide line 4 by line 5. Show as a decimal carried to at least 4 places			6	.	
7	Multiply line 3 by line 6			7		
8	Subtract line 7 from line 3			8		
9	Section A, renewable electricity production credit from partnerships, S corporations, cooperatives, estates, and trusts			9		
10	Add lines 8 and 9. Cooperatives, estates, and trusts, go to line 11; partnerships and S corporations, report this amount on Schedule K; all others, report this amount on Form 3800, line 1h			10		
11	Amount allocated to patrons of the cooperative or beneficiaries of the estate or trust (see instructions)			11		
12	Cooperatives, estates, and trusts. Subtract line 11 from line 10. Report the credit on Form 3800, line 1h			12		

Section B. Electricity and refined coal produced at qualified facilities placed in service after October 22, 2004, and Indian coal produced at facilities placed in service after August 8, 2005

Part I Current Year Credit

Electricity produced at qualified facilities using wind, closed-loop biomass not modified for co-fire purposes, geothermal, and solar						
1	Kilowatt-hours produced and sold (see instructions)	×	0.019	1		
Electricity produced at qualified facilities using open-loop biomass, small irrigation power, landfill gas, trash combustion, and hydropower						
2	Kilowatt-hours produced and sold (see instructions)	×	.009	2		
3	Add lines 1 and 2			3		
4	Phaseout adjustment (see instructions)	\$	×	4		
5	Subtract line 4 from line 3			5		
Refined coal produced at a qualified refined coal production facility						
6	Tons produced and sold (see instructions)	×	\$5.481	6		
7	Phaseout adjustment (see instructions)	\$	×	7		
8	Subtract line 7 from line 6			8		
Indian Coal produced at a qualified Indian coal production facility						
9	Tons produced and sold (see instructions)	×	\$1.50	9		
10	Credit before reduction. Add lines 5, 8, and 9			10		
Reduction for government grants, subsidized financing, and other credits:						
11	Total of government grants, proceeds of tax-exempt government obligations, subsidized energy financing, and any other credits allowed for the project for this and all prior tax years			11		
12	Total of additions to the capital account for the project for this and all prior tax years			12		
13	Divide line 11 by line 12. Show as a decimal carried to at least 4 places			13	.	
14	Multiply line 10 by the lesser of 1/2 or line 13			14		
15	Subtract line 14 from line 10			15		
Electricity produced at qualified closed-loop biomass facilities modified to co-fire with coal, other biomass, or both						
16	Thermal content of closed-loop biomass used in the facilities			16		
17	Thermal content of all fuels used in the facilities			17		
18	Divide line 16 by line 17. Show as a decimal carried to at least two places			18	.	
19	Kilowatt-hours produced and sold (see instructions)	×	0.019	19		
20	Multiply line 19 by line 18			20		
21	Phaseout adjustment (see instructions)	\$	×	21		

Part I *Continued*

22	Subtract line 21 from line 20	22		
23	Section B, renewable electricity, refined coal, and Indian coal production credit from partnerships, S corporations, cooperatives, estates, and trusts	23		
24	Add lines 15, 22, and 23. Partnerships and S corporations, report this amount on Schedule K; all others continue to line 25	24		
25	Renewable electricity, refined coal, and Indian coal production credit included on line 24 from passive activities (see instructions)	25		
26	Subtract line 25 from line 24	26		
27	Renewable electricity, refined coal, and Indian coal production credit allowed for 2006 from a passive activity (see instructions)	27		
28	Carryforward of renewable electricity and refined coal production credit to 2006. (Note. If you have a credit from Form 8884, see instructions.)	28		
29	Carryback of renewable electricity, refined coal, and Indian coal production credit from 2007 (see instructions)	29		
30	Add lines 26 through 29. (Note. If you also have a credit from Form 6478, see instructions.) Cooperatives, estates, and trusts, go to line 31; all others, go to Part II	30		
31	Amount allocated to patrons of the cooperative or beneficiaries of the estate or trust (see instructions)	31		
32	Cooperatives, estates, and trusts. Subtract line 31 from line 30. Use this amount to complete Part II	32		

Part II **Allowable Credit**

33	Regular tax before credits (see instructions)	33		
34	Alternative minimum tax (see instructions)	34		
35	Add lines 33 and 34	35		
36a	Foreign tax credit	36a		
b	Credits from Form 1040, lines 48 through 54	36b		
c	Qualified electric vehicle credit (Form 8834, line 20)	36c		
d	Alternative motor vehicle credit (Form 8910, line 18)	36d		
e	Alternative fuel vehicle refueling property credit (Form 8911, line 19)	36e		
f	Add lines 36a through 36e	36f		
37	Net income tax. Subtract line 36f from line 35. If zero, skip lines 38 through 41 and enter -0- on line 42	37		
38	Net regular tax. Subtract line 36f from line 33. If zero or less, enter -0-	38		
39	Enter 25% (.25) of the excess, if any, of line 38 over \$25,000 (see instructions)	39		
40	Subtract line 39 from line 37. If zero or less, enter -0-	40		
41	General business credit (see instructions)	41		
42	Subtract line 41 from line 40. If zero or less, enter -0-	42		
43	Credit allowed for the current year. Cooperatives, estates, and trusts. Enter the smaller of line 32 or line 42. Report this amount on Form 1041, Schedule G, line 2c; or Form 1120-C, Schedule J, line 5c. If line 42 is smaller than line 32, see instructions. All others. Enter the smaller of line 30 or line 42. Report this amount on Form 1040, line 55; Form 1120, Schedule J, line 5c; Form 1120-A, Part I, line 2; or the applicable line of your return. If line 42 is smaller than line 30, see instructions	43		

General Instructions

Section references are to the Internal Revenue Code.

What's New

- We deleted Part II of Section A since the tax liability limit and the allowable credit for Section A is no longer figured on this form; instead, it must be figured on Form 3800, General Business Credit.
- Taxpayers that are not partnerships, S corporations, cooperatives, estates, or trusts, and whose only source of this credit is from those pass-through entities, are not required to complete or file Section A of this form. Instead, they can report this credit directly on line 1h of Form 3800.

Purpose of Form

Use Form 8835 to claim the renewable electricity, refined coal, and Indian coal production credit. The credit is allowed only

for the sale of electricity, refined coal, or Indian coal produced in the United States or U.S. possessions from qualified energy resources at a qualified facility (see *Definitions* below).

How To Figure the Credit

Generally, the credit is 1.5 cents per kilowatt-hour (kWh) for the sale of electricity produced by the taxpayer from qualified energy resources at a qualified facility during the credit period (see *Definitions* below). The 1.5 cents credit amount is reduced by 1/2 for open-loop biomass, small irrigation, landfill gas, trash combustion, and hydropower facilities. In the case of a closed-loop biomass facility, the 1.5 cent amount is multiplied by the ratio of the thermal content of the closed-loop biomass used in the facility to the thermal content of all fuels used in the facility. The credit is \$4.375 per ton for the sale of refined coal produced at a qualified facility during the credit period; see section 45(e)(8)(A). The credit is \$1.50 per ton for the

sale of Indian coal produced at a qualified facility during the credit period.

The credit for electricity produced is proportionately phased out over a 3-cent range when the reference price exceeds the 8-cent threshold price. The refined coal credit is proportionately phased out over an \$8.75 range when the reference price of fuel used as feedstock exceeds 1.7 times the 2002 reference price. The 1.5-cent credit rate, the 8-cent threshold price, the \$4.375 refined coal rate, and the reference price of fuel used as a feedstock are adjusted for inflation. The reference price and the inflation adjustment factor (IAF) for each calendar year are published during the year in the Federal Register. If the reference price is less than the threshold price (adjusted by the IAF), there is no reduction. For electricity produced, if the reference price is more than 3 cents over the adjusted threshold price, there is no credit; if the reference price is more than the threshold price, but not more than 3 cents over the

adjusted threshold price, there is a phaseout adjustment on line 2 of Section A and lines 4 and 21 of Section B. For refined coal produced, if the reference price is more than \$8.75 over the adjusted threshold price, there is no credit; if the reference price is more than the threshold price, but not more than the \$8.75 over the adjusted threshold price, there is a phaseout adjustment on line 7 of Section B.

Note. For calendar year 2006, the credit for electricity, refined coal, and Indian coal produced and sold is, respectively, 1.9 cents per kWh, \$5.481 per ton and \$1.50 per ton; there is no phaseout adjustment.

Section A example. If the reference price of electricity is 10.0¢ and the adjusted threshold price is 9.0¢, reduce the credit by 1/3 ((10.0¢ - 9.0¢) ÷ 3¢ = .3333). Enter the line 1 credit in the first entry space on line 2, .3333 in the second entry space, and multiply to figure the reduction.

Definitions

Resources means wind, closed-loop biomass, poultry waste, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, hydropower production, refined coal, and Indian coal.

Closed-loop biomass is any organic material from a plant that is planted exclusively for use at a qualified facility to produce electricity.

Poultry waste is poultry manure and litter, including wood shavings, straw, rice hulls, and other bedding material for the disposition of manure.

Open-loop biomass is cellulosic, lignin, or agricultural livestock waste materials as defined in section 45(c)(3).

Geothermal energy is energy derived from a geothermal deposit as defined by section 613(e)(2).

Small irrigation power is power generated without any dam or impoundment of water. See section 45(c)(5).

Municipal solid waste is solid waste as defined under paragraph 27 of 42 U.S.C. 6903.

Refined coal is a liquid, gaseous, or solid synthetic fuel produced from coal or high carbon fly ash meeting the requirements of section 45(c)(7).

Hydropower production means the incremental hydropower production for the tax year from any hydroelectric dam placed in service on or before 8/8/2005 and the hydropower production from any nonhydroelectric dam described in section 45(c)(8)(C).

Indian coal means coal which is produced from coal reserves which on 6/14/05 were owned by an Indian tribe or held in trust by the United States for the benefit of an Indian tribe or its members.

Qualified facility is any of the following facilities owned by the taxpayer and used to produce electricity or, in the case of coal production facilities, refined and Indian coal. The facilities are broken down by form section.

Section A

- Poultry waste facility placed in service after 12/31/99 and before 1/1/05.
- Wind facility placed in service after 12/31/93 and before 10/23/04.
- Closed-loop biomass facility placed in service after 12/31/92 and before 10/23/04.

Section B

- Wind facility placed in service after 10/22/04 and before 1/1/08.
- Closed-loop biomass facility placed in service after 10/22/04 and before 1/1/08.
- Closed-loop biomass facility modified to co-fire with coal or other biomass (or both), placed in service before 1/1/08. See section 45(d)(2).
- Open-loop biomass facility using cellulosic waste placed in service before 1/1/08.
- Open-loop biomass facility using agricultural livestock waste placed in service after 10/22/04 and before 1/1/08 and the nameplate capacity rating is not less than 150 kilowatts.
- Geothermal energy facility placed in service after 10/22/04 and before 1/1/08.
- Solar energy facility placed in service after 10/22/04 and before 1/1/08.
- Small irrigation power facility placed in service after 10/22/04 and before 1/1/08.
- Landfill gas or trash combustion facility using municipal solid waste placed in service after 10/22/04 and before 1/1/08.
- A refined coal production facility originally placed in service after 10/22/04 and before 1/1/09.
- Hydropower facility producing incremental hydroelectric production attributable to efficiency improvements or additions to capacity described in section 45(c)(8)(B) placed in service after 8/8/05 and before 1/1/08 and any other facility producing qualified hydroelectric production described in section 45(c)(8) placed in service after 8/8/05 and before 1/1/08.
- Indian coal production facility placed in service before 1/1/09.

A qualified facility does not include a refined coal production facility or landfill gas facility using municipal solid waste to produce electricity, if the production from that facility is allowed as a credit under section 45K.

Credit period is:

- 10 years for a wind, poultry waste, closed-loop biomass (not modified for co-fire purposes), or refined coal production facility, beginning on the date the facility was placed in service.
- 10 years for a closed-loop biomass facility modified to co-fire with coal, other biomass (or both), beginning on the date the facility was placed in service, but not earlier than 10/22/04.
- 10 years for a hydropower facility, beginning on the date the efficiency improvements or additions to capacity are placed in service.
- 7 years for an Indian coal production facility, beginning on the date the facility was placed in service, but not before 1/1/2006.
- 5 years for an open-loop biomass facility using agricultural livestock waste, geothermal, solar energy, small irrigation power, landfill gas, or trash combustion facility, beginning on the date the facility placed in service, if placed in service during the period after 10/22/04 and before 8/9/05. The credit period is 10 years if placed in service after 8/8/05.
- 5 years for an open-loop biomass facility using cellulosic waste, beginning on the date the facility was placed in service, but not earlier than 1/1/05.

United States and U.S. possessions include the seabed and subsoil of those submarine areas that are adjacent to the territorial waters

over which the United States has exclusive rights according to international law.

Who Can Take the Credit

Generally, the owner of the facility is allowed the credit. In the case of closed-loop biomass and open-loop biomass facilities, if the owner is not the producer of the electricity, the lessee or the operator of the facility is eligible for the credit.

Specific Instructions for Section A and Section B

Note. Where line references between Section A and B differ, the Section B line references are in parentheses.

Figure any renewable electricity, refined coal, and Indian coal production credit from your trade or business on lines 1 through 8 (lines 1 through 22 of Section B). Skip lines 1 through 8 (lines 1 through 22 of Section B) if you are only claiming a credit that was allocated to you from an S corporation, partnership, cooperative, estate, or trust.

Fiscal year taxpayers. If you have sales in 2006 and 2007 and the credit rate on line 1 (lines 1, 2, 6, 9, or 19 of Section B) or the phaseout adjustment on line 2 (lines 4, 7, or 21 of Section B) is different for 2007, make separate computations for each line. Use the respective sales, credit rate, and phaseout adjustment for each calendar year. Enter the total of the two computations on the credit rate line(s)—line 1 of Section A (lines 1, 2, 6, 9, or 19 of Section B)—or the phaseout adjustment line(s)—line 2 of Section A (lines 4, 7, or 21 of Section B). Attach the computations to Form 8835 and write FY in the margin.

Part I—Current Year Credit

Line 1, Section A (Line 19, Section B)

Enter the kilowatt-hours of electricity produced at qualified facilities and multiply by \$.019. Fiscal year filers with 2007 sales may have to refigure lines 1 and 19 as explained under *Fiscal year taxpayers* above.

Line 2, Section B only

Enter the kilowatt-hours of electricity produced and sold at qualified facilities and multiply by \$.009. Fiscal filers with 2007 sales must figure line 2 as explained under *Fiscal year taxpayers* above.

Line 2, Section A (Lines 4 and 21, Section B)

Calendar year filers enter zero on lines 2, 4, and 21. Fiscal year filers with sales in 2007 also enter zero if the published 2007 reference price is equal to or less than the 2007 adjusted threshold price. See *How To Figure the Credit* to figure the adjustment.

Line 6, Section B only

Enter the tons of refined coal produced and sold during 2006 from a qualified refined coal production facility and multiply by \$5.481. Fiscal filers with 2007 sales must figure line 6 as explained under *Fiscal year taxpayers* above.

Line 7, Section B only

Calendar year filers enter zero on line 7. Fiscal year filers with sales in 2007 also enter zero if the published 2007 reference price is equal to or less than 1.7 times the 2002 reference price. See *How To Figure the Credit* to figure the adjustment.

Line 9, Section B only

Enter the tons of Indian coal produced and sold from a qualified Indian coal facility and multiply by \$1.50.

Line 4, Section A (Line 11, Section B)

Enter the sum, for this and all prior tax years, of:

- Grants provided by the United States, a state, or political subdivision of a state for the project;
- Proceeds of a tax-exempt issue of state or local government obligations used to provide financing for the project;
- Total of subsidized energy financing provided directly or indirectly under a federal, state, or local program provided for the project; and
- The amount of any other credit allowable for any property that is part of the project.

Line 24, Section B only

S corporations and partnerships. Allocate the credit on line 24 to the shareholders and partners as the current year credit. Attach Form 8835 to the S corporation or partnership return and show on Schedule K-1 each shareholder's or partner's credit. Electing large partnerships include this credit in "general credits."

Line 25, Section B only

Enter the amount included on line 24 that is from a passive activity. Generally, a passive activity is a trade or business in which you did not materially participate. Rental activities are generally considered passive activities, whether or not you materially participate. For details, see Form 8582-CR, Passive Activity Credit Limitations (for individuals, trusts, and estates), or 8810, Corporate Passive Activity Loss and Credit Limitations (for corporations).

Line 27, Section B only

Enter the passive activity credit allowed for the 2006 renewable electricity, refined coal, and Indian coal production credit from Form 8582-CR or Form 8810.

Line 28, Section B only

Carryforward credit from Form 8884. If you have a carryforward credit from Form 8884, include that amount in the total for line 28. On the dotted line next to line 28, enter "From Form 8884" and the amount.

Line 29, Section B only

Use only if you amend your 2006 return to carry back an unused renewable electricity, refined coal, and Indian coal production credit from 2007.

Line 10, Section A (Line 30, Section B)

Credit from Form 6478 (Section B only). If you have a current year credit from Form 6478, include that amount (line 10 of Form 6478) in the total for line 30. On the dotted line next to line 30, enter "From Form 6478" and the amount.

Line 11, Section A (Line 31, Section B)

Cooperative Election to Allocate Credit to Patrons. A cooperative described in section 1381(a) can elect to allocate any part of the renewable electricity, refined coal, and Indian coal production credit among the patrons of the cooperative. The credit is allocated among the patrons eligible to share in patronage dividends on the basis of the quantity or value of business done with or for such patrons for the tax year.

To make an election, attach a statement to your timely filed return (including extensions) indicating the amount you are electing to allocate to patrons. The election will not take effect unless the organization designates the apportionment in a written notice mailed to its patrons during the payment period described in section 1382(d).

If you timely file your return without making an election, you can still make the election by filing an amended return within 6 months of the due date of the return (excluding extensions). Enter "Filed pursuant to section 301.9100-2" on the amended return.

Once made, the election cannot be revoked. Enter the amount allocated to patrons of the cooperative.

Line 11, Section A (Line 31, Section B)

Estates and trusts. Allocate the line 10 (line 30 of Section B) credit between the estate or trust and the beneficiaries in proportion to the income allocated to each. Report on Schedule K-1 each beneficiary's share of the credit. Enter the amount allocated to beneficiaries of the estate or trust.

Part II—Allowable Credit

The credit allowed for the current year may be limited based on your tax liability. If you are completing Section B, you must complete Part II to figure the allowable credit. If you are completing Section A, you must file Form 3800, General Business Credit to figure the allowable credit.

Line 33, Section B

Enter the regular tax before credits from the following line of the appropriate form or schedule.

- Individuals. Enter the amount from Form 1040, line 44.
- Corporations. Enter the amount from Form 1120, Schedule J, line 3; Form 1120-A, Part I, line 1; or the applicable line of your return.
- Estates and trusts. Enter the sum of the amounts from Form 1041, Schedule G, lines 1a and 1b, or the amount from the applicable line of your return.

Line 34, Section B

Enter the alternative minimum tax (AMT) from the following line of the appropriate form or schedule.

- Individuals. Enter the amount from Form 6251, line 35.
- Corporations. Enter the amount from Form 4626, line 14.
- Estates and trusts. Enter the amount from Form 1041, Schedule I, line 56.

Line 36e, Section B

Include on line 36e any amounts claimed on:

- Form 8834, Qualified Electric Vehicle Credit, line 20,
- Form 8910, Alternative Motor Vehicle Credit, line 18, and
- Form 8911, Alternative Fuel Vehicle Refueling Property Credit, line 19.

Line 39, Section B

See section 38(c)(5) for special rules that apply to married couples filing separate returns, controlled groups, regulated investment companies, real estate investment trusts, and estates and trusts.

Line 41, Section B only

Enter the amount of all other allowed credits for the current year included in the general business credit. If you are filing Form 3800, enter the amount from line 19 of that form plus the amount, if any, from Form 8844, line 24. Otherwise, enter the amount from the last line of any separate general business credit form you are filing.

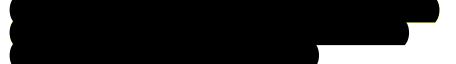
Line 21, Section A (Line 43, Section B)

If you are completing Section A, and cannot use all of the credit because of the tax liability limit (line 20 is smaller than line 10) carry the unused credit back 1 year and then forward 20 years.

If you are completing Section B, enter on line 41 the smaller of line 30 or line 40. The credit allowed for the current year must be applied in the following order.

- Carryforward of the New York Liberty Zone business employee credit.
- Carryforward of the renewable electricity and refined coal production credit from Section B.
- Current year credit from Section B and any current year credit from Form 6478. **Note.** There is no ordering rule to differentiate between these two credits.

If you cannot use all of the credit because of the tax liability limit (line 40 is smaller than line 30), carry any unused current year credit back 1 year and then forward up to 20 years.



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 burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

- Recordkeeping** 21 hr., 16 min.
- Learning about the law or the form** 1 hr.
- Preparing and sending the form to the IRS** 1 hr., 22 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.