

2006 Form 8907, Nonconventional Source Fuel Credit

Purpose: This is the first circulated draft of the 2006 Form 8907 for your review and comments. See the next page for a discussion of the major changes.

TPCC Meeting: None, but may be arranged if requested.

Prior Version: The 2005 Form 8907 is available at:
<http://www.irs.gov/pub/irs-pdf/f8907.pdf>

Other Products: Circulations of draft tax forms, instructions, notices, and publications are posted at:
http://taxforms.web.irs.gov/draft_products.html

Comments: Please email, call, or fax any comments by **June 5, 2006**.

Major Changes to 2006 Form 8907

Most changes to Form 8907, Nonconventional Source Fuel Credit, have been made to support the redesign of Form 3800, General Business Credit. This includes revising the text of lines 13 and 14, and adding lines 15 and 16 on the first page of the form.

For tax years ending after 2005, the nonconventional source fuel credit becomes part of the general business credit. Therefore, Parts II and III of the form, which pertained specifically to tax year 2005, have been removed, along with any related instructions.

On page 1, we removed “Part I” because the form is no longer divided into parts. For lines 1 through 5, we added column (d) so all sales of qualified fuel could be accounted for.

We updated the code reference in the “Caution” on page 2 to reflect the fact that the relevant citation has been redesignated as IRC 45K(f).

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▶ **Attach to your tax return.**
▶ **See instructions.**

Name(s) shown on return

Identifying number

A	(a)	(b)	(c)	(d)
Type of qualified fuel (enter code)	Qualified coke and coke gas sold after 12/31/2005	All other qualified fuels sold after 12/31/2005	Qualified coke and coke gas sold after 12/31/2006	All other qualified fuels sold after 12/31/2006
B Date the facility was placed in service				
1 Barrel-of-oil equivalents				
2 Enter the product of \$3 multiplied by the inflation adjustment factor. See instructions				
3 Multiply line 2 by line 1				
4 Phaseout adjustment. See instructions				
5 Subtract line 4 from line 3. If zero or less, enter zero				
6 Add columns (a) through (d) on line 5				6
7a Reduction due to government monies and subsidized financing. Enter the total of government grants, proceeds of tax-exempt government obligations, and subsidized energy financing for the project for this and all prior tax years				7d
b Enter the total of additions to the capital account for the project for this and all prior tax years				
c Divide line 7a by line 7b. Show as a decimal to at least 4 places				
d Multiply line 6 by line 7c				8
8 Subtract line 7d from line 6				
9a Reduction due to energy credit. Enter the total amount allowed under section 38 for this and all prior tax years by reason of the energy percentage with respect to the property used in the project				9c
b Enter the total amount recaptured with respect to the amount entered on line 9a under section 49(b) or 50(a) for this and any prior tax year, and under section 38 for any prior tax year				
c Subtract line 9b from line 9a. If zero or less, enter amount from line 8 on line 10 and go to line 11a				10
10 Subtract line 9c from line 8				
11a Reduction due to enhanced oil recovery credit (Form 8830). Enter the total amount allowed for this and all prior tax years by reason of any enhanced oil recovery credit with respect to such project				11c
b Enter the total amount of enhanced oil recovery credit recapture with respect to the amount on line 11a for any prior tax year				
c Subtract line 11b from line 11a. If zero or less, enter the amount from line 10 on line 12 and go to line 13				
12 Subtract line 11c from line 10				12
13 Nonconventional source fuel credit from partnerships, S corporations, estates, and trusts				13
14 Add lines 12 and 13. Estates and trusts, go to line 15; partnerships and S corporations, report this amount on Schedule K; all others, report this amount on Form 3800, line 1s				14
15 Amount allocated to beneficiaries of the estate or trust (see instructions).				15
16 Estates and trusts: subtract line 15 from line 14. Report this amount on Form 3800, line 1s.				16

General Instructions

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

What's New

The passive activity limitation and the tax liability limitation are no longer figured on Form 8907. Parts II and III of the 2005 form have been eliminated and these limitations must be figured on Form 3800.

Taxpayers that are not partnerships, S corporations, estates, or trusts, and whose only source of this credit is from those pass-through entities, are not required to complete or file this form. Instead, they can report this credit directly on line 1s of Form 3800.

Purpose of Form

Use Form 8907 to figure the nonconventional source fuel credit. The credit is part of the general business credit. This credit is allowed for a qualified fuel that you produced and that was sold by you to an unrelated person during the tax year. Qualified fuels for this credit are:

- Gas produced from biomass,
- Liquid, gaseous, or solid synthetic fuels produced from coal, and
- Coke or coke gas (if sold after December 31, 2005).

See *Qualified Fuels* below for more information.

Changes to the Nonconventional Source Fuel Credit

For tax years ending after December 31, 2005, the nonconventional source fuel credit becomes a general business credit. Section 29 was redesignated as section 45K.

Coke and coke gas. The credit has been extended to certain facilities that produce coke and coke gas fuel. In order to qualify for the credit, the fuel must be produced and sold after December 31, 2005.

Qualified Fuels

Gas produced from biomass. This fuel qualifies for the credit if:

- It is produced by the taxpayer in a facility located in the United States or a U.S. possession that was originally placed in service after December 31, 1992, and before July 1, 1998, (pursuant to a binding written contract in effect before January 1, 1997), and
- The fuel is sold before January 1, 2008.

Biomass means any organic material other than oil, natural gas, and coal (including lignite), or any product thereof.

Liquid, gaseous, or solid fuels produced from coal. This includes lignite and any of these fuels when used as feedstocks. The fuel qualifies for the credit if:

- It is produced by the taxpayer in a facility located in the United States or a U.S. possession that was placed in service after December 31, 1992, and before July 1, 1998, (pursuant to a binding written contract in effect before January 1, 1997), and
- The fuel is sold before January 1, 2008.

Coke and coke gas. The fuel qualifies for the credit if:

- It is produced by the taxpayer in a facility located in the United States or a U.S. possession that was placed in service before January 1, 1993, or after January 1, 1998, and before January 1, 2010, and

- The fuel is sold during the period beginning on the later of January 1, 2006, or the date the facility is placed in service and ending 4 years after the date the period began.



You cannot claim the credit for coke or coke gas if the facility used to produce coke or coke gas was used to produce other qualified fuels and a credit for those fuels was allowed by reason of section 45K(f) for this tax year or any preceding tax year.

Specific Instructions

Line A

Enter a code identifying the type of qualified fuel sold as follows:

- For gas produced from biomass, enter "A".
- For liquid, gaseous, or solid synthetic fuels produced from coal, enter "B".
- For coke or coke gas, enter "C".

Line B

Enter the date the facility was placed in service. If there is more than one facility, attach a statement showing separately for each facility the type of fuel it produced and the date it was placed in service.

Line 1

Enter the barrel-of-oil equivalent of the qualified fuel in the appropriate column. If you sold more than one type of fuel for any column, compute the barrel-of-oil equivalent separately for each type of fuel and enter the total in the appropriate column. Compute the barrel-of-oil equivalent separately for each type of qualified fuel by:

1. Determining the British Thermal Unit (BTU) value of the amount of qualified fuel sold during the year using prevailing industry standards, then
2. Dividing the BTU value of the fuel by 5.8 million.

Note. For liquid, gaseous, or solid synthetic fuels produced from coal, do not include the BTU value of any additives used to produce the fuel.



The average barrel-of-oil equivalent for coke and coke gas cannot exceed 4,000 barrels a day. When determining the average, do not take into account days before the date the facility was placed in service.

Line 2

The \$3 amount used to compute the credit must be adjusted by multiplying it by the inflation adjustment factor for the type of qualified fuel and the calendar year in which the sale occurs. The inflation adjustment factor for coke and coke gas will be different from the inflation adjustment factor for all other qualified fuels.

Inflation adjustment factor. The inflation adjustment factor for each calendar year and type of qualified fuel is provided in the Internal Revenue Bulletin in April of the following year. The Internal Revenue Bulletin is available at www.irs.gov.

Line 4

The amount of the credit is reduced if the reference price for domestic crude oil reaches a certain amount. Compute the phaseout adjustment separately for each column of line 4 as follows:

- (a) Determine the reference price for the calendar year in which the fuel was sold. The reference price for each calendar year is provided in the Internal Revenue Bulletin in April of the following year (a) _____

(b) Multiply \$23.50 by the inflation adjustment factor for the type of qualified fuel and calendar year in which the fuel was sold (b) _____

(c) Subtract line (b) from line (a). If zero or less, **stop here**; enter zero on line 4 and go to line 5 (c) _____

(d) Multiply \$6.00 by the inflation adjustment factor for the type of qualified fuel and calendar year in which the fuel was sold (d) _____

(e) Divide line (c) by line (d) (e) _____

(f) **Phaseout Adjustment.** Multiply line (e) by the amount from line 3 of the form. Enter this figure on line 4 and go to line 5. (f) _____

Line 7a

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

- Grants provided by the United States, a state, or a political subdivision of the state for the project;
- Proceeds of a tax-exempt issue of state or local government obligations used to provide financing for the project; and
- The total amount of subsidized energy financing provided directly or indirectly under a federal, state, or local program provided for the project.

Line 15

Estates and trusts. Allocate the amount on line 14 between the estate and trust and the beneficiaries in proportion to the income allocable to each. On line 15, enter the beneficiaries' allocated amount.

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 11 hr., 28 min.

Learning about the law or the form 30 min.

Preparing and sending the form to the IRS 42 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.