

2007 Form 6478, Credit for Alcohol Used as Fuel

Purpose: This is the first circulated draft of the 2007 Form 6478, Credit for Alcohol Used as Fuel, for your review and comments. The major changes are listed below.

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

Prior Version: The 2006 Form 6478 is available at:
<http://www.irs.gov/pub/irs-pdf/f6478.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, fax, call, or mail any comments to me and email the reviewer, William Woolf, Jr. @ William.P.Woolf@irs.gov by July 13, 2007.

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2007 Form 6478 Major Changes

On the Form

1] On line **6**, the text "column (c)" is removed because it is unnecessary. The text "continue on" is changed to "go" (on line **11**, also).

2] The year is updated on lines **9** and **10**, and in the usual places.

3] Two changes regarding lines **17a** and **17b**:

- Lines **17a** and **17b** (representing the foreign tax credit and the personal tax credits from Forms 1040 (or 1040NR)) are switched in place (re-ordered) because IRC 26(a)(2) does not (yet) provide for the old ordering of the credits/lines.
- On Line **17a** (old line 17b), the Form 1040 and 1040NR line references are changed to conform to changes on the 2007 forms.

4] On line **17c** the text is changed to: Credits from Forms 5735 and 8834. This is to allow for the new American Samoa economic development credit (PL 109-222, sec. 119(a)).

5] On lines **17d** and **17e**, the text "Non-business" is added to the names of the credits for clarity.

6] Line **22** is expanded to allow for the credits which do not flow through the Form 3800, conforming to other forms which have been similarly expanded. This expansion is due partly to P.L. 110-28, section 8214, which waived the AMT for the IRC section 51 and 48B credits. There are now so many credits not flowing through the Form 3800 that an actual listing of such credits on affected forms is warranted. Also for this reason, the **Caution** in the **Part II** heading is removed.

7] On line **24**, the reference to Form 1120-A is removed because the form is obsolete for 2007.

In the Instructions

1] Information re Form 8835 is removed (see #6 above).

2] In the line **14** instructions, the reference to Form 1120-A is removed because the form is obsolete for 2007.

3] The line **22** instructions are removed (see #6 above).

4] The year is updated in the usual places.

Name(s) shown on return

Identifying number

Caution: You cannot claim any amounts on Form 6478 that you claimed (or will claim) on Schedule C (Form 720), Form 8849, or Form 4136.

Part I Current Year Credit

Type of Alcohol Fuel	(a) Number of Gallons of Alcohol Sold or Used	(b) * Rate	(c) Column (a) x Column (b)
1 Qualified ethanol fuel production (in gallons) (see instructions for election)	1	\$.10	
2 Alcohol 190 proof or greater and alcohol 190 proof or greater in fuel mixtures	2	\$.51	
3 Alcohol less than 190 proof but at least 150 proof and alcohol less than 190 proof but at least 150 proof in fuel mixtures	3	\$.3778	
4 Add the amounts in column (c) on lines 1, 2, and 3. Include this amount in your income for 2007 (see instructions)			4
5 Alcohol fuel credit from a partnership, S corporation, cooperative, estate, or trust (see instructions)			5
6 Add lines 4 and 5. Partnerships and S corporations, report this amount on Schedule K. All others, go to line 7			6
7 Alcohol fuel credit included on line 6 from passive activities (see instructions)			7
8 Subtract line 7 from line 6			8
9 Alcohol fuel credit allowed for 2007 from a passive activity (see instructions)			9
10 Carryforward from 2006 and carryback from 2008 of the alcohol fuel credit (see instructions)			10
11 Add lines 8 through 10. Cooperatives, estates, and trusts, go to line 12. All others, use this amount to complete Part II			11
12 Amount allocated to patrons of the cooperative or beneficiaries of the estate or trust (see instructions)			12
13 Cooperatives, estates, and trusts. Subtract line 12 from line 11. Use this amount to complete Part II			13

*Only the rate for ethanol is shown. See instructions for lines 2 and 3 for rates for alcohol other than ethanol.

Part II Allowable Credit

14 Regular tax before credits (see instructions)			14
15 Alternative minimum tax (see instructions)			15
16 Add lines 14 and 15			16
17a Credits from Form 1040, lines 47 through 50 and 52 through 54 (or Form 1040NR, lines 44, 45, and 47 through 49)	17a		17f
b Foreign tax credit	17b		
c Credits from Forms 5735 and 8834	17c		
d Non-business alternative motor vehicle credit (Form 8910, line 18)	17d		
e Non-business alternative fuel vehicle refueling property credit (Form 8911, line 19)	17e		
f Add lines 17a through 17e.			
18 Net income tax. Subtract line 17f from line 16. If zero, skip lines 19 through 22 and enter -0- on line 23			18
19 Net regular tax. Subtract line 17f from line 14. If zero or less, enter -0-	19		20
20 Enter 25% (.25) of the excess, if any, of line 19 over \$25,000 (see instructions)			21
21 Subtract line 20 from line 18. If zero or less, enter -0-			22d
22a General business credit (Form 3800, line 19)	22a		
b Empowerment zone and renewal community employment credit (Form 8844, line 26)	22b		
c Work opportunity credit (Form 5884, line 22)	22c		
d Add lines 22a through 22c.			23
23 Subtract line 22d from line 21. If zero or less, enter -0-			24
24 Credit allowed for the current year. Cooperatives, estates, and trusts. Enter the smaller of line 13 or 23. Report this amount on Form 1120-C, Schedule J, line 5c; or Form 1041, Schedule G, line 2c. If line 23 is smaller than line 13, see instructions. All others. Enter the smaller of line 11 or 23. Report this amount on Form 1040, line 55; Form 1040NR, line 50; Form 1120, Schedule J, line 5c; or the applicable line of your return. If line 23 is smaller than line 11, see instructions			

General Instructions

Section references are to the Internal Revenue Code.

Purpose of Form

Use Form 6478 to figure your credit for alcohol used as fuel. You claim the credit for the tax year in which the sale or use occurs. This credit consists of the:

- Alcohol mixture credit,
- Alcohol credit, and
- Small ethanol producer credit.

You may claim or elect not to claim the alcohol fuel credit at any time within 3 years from the due date of your return (determined without regard to extensions) on either an original or an amended return for the tax year of the sale or use.

Caution: Before claiming a credit on Form 6478, the alcohol fuel mixture credit must be taken against any section 4081 liability on Form 720. Any credit in excess of the section 4081 liability can be taken as a claim for payment on Form 8849 or an income tax credit on Form 4136.

Definitions and Special Rules

Qualified Ethanol Fuel Production

This is ethanol produced by an eligible small ethanol producer (defined below) which during the tax year:

1. Does not exceed 15 million gallons;
2. Is sold by the producer to another person—
 - For use by the buyer in the buyer's trade or business to produce a qualified mixture (other than casual off-farm production),
 - For use by the buyer as a fuel in a trade or business, or
 - Who sells the ethanol at retail to another person and puts the ethanol in the retail buyer's fuel tank; or
3. Is used or sold by the producer for any purpose described in 2 above.

Eligible Small Ethanol Producer

This is a person who, at all times during the tax year, has a productive capacity for alcohol of 60 million gallons or less. This capacity includes alcohol made from petroleum, natural gas, coal, peat, and alcohol of less than 150 proof.

Alcohol

Alcohol, for credit purposes, includes ethanol and methanol but does not include the following.

- Alcohol produced from petroleum, natural gas, or coal (including peat). Methanol produced from methane gas formed in waste disposal sites is not alcohol produced from natural gas, and is included for credit purposes.

- Alcohol of less than 150 proof. In figuring the proof of any alcohol, disregard any denaturants (additives that make the alcohol unfit for human consumption). The volume of alcohol includes any denaturant up to 5% of the volume of the alcohol and denaturant combined.

The alcohol must not be a mixture with gasoline or special fuel (other than as a denaturant). The credit is for alcohol which during the tax year you:

- Used as a fuel in a trade or business, or
- Sold at retail to another person and put in the fuel tank of that person's vehicle.

However, no credit is allowed for alcohol you used as a fuel in a trade or business if that alcohol was sold in a retail sale described above.

Alcohol Fuel Mixture

The alcohol must be used to make a qualified mixture. A qualified mixture combines alcohol with gasoline or special fuel. The producer of the mixture either:

- Used it as fuel, or
- Sold it as fuel to another person.

The credit is available only to the producer who blends the mixture. The producer must use or sell the mixture in a trade or business and the credit is available only for the year the mixture is sold or used. The credit is not allowed for casual off-farm production of a qualified mixture.

Registration

All producers and importers of alcohol with a proof of at least 190 must be registered with the IRS. See Form 637, Application for Registration (For Certain Excise Tax Activities).

Coordination With Excise Tax Credit

Only one credit may be taken with respect to any gallon of alcohol in a mixture reported on line 2. If any amount is claimed (or will be claimed) with respect to any gallon of alcohol on Form 720, Quarterly Federal Excise Tax Return, Form 8849, Claim for Refund of Excise Taxes, or Form 4136, Credit for Federal Tax Paid on Fuels, then a claim cannot be made on Form 6478 for that gallon of alcohol.

Recapture of Credit

You must pay a tax on each gallon of alcohol (or the alcohol in the mixture) at the rate you used to figure the credit if you:

- Separate the alcohol from the mixture,
- Use the mixture other than as a fuel,
- Mix alcohol on which the credit was allowed for the retail sale,
- Use the alcohol other than as a fuel, or
- Do not use the fuel for the purposes described under *Qualified Ethanol Fuel Production*.

Report the tax on Form 720.

Specific Instructions

Part I. Current Year Credit

Use lines 1 through 3 to figure any alcohol fuel credit from your own trade or business.

Note. We have shown in column (b) the rate for ethanol only. If you have a credit for alcohol other than ethanol, enter in column (b) the applicable rate shown in the instructions for lines 2 and 3.

Line 1

Enter the number of gallons of ethanol, up to 15 million gallons, that meet the conditions listed under *Qualified Ethanol Fuel Production* on page 2. Multiply by the rate of 10 cents per gallon.

Important: The amount of the credit determined for lines 2 and 3 below with respect to alcohol in qualified mixtures must be reduced by the excise tax benefit for qualified methanol or ethanol fuel reflected on Form 720. See sections 40(c) and 4041(b)(2).

Line 2

Enter the number of gallons of alcohol that is 190 proof or greater **and** alcohol that is 190 proof or greater in qualified mixtures (mixtures of alcohol and gasoline or alcohol and special fuels). For alcohol other than ethanol, the rate is 60 cents per gallon.

Line 3

Enter the number of gallons of alcohol that is less than 190 proof but at least 150 proof **and** alcohol that is less than 190 proof but at least 150 proof in qualified mixtures (mixtures of alcohol and gasoline or alcohol and special fuels). For alcohol other than ethanol, the rate is 45 cents per gallon.

Line 4

The total credit shown in column (c) on lines 1, 2, and 3, must be included in income under "other income" on the applicable line of your income tax return, even if you cannot use all of the credit because of the tax liability limit. However, if you are subject to the alternative minimum tax (AMT), this amount is not income in computing AMT and must be subtracted when figuring your alternative minimum taxable income. Do this by including this amount on line 26 of Form 6251, line 23 of Schedule I, Form 1041, or line 2o of Form 4626.

Line 5

Enter the amount of credit that was allocated to you as a partner, shareholder, patron, or beneficiary.

If your credit from a pass-through entity includes the small ethanol producer credit, you, as a partner, shareholder, patron, or beneficiary, are subject to the 15-million-gallon limitation for line 1 and the 60-million-gallon productive capacity limitation for an eligible small ethanol producer. If you receive a small ethanol producer credit from more than one entity, your credit may be limited.

Line 6

If the credit includes the small ethanol producer credit, the partnership (other than an electing large partnership) or S corporation must provide the following additional information:

- The amount of the small ethanol producer credit included as part of the pass-through credit;
- The number of gallons claimed at the entity level for the small ethanol producer credit; and
- The productive capacity of the entity.

Line 7

Enter the amount included on line 6 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 Form 8810, *Corporate Passive Activity Loss and Credit Limitations* (for corporations).

Line 9

Enter the passive activity credit allowed for the 2007 credit for alcohol used as fuel from Form 8582-CR or Form 8810.

Line 10

Carryforward. Use line 10 to show any carryforward of the credit from 2006. For carryforwards of the credit from years prior to 2005, show such carryforwards on line 6 of Form 3800.

Carryback. Use line 10 to show any carryback if you amend your 2007 return to carry back an unused credit from 2008.

Line 12

Estate or trust. Allocate the credit for alcohol used as fuel on line 11 between the estate or trust and the beneficiaries in the same proportion as income was allocated and enter the beneficiaries' share on line 12.

If the credit includes the small ethanol producer credit, the estate or trust must provide the following additional information:

- The amount of the small ethanol producer credit included as part of the pass-through credit;
- The number of gallons claimed by the estate or trust for the small ethanol producer credit; and
- The productive capacity of the estate or trust.

Cooperative election to allocate the small ethanol producer credit to patrons. A cooperative described in section 1381(a) can elect to allocate any part of the small ethanol producer credit to patrons of the cooperative. To make the election, attach a statement to the effect that the cooperative elects to allocate the credit pro rata among the patrons eligible to share in patronage dividends on the basis of the quantity or value of business done with or for the patrons for the tax year.

The election is not effective unless:

- The statement described above is attached to the timely filed tax return (including extensions) for the tax year associated with the election. However, if you already made the election on a tax return filed before June 15, 2006, but failed to attach the required statement to that tax return, attach the statement to your next filed return.

● The cooperative designates the apportionment in a written notice mailed to its patrons during the payment period described in section 1382(d). The cooperative must also provide to its patrons the following additional information:

- The number of gallons claimed by the cooperative.
- The productive capacity of the cooperative.

If you timely filed 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). Write "Filed pursuant to section 301.9100-2" on the amended return.

Once made, the election cannot be revoked.

Part II. Allowable Credit

The credit allowed for the current year may be limited based on your tax liability. Use Part II to figure the allowable credit.

Line 14

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

- Individuals: Form 1040, line 44; Form 1040NR, line 41.
- Corporations: Form 1120, Schedule J, line 2; or the applicable line of your return.
- Estates and trusts: 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 15

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

- Individuals: Form 6251, line 35.
- Corporations: Form 4626, line 14.
- Estates and trusts: Form 1041, Schedule I, line 56.

Line 20

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

Line 24

If you cannot use all of the credit because of the tax liability limit, carry the unused credit back 1 year 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	7 hr., 53 min.
Learning about the law or the form	35 min.
Preparing and sending the form to the IRS.	45 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.