

**Qualified Zone Academy Bond Credit**

▶ Attach to your tax return.

Name	Employer identification number
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**Part I Current Year Credit**

(a) Bond issuer's name, city or town, and state	(b) Month and year bond issued	(c) Outstanding principal amount of bond	(d) Credit rate	(e) Credit ((c) x (d))
<b>1</b>				

<b>2a</b> Qualified zone academy bond credit from an S corporation (see instructions) . . . . .	<b>2a</b>	
<b>b</b> Enter the S corporation's employer identification number (EIN) ----- - -----		
<b>3</b> <b>Current year credit.</b> Add line 2a and all amounts on line 1, column (e). <b>Caution.</b> Holders of bonds, see the instructions for how and when to report the credit amount as interest income . . . . .	<b>3</b>	

**Note:** S corporations—stop here—do not complete Part II (see instructions).

**Part II Allowable Credit**

<b>4</b> Regular tax before credits:			
<ul style="list-style-type: none"> <li>• Individuals. Enter the amount from Form 1040, line 44 . . . . .</li> <li>• Corporations. Enter the amount from Form 1120, Schedule J, line 2, or the applicable line of your return . . . . .</li> <li>• 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 . . . . .</li> </ul>	}	<b>4</b>	
<b>5</b> Alternative minimum tax:			
<ul style="list-style-type: none"> <li>• Individuals. Enter the amount from Form 6251, line 35 . . . . .</li> <li>• Corporations. Enter the amount from Form 4626, line 14 . . . . .</li> <li>• Estates and trusts. Enter the amount from Form 1041, Schedule I, line 56 . . . . .</li> </ul>	}	<b>5</b>	
<b>6</b> Add line 4 and line 5 . . . . .		<b>6</b>	
<b>7a</b> Credits from Form 1040, lines 47 through 50 and 52 through 54 . . . . .	<b>7a</b>		
<b>b</b> Foreign tax credit . . . . .	<b>7b</b>		
<b>c</b> Credits from Forms 5735 and 8834 . . . . .	<b>7c</b>		
<b>d</b> Alternative motor vehicle credit (Form 8910, line 18) . . . . .	<b>7d</b>		
<b>e</b> Alternative fuel vehicle refueling property credit (Form 8911, line 19) . . . . .	<b>7e</b>		
<b>f</b> General business credit (see instructions) . . . . .	<b>7f</b>		
<b>g</b> Credit for prior year minimum tax . . . . .	<b>7g</b>		
<b>h</b> Add lines 7a through 7g . . . . .		<b>7h</b>	
<b>8</b> Net income tax. Subtract line 7h from line 6 . . . . .		<b>8</b>	
<b>9</b> <b>Credit allowed for the current year.</b> Enter the <b>smaller</b> of line 3 or line 8 here and on Form 1040, line 55; Form 1120, Schedule J, line 5e; Form 1041, Schedule G, line 3; or the applicable line of your return. <b>Caution.</b> If line 9 is <b>smaller</b> than line 3, you generally should deduct the unallowed credit in figuring your taxable income for this tax year. Because this deduction will affect the allowable credit, refigure the unallowed credit until it equals the deduction. However, you may be able to deduct the unallowed credit attributable to bonds sold after September 25, 2000, in the next tax year (see instructions) . . . . .		<b>9</b>	

## General Instructions

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

### Purpose of Form

Use Form 8860 to claim the qualified zone academy bond (QZAB) credit. A QZAB is a taxable bond issued after 1997 by a state or local government, the proceeds of which are used to improve certain eligible public schools. In lieu of receiving periodic interest payments from the issuer, the holder of the bond is generally allowed an annual income tax credit while the bond is outstanding. The credit compensates the holder for lending money to the issuer and functions as interest paid on the bond.

### Who May Claim the Credit

An eligible taxpayer may claim the QZAB credit by filing Form 8860 for each tax year in which it holds a QZAB on the credit allowance date. To be an eligible taxpayer, the taxpayer must be a bank, insurance company, or other corporation actively engaged in the business of lending money. In addition, the shareholder of an S corporation may claim the credit from an S corporation that is an eligible taxpayer. The credit allowance date is the last day of (a) the 1-year period beginning on the date the bond was issued and (b) each successive 1-year period thereafter. The credit is deemed paid on the credit allowance date.

## Specific Instructions

### Part I

#### Current Year Credit

##### Line 1, Column (c)

**Caution.** *Shareholders of S corporations do not complete line 1. See the instructions for line 2.*

Enter the face amount of the bond minus any payments of principal received.

##### Line 1, Column (d)

For bonds sold before July 1, 1999, the credit rate is 110% of the long-term applicable federal rate (AFR), compounded annually, for the month and year the bond is issued. The IRS announced the long-term AFR monthly in a series of revenue rulings published in the Internal Revenue Bulletin.

For bonds sold after June 30, 1999, the credit rate is the rate published daily by the Treasury Direct website under "IRS Tax Credit Bonds" at [www.treasurydirect.gov/govt/apps/slgs/slgs\\_irstax.htm](http://www.treasurydirect.gov/govt/apps/slgs/slgs_irstax.htm). The rate is applied to the bond on the first day on which there is a binding contract in writing for the sale or exchange of the bond. The rate is determined by the Department of the Treasury based on its estimate of the yield on outstanding AA rated corporate bonds of a similar maturity for the business day immediately prior to the date on which there is a binding contract in writing for the sale or exchange of the bond.

##### Line 2

Complete line 2, not line 1, for a credit you received as a shareholder of an S corporation. If you received a QZAB credit from more than one S corporation, attach a schedule showing the EIN and credit amount for each S corporation and enter the total credit on line 2a.

##### Line 3

The current year credit on line 3 is deemed to be a payment of qualified stated interest (as defined in Regulations section 1.1273-1(c)) on the credit allowance date. Therefore, a holder on the accrual method must accrue the credit amount as taxable interest income over the 1-year period that ends on the credit allowance date. If the holder is an S corporation, the S corporation reports the interest income.

If the holder buys a bond between credit allowance dates, the interest (credit) accrued at the time of purchase is not interest income, and is not taxable as interest when paid. Instead, the payment of the interest (credit) on the credit allowance date is treated as a return of capital (to the extent of the accrued interest (credit) at the time of purchase), which reduces the holder's cost basis in the bond. If the holder sells a bond between credit allowance dates, part of the sales price is treated as interest accrued to the date of sale and must be reported as interest income.

### Part II Allowable Credit

S corporations complete only Part I of Form 8860 and pro-rate the credit on line 3 to their shareholders.

#### Line 7f

If you are filing Form 3800, General Business Credit, enter the credit from Form 3800. Also include any credit from:

- Form 8844, Empowerment Zone and Renewal Community Employment Credit,
- Form 5884, Work Opportunity Credit,
- Form 6478, Credit for Alcohol Used as Fuel,
- Section B of Form 8835, Renewable Electricity, Refined Coal, and Indian Coal Production Credit, or
- Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips.

#### Line 9

If you cannot use all of the credit on line 3 because of the tax liability limit in Part II (i.e., line 3 is more than line 9), a deduction is allowed for any unused credit for the tax year that includes the credit allowance date. Because this deduction may further reduce the tax liability limit, the holder may need to refigure the tax liability limit and the unallowed credit. Refigure the unallowed credit until it equals the deduction. It may be necessary to use the "trial and error" method. If the holder is an S corporation, the shareholder, not the S corporation, takes the deduction.

**Note:** *To the extent the unallowed credit is attributable to bonds sold after September 25, 2000, you may deduct the unallowed credit in the next tax year instead of the current tax year. See Regulations sections 1.1397E-1(f)(2) and (k).*

**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**, 5 hr., 15 min; **Learning about the law or the form**, 24 min; **Preparing and sending the form to the IRS**, 30 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.