2002

Department of the Treasury
Internal Revenue Service

Instructions for Form 6251

Alternative Minimum Tax—Individuals

Section references are to the Internal Revenue Code.

General Instructions

Purpose of Form

Use Form 6251 to figure the amount, if any, of your alternative minimum tax (AMT) and to figure any credit limitations. The tax laws give special treatment to some types of income, allow special deductions for some types of expenses, and allow credits to certain taxpayers. These laws enable some taxpayers with substantial economic income to significantly reduce their regular tax. The AMT ensures that these taxpayers pay at least a minimum amount of tax.

Who Must File

Attach Form 6251 to your return if:
- Line 31 is greater than line 34,
- You claim any general business credit, the qualified electric vehicle credit, the nonconventional source fuel credit, or the credit for prior year minimum tax, **or**
- The total of lines 8 through 27 is negative and line 31 would exceed line 34 if you did not take lines 8 through 27 into account.

Recordkeeping

For the AMT, certain items of income, deductions, etc., receive different tax treatment than for the regular tax. Therefore, you need to refigure items for the AMT that you figured for the regular tax. In some cases, you may wish to do this by completing the applicable tax form a second time. If you do complete another form, **do not** attach it to your tax return (except for **Form 1116,** Foreign Tax Credit—see the instructions for line 32 on page 7), but keep it for your records.

For the regular tax, some deductions and credits may result in carrybacks or carryforwards to other tax years. Examples are investment interest expense, a net operating loss, a capital loss, a passive activity loss, and the foreign tax credit. Because you may have to refigure these items for the AMT, the carryback or carryforward amount may be different for the AMT than for the regular tax. Your at-risk limits and basis amounts also may differ for the AMT. Therefore, you must keep records of these different amounts.

Partners and Shareholders

If you are a partner in a partnership or a shareholder in an S corporation, see Schedule K-1 and its instructions to figure your adjustments or preferences from the partnership or S corporation to include on Form 6251.

Nonresident Aliens

If you are a nonresident alien and you disposed of U.S. real property interests at a gain, you must make a special computation. Fill in Form 6251 through line 30. If your net gain from the disposition of U.S. real property interests and the amount on line 28 are **both** greater than the tentative amount you figured for line 30, replace the amount on line 30 with the smaller of that net gain or the amount on line 28. Also, write "RPI" on the dotted line next to line 30. Otherwise, do not change line 30.

Note: *If you are filing Form 1040NR, treat any reference in these instructions or on Form 6251 to a line on Form 1040 as a reference to the corresponding line on Form 1040NR.*

Credit for Prior Year Minimum Tax

See **Form 8801,** Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts, if you paid AMT for 2001 or you had a minimum tax credit carryforward on your 2001 Form 8801. If you pay AMT for 2002, you may be able to take a credit on Form 8801 for 2003.

Optional Write-Off for Certain Expenditures

There is no AMT adjustment for the following items if you elect for the regular tax to deduct them ratably over the period of time shown.
- Circulation expenditures—3 years (section 173).
- Research and experimental expenditures—10 years (section 174(a)).
- Mining exploration and development costs—10 years (sections 616(a) and 617(a)).
- Intangible drilling costs—60 months (section 263(c)).

See section 59(e) for more details.

Specific Instructions

CAUTION *Your regular tax may be smaller if you claim a standard deduction on Form 1040 instead of itemizing deductions. However, if you owe AMT, the amount of your total tax (regular tax* ***plus*** *AMT) may be smaller if you itemize your deductions. You* ***may not*** *claim the standard deduction on Form 1040 and use itemized deductions to complete Form 6251.*

Part I—Alternative Minimum Taxable Income (AMTI)

CAUTION *To avoid duplication, any adjustment or preference for line 5, 18, or 19 or for a tax shelter farm activity on line 26 must not be taken into account in figuring the amount to enter for any other adjustment or preference.*

Line 1

If Form 1040, line 41, includes a write-in amount (such as a capital construction fund deduction for commercial fishermen), adjust line 1 by the write-in amount. If your taxable income includes an amount from the alcohol fuel credit under section 87, reduce line 1 by that amount.

Line 3—Taxes

Do not include generation-skipping transfer taxes on income distributions.

Line 4—Certain Home Mortgage Interest

Include on this line home mortgage interest from line 10, 11, or 12 of Schedule A (Form 1040) **except** for interest on a mortgage whose proceeds were used to:

1. Buy, build, or substantially improve **(a)** your main home or **(b)** your second home that is a qualified dwelling (as defined on page 2) or

2. Refinance a mortgage that meets the requirements of **1** above, but only to the extent that the refinanced amount did not exceed the balance of that mortgage immediately before the refinancing.

Exception. If the mortgage was taken out before July 1, 1982, **do not** include interest on the mortgage if it was secured by property that was your main home or a qualified dwelling used by you or a member of your family at the time the mortgage was taken out. See section 56(e)(3).

A **qualified dwelling** is any house, apartment, condominium, or mobile home not used on a transient basis.

Line 7—Refund of Taxes

Include any refund from Form 1040, line 10, that is attributable to state or local income taxes deducted after 1986. Also include any refunds received in 2002 and included in income on Form 1040, line 21, that are attributable to state or local personal property taxes, foreign income taxes, or state, local, or foreign real property taxes deducted after 1986. If you include an amount from line 21, you **must** write a description and the amount next to the entry space for line 7. For example, if you include a refund of real property taxes, write "real property" and the amount next to the entry space.

Line 8—Investment Interest

If you completed **Form 4952,** Investment Interest Expense Deduction, figure your AMT investment interest expense on another Form 4952 as follows.

Step 1. Follow the Form 4952 instructions for line 1, but also include the following amounts when completing line 1.

- Any interest expense on line 4 of Form 6251 that was paid or accrued on indebtedness attributable to property held for investment within the meaning of section 163(d)(5) (for example, interest on a home equity loan whose proceeds were invested in stocks or bonds).
- Any interest that would have been deductible if interest earned on private activity bonds issued after August 7, 1986, had been includible in gross income.

Step 2. Enter your **AMT** disallowed investment interest expense from 2001 on line 2. Complete line 3.

Step 3. When completing Part II, refigure the following amounts, taking into account all adjustments and preferences.

- Gross income from property held for investment.
- Net gain from the disposition of property held for investment.
- Investment expenses.

Include any interest income and investment expenses from private activity bonds issued after August 7, 1986.

Step 4. Complete Part III.

Enter on line 8 the difference between line 8 of your AMT Form 4952 and line 8 of your regular tax Form 4952. If your AMT expense is greater, enter the difference as a negative amount.

Note: *If you did not itemize deductions and you had investment interest expense, do not enter an amount on Form 6251, line 8, unless you reported investment interest expense on Schedule E. If you did, follow the steps above for completing Form 4952. Allocate the investment interest expense allowed on line 8 of the AMT Form 4952 in the same way you did for the regular tax. Enter on Form 6251, line 8, the difference between the amount allowed on Schedule E for the regular tax and the amount allowed on Schedule E for the AMT.*

Line 9—Depletion

You must refigure your depletion deduction for the AMT. To do so, use only income and deductions allowed for the AMT when refiguring the limit based on taxable income from the property under section 613(a) and the limit based on taxable income, with certain adjustments, under section 613A(d)(1). Also, your depletion deduction for mines, wells, and other natural deposits under section 611 is limited to the property's adjusted basis at the end of the year, as refigured for the AMT, unless you are an independent producer or royalty owner claiming percentage depletion for oil and gas wells under section 613A(c). Figure this limit separately for each property. When refiguring the property's adjusted basis, take into account any AMT adjustments you made this year or in previous years that affect basis (other than current year depletion).

Enter the difference between the regular tax and AMT deduction. If the AMT deduction is greater, enter the difference as a negative amount.

Line 11—Interest From Private Activity Bonds

Enter on line 11 interest you earned on "specified private activity bonds" reduced (but not below zero) by any deduction that would have been allowable if the interest were includible in gross income for the regular tax. Generally, the term "specified private activity bond" means any private activity bond (as defined in section 141) issued after August 7, 1986. See section 57(a)(5) for exceptions and more details.

Exempt-interest dividends paid by a regulated investment company are treated as interest income on specified private activity bonds to the extent the dividends are attributable to interest on the bonds received by the company, minus an allocable share of the expenses paid or incurred by the company in earning the interest.

If you are filing **Form 8814,** Parents' Election To Report Child's Interest and Dividends, any tax-exempt interest income from line 1b of that form that is a preference item must be included on this line.

Line 12—Qualified Small Business Stock

If you claimed the exclusion under section 1202 for gain on qualified small business stock held more than 5 years, multiply the excluded gain (as shown on Schedule D (Form 1040)) by 42% (.42). Enter the result as a positive amount.

Line 13—Exercise of Incentive Stock Options

For the regular tax, no income is recognized when an incentive stock option (ISO), as defined in section 422(b), is exercised. However, this rule does not apply for the AMT. Instead, you generally must include on line 13 the excess, if any, of:

- The fair market value of the stock acquired through exercise of the option (determined without regard to any lapse restriction) when your rights in the acquired stock first become transferable or when these rights are no longer subject to a substantial risk of forfeiture **over**
- The amount you paid for the stock, including any amount you paid for the ISO used to acquire the stock.

Note: *Even if your rights in the stock are not transferable and are subject to a substantial risk of forfeiture, you may elect to include in AMT income the excess of the stock's fair market value (determined without regard to any lapse restriction) over the exercise price upon the transfer to you of the stock acquired through exercise of the option. You must make the election by the 30th day after the date of the transfer. See Pub. 525 for more details.*

If you acquired stock by exercising an ISO and you disposed of that stock in the same year, the tax treatment under the regular tax and the AMT is the same, and no adjustment is required.

Increase your AMT basis in any stock acquired through the exercise of an ISO by the amount of the adjustment. Keep adequate records for both the AMT and regular tax so that you may figure your adjustment. See the instructions for line 16.

Line 15—Large Partnerships

If you were a partner in an electing large partnership, enter the amount from Schedule K-1 (Form 1065-B), box 6. Take into account any amount from box 5 on Form 6251, line 18.

Line 16—Disposition of Property

Use this line to report any AMT adjustment related to the disposition of property resulting from refiguring:

1. Gain or loss from the sale, exchange, or involuntary conversion of property reported on **Form 4797,** Sales of Business Property;

2. Casualty gain or loss to business or income-producing property reported on **Form 4684,** Casualties and Thefts;

3. Ordinary income from the disposition of property not already taken into account in **1** or **2** above or on any other line on Form 6251, such as a disqualifying disposition of stock acquired in a prior year by exercising an incentive stock option; and

4. Capital gain or loss (including any carryover that is different for the AMT) reported on **Schedule D** (Form 1040), Capital Gains and Losses.

CAUTION *The $3,000 capital loss limitation for the regular tax applies **separately** for the AMT. See the instructions and example below.*

First figure any ordinary income adjustment related to **3** above. Then, refigure Form 4684, Form 4797, and Schedule D for the AMT, if applicable, by taking into account any adjustments you made this year or in previous years that affect your basis or otherwise result in a different amount for the AMT. If you have a capital loss after refiguring Schedule D for the AMT, apply the $3,000 capital loss limitation separately to the AMT loss. For each of the four items listed above, figure the difference between the amount included in taxable income for the regular tax and the amount included in income for the AMT. Treat the difference as a negative amount if **(a)** both the AMT and regular tax amounts are zero or more and the AMT amount is less than the regular tax amount or **(b)** the AMT amount is a loss, and the regular tax amount is a smaller loss or zero or more.

Enter on line 16 the combined adjustments for the 4 items above.

Example. On March 13, 2001, Victor Ash, whose filing status is single, paid $20,000 to exercise an incentive stock option (which was granted to him on January 2, 2000) to buy 200 shares of stock worth $200,000. The $180,000 difference between his cost and the value of the stock at the time he exercised the option is not taxable for the regular tax. His regular tax basis in the stock at the end of 2001 is $20,000. For the AMT, however, Ash must include the $180,000 as an adjustment on his 2001 Form 6251. His AMT basis in the stock at the end of 2001 is $200,000.

On January 20, 2002, Ash sold 100 of the shares for $75,000. Because Ash did not hold these shares more than 1 year, that sale is a disqualifying disposition. For the regular tax, Ash has ordinary income of $65,000 (proceeds minus his $10,000 basis in the 100 shares). Ash has no capital gain or loss for the regular tax resulting from the sale. For the AMT, Ash has no ordinary income, but has a short-term capital loss of $25,000 (proceeds minus his $100,000 AMT basis in the 100 shares).

On April 20, 2002, Ash sold the other 100 shares for $60,000. Because he held the shares for more than 1 year, the sale is not a disqualifying disposition. For the regular tax, Ash has a long-term capital gain of $50,000 (proceeds minus his regular tax basis of $10,000). For the AMT, Ash has a long-term capital loss of $40,000 (proceeds minus his AMT basis of $100,000).

Ash has no other sales of stock or other capital assets for 2002. Ash enters a total negative adjustment of $118,000 on line 16 of his 2002 Form 6251, figured as follows:

- Ash figures a negative adjustment of $65,000 for the difference between the $65,000 of regular tax ordinary income and the $0 of AMT ordinary income for the first sale.
- For the regular tax, Ash has $50,000 capital gain net income reported on Schedule D for the second sale. For the AMT, Ash has a $25,000 short-term capital loss from the first sale, and a $40,000 long-term capital loss from the second sale, resulting in a net capital loss of $65,000 for the AMT. However, only $3,000 of the $65,000 net capital loss is allowed for 2002 for the AMT. The difference between the regular tax Schedule D gain of $50,000 and the $3,000 loss allowed for the AMT results in a $53,000 negative adjustment to include on line 16.

Ash has an AMT capital loss carryover from 2002 to 2003 of $62,000, of which $22,000 is short-term and $40,000 is long-term. If he has no other Schedule D transactions for 2003, his adjustment reported on line 16 of his 2003 Form 6251 would be limited to ($3,000), the amount of his capital loss limitation for 2003.

Line 17—Post-1986 Depreciation

This section describes when depreciation must be refigured for the AMT and how to figure the amount to enter on line 17.

Do not use line 17 for depreciation related to the following.

- Employee business expenses claimed on line 20 of Schedule A (Form 1040). Take this adjustment into account on line 5.
- Passive activities. Take this adjustment into account on line 18.
- An activity for which you are not at risk or income or loss from a partnership or an S corporation if the basis limitations apply. Take this adjustment into account on line 19.
- A tax shelter farm activity. Take this adjustment into account on line 26.

What Depreciation Must Be Refigured for the AMT?

Generally, you must refigure depreciation for the AMT, including depreciation allocable to inventory costs, for:

- Property placed in service after 1998 that is depreciated for the regular tax using the 200% declining balance method (generally 3-, 5-, 7-, and 10-year property under the modified accelerated cost recovery system (MACRS), except for qualified property eligible for the special depreciation allowance (see below));
- Section 1250 property placed in service after 1998 that is **not** depreciated for the regular tax using the straight line method; and
- Tangible property placed in service after 1986 and before 1999 (if the transitional election was made under section 203(a)(1)(B) of the Tax Reform Act of 1986, this rule applies to property placed in service after July 31, 1986).

What Depreciation Is Not Refigured for the AMT?

Do not refigure depreciation for the AMT for the following.

- Residential rental property placed in service after 1998.
- Nonresidential real property with a class life of 27.5 years or more placed in service after 1998 that is depreciated for the regular tax using the straight line method.
- Other section 1250 property placed in service after 1998 that is depreciated for the regular tax using the straight line method.
- Property (other than section 1250 property) placed in service after 1998 that is depreciated for the regular tax using the 150% declining balance method or the straight line method.
- Property for which you elected to use the alternative depreciation system (ADS) of section 168(g) for the regular tax.
- Property that is qualified property under section 168(k)(2) (property eligible for the special depreciation allowance). The special allowance is deductible for the AMT, and there also is no adjustment required for any depreciation figured on the remaining basis of the qualified property. Property for which an election is in effect under section 168(k)(2)(C)(iii) to not have the special allowance apply is **not** qualified property. See

the Instructions for Form 4562 for the definition of qualified property.

- Any part of the cost of any property for which you made the election under section 179 to treat the cost of the property as a deductible expense. The reduction to the depreciable basis of section 179 property by the amount of the section 179 expense deduction is the same for the regular tax and the AMT.
- Motion picture films, videotapes, or sound recordings.
- Property depreciated under the unit-of-production method or any other method not expressed in a term of years.
- Qualified Indian reservation property.
- Qualified revitalization expenditures for a building for which you elected to claim the commercial revitalization deduction under section 1400I.

How Is Depreciation Refigured for the AMT?

Property placed in service before 1999. Refigure depreciation for the AMT using ADS, with the same convention used for the regular tax. See the table below for the method and recovery period to use.

Property Placed in Service Before 1999	
IF the property is...	**THEN use the...**
Section 1250 property.	Straight line method over 40 years.
Tangible property (other than section 1250 property) depreciated using straight line for the regular tax.	Straight line method over the property's AMT class life.
Any other tangible property.	150% declining balance method, switching to straight line the first tax year it gives a larger deduction, over the property's AMT class life.

Property placed in service after 1998. Use the same convention and recovery period used for the regular tax. For property other than section 1250 property, use the 150% declining balance method, switching to straight line the first tax year it gives a larger deduction. For section 1250 property, use the straight line method.

How Is the AMT Class Life Determined?

The class life used for the AMT is not necessarily the same as the recovery period used for the regular tax. The class lives for the AMT are listed in Rev. Proc. 87-56, 1987-2 C.B. 674, and in **Pub. 946,** How To Depreciate Property. Use 12 years for any tangible personal property not assigned a class life.

TIP *See Pub. 946 for optional tables that may be used to figure AMT depreciation. Rev. Proc. 89-15, 1989-1 C.B. 816, has special rules for short years and for property disposed of before the end of the recovery period.*

How Is the Adjustment Figured?

Subtract the AMT deduction for depreciation from the regular tax deduction and enter the result. If the AMT deduction is more than the regular tax deduction, enter the difference as a negative amount.

In addition to the AMT adjustment to your deduction for depreciation, you must also adjust the amount of depreciation that was capitalized, if any, to account for the difference between the rules for the regular tax and the AMT. Include on this line the current year adjustment to taxable income, if any, resulting from the difference.

Line 18—Passive Activities

Your passive activity gains and losses must be refigured for the AMT by taking into account all adjustments and preferences and any AMT prior year unallowed losses that apply to that activity. You may fill out a second **Form 8582,** Passive Activity Loss Limitations, and the other forms or schedules on which your passive activities are reported, to determine your passive activity loss allowed for the AMT, but **do not** file the second set of forms and schedules with your tax return.

Example. You are a partner in a partnership and the Schedule K-1 (Form 1065) you received shows the following.

- A passive activity loss of $4,125,
- A depreciation adjustment of $500 on post-1986 property, and
- An adjustment of $225 on the disposition of property.

Because the two adjustments above are not allowed for the AMT, you must first reduce the passive activity loss by those amounts. The result is a passive activity loss for the AMT of $3,400. You then enter this amount on the AMT Form 8582 and refigure the allowable passive activity loss for the AMT.

Note: *The amount of any AMT passive activity loss that is not deductible and is carried forward is likely to differ from the regular tax amount, if any. Therefore, keep adequate records for both the AMT and regular tax.*

Enter the difference between the amount that would be reported for the activity on Schedule C, C-EZ, E, or F or **Form 4835,** Farm Rental Income and Expenses, for the AMT and the regular tax amount. If **(a)** the AMT loss is more than the regular tax loss, **(b)** the AMT gain is less than the regular tax gain, **or (c)** you have an AMT loss and a regular tax gain, enter the adjustment as a negative amount.

Enter any adjustment for amounts reported on Schedule D, Form 4684, or Form 4797 for the activity on line 16 instead of line 18. See the instructions for line 16.

Publicly Traded Partnership (PTP)

If you had a loss from a PTP, refigure the loss using any AMT adjustments and preferences and any AMT prior year unallowed loss.

Tax Shelter Passive Farm Activities

Refigure any gain or loss from a tax shelter passive farm activity taking into account all AMT adjustments and preferences and any AMT prior year unallowed losses. If the amount is a gain, include it on the AMT Form 8582. If the amount is a loss, do not include it on the AMT Form 8582. Carry the loss forward to 2003 to see if you have a gain or loss from tax shelter passive farm activities for 2003.

Insolvency

If at the end of the tax year your liabilities exceed the fair market value of your assets, increase your passive activity loss allowed by that excess (but not by more than your total loss). See section 58(c)(1).

Line 19—Loss Limitations

For passive activities, see the line 18 instructions on this page instead. For tax shelter farm activities (that are not passive), see the line 26 instructions on page 5.

Refigure your gains and losses from activities for which you are not at risk and basis limitations applicable to partnerships and S corporations by taking into account all AMT adjustments and preferences that apply. See sections 59(h), 465, 704(d), and 1366(d).

Enter the difference between the amount that would be reported for the activity on Schedule C, C-EZ, E, or F or Form 4835 for the AMT and the regular tax amount. If **(a)** the AMT loss is more than the regular tax loss, **(b)** the AMT gain is less than the regular tax gain, **or (c)** you have an AMT loss and a regular tax gain, enter the adjustment as a negative amount.

The AMT amount of any gain or loss from activities for which you are not at risk is likely to differ from the regular tax amount. Your AMT basis in partnerships and S corporations is also likely to differ from your regular tax basis. Therefore, keep adequate records for both the AMT and regular tax.

Enter any adjustment for amounts reported on Schedule D, Form 4684, or Form 4797 for the activity on line 16 instead.

Line 20—Circulation Costs

Note: *Do not make this adjustment for costs for which you elected the optional 3-year write-off for the regular tax.*

Circulation costs deducted in full for the regular tax in the year they were paid or incurred must be capitalized and amortized over 3 years for the AMT. Enter the difference between the regular tax and AMT deduction. If the AMT deduction is greater, enter the difference as a negative amount.

If you had a loss on property for which circulation costs have not been fully amortized for the AMT, your AMT deduction is the **smaller** of **(a)** the amount of the loss allowable for the costs had they remained capitalized or **(b)** the remaining costs to be amortized for the AMT.

Line 21—Long-Term Contracts

For the AMT, you generally must use the percentage-of-completion method described in section 460(b) to determine your income from any long-term contract (defined in section 460(f)). However, this rule does not apply to any home construction contract (as defined in section 460(e)(6)). For contracts excepted from the percentage-of-completion method for the regular tax by section 460(e)(1), you must use the simplified procedures for allocating costs outlined in section 460(b)(3) to determine the percentage of completion.

Enter the difference between the AMT and regular tax income. If the AMT income is smaller, enter the difference as a negative amount.

Note: *If you are required to use the percentage-of-completion method for either the regular tax or the AMT, you may owe or be entitled to a refund of interest for the tax year the contract is completed or adjusted. For details, see **Form 8697,** Interest Computation Under the Look-Back Method for Completed Long-Term Contracts.*

Line 22—Mining Costs

Note: *Do not make this adjustment for costs for which you elected the optional 10-year write-off for the regular tax.*

Mining exploration and development costs deducted in full for the regular tax in the tax year they were paid or incurred must be capitalized and amortized over 10 years for the AMT. Enter the difference between the regular tax and AMT deduction. If the AMT deduction is greater, enter the difference as a negative amount.

If you had a loss on property for which mining costs have not been fully amortized for the AMT, your AMT deduction is the smaller of **(a)** the loss allowable for the costs had they remained capitalized or **(b)** the remaining costs to be amortized for the AMT.

Line 23—Research and Experimental Costs

Note: *Do not make this adjustment for costs paid or incurred in connection with an activity in which you materially participated under the passive activity rules or for costs for which you elected the optional 10-year write-off for the regular tax.*

Research and experimental costs deducted in full for the regular tax in the tax year they were paid or incurred must be capitalized and amortized over 10 years for the AMT. Enter the difference between the regular tax and AMT deduction. If the AMT deduction is greater, enter the difference as a negative amount.

If you had a loss on property for which research and experimental costs have not been fully amortized for the AMT, your AMT deduction is the smaller of **(a)** the loss allowable for the costs had they remained capitalized or **(b)** the remaining costs to be amortized for the AMT.

Line 24—Installment Sales

The installment method does not apply for the AMT to any nondealer disposition of property after August 16, 1986, but before January 1, 1987, if an installment obligation to which the proportionate disallowance rule applied arose from the disposition. Enter on line 24 the amount of installment sale income reported for the regular tax.

Line 25—Intangible Drilling Costs (IDCs)

Note: *Do not make this adjustment for costs for which you elected the optional 60-month write-off for the regular tax.*

IDCs from oil, gas, and geothermal wells are a preference to the extent that the excess IDCs exceed 65% of the net income from the wells. Figure the preference for all oil and gas properties separately from the preference for all geothermal properties.

Figure **excess IDCs** as follows.

Step 1. Determine the amount of your IDCs allowed for the regular tax under section 263(c), but do not include any section 263(c) deduction for nonproductive wells.

Step 2. Subtract the amount that would have been allowed had you amortized these IDCs over a 120-month period starting with the month the well was placed in production.

Note: *If you prefer not to use the 120-month period, you may elect to use any method that is permissible in determining cost depletion.*

Determine **net income** by reducing the gross income that you received or accrued during the tax year from all oil, gas, and geothermal wells by the deductions allocable to those wells (reduced by the excess IDCs). When refiguring net income, use only income and deductions allowed for the AMT.

Exception. The preference for IDCs from oil and gas wells does not apply to taxpayers who are independent producers (that is, not integrated oil companies as defined in section 291(b)(4)). However, this benefit may be limited. First, figure the IDC preference as if this exception did not apply. Then, for purposes of this exception, complete Form 6251 through line 26, including the IDC preference, and combine lines 1 through 26. If the amount of the IDC preference exceeds 40% of the total of lines 1 through 26, enter the excess on line 25 (your benefit from this exception is limited). Otherwise, do not enter an amount on line 25 (your benefit from this exception is not limited).

Line 26—Other Adjustments

Enter on line 26 the total of any other adjustments that apply to you, including the following.

Depreciation Figured Using Pre-1987 Rules

Note: *This preference generally only applies to property placed in service after 1987, but depreciated using pre-1987 rules due to transitional provisions of the Tax Reform Act of 1986.*

For the AMT, you must use the straight line method to figure depreciation on real property for which accelerated depreciation was determined using pre-1987 rules. Use a recovery period of 19 years for 19-year real property and 15 years for low-income housing. For leased personal property other than recovery property, enter the amount by which your regular tax depreciation using the pre-1987 rules exceeds the depreciation allowable using the straight line method. For leased 10-year recovery property and leased 15-year public utility property, enter the amount by which your regular tax depreciation exceeds the depreciation allowable using the straight line method with a half-year convention, no salvage value, and a recovery period of 15 years (22 years for 15-year public utility property).

Figure the excess of the regular tax depreciation over the AMT depreciation separately for each property and include on line 26 only positive amounts.

Patron's Adjustment

Distributions you received from a cooperative may be includible in income. Unless the distributions are nontaxable, include on line 26 the total AMT patronage dividend adjustment reported to you by the cooperative.

Pollution Control Facilities

The section 169 election to amortize the basis of a certified pollution control facility over a 60-month period is not available for the AMT. For facilities placed in service before 1999, figure the AMT deduction using ADS. For facilities placed in service after 1998, figure the AMT deduction under MACRS using the straight line method. Enter the difference between the regular tax and AMT deduction. If the AMT amount is greater, enter the difference as a negative amount.

Tax Shelter Farm Activities

Figure this adjustment only if you have a gain or loss from a tax shelter farm activity (as defined in section 58(a)(2)) that is **not** a passive activity. If the activity **is** passive, you must include it with your other passive activities on line 18.

Refigure all gains and losses you reported for the regular tax from tax shelter farm activities by taking into account any AMT adjustments and preferences. Determine your tax shelter farm activity gain or loss for the AMT using the same rules you used for the regular tax with the following modifications. No refigured loss is allowed, except to the extent you are insolvent (see section 58(c)(1)). A refigured loss may not be used in the current tax year to offset gains from other tax shelter farm activities. Instead, any refigured loss must be suspended and carried forward indefinitely until **(a)** you have a gain in a subsequent tax year from that same activity **or (b)** you dispose of the activity.

Enter the difference between the amount that would be reported for the activity on Schedule E or F or Form 4835 for the AMT and the regular tax amount. If **(a)** the AMT loss is more than the regular tax loss, **(b)** the AMT gain is less than the regular tax gain, **or (c)** you have an AMT loss and a regular tax gain, enter the adjustment as a negative amount.

Enter any adjustment for amounts reported on Schedule D, Form 4684, or Form 4797 for the activity on line 16 instead.

Charitable Contributions of Certain Property

If you made a charitable contribution of property to which section 170(e) applies and you had a different basis for AMT purposes, you may have to make an adjustment. See section 170(e) for details.

Related Adjustments

If you have an entry on line 8 because you deducted investment interest allocable to an interest in a trade or business, or on line 9, 12, 13, 15 through 25, or you have any amount included on line 26 from pre-1987 depreciation, patron's adjustment, pollution control facilities, or tax shelter farm activities, you may have to refigure any item of income or deduction based on a limit of income **other than** AGI or modified AGI.

Affected items include the following.

- Section 179 expense deduction (Form 4562, line 12).
- Expenses for business or rental use of your home.
- Conservation expenses (Schedule F, line 14).
- Taxable IRA distributions (Form 1040, line 15b), if prior year IRA deductions were different for the AMT and the regular tax.
- Self-employed health insurance deduction (Form 1040, line 30).
- Self-employed SEP, SIMPLE, and qualified plans deduction (Form 1040, line 31).
- IRA deduction (Form 1040, line 24), affected by the earned income limitation of section 219(b)(1)(B).

Figure the difference between the AMT and regular tax amount for each item. Combine the amounts for all your related adjustments and include the total on line 26. Keep a copy of all computations for your records, including any AMT carryover and basis amounts.

Note: *Do not include on line 26 any adjustment for an item you refigured on another line of this form (for example, line 9).*

Example. On your Schedule C (Form 1040) you have a net profit of $9,000 before figuring your section 179 deduction (and you do not report any other business income on your return). During the year, you purchased an asset for $10,000 for which you elect to take the section 179 deduction. You also have an AMT depreciation adjustment of $700 for other assets depreciated on your Schedule C.

Your section 179 deduction for the regular tax is limited to your net profit (before any section 179 deduction) of $9,000. The $1,000 excess is a section 179 deduction carryforward for the regular tax.

For the AMT, your net profit is $9,700, and you are allowed a section 179 deduction of $9,700 for the AMT. You have a section 179 deduction carryforward of $300 for the AMT.

You include a $700 negative adjustment on line 26 because your section 179 deduction for the AMT is $700 greater than your allowable regular tax deduction. In the following year, when you use the $1,000 regular tax carryforward, you will have a $700 positive related adjustment for the AMT because your AMT carryforward is only $300.

Line 27—Alternative Tax Net Operating Loss Deduction (ATNOLD)

The ATNOLD is the sum of the alternative tax net operating loss (ATNOL) carryovers and carrybacks to the tax year, subject to the limitation explained below. Figure your ATNOLD as follows.

Your ATNOL for a loss year is the excess of the deductions allowed for figuring AMTI (excluding the ATNOLD) over the income included in AMTI. Figure this excess with the modifications in section 172(d), taking into account the adjustments in sections 56 and 58 and preferences in section 57 (that is, the section 172(d) modifications must be separately figured for the ATNOL). For example, the limitation of nonbusiness deductions to the amount of nonbusiness income must be separately figured for the ATNOL, using only nonbusiness income and deductions that are included in AMTI.

For 2001 and 2002, your ATNOLD is generally limited to your AMTI (figured without regard to the ATNOLD). However, for an ATNOL carried back to 2001 or 2002 from a tax year after 2002, and for ATNOLs carried back from 2001 or 2002 to a tax year before 2001, the ATNOLD for the tax year is limited to the sum of:

1. The **smaller** of:

a. The sum of the ATNOL carrybacks to the tax year from tax years before 2001 or after 2002, and the ATNOL carryforwards to the tax year (unless the tax year is 2001 or 2002) **or**

b. Ninety percent of AMTI for the tax year (figured without regard to the ATNOLD) **plus**

2. The **smaller** of:

a. The sum of the ATNOL carrybacks to the tax year from 2001 or 2002 and the ATNOL carryforwards to the tax year (if the tax year is 2001 or 2002) **or**

b. AMTI for the tax year (figured without regard to the ATNOLD) reduced by the amount determined under **1** above.

To figure your AMTI without regard to the ATNOLD for 2002, first figure a tentative amount for line 9 by treating line 27 as if it were zero. Next, figure a tentative total of lines 1 through 26 using the tentative line 9 amount and treating line 27 as if it were zero. The tentative total for lines 1 through 26 is your AMTI figured without regard to the ATNOLD.

Enter on line 27 the smaller of the ATNOLD or the ATNOLD limitation.

Any ATNOL not used may be carried back up to 10 years or forward up to 20 years (15 years for loss years beginning before 1998) (see section 172(b)). The treatment of ATNOLs does not affect your regular tax NOL.

Note: *If you elected under section 172(b)(3) to forego the carryback period for the regular tax, the election also applies for the AMT.*

Line 28—Alternative Minimum Taxable Income

If your filing status is married filing separately and line 28 is more than $173,000, you must include an additional amount on line 28. If line 28 is $271,000 or more, include an additional $24,500. Otherwise, include 25% of the excess of the amount on line 28 over $173,000. For example, if the amount on line 28 is $193,000, enter $198,000 instead—the additional $5,000 is 25% of $20,000 ($193,000 minus $173,000).

Special Rule for Holders of a Residual Interest in a REMIC

If you held a residual interest in a real estate mortgage investment conduit (REMIC) in 2002, the amount you enter on line 28 may not be less than the amount on Schedule E, line 37, column (c). If the amount in column (c) is larger than the amount you would otherwise enter on line 28, enter the amount from column (c) instead and write “Sch. Q” on the dotted line next to line 28.

Part II—Alternative Minimum Tax

Line 29—Exemption Amount

If line 28 is more than the amount shown for your filing status in the middle column of the chart on line 29, see the worksheet on this page to figure the amount to enter on line 29.

Child Under Age 14

If this form is for a child under age 14, complete the worksheet on this page. A **child under age 14** is a child who was born after January 1, 1989, and at least one of whose parents was alive at the end of 2002.

Line 8 of the worksheet. Earned income includes wages, tips, and other amounts received for personal services performed. If the child is engaged as a sole proprietor or as a partner in a trade or business in which both personal services and capital are material income-producing factors, earned income also includes a reasonable allowance for compensation for personal services rendered by the child, but not more than 30% of his or her share of the net profits from that trade or business (after subtracting the deduction for one-half of self-employment tax). However, the 30% limit does not apply if there are no net profits from the trade or business. If capital is not an income-producing factor and the child's personal services produced the business income, all of the child's gross income from the trade or business is considered earned income.

Line 32—Alternative Minimum Tax Foreign Tax Credit (AMTFTC)

TIP *To see if you need to figure your AMTFTC, fill in line 34 of Form 6251 as instructed (you will first need to figure your foreign tax credit for the regular tax and complete Form 1040, line 45). If the amount on line 34 is greater than or equal to the amount on line 31, you do not owe the AMT. Enter zero on line 35 and see **Who Must File** on page 1 to find out if you must attach Form 6251 to your return. However, even if you do not owe the AMT, you may need to complete line 32 to see if you have an AMTFTC carryback or carryforward to other tax years.*

Your AMTFTC is your foreign tax credit refigured as follows.

1. Use a separate AMT Form 1116 for each separate limitation category specified at the top of Form 1116. Write “AMT” in the top margin of each Form 1116.

Note: *When applying the separate limitation categories, use the applicable AMT rate instead of the regular tax rate to determine if any income is “high-taxed.”*

2. If you previously made or are making the **simplified limitation election** (see page 8), skip Part I and enter on the AMT Form 1116, line 16, the same amount you entered on that line for the regular tax. If you did not complete Form 1116 for the regular tax and you previously made or are making the simplified limitation election, complete Part I and lines 14 through 16 of the AMT Form 1116 using regular tax amounts.

If the election does not apply, complete Part I using only income and deductions that are allowed for the AMT and attributable to sources outside the United States. If the Instructions for Form 1116 require you to complete Worksheet A or B, you must first complete an AMT Worksheet for Line 17, following the instructions under **5** on the next page.

Exemption Worksheet—Line 29

Keep for Your Records

Note: *If Form 6251, line 28, is equal to or more than: $255,500 if single or head of household; $346,000 if married filing jointly or qualifying widow(er); or $173,000 if married filing separately; your exemption is zero.* ***Do not*** *complete this worksheet; instead, enter the amount from Form 6251, line 28, on line 30 and go to line 31.*

1.	Enter: $35,750 if single or head of household; $49,000 if married filing jointly or qualifying widow(er); $24,500 if married filing separately		**1.**	
2.	Enter your alternative minimum taxable income (AMTI) from Form 6251, line 28	**2.**		
3.	Enter: $112,500 if single or head of household; $150,000 if married filing jointly or qualifying widow(er); $75,000 if married filing separately	**3.**		
4.	Subtract line 3 from line 2. If zero or less, enter -0-	**4.**		
5.	Multiply line 4 by 25% (.25)		**5.**	
6.	Subtract line 5 from line 1. If zero or less, enter -0-. If this form is for a child under age 14, go to line 7 below. Otherwise, **stop here** and enter this amount on Form 6251, line 29, and go to Form 6251, line 30 ▶		**6.**	
7.	Child's minimum exemption amount		**7.**	$5,500
8.	Enter the **child's earned income,** if any (see instructions)		**8.**	
9.	Add lines 7 and 8		**9.**	
10.	Enter the **smaller** of line 6 or line 9 here and on Form 6251, line 29, and go to Form 6251, line 30 ▶		**10.**	

3. Complete Part II and lines 9 through 13 of the AMT Form 1116. Use your AMTFTC carryover, if any, on line 10.

4. If the simplified limitation election does not apply, complete lines 14 through 16 of the AMT Form 1116.

5. If you did not complete Schedule D (Form 1040) for the regular tax and did not complete Part III of Form 6251, enter the AMTI from Form 6251, line 28, on line 17 of the AMT Form 1116 and go to **6** below. Otherwise, follow these steps to complete, for the AMT, the Worksheet for Line 17 in the Form 1116 instructions.

a. Enter the amount from Form 6251, line 28, on line 1 of the AMT Worksheet for Line 17.

b. Complete a Schedule D for the AMT as explained in the instructions for lines 37, 38, 39, and 43 on this page (or, if you already completed an AMT Schedule D to complete Part III of Form 6251, use that Schedule D). Next, enter the amount from Form 6251, line 30, on line 20 of your AMT Schedule D or line 1 of the AMT Schedule D Tax Worksheet. Then, complete lines 24 through 36 of the AMT Schedule D (you may skip lines 25, 31, and 33) or lines 10 through 33 of the AMT Schedule D Tax Worksheet (you may skip lines 15, 19, 21, 25, and 31).

c. Complete the rest of the AMT Worksheet for Line 17 using amounts from the AMT Schedule D or AMT Schedule D Tax Worksheet.

6. Enter the amount from Form 6251, line 31, on the AMT Form 1116, line 19. Complete lines 18, 20, and 21 of the AMT Form 1116.

7. Complete Part IV of the **first** AMT Form 1116 only.

Follow the instructions below to figure the amount to enter on Form 6251, line 32.

If you have no entry on Form 6251, line 27, and no intangible drilling costs (IDCs) (or the exception for IDCs does not apply to you—see the instructions for line 25 on page 5), enter on Form 6251, line 32, the **smaller** of:

- 90% of Form 6251, line 31, or
- The amount from line 33 of the first AMT Form 1116.

If you have an entry on line 27 or the exception for IDCs applies to you:

1. Figure the amount of tax that would be on line 31 if line 27 were zero and the exception did not apply,

2. Multiply the amount from **1** above by 10%,

3. Subtract the amount from **2** above from the tax on line 31, and

4. Enter on Form 6251, line 32, the **smaller** of the amount from **3** above or the amount from line 33 of the first AMT Form 1116.

Attach to your tax return, after Form 6251, all AMT Forms 1116 you used to figure your AMTFTC.

AMTFTC Carryback and Carryforward

If your AMTFTC is limited, the unused amount may be carried back or forward according to sections 59(a)(2)(B) and 904(c).

Simplified Limitation Election

You may elect to use a simplified section 904 limitation to figure your AMTFTC. If you do, use your regular tax income for Form 1116, Part I, instead of refiguring your foreign source income for the AMT, as described earlier. You must make the election for the first tax year after 1997 for which you claim an AMTFTC. If you do not make the election for that year, you may not make it for a later year. Once made, the election applies to all later tax years and may be revoked only with IRS consent.

Part III—Tax Computation Using Maximum Capital Gains Rates

Lines 37, 38, 39, and 43

If you **did not** complete Schedule D (Form 1040) because you reported capital gain distributions directly on Form 1040, line 13, then:

- Enter the amount of your capital gain distributions on Form 6251, lines 37 and 39,
- Skip Form 6251, line 38, and
- Enter on Form 6251, line 43, the amount, if any, from line 7 of the **Capital Gain Tax Worksheet** in the instructions for line 42 of Form 1040.

If you did complete Schedule D, you generally may use the amounts from Schedule D or the Schedule D Tax Worksheet as instructed on Form 6251, lines 37, 38, and 39. But **do not** use those amounts if either of the following applies.

1. Any gain or loss on Schedule D is different for the AMT (for example, because of a different basis for the AMT due to depreciation adjustments, an incentive stock option adjustment, or a different AMT capital loss carryover from 2001).

2. You did not complete Part IV of Schedule D because Form 1040, line 41, is zero.

If **1** or **2** above applies, complete a Schedule D for the AMT as follows. If **1** applies, refigure the amounts for Schedule D, Parts I, II, and III for the AMT; otherwise, use the regular tax amounts. Next, complete line 19 of the AMT Schedule D and lines 21 through 23 (or lines 2 through 9 of an AMT Schedule D Tax Worksheet, if applicable). Use amounts from the AMT Schedule D or AMT Schedule D Tax Worksheet to complete lines 37, 38, and 39 of Form 6251. Keep the AMT Schedule D and worksheet for your records, but **do not** attach the AMT Schedule D to your tax return.

If you did not complete line 28 of Schedule D for the regular tax (or line 16 of the Schedule D Tax Worksheet, if applicable), enter zero on Form 6251, line 43.

Note: ***Do not*** *decrease your section 1202 exclusion by the amount, if any, on line 12.*

Line 46

Generally, you may enter the amount, if any, from Schedule D, line 29, on Form 6251, line 46. However, if your qualified 5-year gain is different for the AMT (for example, because of a different basis), you must complete an AMT **Qualified 5-Year Gain Worksheet** (on page D-8 of the Schedule D instructions). If the amount on any line of the worksheet is different for the AMT, use the AMT amount instead of the regular tax amount. Enter the amount from line 8 of that worksheet on Form 6251, line 46.

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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 average time is: **Recordkeeping,** 19 min.; **Learning about the law or the form,** 1 hr., 11 min.; **Preparing the form,** 1 hr., 38 min.; **Copying, assembling, and sending the form to the IRS,** 34 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.