

Instructions for Form 4255



(Rev. December 2024)

Certain Credit Recapture, Excessive Payments, and Penalties

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

Future Developments

For the latest information about developments related to Form 4255 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form4255](https://www.irs.gov/Form4255).

What's New

Notification of recapture. If you have made a transfer election under section 6418, you must notify the transferee taxpayer of a recapture event. See [Note](#), later.

Emissions tier recapture for clean hydrogen production facility. Emissions tier recapture occurs when the taxpayer fails certain requirements. See [Description of Emissions Tier Recapture](#) and [Worksheet 3](#), later.

Line 1j, column (h). Reporting instructions are added for emissions tier recapture and low-income communities bonus credit recapture. See [Line 1j, column \(h\)](#), later.

Part I. General and specific instructions are added for new Part I for reporting of investment credit recapture related to an elective payment election (EPE) (both gross EPE amounts and net EPE amounts) and a transfer election, an excessive credit transfer, section 6418(g)(3) notification requirements, and excessive payment (EP) and prevailing wage and apprenticeship (PWA) penalty amounts. See [Part I. Summary](#), later.

Partnerships and S corporations. Certain amounts from Form 4255 should be reported directly on the partnership or S corporation return. See [Partnerships and S corporations](#), later.

General Instructions

Purpose of Form

Use Form 4255 to figure the increase in the amount due for certain credit recaptures, excessive payments, excessive credit transfers, and PWA penalty amounts.

Investment Credit Recapture Requirements and Special Rules

Generally, you must refigure the investment credit and may have to recapture all or part of it if any of the following apply. However, when a transfer election under section 6418 has been made, see the note at the end of this section.

- You disposed of investment credit property before the end of 5 full years after the property was placed in service (the recapture period).
- You changed the use of the property before the end of the recapture period so that it no longer qualifies as investment credit property.
- The business use of the property decreased before the end of the recapture period so that it no longer qualifies (in whole or in part) as investment credit property.
- Any building to which section 47(d) applies will no longer be a qualified rehabilitated building when placed in service.
- Any property to which progress expenditures under section 48(b), 48A(b)(3), 48B(b)(3), 48C(b)(2), 48D(b)(5), or 48E applies

will no longer qualify as investment credit property when placed in service.

- Before the end of the recapture period, your proportionate interest was reduced by more than one-third in a partnership, S corporation, estate, or trust that allocated the cost or other basis of property to you for which you claimed a credit.
- You returned leased property (on which you claimed a credit) to the lessor before the end of the recapture period.
- In the case of a project under the Phase II or Phase III gasification program, failure at any time during the applicable recovery period (as defined in section 168(c)) to attain and maintain the separation and sequestration requirements in section 48B(d)(1)(B). For more information, see Notice 2009-23, 2009-16 I.R.B. 802, available at [IRS.gov/irb/2009-16_IRB#NOT-2009-23](https://www.irs.gov/irb/2009-16_IRB#NOT-2009-23), as modified by Notice 2011-24, 2011-14 I.R.B. 603, available at [IRS.gov/irb/2011-14_IRB#NOT-2011-24](https://www.irs.gov/irb/2011-14_IRB#NOT-2011-24); and amplified by Notice 2014-81, 2014-53 I.R.B. 1001, available at [IRS.gov/irb/2014-53_IRB#NOT-2014-81](https://www.irs.gov/irb/2014-53_IRB#NOT-2014-81).
- In the case of a project under the Phase II or Phase III qualifying advanced coal project program, failure during the applicable recovery period (as defined in section 168(c)) to attain and maintain the separation and sequestration requirements in section 48A(e)(1)(G). For more information, see Notice 2009-24, 2009-16 I.R.B. 817, available at [IRS.gov/irb/2009-16_IRB#NOT-2009-24](https://www.irs.gov/irb/2009-16_IRB#NOT-2009-24), as modified by Notice 2011-24, and amplified by Notice 2012-51, 2012-33 I.R.B. 150, available at [IRS.gov/irb/2012-33_IRB#NOT-2012-51](https://www.irs.gov/irb/2012-33_IRB#NOT-2012-51); and Notice 2015-14, 2015-10 I.R.B. 722, available at [IRS.gov/irb/2015-10_IRB#NOT-2015-14](https://www.irs.gov/irb/2015-10_IRB#NOT-2015-14); and Notice 2020-88, 2020-53 I.R.B. 1795, available at [IRS.gov/irb/2020-53_IRB#NOT-2020-88](https://www.irs.gov/irb/2020-53_IRB#NOT-2020-88).
- You engaged in an applicable transaction (involving the material expansion of semiconductor manufacturing capacity), as defined in section 50(a)(6)(D).
- A net increase in the amount of nonqualified nonrecourse financing occurred for any property to which section 49(a)(1) applied. For more details, see [Section C—Recapture From Increase in Nonqualified Nonrecourse Financing](#), later.

Note. When a transfer election under section 6418 has been made, the rules require the transferee taxpayer, which is the taxpayer to which the credit was transferred, to be notified by the eligible taxpayer of a recapture event. The transferee taxpayer then must calculate and is subject to recapture on the recapture amount attributable to the transferred credit. The transferee taxpayer must also notify the eligible taxpayer of the recapture amount so that the eligible taxpayer can make any appropriate basis adjustments as provided under section 50(c). If the eligible taxpayer didn't transfer all of the investment credit, then the eligible taxpayer is subject to recapture on the retained portion of the credit. See section 6418(g)(3) and Regulations section 1.6418-5(d). There are also special rules for partnerships and S corporations in the case of indirect dispositions (for example, the disposition of a partnership interest by a partner as illustrated in [Example 5](#)) where the recapture that results doesn't require notice or the transferee taxpayer to calculate a recapture amount. See Regulations section 1.6418-3(a)(6) for further information.

Exceptions to recapture. Recapture of the investment credit doesn't apply to the following.

- A transfer because of the death of the taxpayer.
- A transfer between spouses or incident to divorce under section 1041. However, a later disposition by the transferee is subject to recapture to the same extent as if the transferor had disposed of the property at the later date.
- A transaction to which section 381(a) applies (relating to certain acquisitions of the assets of one corporation by another corporation).
- A mere change in the form of conducting a trade or business if:

1. The property is retained as investment credit property in that trade or business, **and**
2. The taxpayer retains a substantial interest in that trade or business.

A mere change in the form of conducting a trade or business includes a corporation that elects to be an S corporation and a corporation whose S election is revoked or terminated.

For more details on the recapture rules, see section 50(a).



See section 46(g)(4) (as in effect on November 4, 1990) to figure the recapture tax if you made a withdrawal from a capital construction fund set up under the Merchant Marine Act of 1936 to pay the principal of any debt incurred in connection with a vessel on which you claimed investment credit.

Carryover Adjustment on Recapture

For property subject to investment credit recapture, reduce any remaining carryforwards and carrybacks from the property by the recapture percentage used for the property on Part II, line 15.

Basis Adjustment on Recapture

For property subject to investment credit recapture, increase the property's basis as follows.

- For rehabilitation credit property, qualifying advanced coal project property, qualifying gasification project property, qualifying advanced energy project property, or advanced manufacturing investment property, increase the basis by 100% of the amount, attributable to each such property, of the recapture tax, adjustments to carrybacks and carryforwards under section 39, or adjustments to disallowed passive activity credits.
- For energy property or clean electricity investment property, increase the basis by 50% of the amount, attributable to each such property, of the recapture tax, adjustments to carrybacks and carryforwards under section 39, or adjustments to disallowed passive activity credits.

If you are a partner or S corporation shareholder, adjust the basis of your interest in the partnership or stock in the S corporation to take into account the adjustment made to the basis of property held by the partnership or S corporation.

For more information, see section 50(c) and Regulations section 1.469-3(f).

Partnerships, S Corporations, Estates, and Trusts

A partnership, S corporation, estate, or trust that allocated any or all of a qualified investment to its partners, shareholders, or beneficiaries must provide the information they need to refigure the credit. See Regulations sections 1.46-3(f), 1.47-4(a) and (c), 1.47-5, and 1.47-6.

Partners, Shareholders, and Beneficiaries

If you are a partner, shareholder, or beneficiary and your Schedule K-1 shows recapture of investment credit claimed in an earlier year, you will need your copy of the original Form 3468, Investment Credit, to complete this form.

Excessive Payment

In the case of any elective payment amount that the IRS determines constitutes an excessive payment, the tax imposed on such entity, partnership, or S corporation, by chapter 1, regardless of whether such entity would otherwise be subject to chapter 1 tax, for the tax year in which such determination is made will be increased by an amount equal to the sum of the amount of such excessive payment (EP) plus an amount equal to 20% of such EP (20% EP), if no reasonable cause. See Regulations sections 1.48D-6(f) and 1.6417-6(a) for details.

Excessive Credit Transfer

In the case of any portion of an eligible credit transferred to a transferee taxpayer that the IRS determines constitutes an excessive credit transfer, the tax imposed on the transferee taxpayer by chapter 1, regardless of whether such entity would otherwise be subject to chapter 1 tax, for the tax year in which such determination is made will be increased by an amount equal to the sum of the amount of such excessive credit transfer plus an amount equal to 20% of such excessive credit transfer, if no reasonable cause. See Regulations section 1.6418-5(a) for details.

Penalty Payments for Failure to Satisfy the Prevailing Wage and Apprenticeship Requirements

The prevailing wage and apprenticeship requirements generally apply to all construction, alteration, or repair work, including work by contractors and subcontractors. There are certain exceptions to these requirements. You are solely responsible for ensuring that these requirements are met for construction, alteration, or repair work. For more information, see [Prevailing wage and apprenticeship requirements](#) and [Frequently asked questions about the prevailing wage and apprenticeship under the Inflation Reduction Act](#) on IRS.gov.

Prevailing Wage Requirements

If you fail to meet the prevailing wage requirements, you will still be eligible for the increased amount of the particular tax incentive by making certain correction and penalty payments. The penalty payment is reported in Part I, column (p).

Under the prevailing wage requirements, you must ensure that all laborers and mechanics employed by you (or any contractor or subcontractor) are paid wages at rates not less than the applicable prevailing wage rate for work performed with respect to a qualified facility (or property, project, or equipment, as applicable) for the particular tax incentive.

Apprenticeship Requirements

If you fail to meet the labor hours requirement, or you (or any contractor or subcontractor) fail to meet the participation requirement, you will still be eligible for the increased amount of the particular tax incentive by making certain penalty payments. The penalty payment is reported in Part I, column (p).

The apprenticeship requirements consist of the labor hours requirement, ratio requirement, and participation requirement. The apprenticeship requirements only apply during construction of the qualified facility (or property, project, or equipment, as applicable) for the particular tax incentive.

Description of Emissions Tier Recapture

The Inflation Reduction Act of 2022 (IRA 2022) added new section 45V to the Code to allow taxpayers a credit for the production of qualified clean hydrogen. IRA 2022 also amended section 48 to allow taxpayers to make an irrevocable election under section 48(a)(15) to claim an energy credit under section 48 for the taxpayer's basis in any qualified property which is part

of a specified clean hydrogen production facility placed in service after 2022.

Regulations section 1.48-15(f)(2) specifies that an emissions tier recapture occurs when:

- The taxpayer fails to obtain an annual verification report by the deadline for filing its federal income tax return (including extensions) for any tax year in which an annual verification report is required under Regulations section 1.48-15(e)(1);
- The specified clean hydrogen production facility actually produced hydrogen through a process (or processes) that results in a lifecycle greenhouse gas (GHG) emissions rate that can only support a lower energy percentage than the energy percentage used to calculate the amount of the section 48 credit for such facility for the year in which the facility is placed in service; or
- The specified clean hydrogen production facility actually produced hydrogen through a process (or processes) that results in a lifecycle GHG emissions rate of greater than 4 kilograms of CO₂e per kilogram of hydrogen.

The emissions tier recapture amount is calculated by increasing the tax under chapter 1 of the Code for the tax year in which there is an emissions tier recapture event by an amount equal to 20% of the excess of the section 48 credit allowed to the taxpayer for the specified clean hydrogen production facility for the tax year in which the facility was placed in service over the section 48 credit amount that would have been allowed had the taxpayer used the energy percentage supported by the actual production to calculate the amount of the section 48 credit. Thus, up to 20% of the section 48 credit amount is potentially subject to recapture in each tax year of the emissions tier recapture period. Use [Worksheet 3](#) to calculate the emissions tier recapture amount.

Specific Instructions

Part I. Summary

Complete Part II as applicable before completing Part I.

Note. Part references are applicable for the 2023 general business credit (GBC) tax form on which the credit was determined.

Lines 1 and 2. Enter credit information from form(s) listed on each credit line and Form 3800, General Business Credit, Part III (Parts V and VI, if applicable).

Line 1h, column (o). Use column (n) to report EP amount for Form 8936, Part V, that should have been included in the shaded entry space for column (o).



If you will be completing column (s) for net EPE repayment, see the instructions for [Column \(s\)](#).

Line 1i, column (p). Enter prevailing wage and/or apprenticeship penalty figured on applicable credits or deductions claimed on Form 8908, Energy Efficient Home Credit, Form 7205, Energy Efficient Commercial Buildings Deduction, and Form 7213, Part II.

Line 1j, column (h). Include in column (h) the recapture amount from an emissions tier recapture event with respect to a clean hydrogen production facility. See [Worksheet 3](#) to calculate the emissions tier recapture amount.

Include in column (h) the recapture amount of low-income communities bonus credit for energy credit under section 48 that was originally calculated on Form 3468, Part VI, lines 3j, 11m, 17j and/or 23j. See section 48(e)(5).

Lines 1z and 2z, columns (i) and (j). Attach a statement indicating the amount for each shaded entry space, and

complete subsequent columns as if those amounts were reported in those entry spaces.

Lines 2a, 2b, and 2z, column (r). If you have an amount from column (p) to report in line 2a, 2b, or 2z, column (r), attach an explanatory statement indicating the amount to be reported in column (r), and from which line (2a, 2b, and/or 2z) the column (p) amount would be reported in column (r).

Line 3, column (q). Generally, enter the amount from Part I, line 3, column (q) (which is the amount that can be reduced by nonrefundable credits), on the appropriate line of your tax return. For example, if completing Form 1120, U.S. Corporation Income Tax Return, enter the amount from Part I, line 3, column (q), on Form 1120, Schedule J, line 1g.

If you're filing Form 1065 or Form 1120-S, see [Partnerships and S corporations](#), later.

Line 3, column (r). Enter the amount from Part I, line 3, column (r) (which is the amount that can't be reduced by refundable credits), on the appropriate line of your tax return. For example, if completing Form 1120, enter the amount from Part I, line 3, column (r), on Form 1120, Schedule J, line 9a.

If you're filing Form 1065 or Form 1120-S, see [Partnerships and S corporations](#), later.

Partnerships and S corporations. Generally, partnerships and S corporations that allocated all or any of a qualified investment to partners or shareholders must provide to the partners and shareholders the information they need to refigure their credit. However, certain amounts from Form 4255 get reported directly on the partnership or S corporation return.

- From line 3, column (m), the section 6418(g)(2) excessive credit transfers which include both section 6418(g)(2)(A)(i) (the excessive credit transfer) and section 6418(g)(2)(A)(ii) (amount equal to 20% of the excessive credit transfer).

- Line 3, column (n).
- Line 3, column (o).
- Line 3, column (p).

If you are filing Form 1065, report these amounts on Form 1065, line 27, Other taxes.

If you are filing Form 1120-S, report these amounts on Form 1120-S, line 23c, along with any other amounts included in the total for line 23c.

Amounts From Prior Year(s) Returns

Column (a). Enter credit claimed in prior year(s) (as adjusted, if applicable). See the Instructions for Form 3800.

Column (b). Enter the gross elective payment election (EPE) amount included in column (a).

Column (c). Enter gross EPE amount in column (b) applied against regular tax.

Column (d). Subtract column (c) from column (b) for net EPE amount.

Column (e). Enter non-EPE credit that was applied against regular tax.

Column (f). Subtract the sum of columns (b) and (e) from column (a) for the carryover amount.

Recapture

Column (g). Enter recapture percentage. See [Line 15](#), later. Enter "N/A" if more than one recapture event on one line.

Column (h). Enter amount of column (a) recaptured, including reduction of carryover. See [Basis Adjustment on Recapture](#), earlier.

Column (i). Enter portion of column (h) reducing credit carryover in column (f).

Column (j). Enter portion of column (h) recapturing non-EPE credit applied against regular tax in column (e).

Column (k). Enter portion of column (h) recapturing EPE applied against regular tax from column (c).

Column (l). Enter portion of column (h) recapturing net EPE credit from column (d).

Excessive Payments (EPs) and Penalties (Including Excessive Credit Transfer Amounts and PWA Penalty Amounts)

Column (m). Enter excessive credit transfer, including any additional 20% excessive credit transfer amount, or recapture amount. See sections 6418(g)(2) and 6418(g)(3), and Regulations sections 1.6418-3 and -5 for more details.

Column (n). Enter the EP related to the net EPE portion if you owe an EP related to a gross EPE in column (b).

Column (o). Enter the portion of the EP not in column (n), plus any 20% EP you owe, if you owe an EP related to a gross EPE in column (b).

Column (p). Enter the penalty amount for a failure to meet the prevailing wage requirements and/or the apprenticeship requirements. This includes prevailing wage and/or apprenticeship penalties related to amounts that were generated on Form 8908, Form 7205, or Form 7213, Part II, and reported on line 1i (see [Line 1i, column \(p\)](#), earlier). See Regulations section 1.45-7(c)(1) for prevailing wage correction and penalty payment, and Regulations section 1.45-8(f)(2) for apprenticeship cure provision.

Total by Type



If you're filing Form 1065 or Form 1120-S, certain amounts from column (q) and column (r) get reported directly on the partnership or S corporation return. Don't report these same amounts using the Schedule K-1 of Form 1065 or Form 1120-S. See [Partnerships and S corporations](#), earlier.

Column (q). Enter amount that can be reduced by nonrefundable credits. Add lines 1a through 2z in columns (n) and (o); lines 2a through 2z in columns (j), (k), and (l); and any section 6418(g)(2) excessive credit transfer amounts included on lines 1a through 2z in column (m).

Column (r). Enter amount that can't be reduced by nonrefundable credits. Add amounts on lines 1a through 1z in columns (j), (k), and (l); lines 1a through 2z in column (p); and any section 6418(g)(3) recapture amounts on lines 1b, 1g, and 1j in column (m).

Column (s). Enter net EPE repaid. Add columns (l) and (n).



If completing line 1h, column (s), don't include any amount that would have been reported in line 1h, column (o).

Column (t). Enter any 20% EP in column (o) plus any amounts from column (p) related to a column (b) Gross EPE.

Part II. Recapture Calculation

Section A—Properties

Lines A through D. Use lines A through D to describe the property(ies) for which you must refigure the credit. If you need to list additional properties, complete and attach additional

Forms 4255 to list all the properties for which you must refigure the credit.

Section B—Original Credit

Use Section B to refigure the original credit.

Line 1. Enter the rate you used to figure the original credit from the Form 3468 that you filed. For combined heat and power system property, enter the effective rate used to figure the original credit, taking into account the limit under section 48(c)(3)(B).

Line 2. Enter the credit base (cost or other basis) that you used to figure the original credit.

If section 49(a)(1) applied to the property and there was a net increase in nonqualified nonrecourse financing with respect to the property in previous tax years, enter the credit base you used to figure the original credit, reduced by the amount of that net increase. If there was a net decrease in nonqualified nonrecourse financing with respect to the property in previous tax years, enter the credit base you used to figure the original credit, increased by the amount of that net decrease. For more details, see the instructions for Section C.

Line 3. If section 49(a)(1) didn't apply to the property, enter -0-. If section 49(a)(1) applied to the property, enter the net change in nonqualified nonrecourse financing related to the property during the tax year. Enter a net increase in nonqualified nonrecourse financing as a positive number. Enter a net decrease in nonqualified nonrecourse financing as a negative number. For more information about section 49, see the instructions for Section C.

Line 4. Subtract line 3 from line 2.



If line 3 is negative, then the entry on line 4 will be larger than the entry on line 2.

Line 5. Multiply line 1 by line 4. If the credit for the property for which you must refigure the credit was limited to a dollar amount (for example, by the kilowatt limit in section 48(c)(1)(B)), don't enter more than the amount of the applicable limit on line 5.

Line 6. Enter the total of all credits taken for the property on Form 3800, General Business Credit, in prior years. But don't include the amount of any credit previously recaptured due to an increase in nonqualified nonrecourse financing.

Section C—Recapture From Increase in Nonqualified Nonrecourse Financing

Use Section C to figure any increase in tax for the recapture of an investment tax credit under section 49.

Generally, section 49(a)(1) applies to property:

- Placed in service by individuals or certain closely held corporations during a tax year in which they were engaged in activities described in section 465(c), and
- Used in connection with an activity subject to the at-risk loss limitation under section 465.

The credit base of this property for investment credit purposes may be limited if you borrowed against the property and are protected against loss, or if you borrowed money from a person who is related or who has an interest (other than as a creditor) in the business activity. The credit base must be reduced by the amount of any nonqualified nonrecourse financing related to the property at the end of the tax year.

If, at the close of a tax year following the year property described in section 49(a)(1) was placed in service, the nonqualified nonrecourse financing for the property has increased or decreased, then the credit base for the property changes accordingly. The changes may result in an increased

Worksheet 1

Use Worksheet 1 to calculate the amount of unused general business credits that would have been allowed instead of the credit from the recapture property. If you need to account for more than 5 years, complete Steps 4 through 6 for those years on additional copies of the worksheet. Include the total for all years on Step 7.

| Steps | First Year | Year | Year | Year | Year | Total |
|--|------------|-------|-------|-------|-------|-------|
| Step 1. Identify the first year that the aggregate amount of credit allowed for the property was more than the amount on line 5. Enter the excess as a positive number | _____ | | | | | |
| Step 2. Figure the amount of other general business credits that could have been used in that year had the amount in Step 1 not been allowed. Enter the result as a positive number | _____ | | | | | |
| Step 3. Subtract any general business credits that were actually allowed in any previous tax year from the result of Step 2 | _____ | | | | | |
| Step 4. For the following year, figure the reduction in general business credits that would have been allowed for that year if: 1. No amount on line 7 had been allowed as a credit, and 2. Any other credits were used as calculated in Step 2 above | | _____ | _____ | _____ | _____ | |
| Step 5. Figure the amount of other general business credits that would have been allowed to offset the reduction figured in Step 4 | | _____ | _____ | _____ | _____ | |
| Step 6. Subtract any general business credits that were actually allowed in any previous tax year from the result of Step 5 | | _____ | _____ | _____ | _____ | |
| Step 7. Repeat Steps 4 through 6 above for each of the following tax years. Then add the amount from Step 3 to the amount from each iteration of Step 6. Enter the result on line 8 | | _____ | _____ | _____ | _____ | _____ |

credit or a recapture of the credit in the year of the change. See sections 49 and 465 for details.

Line 8. If the original credit had been figured using the current-year tax base in the year the property was first placed in service, you may have been able to use other general business credits instead. Use [Worksheet 1](#) to calculate the amount of unused general business credits that would have been allowed under section 38.

TIP When completing Worksheet 1, include any general business credits that could have been carried forward or carried back to a year affected by the recapture of the original credit. Don't include any credits that were previously recaptured. If you previously used the credit to offset the recapture of a credit on another property, treat it as a credit allowed in a previous tax year.

Multiple recapture properties. If you are recapturing investment credits from multiple properties in Section C, complete Form 4255, Part II, Section C, line 7, for each property before using Worksheet 1. Then fill out Worksheet 1, reapplying any allowable investment credits as if no credit had been allowed for any of the properties in excess of the refigured credit for that property on line 5. As you complete the worksheet, separately identify the amount of unused general business credits that could have been used instead of the excess credit from each property. If an unused general business credit could have been used instead of the excess credit from more than one property (for example, the amount figured in Step 1 or Step 3 for a single year is attributable to more than one property), apply the unused credit to the property with the highest original credit rate on line 1. When completing Step 7, add the amounts from Steps 3 and 6 separately by property and enter the results in the corresponding property column of line 8.



In calculating the amount reported on line 8, the tentative minimum tax (TMT) limitation in section 38(c)(1)(A) applies to all GBCs except to the specified credits listed in section 38(c)(4)(B) and to any eligible small business credits from 2010 (ESBCs) under former section 38(c)(5). For specified credits and ESBCs, TMT in section 38(c)(1)(A) is deemed \$0.

Line 9. This is the recapture tax as a result of a net increase in nonqualified nonrecourse financing. Add recapture tax for properties A through D and include amounts in the total for Part I, column (h). See [Basis Adjustment on Recapture](#), earlier.

Section D—Recapture From Disposition of Property, Cessation of Use as Qualified Credit Property, or Certain Expansions in Connection with Advanced Manufacturing Facilities

Use Section D to figure any increase in tax for the recapture of an investment tax credit under section 50.

Line 10. Enter the date (month/day/year) on which the property was placed in service, using the first day of the month in which the property was placed in service. For example, if the property was placed in service on February 20, 2022, enter 02/01/2022 on line 10. See Regulations section 1.47-1(c) for more information.

Line 11. Generally, this will be the date you disposed of the property. For more details, see Regulations section 1.47-1(c). For recapture of the advanced manufacturing credit under section 48D, enter the date of the applicable transaction. See section 50(a)(3) and (6) and Regulations section 1.50-2.

Line 12. Don't enter partial years. If the property was held less than 12 months, enter -0-. In case of failure to attain or maintain the separation and sequestration requirements applicable to a Phase II or III gasification program or a Phase II or III advanced coal program, enter -0-. In case of an applicable transaction by an applicable taxpayer before the close of the 10-year period

Worksheet 2

Use Worksheet 2 to calculate the amount of unused general business credits that would have been allowed under section 38 had there been no credit from the recapture property. If you need to account for more than 5 years, complete Steps 4 through 6 for those years on additional copies of the worksheet. Include the total for all years on Step 7.

| Steps | First Year | Year | Year | Year | Year | Total |
|--|------------|-------|-------|-------|-------|-------|
| Step 1. Identify the first year that an amount from line 6 was allowed as a credit. Enter that amount as a positive number . . . | _____ | | | | | |
| Step 2. Figure the amount of other general business credits that could have been used in that year had the amount in Step 1 not been allowed. Enter the result as a positive number | _____ | | | | | |
| Step 3. Subtract any general business credits that were actually allowed in any previous tax year from the result of Step 2 | _____ | | | | | |
| Step 4. For the following year, figure the reduction in general business credits that would have been allowed for that year if: 1. No amount on line 6 had been allowed as a credit, and 2. Any other credits were used as calculated in Step 2 above | | _____ | _____ | _____ | _____ | |
| Step 5. Figure the amount of other general business credits that would have been allowed to offset the reduction figured in Step 4 | | _____ | _____ | _____ | _____ | |
| Step 6. Subtract any general business credits that were actually allowed in any previous tax year from the result of Step 5 | | _____ | _____ | _____ | _____ | |
| Step 7. Repeat Steps 4 through 6 above for each of the following tax years. Then add the amount from Step 3 to the amount from each iteration of Step 6. Enter the result on line 13 | | _____ | _____ | _____ | _____ | _____ |

beginning on the date such taxpayer placed in service investment credit property that is eligible for the advanced manufacturing investment credit, enter -0-.

Line 13. If you had never taken the recaptured credit, you may have been able to use other general business credits instead. Use [Worksheet 2](#) to calculate the amount of unused general business credits that would have been allowed under section 38.

TIP When completing Worksheet 2, include any general business credits that could have been carried forward or carried back to a year affected by the recapture of the original credit. Don't include any credits that were previously recaptured. If you previously used the credit to offset the recapture of a credit on another property, treat it as a credit allowed in a previous tax year.

Multiple recapture properties. If you are recapturing investment credits from multiple properties in Section D, complete Form 4255, Section B, line 6, for each property before using Worksheet 2. Then fill out Worksheet 2, reapplying any allowable investment credits as if no credit had been allowed for any of the properties. As you complete the worksheet, separately identify the amount of unused general business credits that could have been used instead of the recaptured credit from each property. If an unused general business credit could have been used instead of a recaptured credit from more than one property (for example, the amount figured in Step 1 or Step 3 for a single year is attributable to more than one property), apply the unused credit first to the property with the highest recapture percentage on line 15. When completing Step 7, add the amounts from Steps 3 and 6 separately by property and enter the results in the corresponding property column of line 13.

CAUTION In calculating the amount reported on line 13, the tentative minimum tax (TMT) limitation in section 38(c)(1)(A) applies to all GBCs except to the specified credits listed in section 38(c)(4)(B) and to any eligible small business credits from 2010 (ESBCs) under former section 38(c)(5). For specified credits and ESBCs, TMT in section 38(c)(1)(A) is deemed \$0.

Line 14. Subtract line 13 from line 6 to calculate the aggregate decrease in general business credits that would have been allowed under section 38 had there been no credit from this property.

Line 15. Enter the recapture percentage from the following table. Enter 100 for certain expansions in connection with advanced manufacturing facilities. See section 50(a)(3)(A).

| IF the number of full years on line 12 of Form 4255 is . . . | THEN the recapture percentage is . . . |
|--|--|
| 0 | 100 |
| 1 | 80 |
| 2 | 60 |
| 3 | 40 |
| 4 | 20 |
| 5 or more | 0 |

Line 16. Multiply the amount on line 14 by the percentage on line 15 to calculate the recapture tax due to disposition or cessation of use as an investment credit property. Include the amount on the applicable line(s) in Part I, column (h). For example, enter section 47 rehabilitation credit recapture in Part I, line 1z, column (h). For basis increase, see [Line 9](#), earlier.

Line 17. If applicable, enter the IRS-issued registration number for your facility with an EPE or credit transfer election.

Worksheet 3

Use Worksheet 3 to calculate the emissions tier recapture amount.

Note. If you have recaptured the entire credit because you either disposed of the property or ceased operations, don't complete Worksheet 3.

| | | | |
|---|---|---|-------|
| 1 | Enter the emissions rate or value of the hydrogen that the facility was designed and reasonably expected to produce from Form 3468, Part I, line 2a(i) | 1 | _____ |
| 2 | Enter the basis of property placed in service during the tax year from Form 3468, Part VI, Section M, line 25a, 25d, 25g, or 25j, that corresponds to the emissions rate or value on line 1 | 2 | _____ |
| 3 | Enter the energy percentage used to calculate the section 48 credit during the tax year from Form 3468, Part VI, Section M, line 25b, 25e, 25h, or 25k, that corresponds to the emissions rate or value on line 1 | 3 | _____ |
| 4 | Multiply line 2 by line 3 | 4 | _____ |
| 5 | Enter the facility's emissions rate of the hydrogen for the current tax year | 5 | _____ |
| 6 | Enter the energy percentage that corresponds with the emissions rate on line 5 that would have been used to calculate the section 48 credit. If you didn't obtain an annual verification report for the current tax year, enter -0- | 6 | _____ |
| 7 | Multiply line 6 by line 2 | 7 | _____ |
| 8 | Subtract line 7 from line 4 | 8 | _____ |
| 9 | Multiply line 8 by 20% (0.20). This is the total increase in tax resulting from the emissions tier recapture event in the current tax year. Enter the result in Part I, line 1j, column (h) | 9 | _____ |

Examples

Example 1. Investment credit recapture. In January of 2022, you claimed an energy credit of \$100,000 on property A. You used \$20,000 of the credit to offset tax in 2022 and used \$16,000 as a carryforward to offset tax in 2023. You had \$64,000 remaining carryforward for property A at the end of 2023. You have no other tax credits for other properties for any other years.

You disposed of the property in June of 2024. Your recapture percentage is 60%. Because you have no other credits for properties for other years, you enter -0- on line 13. You enter \$36,000 on line 6 (the credit from property A used in 2022 and 2023). Your total increase in tax for 2024 is \$21,600 (60% of \$36,000). Your remaining credit carryforward for property A is also reduced by the recapture percentage of 60%. Your remaining carryforward is \$25,600 (40% of \$64,000). You increase your basis for property A by \$60,000 (\$21,600 + \$38,400).

Example 2. Investment credit recapture. The facts are the same as in *Example 1*, except that you also claimed an energy credit on property B in 2022 of \$12,000, which you didn't use to offset your tax. As before, you disposed of property A in June of 2024. You enter \$36,000 on line 6 (the credit from property A used in 2022 and 2023). However, you could have used your \$12,000 of unused credit from property B for 2022 against your 2022 tax had no credit been available from property A. Therefore, you enter \$12,000 on line 13 and \$24,000 (\$36,000 - \$12,000) on line 14. Your total increase in tax for 2024 is \$14,400 (60% of \$24,000). Your remaining credit carryforward for property A is also reduced by the recapture percentage of 60%. Your remaining carryforward is \$25,600 (40% of \$64,000). You increase your basis for property A by \$52,800 (\$14,400 + \$38,400).

Example 3. Investment credit recapture. In January of 2022, you claimed an energy credit of \$100,000 from property A. You used all of the credit to offset \$100,000 of tax in 2022. In 2023, you claimed an energy credit of \$75,000 from property B and used none of the credit to offset tax. In June of 2024, property A ceased to be investment credit property and you must refigure the credit from property A. Your recapture percentage is 60%. You enter \$100,000 on line 6. However, you could have carried the energy credit of \$75,000 from property B back to 2022 had no credit been available from property A. Therefore, you enter \$75,000 on line 13 and \$25,000 (\$100,000 - \$75,000) on line 14. Your total increase in tax for 2024 is \$15,000 (60% of \$25,000). You increase your basis in property A by \$15,000.

Example 4. Investment credit recapture. In July of 2022, you claimed an energy credit of \$100,000 from property A. You used \$1,000 of the credit to offset tax in 2022 and used \$99,000 as a carryforward to offset tax in 2023. In 2024, you claimed an energy credit of \$75,000 from property B and used none of the credit to offset tax.

On February 1, 2024, property A ceased to be investment credit property and you must refigure the credit from property A. Your recapture percentage is 80%. You enter \$100,000 on line 6. No carryback or carryforward credits are available for 2022 to offset the \$1,000 credit used for property A. However, you could have carried the energy credit of \$75,000 from property B back to 2023 had no credit been available from property A that year. Therefore, you enter \$75,000 on line 13 and \$25,000 (\$100,000 - \$75,000) on line 14. Your total increase in tax for 2024 is \$20,000 (80% of \$25,000). You increase your basis in property A by \$20,000.

Example 5. Transfer of eligible credits and recapture to a transferor partnership. A and B each contributed \$150,000 of cash to AB partnership for the purpose of investing in energy property. The partnership agreement provides that A and B share equally in all items of income, gain, loss, deduction, and credit of AB partnership. AB partnership invests \$300,000 in an energy property in accordance with section 48 and places the energy property in service on January 1, 2024. As of the end of 2024, AB partnership has \$90,000 of eligible credits under section 48 for the energy property. Before the due date for AB partnership's 2024 tax return (with extension), AB partnership transfers the \$90,000 of eligible credits to an unrelated transferee taxpayer X for \$80,000.

In 2025, A reduces its proportionate interest in the general profits of AB partnership by 50%, causing a recapture event to A under Regulations section 1.47-6(a)(2). The energy property isn't disposed of by the transferor partnership and continues to be energy property with respect to such transferor partnership. AB partnership should not provide notice of recapture to transferee taxpayer X as a result of the recapture event under Regulations section 1.47-6(a)(2) for A's sale and transferee taxpayer X isn't liable for any recapture amount. A, however, is subject to recapture as provided in Regulations section 1.47-6(a)(2) and based on its share of the basis (or cost) of the energy property to which the eligible credits were determined under Regulations section 1.46-3(f)(2).

Example 6. Basis reduction and recapture for EPE. In December 2023, G, a government entity, places in service P, which is energy property eligible for the energy credit determined

under section 48 (section 48 credit). G properly completes the pre-filing registration in accordance with Regulations section 1.6417-5 as an applicable entity to make an election under section 6417 for 2023. G timely files its 2023 Form 990-T in 2024, properly making the EPE in accordance with Regulations section 1.6417-2 for a section 48 energy credit determined with respect to P. On its Form 990-T, G properly determines that the amount of section 48 credit determined with respect to P is \$100,000 and that its net elective payment amount is \$100,000. The IRS sends G a \$100,000 refund. Pursuant to section 50(c), G reduces its basis in P by \$50,000.

In July 2025, P ceases to be investment credit property with respect to G. Because this occurs before the close of the recapture period set forth in section 50, section 50(a)(1)(A) provides that the tax under chapter 1 for 2025 is increased by the recapture percentage of the aggregate decrease in the credits allowed under section 38 for all prior tax years that would have resulted solely from reducing to zero any credit determined under subpart E of part IV of subchapter A of chapter 1 with respect to such property. Because P ceased to be investment credit property within 2 full years after P was placed in service, section 50(a)(1)(B) provides that the recapture percentage is 80%. G must properly report the recapture event in 2025, paying an \$80,000 tax. Because G is a government entity, G reports the recapture event on a Form 990-T or any Form provided in further guidance, along with supplemental forms such as Form 4255, Certain Credit Recapture, EPs, and Penalties. G's basis in P is increased by \$40,000.

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| | |
|--|----------------|
| Recordkeeping | 6 hr., 27 min. |
| Learning about the law or the form | 1 hr., 35 min. |
| Preparing and sending the form to the IRS | 1 hr., 46 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.
