

2007 Form 8903, Domestic Production Activities Deduction

Purpose: This is the first circulated draft of the 2007 Form 8903 for your review and comments. See below for a discussion of the major changes.

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

Prior Version: The 2006 Form 8903 is available at:
<http://www.irs.gov/pub/irs-pdf/f8903.pdf>.

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

Comments: Please email, fax, call, or mail any comments by June 21, 2007. Comments should also be sent to the reviewer at Clarence.O.Light@irs.gov.

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Major Changes to 2007 Form 8903

Line 3. At the request of CC:INTL, we changed the wording from "deductions and losses definitely related to DPGR" to "deductions and losses directly allocable to DPGR."

In addition, we made the following changes:

- Dropped the references to "estates and trusts, see instructions" as all estates and trusts will use line 3 regardless of whether they use the section 861 method or simplified deduction method.
- Replaced "skip line 3" with "see instructions" as line 3 will be used for both the 861 and simplified deduction methods.

Line 4. At the request of CC: INTL, we removed references to the section 861 method. We modified line 4 to be used only for the small business simplified overall method.

Line 7. CC:PSI expressed concerns that filers of Form 8903 might enter K-1 amounts on line 7 without any necessary adjustments for disallowed losses. In response, we deleted

the list of K-1 references and replaced the text with "Qualified production activities income from certain partnerships, S corporations, estates, and trusts (see instructions)." We will clarify the correct reporting for line 7 in the instructions.

Line 8. We added new line 8 to calculate total QPAI from lines 6 and 7, and to direct estates and trusts to complete line 9 if necessary.

Line 9. We added new line 9 for estates and trusts to reduce their QPAI by the amount of QPAI allocated to beneficiaries and inserted the text, "Amount allocated to beneficiaries of the estate or trust (see instructions)." This change more accurately reflects the calculation of QPAI by estates and trusts under Reg. Section 1.199-9(e).

Line 10. We deleted "Add lines 6 and 7" and added, "Estates and trusts, subtract line 9 from line 8, all others, enter amount from line 8." This additional calculation is required by estates and trusts under Reg. Section 1.199-9(e).

Line 13. We updated the percentage limitation of the lesser of QPAI or income from three (3) to six (6) percent pursuant to section 199(a)(2).

Line 15. We deleted the list of K-1 references and replaced the text with "W-2 wages from certain partnerships, S corporations, estates, and trusts (see instructions)" to be consistent with the changes to line 7. We will clarify the correct reporting for line 15 in the instructions.

Line 16. We renumbered the line references to state, "Add lines 14 and 15," and added "Estates and trusts, go to line 17, all others, skip line 17 and go to line 18."

Line 17. We added line 17 for estates and trusts to reduce their W-2 wages by the amount allocated to beneficiaries and added the text "Amount allocated to beneficiaries of the estate or trust (see instructions)." This change more accurately reflects the calculation of QPAI by estates and trusts under Reg. Section 1.199-9(e).

Line 18. We added line 18 and the text, "Estates and trusts, subtract line 17 from line 16, all others, enter amount from line 16." This additional calculation is required for estates and trusts under Reg. Section 1.199-9(e).

Line 23. We deleted the reference to Form 1120-A, line 21, as the Form 1120-A is obsolete for tax year 2007 and later.

Domestic Production Activities Deduction

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

Name(s) as shown on return				Identifying number
1	Domestic production gross receipts (DPGR)			1
2	Allocable cost of goods sold. If you are using the small business simplified overall method, skip lines 2 and 3	2		
3	If you are using the section 861 method, enter deductions and losses allocable to DPGR. All others, see instructions	3		
4	If you are using the small business simplified overall method, enter the amount of cost of goods sold and other deductions or losses you ratably apportion to DPGR. All others, skip line 4	4		
5	Add lines 2 through 4			5
6	Subtract line 5 from line 1			6
7	Qualified production activities income from certain partnerships, S corporations, estates, and trusts (see instructions)			7
8	Add lines 6 and 7. Estates and trusts, go to line 9, all others, skip line 9 and go to line 10			8
9	Amount allocated to beneficiaries of the estate or trust (see instructions)			9
10	Qualified production activities income. Estates and trusts, subtract line 9 from line 8, all others, enter amount from line 8. If zero or less, enter -0- here, skip lines 11 through 19, and enter -0- on line 20			10
11	Income limitation (see instructions):			11
	<ul style="list-style-type: none"> Individuals, estates, and trusts. Enter your adjusted gross income figured without the domestic production activities deduction All others. Enter your taxable income figured without the domestic production activities deduction (tax-exempt organizations, see instructions) 			
12	Enter the smaller of line 10 or line 11. If zero or less, enter -0- here, skip lines 13 through 19, and enter -0- on line 20			12
13	Enter 6% of line 12			13
14	Form W-2 wages (see instructions)			14
15	Form W-2 wages from certain partnerships, S corporations, estates, and trusts (see instructions)			15
16	Add lines 14 and 15. Estates and trusts, go to line 17, all others, skip line 17 and go to line 18			16
17	Amount allocated to beneficiaries of the estate or trust (see instructions)			17
18	Estates and trusts, subtract line 17 from line 16, all others, enter amount from line 16			18
19	Form W-2 wage limitation. Enter 50% of line 18			19
20	Enter the smaller of line 13 or line 19			20
21	Domestic production activities deduction from cooperatives. Enter deduction from Form 1099-PATR, box 6			21
22	Expanded affiliated group allocation (see instructions)			22
23	Domestic production activities deduction. Combine lines 20 through 22 and enter the result here and on Form 1040, line 35; Form 1120, line 25; or the applicable line of your return			23