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Most forms and publications have a page on IRS.gov: [IRS.gov/Form1040](https://www.irs.gov/Form1040) for Form 1040; [IRS.gov/Pub501](https://www.irs.gov/Pub501) for Pub. 501; [IRS.gov/W4](https://www.irs.gov/W4) for Form W-4; and [IRS.gov/ScheduleA](https://www.irs.gov/ScheduleA) for Schedule A (Form 1040), for example, and similarly for other forms, pubs, and schedules for Form 1040. When typing in a link, type it into the address bar of your browser, not a Search box on IRS.gov.

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# Instructions for Form 8697



(Rev. December 2025)

## Interest Computation Under the Look-Back Method for Completed Long-Term Contracts

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

### General Instructions

#### Future Developments

For the latest information about developments related to Form 8697 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form8697](https://www.irs.gov/Form8697).

#### What's New

**Electronic payments.** If you have access to U.S. banking services or electronic payment systems, you should use direct deposit for any refunds and pay electronically for any payments, whenever possible.

**Direct deposit.** Direct deposit fields have been added to the form on Part I, lines 9b, 9c, and 9d; and Part II, lines 10b, 10c, and 10d. If there is net interest to be refunded to you on Part I, line 9a, or Part II, line 10a, enter your direct deposit information on Part I, lines 9b through 9d; or Part II, lines 10b through 10d. See the instructions for [line 9a](#), later, for more information.

#### Purpose of Form

Use Form 8697 to figure the interest due or to be refunded under the look-back method of section 460(b)(2) on certain long-term contracts that are accounted for under either the percentage of completion method or the percentage of completion-capitalized cost method. For guidance concerning these methods, see Regulations section 1.460-4. For details and computational examples illustrating the use of the look-back method, see Regulations section 1.460-6.

#### Who Must File

##### General Rule

You must file Form 8697 for each tax year in which you completed a long-term contract entered into after February 28, 1986, that you accounted for using either the percentage of completion method or the percentage of completion-capitalized cost method for federal income tax purposes. You also must file Form 8697 for any tax year, subsequent to the year of completion, in which the contract price or contract costs are adjusted for one or more of these long-term contracts from a prior year.

##### Pass-Through Entities

A pass-through entity (partnership, S corporation, or trust) that is not closely held must apply the look-back method at the entity level to any contract for which at least 95% of the gross income is from U.S. sources. A pass-through entity is considered closely held if, at any time during any tax year for which there is income under the contract, 50% or more (by value) of the beneficial interests in the entity is held (directly or indirectly) by or for five or fewer persons. For this purpose, rules similar to the constructive ownership rules of section

1563(e) apply. For a mid-contract change in taxpayer resulting in the conversion of a C corporation into an S corporation, the look-back method is applied at the entity level with respect to contracts entered into prior to the conversion regardless of whether the S corporation is considered closely held. See [Mid-Contract Change in Taxpayer](#), later.

If you are an owner of an interest in a pass-through entity in which a long-term contract was being accounted for under the percentage of completion method or the percentage of completion capitalized cost method and the pass-through entity is not subject to the look-back method at the entity level, you must file this form for your tax year that ends with or includes the end of the entity's tax year in which the contract was completed or adjusted in a post-completion tax year. The pass-through entity will provide on Schedule K-1 the information you need to complete this form.

##### Mid-Contract Change in Taxpayer

If prior to the completion of a long-term contract accounted for using the percentage of completion method or the percentage of completion capitalized cost method, there is a transaction that makes another taxpayer responsible for accounting for income from the same contract, the taxpayer responsible for computing look-back interest depends on whether the ownership change is due to a constructive completion transaction or a step-in-the shoes transaction. For guidance regarding these transactions, see Regulations section 1.460-4(g). In the case of constructive completion transactions, the old taxpayer treats the contract as completed in the transaction year and applies the look-back method to the pre-transaction years. The new taxpayer is treated as entering into a new contract and applies the look-back method to the post-transaction years upon the contract's completion. In the case of step-in-the-shoes transactions, the new taxpayer applies the look-back method to both the pre- and post- transaction years. See Regulations section 1.460-6(g) for additional guidance.

##### Exception for Certain Construction Contracts

The look-back method does not apply to the regular taxable income from:

- Any home construction contract (as defined in section 460(e)(5)(A) for tax years beginning before July 5, 2025. For tax years beginning after July 4, 2025, as defined in section 460(e)(4)(A) after redesignation by section 70340(a) of P.L. 119-21, commonly know as the One Big Beautiful Bill Act.); or
- Any other construction contract entered into by a taxpayer (a) who estimates the contract will be completed within 2 years from the date the contract begins, and (b) whose average annual gross receipts for the 3 tax years preceding the tax year in which the contract is entered into do not exceed \$31 million (adjusted for inflation) for contracts entered into in tax years beginning in 2025. See section 460(e).

**Note:** The average annual gross receipts test threshold amount may be adjusted for inflation. The Instructions for Form 8697 may not be revised to reflect this amount. For tax years beginning after 2025, see the instructions for your applicable income tax return for the average annual gross receipts test threshold amount for the current tax year. The average annual gross receipts test threshold amount is also available at [IRS.gov/InflationAdjustment](https://www.irs.gov/InflationAdjustment). Select the applicable tax year news release, then click the “Revenue Procedure” link to see the threshold amount under Limitation on Use of Cash Method of Accounting.

However, the look-back method does apply to the alternative minimum taxable income (AMTI) from any such contract that is not a home construction contract and, therefore, must be accounted for using the percentage of completion method for alternative minimum tax (AMT) purposes. See section 56(a)(3) for details.

**Note:** For long-term contracts entered into after July 4, 2025, the look-back method does not apply to regular taxable income from residential contracts, which includes home construction contracts. Additionally, the small contractor exception referenced in bullet two is expanded into construction contracts that are estimated to be completed within 2 years from the date the contract begins.

### Small Contract Exception

The look-back method does not apply to any contract completed within 2 years of the contract start date if the gross price of the contract (as of contract completion) does not exceed the smaller of:

- \$1 million, or
- 1% of the taxpayer’s average annual gross receipts for the 3 tax years before the tax year of contract completion.

See section 460(b)(3)(B) for details.

**Note:** For long-term contracts entered into after July 4, 2025, the look back method does not apply to any contract completed within 3 years of the contract start date.

### De Minimis Exception

You may elect not to apply the look-back method in certain de minimis cases for completed contracts. The look-back method does not apply in the following cases if the election is made.

1. In the completion year if, for each prior contract year, the cumulative taxable income (or loss) actually reported under the contract is within 10% of the cumulative look-back income (or loss). Cumulative look-back income (or loss) is the amount of taxable income (or loss) that you would have reported if you had used actual contract price and costs instead of estimated contract price and costs.
2. In a post-completion year if, as of the close of the post-completion year, the cumulative taxable income (or loss) under the contract is within 10% of the cumulative look-back income (or loss) under the contract as of the close of the most recent year in which the look-back method was applied to the contract (or would have been applied if the election had not been made).

For purposes of item 2, discounting under section 460(b) (2) does not apply.

To make the election, attach a statement to your timely filed income tax return (determined with extensions) for the

first tax year of the election. Write at the top of the statement “NOTIFICATION OF ELECTION UNDER SECTION 460(b)(6).” Include on the statement your name, your identifying number, and the effective date of the election. Also, identify the trades or businesses that involve long-term contracts. Once made, the election applies to all contracts completed during the election year and all later tax years, and may not be revoked without IRS consent. See Regulations section 1.460-6(j) for more details. If you timely filed your return without making the election, you may make the election on an amended return filed no later than 6 months after the due date of your tax return (excluding extensions). Write “Filed pursuant to section 301.9100” at the top of the amended return.

## Filing Instructions

### If You Owe Interest (or No Interest Is To Be Refunded to You)

Attach Form 8697 to your income tax return. The signature section of Form 8697 does not have to be completed by you or the paid preparer.

**Individuals.** For individuals, include any interest due on the appropriate line of Schedule 2 (Form 1040), Part II (for example, 2025 Schedule 2 (Form 1040), Part II, line 17n).

**Partnerships.** For partnerships (that are not closely held), include any interest due on Form 1065, line 24. If paying by check, make it payable to “United States Treasury.” Write the partnership’s employer identification number (EIN), daytime phone number, and “Form 8697 Interest” on the check or money order. See the Instructions for Form 1065 for electronic payment options.

**S corporations.** For S corporations that are not closely held, include any interest due in the amount to be entered for additional taxes (for example, 2025 Form 1120-S, line 23c). Write on the dotted line to the left of the entry space “From Form 8697” and the amount of interest due. A closely held S corporation would also follow these procedures following a conversion from a C corporation for the contracts entered into prior to the conversion. See the rules related to [Mid-Contract Change in Taxpayer](#), earlier.

For closely held pass-through entities, look-back interest is applied at the owner level and not the entity level.

**C Corporations.** For corporations, include the amount of interest due on the appropriate line of Form 1120, Schedule J, Part I (for example, 2025 Form 1120, Schedule J, line 9c).

Look-back interest owed is not subject to the estimated tax penalty. See Regulations section 1.460-6(f)(2).

### If Interest Is To Be Refunded to You

Do not attach Form 8697 to your income tax return. Instead, file Form 8697 separately with the IRS at the applicable address listed below.

- Individuals:

Department of Treasury  
Internal Revenue Service  
Philadelphia, PA 19255-0001

- All others:

Department of Treasury  
Internal Revenue Service  
Cincinnati, OH 45999-0001

Complete the signature section of Form 8697 following the instructions for the signature section of your income tax return. If you file a joint return, the signature of both spouses is required on Form 8697. If additional Forms 8697 are needed to show more than 2 redetermination years, sign only the first Form 8697.

File Form 8697 by the date you are required to file your income tax return (including extensions). Keep a copy of Form 8697 and any attached schedules for your records.

## Filing a Corrected Form 8697

You must file a corrected Form 8697 only if the amount shown on Part I, line 6, or Part II, line 7, for any prior year changes as a result of an error you made, an income tax examination, or the filing of an amended tax return.

When completing Part I, line 1, of the corrected Form 8697, follow the instructions on the form but do not enter the adjusted taxable income from Part I, line 3, of the original Form 8697. When completing Part I, line 5 (or Part II, line 6), of the corrected Form 8697, do not include the interest due, if any, from Part I, line 10 (or Part II, line 11), of the original Form 8697 that was included in your total tax when Form 8697 was filed with your tax return.

- If both the original and corrected Forms 8697 show an amount on the line for interest you owe, file an amended income tax return.
- If both the original and corrected Forms 8697 show an amount on the line for interest to be refunded to you, write "Amended" in the top margin of the corrected Form 8697, and file it separately.
- If your original Form 8697 shows an amount on the line for interest you owe and the corrected Form 8697 shows an amount on the line for interest to be refunded to you, you must:

1. File an amended income tax return showing \$0 interest from Form 8697, and

2. File the corrected Form 8697 separately (but do not write "Amended" at the top of the form because this is the first Form 8697 that you will file separately).

- If the original Form 8697 shows an amount on the line for interest to be refunded to you and the corrected Form 8697 shows an amount on the line for interest you owe, you must:

1. File the corrected Form 8697 separately (with "Amended" written at the top) showing \$0 interest to be refunded, and

2. File an amended income tax return and attach a copy of the corrected Form 8697.

## Attachments

If you need more space, attach separate sheets to the back of Form 8697. Put your name and identifying number on each sheet.

## Applying the Look-Back Method Under Special Situations

### 10% Method

For purposes of the percentage of completion method, a taxpayer may elect to postpone recognition of income and

expense under a long-term contract entered into after July 10, 1989, until the first tax year as of the end of which at least 10% of the estimated total contract costs have been incurred. For purposes of the look-back method, the recognition of income and expense must be postponed for such contracts until the first tax year as of the end of which at least 10% of the actual total contract costs have been incurred. Therefore, income and expense will be allocated to a different tax year if the first tax year that the 10% threshold is exceeded based on actual costs differs from the first tax year that the 10% threshold is exceeded based on estimated costs. The election to use the 10% method applies to all long-term contracts entered into during the tax year for which the election is made and all later years. See section 460(b)(5) for more details.

### Change Orders

A change order for a contract is not treated as a separate contract for purposes of applying the look-back method unless the change order would be treated as a separate contract under the rules for severing and aggregating contracts provided in Regulations section 1.460-1(e). Therefore, if a change order is not treated as a separate contract, that portion of the actual contract price and contract costs attributable to the change order must be taken into account in allocating contract income to all tax years of the contract, including tax years before the change order was agreed to.

### Post-Completion Adjustments

#### General Rule

If the contract price or costs are revised to reflect amounts properly taken into account after the contract completion date for any reason, you must apply the look-back method in the year such amounts are properly taken into account, even if no other contract is completed in that year. Generally, the amount of each such post-completion adjustment to total contract price or contract costs is discounted, solely for look-back purposes, from its value at the time the amount is taken into account in computing taxable income to its value at the time the contract was completed. The discount rate for this purpose is the federal midterm rate under section 1274(d) in effect at the time the amount is properly taken into account.

However, you may elect not to discount post-completion adjustments for any contract. The election not to discount is made on a contract-by-contract basis and is binding with respect to all post-completion adjustments that arise with respect to that contract. To make this election, attach a statement to your timely filed income tax return (determined with extensions) for the first tax year after completion in which you take into account any adjustment to the contract price or contract costs. Indicate on the statement that you are making an election not to discount post-completion adjustments under Regulations section 1.460-6(c)(1)(ii)(C)(2) and identify the contracts to which the election applies.

### Delayed Reapplication Method

For purposes of reapplying the look-back method after the year of contract completion, you may elect the delayed reapplication method to minimize the number of required reapplications of the look-back method. Under this method,



the look-back method is reapplied after the contract completion year (or after a later reapplication of the look-back method) only when one of the following conditions is met for that contract:

1. The net undiscounted value of increases or decreases in the contract price occurring from the time of the last application of the look-back method exceeds the smaller of \$1 million or 10% of the total contract price at that time,
2. The net undiscounted value of increases or decreases in contract costs occurring from the time of the last application of the look-back method exceeds the smaller of \$1 million or 10% of the total actual contract costs at that time,
3. The taxpayer goes out of existence,
4. The taxpayer reasonably believes the contract is finally settled and closed, or
5. None of the above conditions (1-4) are met by the end of the 5th tax year that begins after the last previous application of the look-back method.

To elect the delayed reapplication method, attach a statement to your timely filed income tax return (determined with extensions) for the first tax year of the election. Indicate on the statement that you are making an election under Regulations section 1.460-6(e) to use the delayed reapplication method. Once made, the election is binding for all long-term contracts for which you would reapply the look-back method in the absence of the election in the year of the election and all later years, unless the IRS consents to a revocation of the election. See Regulations section 1.460-6(e) for more details.

## Specific Instructions

All filers must complete the information at the top of the form above Part I according to the following instructions. Then, complete either Part I or Part II as appropriate. Also, sign the form at the bottom of page 2 if interest is to be refunded to you. A signature is not required if you are filing the form with your tax return.

### Filing Year

Fill in the filing year line at the top of the form to show the tax year in which the contracts for which this form is being filed were completed or adjusted in a post-completion year. If you were an owner of an interest in a pass-through entity that has completed or adjusted one or more contracts, enter your tax year that ends with or includes the end of the entity's tax year in which the contracts were completed or adjusted.

### Name

Enter the name shown on your federal income tax return for the filing year. If you are an individual filing a joint return, also enter your spouse's name as shown on Form 1040.

### Address

Enter your address only if you are filing this form separately. Include the apartment, suite, room, or other unit number after the street address. If the post office does not deliver mail to the street address and you have a P.O. box, show the box number instead.

### Item A—Identifying Number

If you are an individual, enter your social security number. Other filers must use their EIN.

## Part I—Regular Method

Use Part I only if you are not electing, do not have an election in effect, or are not required to use the simplified marginal impact method (SMIM) as described in the instructions for Part II, later.

### “Filing year” column

Enter the filing year listed at the top of this form.

### Columns (a) and (b)

Enter at the top of each column the ending month and year for:

- Each prior tax year in which you were required to report income from the completed long-term contract(s), and
- Any other tax year affected by such years.

**Note:** If there were more than 2 prior years, attach additional Forms 8697 as needed. On the additional Forms 8697, enter your name, identifying number, and tax year. Complete lines 1 through 8 (as applicable), but do not enter totals in column (c). Enter totals only in column (c) of the first Form 8697.

### Line 1

Do not reduce taxable income or increase a loss on line 1 by any carryback of a net operating loss, capital loss, or net section 1256 contracts loss, except to the extent that carrybacks must be taken into account to properly compute interest under section 460.

**Note:** The 2-year carryback rule does not apply to net operating losses arising in tax years ending after 2017. An exception applies to farmers and non-life insurance companies. See section 172(b) as amended by P.L. 115-97, section 13302.

### Line 2

In each column, show a net increase to income as a positive amount and a net decrease to income as a negative amount.

In figuring the net adjustment to be entered in each column on line 2, be sure to take into account any other income and expense adjustments that may result from the increase (or decrease) to income from long-term contracts (for example, a change to adjusted gross income affecting medical expenses under section 213). If there are no adjustments besides the look-back adjustments, the sum of all line 2 amounts should be zero and reflected in column 2(c). If there are additional adjustments that result from the application of the look-back, leave column 2(c) blank and reflect the amounts in the schedule below as described in item 3.

Include the following on an attached schedule.

1. Identify each completed long-term contract by contract number, job name, or any other reasonable method used in your records to identify each contract.

2. For each contract, report in columns for each prior year: (a) the amount of income previously reported based on estimated contract price and costs, and (b) the amount of income allocable to each prior year based on actual contract price and costs. Total the columns for each prior year and show the net adjustment to income from long-term contracts.

3. Identify any other adjustments that result from a change in income from long-term contracts and show the amounts in the columns for the affected years so that the net

adjustment shown in each column on the attached schedule agrees with the amounts shown on line 2.

An owner of an interest in a pass-through entity is not required to provide the detail listed in 1 and 2 above with respect to prior years. The entity should provide the line 2 amounts with Schedule K-1 or on a separate statement for its tax year in which the contracts are completed or adjusted.

**Note:** Taxpayers reporting line 2 amounts from more than one Schedule K-1 (or a similar statement) must attach a schedule detailing by entity the net change to income from long-term contracts.

### Line 3

If line 3 results in a negative amount, it represents a look-back net operating loss (NOL). The adjustment in line 2 either created, increased, or decreased the net operating loss. The change in the amount of the net operating loss would be carried back or forward to the appropriate tax year and the hypothetical tax would be recomputed in the carryback/forward year. See Regulations section 1.460-6(c)(3)(v). However, the computation period for computing interest on NOLs is different. See the exceptions listed on lines 7 and 8 below.

**Note:** The 2-year carryback rule does not apply to net operating losses arising in tax years ending after 2017. An exception applies to farmers and non-life insurance companies. See section 172(b) as amended by P.L. 115-97, section 13302.

### Lines 4 and 5

Reduce the tax liability to be entered on lines 4 and 5 by allowable credits (other than refundable credits, for example, the credit for taxes withheld on wages, the earned income credit, the credit for federal tax on fuels, etc.), but do not take into account any credit carrybacks to the prior year in computing the amount to enter on lines 4 and 5 (other than carrybacks that resulted from or were adjusted by the redetermination of your income from a long-term contract for look-back purposes). Include on lines 4 and 5 any taxes (such as AMT) required to be taken into account in the computation of your tax liability (as originally reported or as redetermined).

### Lines 7 and 8

For the increase or decrease in tax for each prior year, interest due or to be refunded must be computed at the applicable interest rate and compounded on a daily basis, generally from the due date (not including extensions) of the return for the prior year until the earlier of:

- The due date (not including extensions) of the return for the filing year, or
- The date the return for the filing year is filed and any income tax due for that year has been fully paid.

#### Exceptions.

- The time period for determining interest may be different in cases involving loss or credit carrybacks or carryovers in order to properly reflect the time period during which the taxpayer or IRS had use of the hypothetical underpayment or overpayment. See Regulations section 1.460-6(c)(4)(ii) and (iii) for additional information.
- If a net operating loss, capital loss, net section 1256 contracts loss, or credit carryback is being increased or decreased as a result of the adjustment made to net income

from long-term contracts, the interest due or to be refunded must be computed on the increase or decrease in tax attributable to the change to the carryback only from the due date (not including extensions) of the return for the prior year that generated the carryback and not from the due date of the return for the year in which the carryback was absorbed. See section 6611(f).

- In the case of a decrease in tax on line 6, if a refund has been allowed for any part of the income tax liability shown on line 5 for any year as a result of a net operating loss, capital loss, net section 1256 contracts loss, or credit carryback to such year, and the amount of the refund exceeds the amount on line 4, interest is allowed on the amount of such excess only until the due date (not including extensions) of the return for the year in which the carryback arose.

**Note:** If a different method of interest computation must be used to produce the correct result in your case, use that method and attach an explanation of how the interest was computed.

### Applicable Interest Rates

The overpayment rate designated under section 6621 is used to calculate the interest for both hypothetical overpayments and underpayments. The applicable interest rates are published quarterly in revenue rulings in the Internal Revenue Bulletin available at [IRS.gov](https://www.irs.gov).

However, for contracts completed in tax years ending after August 5, 1997, an interest rate is determined for each interest accrual period. The interest accrual period starts on the day after the return due date (not including extensions) for each prior tax year and ends on the return due date for the following tax year. The interest rate in effect for the entire interest accrual period is the overpayment rate determined under section 6621(a)(1) applicable on the first day of the interest accrual period.

Even though the interest rates change quarterly, for look-back purposes the interest rate stays the same for the accrual period which is generally one year. The applicable interest rates for non-corporate taxpayers are shown in [Table 1](#) (for interest accrual periods beginning after January 1, 2015).

The applicable interest rates for corporate taxpayers for the first \$10,000 are shown in [Table 2](#). The applicable interest rates for corporate taxpayers for amounts in excess of \$10,000 are shown in [Table 3](#).

Following the conversion of a C corporation into an S corporation, the look-back method is applied at the entity level (1120-S) with respect to contracts entered into prior to the conversion. See Regulations section 1.460-6(g)(3)(iv). For the C corporation years, the taxpayer would apply the rates reflected in Table 2 for the first \$10,000 and apply the rates in Table 3 for the amounts in excess of \$10,000.

### Line 9a

See [If Interest Is To Be Refunded to You](#), earlier, for where to file Form 8697. Additional interest to be refunded for periods after the filing date of Form 8697, if any, will be computed by the IRS and included in your refund. Report the amount on line 9a (or the amount refunded by the IRS if different) as interest income on your income tax return for the tax year in which it is received or accrued.

**Direct deposit.** If you have access to U.S. banking services, you should use direct deposit for any refunds, whenever possible. The benefits of a direct deposit include a faster refund, the added security of a paperless payment, and the savings of tax dollars associated with the reduced processing costs.

If you want your refund directly deposited into your checking or savings account at any U.S. bank or other financial institution, complete lines 9b through 9d. See the instructions for lines 9b, 9c, and 9d, later.

You are not eligible to request a direct deposit if:

- The receiving financial institution is a foreign bank or a foreign branch of a U.S. bank, or
- You have applied for an EIN but are filing your tax return before receiving one.

### Line 9b. Routing Number

The routing number must be nine digits. The first two digits must be 01 through 12 or 21 through 32. Ask your financial institution for the correct routing number to enter on line 9b if:

- The routing number on a deposit slip is different from the routing number on your checks,
- Your deposit is to a savings account that does not allow you to write checks, or
- Your checks state they're payable through a financial institution different from the one at which you have your checking account.

### Line 9c. Type of Account

Check the appropriate box for the type of account. Do not check more than one box. You must check the correct box to ensure your deposit is accepted. If you are unsure which box to check for the account you wish the deposit to be applied to, consult your financial institution.

### Line 9d. Account Number

The account number can be up to 17 characters (both numbers and letters). Include hyphens but omit spaces and special symbols. Enter the number from left to right and leave any unused boxes blank. If the direct deposit to your account is different from the amount you expected, you'll receive an explanation in the mail about 2 weeks after your refund is deposited.

### Conditions Resulting in a Refund by Check

If the IRS is unable to process the request for a direct deposit, a refund by check will be generated instead. Reasons for not processing a request include the following.

- The name on the tax return does not match the name on the account.
- The financial institution rejects the direct deposit because of an incorrect routing or account number.
- You fail to indicate the type of account the deposit is to be made to (that is, checking or savings).

**Note:** The IRS is not responsible for a lost refund if you enter the wrong account information. Check with your financial institution to get the correct routing and account numbers and to make sure the direct deposit will be accepted.

### Line 10

See [If You Owe Interest](#) under [Filing Instructions](#), earlier, for how to report this amount on your tax return. Corporations (other than S corporations) may deduct this amount (or the amount computed by the IRS, if different) as interest expense

for the tax year in which it is paid or incurred. For individuals and other taxpayers, this interest is not deductible.

### Estimated Tax Penalty

Look-back interest owed is not subject to the estimated tax penalty. See Regulations section 1.460-6(f)(2)(i). See the instructions for the 2025 Form 2210, line 2, for individuals. For corporations, see the 2025 Form 2220, line 2b.

## Part II—Simplified Marginal Impact Method (SMIM)

Part II is used only by pass-through entities required to apply the look-back method at the entity level (see [Who Must File](#), earlier) and taxpayers electing (or with an election in effect) to use the SMIM. Under the simplified method, prior year hypothetical underpayments or overpayments in tax are figured using an assumed marginal tax rate, which is generally the highest statutory rate in effect for the prior year under section 1 (for an individual) or section 11 (for a corporation). This method eliminates the need to refigure your tax liability based on actual contract price and actual contract costs each time the look-back method is applied.

To elect the SMIM, attach a statement to your timely filed income tax return (determined with extensions) for the first tax year of the election. Indicate on the statement that you are making an election under Regulations section 1.460-6(d) to use the SMIM. Once made, the election applies to all applications of the look-back method in the year of the election and all later years, unless the IRS consents to a revocation of the election.

### Columns (a), (b), and (c)

Enter at the top of each column the ending month and year for each prior tax year in which you were required to report income from the completed long-term contract.

**Note:** If there were more than 3 prior tax years, attach additional Forms 8697 as needed. On the additional Forms 8697, enter your name, identifying number, and tax year. Complete lines 1 through 9 (as applicable), but do not enter totals in column (d). Enter totals only in column (d) of the first Form 8697.

### Line 1

In each column, show a net increase to income as a positive amount and a net decrease to income as a negative amount.

On an attached schedule:

- Identify each completed long-term contract by contract number, job name, or any other reasonable method used in your records to identify each contract; and
- For each contract, report in columns for each prior year: (a) the amount of income previously reported based on estimated contract price and costs and (b) the amount of income allocable to each prior year based on actual contract price and costs. Total the columns for each prior year and show the net adjustment to income from long-term contracts.

An owner of an interest in a pass-through entity is not required to provide the detailed schedule listed above for prior years. The entity should provide the line 1 amounts with Schedule K-1 or on a separate statement for its tax year in which the contracts are completed or adjusted.

**Note:** Taxpayers reporting line 1 amounts from more than one Schedule K-1 (or a similar statement) must attach a

schedule detailing by entity the net change to income from long-term contracts.

## Line 2

Multiply the amount on line 1 by the applicable regular tax rate for each prior year shown in column (a), (b), or (c). The applicable regular tax rate is as follows.

**1.** Individuals and pass-through entities in which, at all times during the year, more than 50% of the interests in the entity are held by individuals directly or through other pass-through entities:

a. Tax years beginning before 1987 . . . . .	50%
b. Tax years beginning in 1987 . . . . .	38.5%
c. Tax years beginning in 1988, 1989, or 1990 . . . . .	28%
d. Tax years beginning in 1991 or 1992 . . . . .	31%
e. Tax years beginning in 1993 through 2000 . . . . .	39.6%
f. Tax years beginning in 2001 . . . . .	39.1%
g. Tax years beginning in 2002 . . . . .	38.6%
h. Tax years beginning in 2003 through 2012 . . . . .	35%
i. Tax years beginning in 2013 through 2017 . . . . .	39.6%
j. Tax years beginning in 2018 or later . . . . .	37%

**2.** Corporations (other than S corporations) and pass-through entities not included in 1 above:

a. Tax years ending before July 1, 1987 . . . . .	46%
b. For tax years beginning before July 1, 1987, that include July 1, 1987, the rate is 34% plus the following.	

$$\frac{\text{Number of days in tax year before 7/1/87}}{\text{Number of days in tax year}} \times 12\%$$

c. Tax years beginning after June 30, 1987, and ending before 1993 . . . . .	34%
d. For tax years beginning before 1993 that include January 1, 1993, the rate is 34% plus the following.	

$$\frac{\text{Number of days in tax year after 12/31/92}}{\text{Number of days in tax year}} \times 1\%$$

e. Tax years beginning after 1992, and ending before 2018 . . . . .	35%
f. Tax years beginning after 2017 . . . . .	21%

## Line 3

See the instructions for Part II, [line 1](#), earlier, and complete line 3 in the same manner, using only income and deductions allowed for AMT purposes.

## Line 4

Multiply the amount on line 3 by the applicable AMT rate, which is as follows:

**1.** Individuals and pass-through entities in which, at all times during the year, more than 50% of the interests in the entity are held by individuals directly or through other pass-through entities:

a. Tax years beginning in 1987 through 1990 . . . . .	21%
b. Tax years beginning in 1991 or 1992 . . . . .	24%
c. Tax years beginning in 1993 or later . . . . .	28%

**2.** Corporations (other than S corporations) and pass-through entities not included in 1 above:

a. Tax years ending before 2018 . . . . .	20%
b. Tax years beginning after 2017 . . . . .	0%

## Line 5

If both lines 2 and 4 are negative, enter whichever amount is greater. Treat both numbers as positive when making this comparison, but enter the amount as a negative number. (If the amount on one line is negative, but the amount on the other line is positive, enter the positive amount.)

## Lines 8 and 9

For the increase (or decrease) in tax for each prior year, interest due or to be refunded must be computed at the applicable interest rate and compounded on a daily basis from the due date (not including extensions) of the return for the prior year until the earlier of:

- The due date (not including extensions) of the return for the filing year, or
- The date the return for the filing year is filed and any income tax due for that year has been fully paid.

See [Applicable Interest Rates](#) in the instructions for Part I, [lines 7 and 8](#), earlier.

## Line 10a

See the instructions for Part I, [line 9a](#), earlier.

## Lines 10b Through 10d

See the instructions for Part I, lines 9b through 9d, earlier.

## Line 11

See the instructions for Part I, [line 10](#), earlier.



**Table 1**  
**Interest Rates for Non-corporate Taxpayers**

From	Through	Rate	Table	Page
1/1/15	12/31/15	3%	11	565
1/1/16	3/31/16	3%	59	613
4/1/16	12/31/16	4%	61	615
1/1/17	3/31/18	4%	13	567
4/1/18	12/31/18	5%	15	569
1/1/19	6/30/19	5%	15	571
7/1/19	12/31/19	5%	15	569
1/1/20	6/30/20	5%	63	565
7/1/20	12/31/20	3%	59	565
1/1/21	3/31/22	3%	11	567
7/1/22	9/30/22	5%	15	569
10/1/22	12/31/22	6%	17	571
1/1/23	9/30/23	7%	19	573
10/1/23	12/31/23	8%	21	575
1/1/24	12/31/24	8%	21	575
1/1/25	3/31/26	7%	19	573

**Table 2**  
**Interest Rates for Corporate**  
**Increases or Decreases in Tax**  
**of \$10,000 or Less**

From	Through	Rate	Table	Page
1/1/15	12/31/15	2%	9	563
1/1/16	3/31/16	2%	57	611
4/1/16	12/31/16	3%	59	613
1/1/17	3/31/18	3%	11	565
4/1/18	12/31/18	4%	13	567
1/1/19	6/30/19	5%	15	569
7/1/19	12/31/19	4%	13	567
1/1/20	6/30/20	4%	61	615
7/1/20	12/31/20	2%	57	611
1/1/21	3/31/22	2%	9	563
4/1/22	6/30/22	3%	11	565
7/1/22	9/30/22	4%	13	567
10/1/22	12/31/22	5%	15	569
1/1/23	9/30/23	6%	17	571
10/1/23	12/31/23	7%	19	573
1/1/24	12/31/24	7%	67	621
1/1/25	3/31/26	6%	17	571

**Table 3**  
**Interest Rates for Corporate**  
**Increases or Decreases in Tax**  
**Exceeding \$10,000**

From	Through	Rate	Table	Page
1/1/15	3/31/16	.5%	—	—
4/1/16	12/31/16	1.5%	56	610
1/1/17	3/31/18	1.5%	8	562
4/1/18	12/31/18	2.5%	10	564
1/1/19	6/30/19	3.5%	12	566
7/1/19	12/31/19	2.5%	10	564
7/1/20	3/31/22	.5%	—	—
4/1/22	6/30/22	1.5%	8	562
7/1/22	9/30/22	2.5%	10	564
10/1/22	12/31/22	3.5%	12	566
1/1/23	9/30/23	4.5%	14	568
10/1/23	12/31/23	5.5%	16	570
1/1/24	12/31/24	5.5%	64	618
1/1/25	3/31/26	4.5%	14	568

**Example of Applicable Interest Rates for Look-back Interest.**

A C corporation taxpayer completed contracts subject to look-back interest during the 2024 calendar year. The contracts were started in 2022, so 2022 and 2023 are redetermination years. The corporate tax return due date, without extensions, for all years is April 15.

For computing look-back interest, the interest rates and accrual period for the 2022 redetermination year would be:

- 4/16/2023 – 4/15/2024: 6% for the 1st \$10,000 (4.5% for any amount exceeding \$10,000).
- 4/16/2024 – 4/15/2025: 7% for the 1st \$10,000 (5.5% for any amount exceeding \$10,000).

The interest rate and accrual period for the 2023 redetermination year would be:

- 4/16/2024 – 4/15/2025: 7% for the 1st \$10,000 (5.5% for any amount exceeding \$10,000).

**Privacy Act and Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. We need this information to ensure that you are complying with these laws and to figure and collect or refund the correct amount of interest.

Section 460 provides special rules for computing interest under the look-back method for completed long-term contracts. Section 6001 and its regulations require you to file a return or statement with us for any tax you are liable for. Section 6109 and its regulations require you to put your identifying number on what you file. If you do not provide the information we ask for, or provide fraudulent information, you may forfeit any refund of interest otherwise owed to you and/or be subject to penalties.

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.

We may give this information to the Department of Justice for civil or criminal litigation, and to other federal agencies as authorized by law. We may give it to cities, states, the District of Columbia, and U.S. commonwealths or possessions to carry out their tax laws. We may give it to foreign governments because of tax treaties they have with the United States. We also may disclose this information to federal and state agencies to enforce federal nontax criminal laws and to combat terrorism.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

**Recordkeeping**

Part I	8 hr., 36 min.
Part II	9 hr., 19 min.

**Learning about the law or the form**

Part I	2 hr., 22 min.
Part II	2 hr., 5 min.

**Preparing, copying, assembling, and sending the form to the IRS**

Part I	2 hr., 37 min.
Part II	2 hr., 19 min.

# TREASURY/IRS AND OMB USE ONLY DRAFT

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. You can send us comments through [IRS.gov/FormComments](https://www.irs.gov/FormComments). Or you can send your comments to Internal Revenue Service, Tax Forms

and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. Don't send the tax form to this office. Instead, see [Filing Instructions](#), earlier.

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