Internal Revenue Service

Department of the Treasury

Number: **200313014**
Release Date: 3/28/2003
Index Number: 41.01-00

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:
CC:PSI:B07-PLR-150622-01
Date:
December 19, 2002

Legend

Taxpayer =

Date =
Year 1 =
Year 2 =
Parent =

Dear :

We received your letter requesting a ruling that Taxpayer may determine the credit for increasing research activities under the standard method of § 41(a) of the Internal Revenue Code for Taxpayer's taxable year ending on Date and all subsequent taxable years. This letter responds to that request.

The facts and representations submitted are as follows:

Taxpayer, a 52/53 week taxpayer, elected to determine its credit for increasing research activities under the alternative incremental research credit rules of § 41(c) (AIRC) in Year 1. In Year 2, Parent acquired all of the issued and outstanding shares of stock of Taxpayer. Parent, a calendar year taxpayer, determines its credit for increasing research activities using the general rule of § 41(a).

Section 41(f)(1)(A) provides that in determining the amount of the credit under § 41—

(i) all members of the same controlled group of corporations shall be treated as a single taxpayer, and

(ii) the credit (if any) allowable by § 41 to each member shall be its proportionate shares of the qualified research expenses and basic research payments giving rise to the credit.

Section 41(f)(5) provides that the term "controlled group of corporations" has the same meaning given to such term by § 1563(a), except that—

(A) "more than 50 percent" shall be substituted for "at least 80 percent" each place it appears in § 1563(a)(1), and

(B) the determination shall be made without regard to § 1563(a)(4) and (e)(3)(C).

Based solely on the facts submitted and representations made, Taxpayer may determine its credit for increasing research activities under the standard method of § 41(a), without regard to the AIRC method of § 41(c), for qualified research expenses paid or incurred during the taxable year ending on Date and all succeeding years, provided that neither Taxpayer nor Parent makes a new election to determine its credit for increasing research activities under the alternative incremental research credit rules of § 41(c)(4) in a later year.

Except as expressly provided herein, we express or imply no opinion concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Further, we express or imply no opinion concerning expenditures Taxpayer or Parent treated as qualified research expenses.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent. A copy of this letter must be attached to any income tax return to which it is relevant.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Sincerely,

/s/
Brenda M. Stewart
Senior Counsel
Associate Chief Counsel
(Passthroughs and Special Industries)