Internal Revenue Service

Department of the Treasury

Washington, DC 20224

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Legend

Corporation	=
a	=
b	=
c	=
d	=
Parent	=

Dear :

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

The represented facts are as follows. Corporation elected to determine its research credit under the alternative incremental research credit rules of § 41(c)(4) (AIRC) for the taxable year ending on b. Corporation continued to calculate its research credit under the alternative incremental research credit rules through its taxable year ending on c. On d, Corporation was acquired by Parent, and became a member of Parent's consolidated return group. All other members of the consolidated group utilize the standard method of calculating the research credit under § 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, we conclude that Corporation may determine its research credit under the standard method of § 41(a), without regard to the AIRC method of § 41(c)(4), for qualified research expenses paid or incurred during the taxable year ending on a and all succeeding years, provided that neither Parent nor Corporation makes a new election to determine its research credit under the AIRC 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 Parent or Corporation treated as qualified research expenses.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative. 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,

Brenda M. Stewart
Senior Counsel, Branch 7
Office of Associate Chief Counsel
(Passthroughs and Special Industries)