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(ii) X designated \$50,000 of the \$120,000 of dividends paid as capital gains dividends (as defined in section 857(b)(3)(C) and § 1.857-6(e)). Thus, \$70,000 is an ordinary dividend. Since both ordinary dividends and capital gains dividends are taken into account in computing the deduction for dividends paid under section 857(b)(2)(B), the result will be the same as in *Example (1)*; that is, the portion of the 1977 net operating loss available as a carryover to 1979 and subsequent years is \$70,000.

(b) [Reserved]

[T.D. 6500, 25 FR 11402, Nov. 26, 1960, as amended by T.D. 6862, 30 FR 14428, Nov. 18, 1965; T.D. 6900, 31 FR 14641, Nov. 17, 1966; T.D. 7767, 46 FR 11263, Feb. 6, 1981; T.D. 8107, 51 FR 43346, Dec. 2, 1986]

**§ 1.172-6 Illustration of net operating loss carrybacks and carryovers.**

The application of § 1.172-4 may be illustrated by the following example:

(a) *Facts.* The books of the taxpayer, whose return is made on the basis of the calendar year, reveal the following facts:

Taxable year	Taxable income	Net operating loss
1954	\$15,000	
1955	30,000	
1956		(\$75,000)
1957	20,000	
1958		(150,000)
1959	30,000	
1960	35,000	
1961	75,000	
1962	17,000	
1963	53,000	

The taxable income thus shown is computed without any net operating loss deduction. The assumption is also made that none of the other modifications prescribed in § 1.172-5 apply. There are no net operating losses for 1950, 1951, 1952, 1953, 1964, 1965, or 1966.

(b) *Loss sustained in 1956.* The portions of the \$75,000 net operating loss for 1956 which shall be used as carrybacks to 1954 and 1955 and as carryovers to 1957, 1958, 1959, 1960, and 1961 are computed as follows:

(1) *Carryback to 1954.* The carryback to this year is \$75,000, that is, the amount of the net operating loss.

(2) *Carryback to 1955.* The carryback to this year is \$60,000, computed as follows:

Net operating loss ..... \$75,000

Less:  
 Taxable income for 1954 (computed without the deduction of the carryback from 1956) ..... 15,000  
 Carryback ..... 60,000

(3) *Carryover to 1957.* The carryover to this year is \$30,000, computed as follows:

Net operating loss ..... \$75,000  
 Less:  
 Taxable income for 1954 (computed without the deduction of the carryback from 1956) ..... \$15,000  
 Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958) ..... 30,000  
 ..... 45,000  
 Carryover ..... 30,000

(4) *Carryover to 1958.* The carryover to this year is \$10,000, computed as follows:

Net operating loss ..... \$75,000  
 Less:  
 Taxable income for 1954 (computed without the deduction of the carryback from 1956) ..... \$15,000  
 Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958) ..... 30,000  
 Taxable income for 1957 (computed without the deduction of the carryover from 1956 or the carryback from 1958) ..... 20,000  
 ..... 65,000  
 Carryover ..... 10,000

(5) *Carryover to 1959.* The carryover to this year is \$10,000, computed as follows:

Net operating loss ..... \$75,000  
 Less:  
 Taxable income for 1954 (computed without the deduction of the carryback from 1956) ..... \$15,000  
 Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958) ..... 30,000  
 Taxable income for 1957 (computed without the deduction of the carryover from 1956 or the carryback from 1958) ..... 20,000  
 Taxable income for 1958 (a year in which a net operating loss was sustained) ..... 0  
 ..... 65,000  
 Carryover ..... 10,000

(6) *Carryover to 1960.* The carryover to this year is \$0, computed as follows:

Net operating loss ..... \$75,000  
 Less:  
 Taxable income for 1954 (computed without the deduction of the carryback from 1956) ..... \$15,000

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Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958) .....	30,000	
Taxable income for 1957 (computed without the deduction of the carryover from 1956 or the carryback from 1958) .....	20,000	
Taxable income for 1958 (a year in which a net operating loss was sustained) .....	0	
Taxable income for 1959 (computed without the deduction of the carryover from 1956 or the carryover from 1958) .....	30,000	
	<u>95,000</u>	
Carryover .....		0

(7) *Carryover to 1961.* The carryover to this year is \$0, computed as follows:

Net operating loss .....		\$75,000
Less:		
Taxable income for 1954 (computed without the deduction of the carryback from 1956) .....	\$15,000	
Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958) .....	30,000	
Taxable income for 1957 (computed without the deduction of the carryover from 1956 or the carryback from 1958) .....	20,000	
Taxable income for 1958 (a year in which a net operating loss was sustained) .....	0	
Taxable income for 1959 (computed without the deduction of the carryover from 1956 or the carryover from 1958) .....	30,000	
Taxable income for 1960 (computed without the deduction of the carryover from 1956 or the carryover from 1958) .....	35,000	
	<u>130,000</u>	
Carryover .....		0

(c) *Loss sustained in 1958.* The portions of the \$150,000 net operating loss for 1958 which shall be used as carrybacks to 1955, 1956, and 1957 and as carryovers to 1959, 1960, 1961, 1962, and 1963 are computed as follows:

(1) *Carryback to 1955.* The carryback to this year is \$150,000, that is, the amount of the net operating loss.

(2) *Carryback to 1956.* The carryback to this year is \$150,000, computed as follows:

Net operating loss .....		\$150,000
Less:		
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account) .....		0
Carryback .....		150,000

(3) *Carryback to 1957.* The carryback to this year is \$150,000, computed as follows:

Net operating loss .....		\$150,000
Less:		
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account) .....		0
Taxable income for 1956 (a year in which a net operating loss was sustained) .....		0
Carryback .....		150,000

(4) *Carryover to 1959.* The carryover to this year is \$150,000, computed as follows:

Net operating loss .....		\$150,000
Less:		
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account) .....		0
Taxable income for 1956 (a year in which a net operating loss was sustained) .....		0
Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account) .....		0
Carryover .....		150,000

(5) *Carryover to 1960.* The carryover to this year is \$130,000, computed as follows:

Net operating loss .....		\$150,000
Less:		
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account) .....		0
Taxable income for 1956 (a year in which a net operating loss was sustained) .....		0
Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account) .....		0

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Taxable income for 1959 (the \$30,000 taxable income for such year reduced by the carryover to such year of \$10,000 from 1956, the carryover from 1958 to 1959 not being taken into account) .....	\$20,000	
	20,000	
Carryover .....		130,000

(6) *Carryover to 1961.* The carryover to this year is \$95,000, computed as follows:

Net operating loss .....		\$150,000
Less:		
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account) .....	0	
Taxable income for 1956 (a year in which a net operating loss was sustained) .....	0	
Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account) .....	0	
Taxable income for 1959 (the \$30,000 taxable income for such year reduced by the carryover to such year of \$10,000 from 1956, the carryover from 1958 to 1959 not being taken into account) .....	\$20,000	
Taxable income for 1960 (the \$35,000 taxable income for such year reduced by the carryover to such year of \$0 from 1956, the carryover from 1958 to 1960 not being taken into account) .....	35,000	
	55,000	
Carryover .....		95,000

(7) *Carryover to 1962.* The carryover to this year is \$20,000, computed as follows:

Net operating loss .....		\$150,000
Less:		
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account) .....	0	
Taxable income for 1956 (a year in which a net operating loss was sustained) .....	0	
Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account) .....	0	

Taxable income for 1959 (the \$30,000 taxable income for such year reduced by the carryover to such year of \$10,000 from 1956, the carryover from 1958 to 1959 not being taken into account) .....	\$20,000	
Taxable income for 1960 (the \$35,000 taxable income for such year reduced by the carryover to such year of \$0 from 1956, the carryover from 1958 to 1960 not being taken into account) .....	35,000	
Taxable income for 1961 (the \$75,000 taxable income for such year reduced by the carryover to such year of \$0 from 1956, the carryover from 1958 to 1961 not being taken into account) .....	75,000	
	130,000	
Carryover .....		20,000

(8) *Carryover to 1963.* The carryover to this year is \$3,000, computed as follows:

Net operating loss .....		\$150,000
Less:		
Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account) .....	0	
Taxable income for 1956 (a year in which a net operating loss was sustained) .....	0	
Taxable income for 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from 1958 to 1957 not being taken into account) .....	0	
Taxable income for 1959 (the \$30,000 taxable income for such year reduced by the carryover to such year of \$10,000 from 1956, the carryover from 1958 to 1959 not being taken into account) .....	\$20,000	
Taxable income for 1960 (the \$35,000 taxable income for such year reduced by the carryover to such year of \$0 from 1956, the carryover from 1958 to 1960 not being taken into account) .....	35,000	
Taxable income for 1961 (the \$75,000 taxable income for such year reduced by the carryover to such year of \$0 from 1956, the carryover from 1958 to 1961 not being taken into account) .....	75,000	
Taxable income for 1962 (computed without the deduction of the carryover from 1958) .....	17,000	
	147,000	
Carryover .....		3,000

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(d) *Determination of net operating loss deduction for each year.* The carryovers and carrybacks computed under paragraphs (b) and (c) of this section are

used as a basis for the computation of the net operating loss deduction in the following manner:

Taxable year	Carryover		Carryback		Net operating loss deduction
	From 1956	From 1958	From 1956	From 1958	
1954 .....	\$0	\$0	\$75,000	\$0	\$75,000
1955 .....	0	0	60,000	150,000	210,000
1957 .....	30,000	0	0	150,000	180,000
1959 .....	10,000	150,000	0	0	160,000
1960 .....	0	130,000	0	0	130,000
1961 .....	0	95,000	0	0	95,000
1962 .....	0	20,000	0	0	20,000
1963 .....	0	3,000	0	0	3,000

**§ 1.172-7 Joint return by husband and wife.**

(a) *In general.* This section prescribes additional rules for computing the net operating loss carrybacks and carryovers of a husband and wife making a joint return for one or more of the taxable years involved in the computation of the net operating loss deduction.

(b) *From separate to joint return.* If a husband and wife, making a joint return for any taxable year, did not make a joint return for any of the taxable years involved in the computation of a net operating loss carryover or a net operating loss carryback to the taxable year for which the joint return is made, such separate net operating loss carryover or separate net operating loss carryback is a joint net operating loss carryover or joint net operating loss carryback to such taxable year.

(c) *Continuous use of joint return.* If a husband and wife making a joint return for a taxable year made a joint return for each of the taxable years involved in the computation of a net operating loss carryover or net operating loss carryback to such taxable year, the joint net operating loss carryover or joint net operating loss carryback to such taxable year is computed in the same manner as the net operating loss carryover or net operating loss carryback of an individual under § 1.172-4 but upon the basis of the joint net operating losses and the combined taxable income of both spouses.

(d) *From joint to separate return.* If a husband and wife making separate re-

turns for a taxable year made a joint return for any, or all, of the taxable years involved in the computation of a net operating loss carryover or net operating loss carryback to such taxable year, the separate net operating loss carryover or separate net operating loss carryback of each spouse to the taxable year is computed in the manner set forth in § 1.172-4 but with the following modifications:

(1) *Net operating loss.* The net operating loss of each spouse for a taxable year for which a joint return was made shall be deemed to be that portion of the joint net operating loss (computed in accordance with paragraph (d) of § 1.172-3) which is attributable to the gross income and deductions of such spouse, gross income and deductions being taken into account to the same extent that they are taken into account in computing the joint net operating loss.

(2) *Taxable income to be subtracted—(i) Net operating loss of other spouse.* The taxable income of a particular spouse for any taxable year which is subtracted from the net operating loss of such spouse for another taxable year in order to determine the amount of such loss which may be carried back or carried over to still another taxable year is deemed to be, in a case in which such taxable income was reported in a joint return, the sum of the following:

(a) That portion of the combined taxable income of both spouses for such year for which the joint return was made which is attributable to the gross