Less:

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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 $\S1.857-6(e)$). 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~(I); 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 oper- ating 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

Taxable income for 1954 (compute the deduction of the carryback for		15,000
Carryback		60,000
(3) Carryover to 1957. The this year is \$30,000, con lows:		
Less: Taxable income for 1954 (computed without the deduction of the carryback from 1956) Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958)	\$15,000 30,000	-
		45,000
Carryover		30,000
(4) Carryover to 1958. The this year is \$10,000, con lows:		
Net operating loss		\$75,000
Less: Taxable income for 1954 (computed without the deduction of the carryback from 1956) Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958) Taxable income for 1957 (computed without the deduction of the carryover from 1956 or the	\$15,000 30,000	
carryback from 1958)	20,000	-
		65,000
Carryover		10,000
(5) Carryover to 1959. The this year is \$10,000, con lows:		
Net operating loss		\$75,000
Less: Taxable income for 1954 (computed without the deduction of the carryback from 1956) Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958) Taxable income for 1957 (computed without the deduction of the carryback from 1958)	\$15,000 30,000	
puted without the deduction of the carryover from 1956 or the carryback from 1958)	20,000	
was sustained)	0	65,000
Carryover		10,000
Carryover to 1960. Th		
this year is \$0 computed		

Net operating loss \$75,000

\$15,000

Taxable income for 1954 (com-

puted without the deduction of the carryback from 1956)

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		(3) Carryback to 1957. T			Taxable income for 1955 (com- puted without the deduction of
as 101-	mputed	to this year is \$150,000, corlows:		30,000	the carryback from 1956 or the carryback from 1958)
\$150,000		Net operating lossLess:		00,000	Taxable income for 1957 (computed without the deduction of
		Taxable income for 1955 (the \$30,000 taxable income for		20,000	the carryover from 1956 or the carryback from 1958)
		such year reduced by the carryback to such year of \$60,000 from 1956, the		0	Taxable income for 1958 (a year in which a net operating loss was sustained)
	0	carryback from 1958 to 1955 not being taken into account)			Taxable income for 1959 (computed without the deduction of
		Taxable income for 1956 (a year in which a net operating loss		30,000	the carryover from 1956 or the carryover from 1958)
0	0	was sustained)	95,000		0
150,000		Carryback	0		(7) Carryover to 1961. Th
		(4) Carryover to 1959. The			his year is \$0, computed
as fol-	nputed	this year is \$150,000, con lows:	\$75,000		et operating lossess:
\$150,000		Net operating loss			Taxable income for 1954 (com- puted without the deduction of
		Less:		\$15,000	the carryback from 1956) Taxable income for 1955 (com-
		Taxable income for 1955 (the \$30,000 taxable income for			puted without the deduction of
		such year reduced by the carryback to such year of		30,000	the carryback from 1956 or the carryback from 1958)
		\$60,000 from 1956, the			Taxable income for 1957 (com-
	0	carryback from 1958 to 1955 not being taken into account)			puted without the deduction of the carryover from 1956 or the
		Taxable income for 1956 (a year		20,000	carryback from 1958)
	0	in which a net operating loss was sustained)			Taxable income for 1958 (a year in which a net operating loss
		Taxable income for 1957 (the		0	was sustained)
		\$20,000 taxable income for such year reduced by the car-			Taxable income for 1959 (com- puted without the deduction of
		ryover to such year of \$30,000			the carryover from 1956 or the
		from 1956, the carryback from 1958 to 1957 not being taken		30,000	carryover from 1958) Taxable income for 1960 (com-
	0	into account)			puted without the deduction of
0				35,000	the carryover from 1956 or the carryover from 1958)
150,000		Carryover	130,000		canyover nom 1930/
over to	ie carry	(5) Carryover to 1960. The	0		Carryover
as fol-	nputed	this year is \$130,000, con	ortions	8. The p	(c) Loss sustained in 195
#450.000		lows:			f the \$150,000 net open
\$150,000		Net operating loss Less:			958 which shall be used
		Taxable income for 1955 (the			o 1955, 1956, and 1957 and
		\$30,000 taxable income for such year reduced by the	963 are	, and 19	o 1959, 1960, 1961, 1962 omputed as follows:
		carryback to such year of	rwhaek	The car	(1) Carryback to 1955.
		\$60,000 from 1956, the carryback from 1958 to 1955			this year is $$150,000$
	0	not being taken into account)			mount of the net operat
		Taxable income for 1956 (a year in which a net operating loss			(2) Carryback to 1956.
	0	was sustained)	as fol-	omputed	o this year is \$150,000, co
		Taxable income for 1957 (the \$20,000 taxable income for			ows:
		such year reduced by the car-	\$150,000		et operating lossess:
		ryover to such year of \$30,000 from 1956, the carryback from			Taxable income for 1955 (the \$3
		1958 to 1957 not being taken		ced by the	able income for such year redu carryback to such year of \$6
	0	into account)		to 1955 not	1956, the carryback from 1958 t
			0		being taken into account)
			150 000		Carrybook

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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	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	
Carryover		130,000	\$35,000 taxable income for such year reduced by the car-		
(6) Carryover to 1961. The	carryo	ver to	ryover to such year of \$0 from 1956, the carryover from 1958		
this year is \$95,000, complows:			to 1960 not being taken into account)	35,000	
Net operating loss		\$150,000	Taxable income for 1961 (the \$75,000 taxable income for		
Less: Taxable income for 1955 (the \$30,000 taxable income for such year reduced by the			such year reduced by the car- ryover to such year of \$0 from 1956, the carryover from 1958 to 1961 not being taken into		
carryback to such year of \$60,000 from 1956, the			account)	75,000	400.000
carryback from 1958 to 1955					130,000
not being taken into account) Taxable income for 1956 (a year	0		Carryover		20,000
in which a net operating loss	0		(8) Carryover to 1963. Th	e carry	over to
was sustained) Taxable income for 1957 (the	0		this year is \$3,000, compu		
\$20,000 taxable income for			Net operating lossLess:		\$150,000
such year reduced by the car- ryover to such year of \$30,000			Taxable income for 1955 (the		
from 1956, the carryback from			\$30,000 taxable income for		
1958 to 1957 not being taken into account)	0		such year reduced by the carryback to such year of		
Taxable income for 1959 (the			\$60,000 from 1956, the		
\$30,000 taxable income for			carryback from 1958 to 1955	0	
such year reduced by the car- ryover to such year of \$10,000			not being taken into account) Taxable income for 1956 (a year	U	
from 1956, the carryover from			in which a net operating loss		
1958 to 1959 not being taken	# 20,000		was sustained)	0	
into account) Taxable income for 1960 (the	\$20,000		Taxable income for 1957 (the \$20,000 taxable income for		
\$35,000 taxable income for			such year reduced by the car-		
such year reduced by the car-			ryover to such year of \$30,000		
ryover to such year of \$0 from 1956, the carryover from 1958			from 1956, the carryback from 1958 to 1957 not being taken		
to 1960 not being taken into			into account)	0	
account)	35,000		Taxable income for 1959 (the		
-		55,000	\$30,000 taxable income for such year reduced by the car-		
Carryover		95,000	ryover to such year of \$10,000		
(7) Carryover to 1962. The	00 111110	wor to	from 1956, the carryover from		
this year is $$20,000$, comp			1958 to 1959 not being taken into account)	\$20,000	
lows:	yavoa a	101	Taxable income for 1960 (the	* -,	
Net operating loss		\$150,000	\$35,000 taxable income for		
Less:		,	such year reduced by the car- ryover to such year of \$0 from		
Taxable income for 1955 (the			1956, the carryover from 1958		
\$30,000 taxable income for such year reduced by the			to 1960 not being taken into account)	35,000	
carryback to such year of			Taxable income for 1961 (the	33,000	
\$60,000 from 1956, the			\$75,000 taxable income for		
carryback from 1958 to 1955 not being taken into account)	0		such year reduced by the car-		
Taxable income for 1956 (a year	ŭ		ryover to such year of \$0 from 1956, the carryover from 1958		
in which a net operating loss	0		to 1961 not being taken into		
was sustained) Taxable income for 1957 (the	0		account)	75,000	
\$20,000 taxable income for			Taxable income for 1962 (com- puted without the deduction of		
such year reduced by the car-			the carryover from 1958)	17,000	
ryover to such year of \$30,000 from 1956, the carryback from					147,000
1958 to 1957 not being taken			Carryover	-	3,000
into account)	0		caryoto:		0,000

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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 op-
		From 1956	From 1958	From 1956	From 1958	erating loss de- duction
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 carryback is a 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 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 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