(1) Carryback to 1954. The carryback to this year is \$75,000, that is, the

(2) Carryback to 1955. The carryback

amount of the net operating loss.

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limited to \$50,000, that is, the amount of the real estate investment trust taxable income for 1978, determined by taking into account the net operating loss deduction for the taxable year, but not the deduction for dividends paid (\$150,000 minus \$100,000). See \$1.857-6(e)(1)(ii).

(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 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:

to this year is \$60,000, computed lows:	l as fol-
Net operating loss	\$75,000
Taxable income for 1954 (computed without the deduction of the carryback from 1956)	15,000
Carryback	60,000
(3) Carryover to 1957. The carry this year is \$30,000, computed lows:	
Net operating loss	\$75,000
Less: Taxable income for 1954 (computed without the deduction of the carryback from 1956)	
	45,000
Carryover	30,000
(4) Carryover to 1958. The carry this year is \$10,000, computed 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)	
the carryover from 1956 or the carryback from 1958)	
	65,000
Carryover	10,000
(5) Carryover to 1959. The carry this year is \$10,000, computed lows:	over to as fol-
Net operating loss	\$75.000

Taxable income for 1954 (com-

puted without the deduction of

the carryback from 1956)

the carryback from 1956 or the

puted without the deduction of the carryover from 1956 or the

Taxable income for 1955 (computed without the deduction of

Taxable income for 1957 (com-

Taxable income for 1958 (a year

in which a net operating loss

Carryover

carryback from 1958) ...

carryback from 1958) ...

was sustained)

\$15,000

30.000

20,000

0

65.000

10,000

Internal Revenue Service, Treasury

(6) Carryover to 1960. The this year is \$0, computed			Less: Taxable income for 1955 (the \$30,000 tax-	
Net operating loss		\$75,000	able income for such year reduced by the carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not	
Taxable income for 1954 (com- puted without the deduction of			being taken into account)	(
the carryback from 1956) Taxable income for 1955 (com-	\$15,000		Carryback	150,000
puted without the deduction of the carryback from 1956 or the carryback from 1958)	30,000		(3) Carryback to 1957. The car to this year is \$150,000, computed lows:	
puted without the deduction of the carryover from 1956 or the carryback from 1958)	20,000		Net operating loss	\$150,000
was sustained) Taxable income for 1959 (computed without the deduction of the carryover from 1956 or the carryover from 1958)	30,000		carryback to such year of \$60,000 from 1956, the carryback from 1958 to 1955 not being taken into account) 0	
canyore non 1888, minimum		95,000	Taxable income for 1956 (a year in which a net operating loss	
Carryover		0	was sustained) 0	(
(7) Carryover to 1961. Th			Carryback	150,000
this year is \$0, computed			(4) Carryover to 1959. The carry	over to
Net operating loss Less: Taxable income for 1954 (com-		\$75,000	this year is \$150,000, computed lows:	
puted without the deduction of the carryback from 1956)	\$15,000		Net operating loss	\$150,000
Taxable income for 1955 (computed without the deduction of the carryback from 1956 or the carryback from 1958)	30,000		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	
the carryover from 1956 or the carryback from 1958)	20,000		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		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 1957 (the \$20,000 taxable income for such year reduced by the carryover to such year of \$30,000 from 1956, the carryback from	
puted without the deduction of the carryover from 1956 or the			1958 to 1957 not being taken into account) 0	
carryover from 1958)	35,000	130,000		(
Carnyovor	-		Carryover	150,000
(c) Loss sustained in 1958 of the \$150,000 net oper	8. The po ating lo	oss for	(5) Carryover to 1960. The carry this year is \$130,000, computed lows:	
1958 which shall be used to 1955, 1956, and 1957 and to 1959, 1960, 1961, 1962, computed as follows: (1) Carryback to 1955. To this year is \$150,000 amount of the net operat (2) Carryback to 1956. To this year is \$150,000, co	l as carr and 19 The carr that i ing loss. The carr	yovers 63 are ryback is, the	Net operating loss	\$150,000
lows:	-	\$150,000	in which a net operating loss was sustained) 0	

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Taxable income for 1957 (the			Taxable income for 1957 (the		
\$20,000 taxable income for			\$20,000 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 \$30,000		
from 1956, the carryback from			from 1956, the carryback from		
1958 to 1957 not being taken			1958 to 1957 not being taken		
into account)	0		into account)	0	
Taxable income for 1959 (the			Taxable income for 1959 (the		
\$30,000 taxable income for			\$30,000 taxable income for		
such year reduced by the car-			such year reduced by the car-		
ryover to such year of \$10,000			ryover to such year of \$10,000		
from 1956, the carryover from			from 1956, the carryover from		
1958 to 1959 not being taken			1958 to 1959 not being taken		
into account)	\$20,000		into account)	\$20,000	
into doodanij	Ψ20,000	00.000		Ψ20,000	
		20,000	Taxable income for 1960 (the		
			\$35,000 taxable income for		
Carryover		130,000	such year reduced by the car-		
•			ryover to such year of \$0 from		
(6) Carryover to 1961. Tl	ne carry	over to	1956, the carryover from 1958		
this year is \$95,000, coi	nputed	as fol-	to 1960 not being taken into		
lows:	-		account)	35,000	
10W5.			Taxable income for 1961 (the		
Net operating loss		\$150,000	\$75,000 taxable income for		
Less:					
			such year reduced by the car-		
Taxable income for 1955 (the			ryover to such year of \$0 from		
\$30,000 taxable income for			1956, the carryover from 1958		
such year reduced by the			to 1961 not being taken into		
carryback to such year of			account)	75.000	
\$60,000 from 1956, the			,		130,000
carryback from 1958 to 1955					130,000
	0				
not being taken into account)	0		Carryover		20,000
Taxable income for 1956 (a year					
in which a net operating loss			(8) <i>Carryover to 1963.</i> Th	e carry	over to
was sustained)	0		_ ` ` `		
Taxable income for 1957 (the			this year is \$3,000, compu	teu as i	onows.
			Net operating loss		\$150,000
\$20,000 taxable income for			Less:		,
such year reduced by the car-			Less.		
			T		
ryover to such year of \$30,000			Taxable income for 1955 (the		
ryover to such year of \$30,000 from 1956, the carryback from			\$30,000 taxable income for		
from 1956, the carryback from					
from 1956, the carryback from 1958 to 1957 not being taken	0		\$30,000 taxable income for such year reduced by the		
from 1956, the carryback from 1958 to 1957 not being taken into account)	0		\$30,000 taxable income for such year reduced by the carryback to such year of		
from 1956, the carryback from 1958 to 1957 not being taken into account)	0		\$30,000 taxable income for such year reduced by the carryback to such year of \$60,000 from 1956, the		
from 1956, the carryback from 1958 to 1957 not being taken into account)	0		\$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	0	
from 1956, the carryback from 1958 to 1957 not being taken into account)	0		\$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	
from 1956, the carryback from 1958 to 1957 not being taken into account)	0		\$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	0	
from 1956, the carryback from 1958 to 1957 not being taken into account)	0		\$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	
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Internal Revenue Service, Treasury

Taxable income for 1962 (computed without the deduction of the carryover from 1958)	17,000	147,000
Carryover		3,000

(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:

	Carryover		Carryback		Net op-	
Taxable year		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 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 returns 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