

primary limitations of, and deductions allowed or allowable to, the distributor or transferor corporation or corporations for all prior years under the limitations provided in those sections.

(j) *Successive carryovers.* The provisions of section 381(c)(11) and this section shall apply to an acquiring corporation which, in a distribution or transfer to which section 381(a) applies acquires the assets of a distributor or transferor corporation which has previously acquired the assets of another corporation in a transaction to which section 381(a) applies, even though, in computing an unused deductions or excess contributions carryover to the second acquiring corporation, it is necessary to take into account contributions paid by, and limitations applicable to, the first distributor or transferor corporation.

(k) *Information to be furnished by acquiring corporation.* The acquiring corporation shall furnish such information with respect to a plan established by a distributor or transferor corporation as will, consistently with the principles of section 404, establish that the provisions of such section and this section apply. For purposes of this section, the district director may require any other information that he considers necessary to determine deductions allowable under section 404 and this section or qualification under section 401. Any unused deductions or excess contributions carried over from a distributor or transferor corporation pursuant to this section shall be properly identified with the corporation which would have been permitted to use those deductions or contributions in the absence of the transaction causing section 381 to apply.

(l) *Illustration.* The application of this section may be illustrated by the following example:

Example. In 1955, X Corporation, which makes its return on the basis of the calendar year, paid \$400,000 to completely fund past service credits under a qualified pension plan and deducted 10 percent (\$40,000) of that cost in each of the taxable years 1955, 1956, and 1957. The pension plan established by X Corporation had an anniversary date of January 1. On December 31, 1957, on which date the undeducted part of the cost amounted to \$280,000, X Corporation transferred all its assets to Y Corporation in a statutory merger

to which section 361 applies. Y Corporation, which also makes its return on the basis of the calendar year, had a qualified pension plan and trust which also had an anniversary date of January 1. Since Y Corporation had many more employees than X Corporation on the date of transfer, it covered the former employees of X Corporation under its own plan. Y Corporation is entitled to deductions under section 404(a)(1)(D) and this section in 1958 and succeeding taxable years, in order of time, with respect to the undeducted balance of \$280,000, to the extent of the difference between the amount paid and deductible by that corporation in each such taxable year and the maximum amount deductible by that corporation for such taxable year in accordance with the applicable limitations of section 404(a)(1). In computing the maximum amount deductible by Y Corporation for 1958 and 1959 under section 404(a)(1)(C), that corporation may include \$40,000 for each year, the amount that X Corporation could have included for each of those years in computing the maximum amount that would have been deductible by X Corporation under section 404(a)(1)(C) if the merger had not occurred. Thus, assuming that Y Corporation's appropriate limitation so computed under section 404(a)(1)(C) is \$1,000,000 (including the \$40,000 carried over from X Corporation under this section) for each of those taxable years, and that Y Corporation contributed \$925,000 to its trust in 1958 and \$975,000 in 1959, then Y Corporation is entitled under section 404(a)(1)(D) and this section to deduct in 1958 \$75,000, and in 1959 \$25,000, of the amount (\$280,000) carried over from X Corporation. The undeducted balance of such amount (\$180,000) available to Y Corporation on December 31, 1959, would be deductible by that corporation in succeeding taxable years in accordance with section 404(a)(1)(D) and this section.

[T.D. 6556, 26 FR 2405, Mar. 22, 1961, as amended by T.D. 7168, 37 FR 5024, Mar. 9, 1972]

§ 1.381(c)(12)-1 Recovery of bad debts, prior taxes, or delinquency amounts.

(a) *Carryover requirement.* (1) If, as a result of a distribution or transfer to which section 381(a) applies, the acquiring corporation is entitled to the recovery of a bad debt, prior tax, or delinquency amount on account of which a deduction or credit was allowed to a distributor or transferor corporation for a prior taxable year, and such debt, tax, or amount is recovered by the acquiring corporation after the date of distribution or transfer, then under the

provisions of section 381(c)(12) the acquiring corporation is required to include in its gross income for the taxable year of recovery the same amount of income attributable to the recovery as the distributor or transferor corporation would have been required to include under section 111 and the regulations thereunder had the distribution or transfer not occurred.

(2) The rule prescribed by paragraph (a)(1) of this section and by section 381(c)(12) with respect to bad debts, prior taxes, and delinquency amounts applies equally with respect to the recovery by the acquiring corporation of all other losses, expenditures, and accruals made on the basis of deductions from the gross income of a distributor or transferor corporation for prior taxable years, including war losses referred to in section 127 of the Internal Revenue Code of 1939, but not including deductions with respect to depreciation, depletion, amortization, or amortizable bond premiums. An item which is not a "section 111 item" for purposes of the regulations under section 111 is not subject to the provisions of section 381(c)(12). The provisions of section 111(c) shall be applied with respect to a recovery by the acquiring corporation in the same manner as they would have been applied by the distributor or transferor corporation.

(b) *Amount of recovery exclusion allowable for year of recovery.* For the year of any recovery by the acquiring corporation, the amount of the recovery exclusion for the original taxable year shall be determined in accordance with paragraph (b) of §1.111-1. For the purpose of this paragraph and section 381(c)(12), the recovery exclusion for any year with respect to section 111 items of the acquiring corporation shall be kept separate from the recovery exclusion for any year with respect to section 111 items of each distributor or transferor corporation. The recovery by the acquiring corporation of any section 111 item of such corporation after the date of the distribution or transfer shall be considered separately from recoveries by the acquiring corporation of any such item which was deducted or credited by a distributor or transferor corporation. Any recovery by the acquiring corporation of a section 111 item

shall be excluded from the gross income of the acquiring corporation to the extent of the recovery exclusion (1) determined for the original year for which that item was deducted or credited by the specific corporation which claimed the deduction or credit and (2) reduced by the excludable recoveries (whether made by the acquiring corporation, or by the distributor or transferor corporation) in intervening years with respect to the recovery exclusion of such corporation for such original year. There shall be taken into account the effect of net operating loss carryovers and carrybacks or capital loss carryovers.

(c) *Illustration of carryover of recovery exclusion—(1) Facts.* (i) The application of section 381(c)(12) may be illustrated by the following example. M and N Corporations are both organized on January 1, 1957, and both corporations compute their taxable income on the basis of the calendar year. On December 31, 1959, M Corporation transfers all its assets to N Corporation in a reorganization to which section 381(a) applies.

(ii) The section 111 items of the two corporations for the following taxable years are as follows, identification of such items being made by an appropriate letter:

Taxable year of deduction or credit	M Corporation (transferor)	N Corporation (acquirer)
1957	\$500(g)	\$200(h)
1958	300(i)	400(j)
1959	600(k)	100(m)

(iii) The recovery exclusions in respect of such taxable years, computed in accordance with §1.111-1(b)(2), are assumed to be as follows:

Taxable year	M Corporation (transferor)	N Corporation (acquirer)
1957	\$400	\$150
1958	200	300
1959	500	75

(iv) The recoveries of the above-mentioned section 111 items by the two corporations are as follows:

Taxable year of recovery	M Corporation (transferor)	N Corporation (acquirer)
1958	\$25 (g)	\$50 (h)

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Taxable year of recovery	M Corporation (transferor)	N Corporation (acquirer)
1959	50 (g) 30 (i)	20 (h) 15 (j)
1960		350 (g) 225 (i) 550 (k) 100 (h) 350 (j) 85 (m)

(2) *M Corporation's 1958 recovery.*
 Total recovery of section 111 items for 1957 \$25
 Less: Recovery exclusion for 1957 400

Amount included in gross income of M Corporation for 1958 0

(3) *M Corporation's 1959 recoveries.*
 (i) Total recovery of section 111 items for 1957 \$50
 Less: Recovery exclusion for 1957 \$400
 Minus excludable recovery 25

Amount included in gross income of M Corporation for 1959 0
 (ii) Total recovery of section 111 items for 1958 30
 Less: Recovery exclusion for 1958 200

Amount included in gross income of M Corporation for 1959 0

(4) *N Corporation's 1958 recovery.*
 Total recovery of section 111 items for 1957 \$50
 Less: Recovery exclusion for 1957 150

Amount included in gross income of N Corporation for 1958 0

(5) *N Corporation's 1959 recoveries.*
 (i) Total recovery of section 111 items for 1957 \$20
 Less: Recovery exclusion for 1957 \$150
 Minus excludable recovery in 1958 50

Amount included in gross income of N Corporation for 1959 0
 (ii) Total recovery of section 111 items for 1958 15
 Less: Recovery exclusion for 1958 300

Amount included in gross income of N Corporation for 1959 0

(6) *N Corporation's 1960 recoveries.*
 (i) Total recovery of section 111 items of M Corporation for 1957 \$350
 Less: Recovery exclusion of M Corporation for 1957 \$400

Minus:
 Excludable recovery in 1959 \$50
 Excludable recovery in 1958 25

Amount included in gross income of N Corporation for 1960 25
 (ii) Total recovery of section 111 items of M Corporation for 1958 225

Less: Recovery exclusion of M Corporation for 1958 \$200

Minus excludable recovery in 1959 30
 Amount included in gross income of N Corporation for 1960 170
 (iii) Total recovery of section 111 items of M Corporation for 1959 550
 Less: Recovery exclusion of M Corporation for 1959 500
 Amount included in gross income of N Corporation for 1960 50
 (iv) Total recovery of section 111 items of N Corporation for 1957 100
 Less: Recovery exclusion of N Corporation for 1957 \$150
 Minus:
 Excludable recovery in 1959 \$20
 Excludable recovery in 1958 50

Amount included in gross income of N Corporation for 1960 80

(v) Total recovery of section 111 items of N Corporation for 1958 \$350
 Less: Recovery exclusion of N Corporation for 1958 \$300
 Minus excludable recovery in 1959 15

Amount included in gross income of N Corporation for 1960 285
 (vi) Total recovery of section 111 items of N Corporation for 1959 65

Less: Recovery exclusion of N Corporation for 1959 85
 Amount included in gross income of N Corporation for 1960 75

Amount included in gross income of N Corporation for 1960 10

(7) *Summary of recoveries included in gross income of N Corporation for 1960.*

(i) Recovery of M Corporation items for:
 1957 \$25
 1958 55
 1959 50
 \$130

(ii) Recovery of N corporation items for:
 1957 20
 1958 65
 1959 10
 95

Total amount included in gross income 225

[T.D. 6559, 26 FR 2984, Apr. 7, 1961]

§ 1.381(c)(13)-1 **Involuntary conversions.**

(a) *Carryover requirement*—(1) *General rule.* Section 381(c)(13) requires that after the date of distribution or transfer the acquiring corporation, in a transaction to which section 381(a) applies, shall be treated as the distributor or transferor corporation for