

without regard to extensions) for the succeeding three taxable years; and

(2) For a transaction described in paragraph (a)(2) of this section, by the transferee S corporation on or before the due date for the transferee corporation's returns (determined without regard to extensions) for the succeeding three taxable years.

(c) *Basis adjustments.* Appropriate adjustments to the basis of inventory are to be made to reflect any amount included in income under this section.

(d) *Effective dates.* (1) The provisions of paragraph (a)(1) of this section apply to S elections made after December 17, 1987. For an exception, see section 10227(b)(2) of the Revenue Act of 1987.

(2) The provisions of paragraph (a)(2) of this section apply to transfers made after August 18, 1993.

[T.D. 8567, 59 FR 51106, Oct. 7, 1994]

#### § 1.1366-0 Table of contents.

The following table of contents is provided to facilitate the use of §§ 1.1366-1 through 1.1366-5:

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(2) Carryover of disallowance.

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(5) Nontransferability of losses and deductions.

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(1) In general.

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(3) Limitation on losses and deductions allocated to each item.

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(c) Carryover of disallowed losses and deductions in the case of liquidations, reorganizations, and divisions.

(1) Liquidations and reorganizations.

(2) Corporate separations to which section 368(a)(1)(D) applies.

##### *§ 1.1366-3 Treatment of family groups.*

(a) In general.

(b) Examples.

##### *§ 1.1366-4 Special rules limiting the passthrough of certain items of an S corporation to its shareholders.*

(a) Passthrough inapplicable to section 34 credit.

(b) Reduction in passthrough for tax imposed on built-in gains.

(c) Reduction in passthrough for tax imposed on excess net passive income.

##### *§ 1.1366-5 Effective date.*

[T.D. 8852, 64 FR 71644, Dec. 22, 1999]

#### § 1.1366-1 Shareholder's share of items of an S corporation.

(a) *Determination of shareholder's tax liability—(1) In general.* An S corporation must report, and a shareholder is required to take into account in the shareholder's return, the shareholder's pro rata share, whether or not distributed, of the S corporation's items of income, loss, deduction, or credit described in paragraphs (a)(2), (3), and (4) of this section. A shareholder's pro rata share is determined in accordance with the provisions of section 1377(a) and the regulations thereunder. The shareholder takes these items into account in determining the shareholder's taxable income and tax liability for the shareholder's taxable year with or within which the taxable year of the corporation ends. If the shareholder dies (or if the shareholder is an estate