

**Internal Revenue Service**

Department of the Treasury

Number: **200210021**  
Release Date: 3/8/2002  
Index Number: 41.01-00

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:PSI:Br.7-PLR-113014-01

Date:

November 29, 2001

Legend

Company:

Parent 1:

Parent 2:

w:

x:

y:

z:

Dear

We received a letter from your authorized representative requesting a ruling concerning Company's election to compute its credit for increasing research activities (research credit) under the alternative incremental research credit rules of § 41(c)(4) of the Internal Revenue Code. This letter is in response to that request.

For purposes of determining its research credit for the taxable year ending w, Company was a member of a controlled group of corporations that included Parent 1. On its timely filed tax return for the taxable year ending w, Parent 1 elected to determine its research credit under the alternative incremental research credit rules of § 41(c)(4).

During x, there was an initial public offering of Company stock. As a result of the initial public offering, Company ceased to be a member of the Parent 1 controlled group of corporations.

On y, Parent 2 acquired Company. Company had a short taxable year for the taxable year ending y. For its short taxable year ending y, Company was not a member of a controlled group of corporations.

On z, Company submitted a request to revoke its election to determine its research credit under the alternative incremental research credit rules of § 41(c)(4) for qualified research expenses paid or incurred during the taxable year ending on y and all succeeding taxable years. The due date (including extensions) of Company's return for the taxable year ending y is z.

The computation of the research credit is subject to special rules in § 41(f) for

the aggregation of expenditures for controlled groups of corporations. In computing the research credit, § 41(f)(1)(A) provides that all members of the same controlled group of corporations are treated as a single taxpayer.

For taxable years beginning after June 30, 1996, taxpayers may elect to determine their research credit under the alternative incremental research credit rules of § 41(c)(4)(A).

Section 41(c)(4)(B) provides that any election under § 41(c)(4)(A) shall apply for the taxable year in which made and all succeeding taxable years unless revoked with the consent of the Secretary.

Based solely on the facts submitted and representations made, we grant permission for Company to revoke its election to determine its research credit under the alternative incremental research credit rules of § 41(c)(4) for qualified research expenses paid or incurred during the tax year that ended on y. Company should compute its credit for increasing research expenses for the tax year ended y and all succeeding taxable years using the general rule of § 41(a) provided that Company or a member of its controlled group does not make a new election to determine its research credit under the alternative incremental research credit rules of § 41(c)(4).

Except as expressly provided herein, we express or imply no opinion concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Further, we express or imply no opinion concerning expenditures Company treated as qualified research expenses. If there is a change in material fact or law (local or federal) before the transactions considered in this ruling take effect, the ruling will have no force or effect.

This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives. A copy of this letter must be attached to any income tax return to which it is relevant.

The ruling contained in this letter is based upon information and representations submitted by Company and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Sincerely,  
Leslie H. Finlow  
Chief, Branch 7  
Associate Chief Counsel  
(Passthroughs and Special Industries)

Enclosure (1)