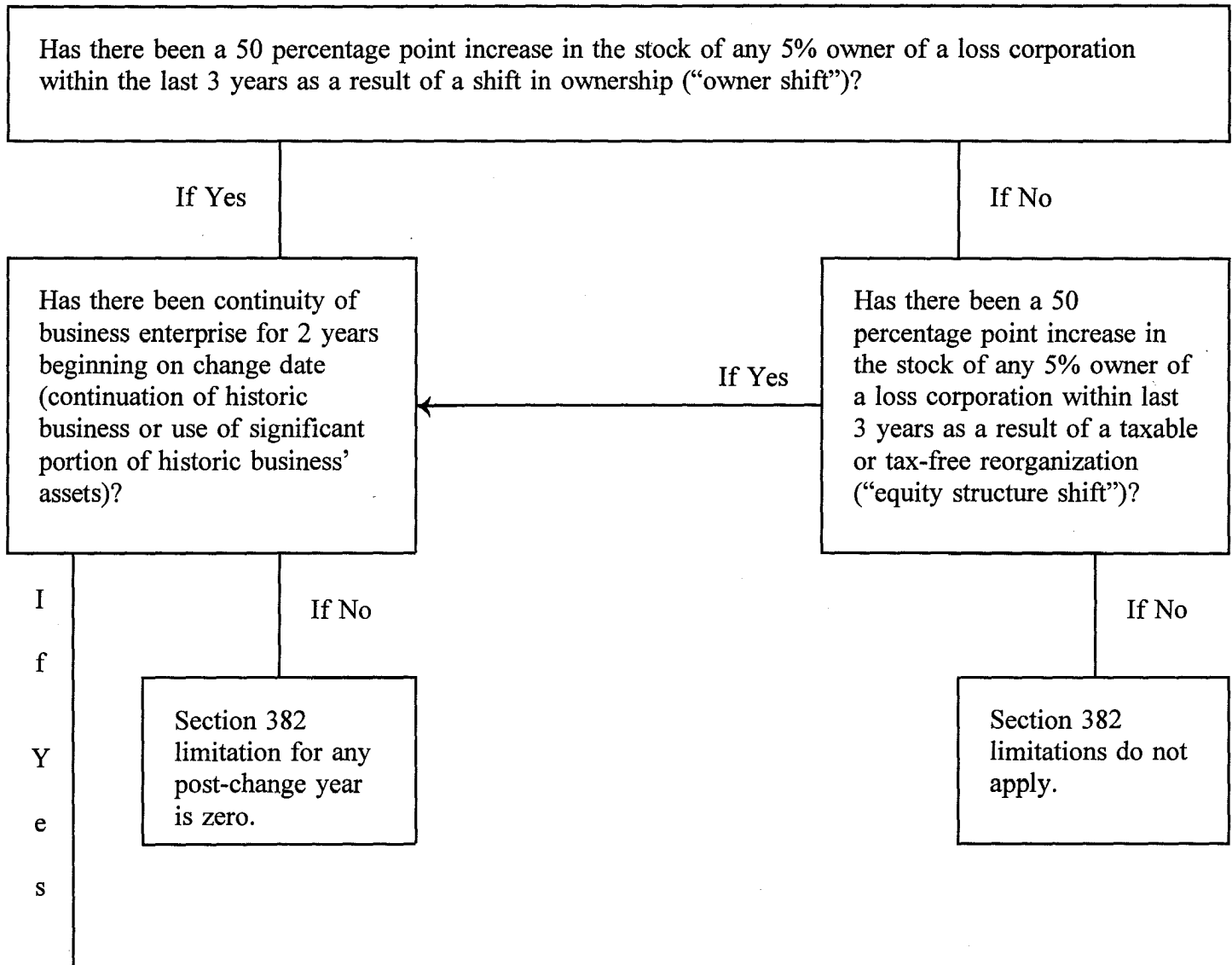


Basic Operation of Section 382

by Robert W. Wood • San Francisco



Section 382 limitation for any post-change year is: value of old loss corporation x long-term tax-exempt rate.

- If Section 382 limitation exceeds taxable income of new loss corporation, Section 382 limitation for next post-change year is increased by the amount of the excess.
- If old loss corporation has net unrealized built-in gain, Section 382 limitation is increased by recognized built-in gains for taxable year, not to exceed net unrealized built-in gain minus recognized built-in gains for prior years ending 5 years after change date.
- If old loss corporation has net unrealized built-in loss, the recognized built-in loss shall be subject to the Section 382 limitation, to the extent it does not exceed net unrealized built-in losses minus recognized built-in losses for prior years ending 5 years after the change date.
- If old loss corporation is under jurisdiction of the court in Title 11 or similar case, special rules apply.