

Affected section	Remove	Add
§ 1.1502–12(r) .....	For rulings relating to loss disallowance or basis reduction on the disposition or deconsolidation of stock of a subsidiary, see §§ 1.337(d)–1, 1.337(d)–2 and 1.1502–20.	See §§ 1.337(d)–2T and 1.1502–35T(f) for rules relating to basis adjustments and allowance of stock loss on dispositions of stock of a subsidiary member.
§ 1.1502–13(f)(7), Example 1(e), sixth sentence.	See also § 1.1502–20(b) (additional stock basis reductions applicable to certain deconsolidations).	
§ 1.1502–15(b)(2)(iii), first sentence.	(e.g., under § 1.1502–20 or section 267) .....	(e.g., under §§ 1.337(d)–2T, 1.1502–35T, or section 267)
§ 1.1502–21(b)(2)(i), third sentence.	For rules permitting the reattribution of losses of a subsidiary to the common parent when loss is disallowed on the disposition of subsidiary stock, see § 1.1502–20(g).	
§ 1.1502–32(b)(3)(iii)(B), third sentence.	§ 1.1502–20(b), or § 1.1502–20(g) .....	§ 1.1502–35T(b) or (f)(2)
§ 1.1502–32(b)(5)(ii), Example 2(b), last sentence.	See also § 1.1502–20(b) (possible stock basis reduction on the deconsolidation of S).	
§ 1.1502–32(e)(2), Example 4(a), fourth sentence.	(Section § 1.1502–20(b) does not reduce P's basis in the S stock as a result of S's deconsolidation).	
§ 1.1502–80(c), last sentence.	See § 1.1502–11(c) and 1.1502–20 for additional rules relating to stock loss.	See § 1.1502–11(c) and 1.1502–35T for additional rules relating to stock loss.
§ 1.1502–91(h)(2), first sentence.	(unless disallowed under § 1.1502–20 or otherwise) .....	(unless disallowed under § 1.337(d)–2T, 1.1502–35T, or otherwise)

**Par. 3.** Section 1.1502–21 is amended by:

1. Revising paragraph (b)(1).
2. Adding paragraphs (b)(3)(v) and (h)(7).

The revisions and addition read as follows:

**§ 1.1502–21 Net operating losses.**

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(b) \* \* \*

(1) [Reserved]. For further guidance, see § 1.1502–21T(b)(1).

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(3) \* \* \*

(v) [Reserved]. For further guidance, see § 1.1502–21T(b)(3)(v).

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(h) \* \* \*

(7) [Reserved]. For further guidance, see § 1.1502–21T(h)(7).

**Par. 4.** Section 1.1502–21T is revised to read as follows:

**§ 1.1502–21T Net operating losses (temporary).**

(a) [Reserved]. For further guidance, see § 1.1502–21(a).

(b) [Reserved]. For further guidance, see § 1.1502–21(b).

(1) *Carryovers and carrybacks generally.* The net operating loss carryovers and carrybacks to a taxable year are determined under the principles of section 172 and this section. Thus, losses permitted to be absorbed in a consolidated return year generally are absorbed in the order of the taxable years in which they arose, and losses carried from taxable years ending on the same date, and which are available to offset consolidated taxable income for the year, generally are absorbed on a pro rata basis. Additional rules under the Internal Revenue Code

or regulations also apply. See, e.g., section 382(l)(2)(B) (if losses are carried from the same taxable year, losses subject to limitation under section 382 are absorbed before losses that are not subject to limitation under section 382). See *Example 2* of paragraph (c)(1)(iii) of this section for an illustration of pro rata absorption of losses subject to a SRLY limitation. See paragraph (b)(3)(v) of this section regarding the treatment of any loss that is treated as expired under § 1.1502–35T(f)(1).

(b)(2) through (b)(3)(iv) [Reserved]. For further guidance, see § 1.1502–21(b)(2) through (b)(3)(iv).

(b)(3)(v) *Losses treated as expired under § 1.1502–35T(f)(1).* No loss treated as expired by § 1.1502–35T(f)(1) may be carried over to any consolidated return year of the group.

(c) through (h)(6) [Reserved]. For further guidance, see § 1.1502–21(c) through (h)(6).

(h)(7) *Losses treated as expired under § 1.1502–35T(f)(1).* Paragraph (b)(3)(v) of this section is effective for losses treated as expired under § 1.1502–35T(f)(1) on and after March 7, 2002, and no later than March 11, 2006.

**Par. 5.** Section 1.1502–32 is amended by:

1. Revising paragraph (a)(2).
2. Adding paragraphs (b)(3)(iii)(C), (b)(3)(iii)(D), (b)(4)(vi), and (h)(6).

The revision and additions read as follows:

**§ 1.1502–32 Investment adjustments.**

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(a)(2) [Reserved]. For further guidance, see § 1.1502–32T(a)(2).

(b)(3)(iii)(C) and (D) [Reserved]. For further guidance, see § 1.1502–32T(b)(3)(iii)(C) and (D).

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(b)(4)(vi) [Reserved]. For further guidance, see § 1.1502–32T(b)(4)(vi).

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(h)(6) [Reserved]. For further guidance, see § 1.1502–32T(h)(6).

**Par. 6.** Section 1.1502–32T is revised to read as follows:

**§ 1.1502–32T Investment adjustments (temporary).**

(a) and (a)(1) [Reserved]. For further guidance, see § 1.1502–32(a) and (a)(1).

(a)(2) *Application of other rules of law.* The rules of this section are in addition to other rules of law. See, e.g., section 358 (basis determinations for distributees), section 1016 (adjustments to basis), § 1.1502–11(b) (limitations on the use of losses), § 1.1502–19 (treatment of excess loss accounts), § 1.1502–31 (basis after a group structure change), and § 1.1502–35T (additional rules relating to stock loss, including losses attributable to worthlessness and certain dispositions not followed by a separate return year). P's basis in S's stock must not be adjusted under this section and other rules of law in a manner that has the effect of duplicating an adjustment. For example, if pursuant to § 1.1502–35T(c)(3) and paragraph (b)(3)(iii)(C) of this section the basis in stock is reduced to take into account a loss suspended under § 1.1502–35T(c)(1), such basis shall not be further reduced to take into account such loss, or a portion of such loss, if any, that is later allowed pursuant to § 1.1502–35T(c)(5). See also paragraph (h)(5) of this section for basis