

Internal Revenue Service

Department of the Treasury

Number: **200204026**
Release Date: 1/25/2002
Index Number: 41.01-00

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:

CC:PSI:07-PLR-124594-01

Date:

October 23, 2001

Re: Ruling under section 41 of the Internal
Revenue Code

Legend:

Taxpayer:

Corporation A:

Corporation B:

Date 1:

x:

y:

Dear _____ :

We received letters dated April 20, 2001, and August 29, 2001, from Taxpayer's authorized representative requesting permission for Taxpayer to revoke its election under § 41(c)(4) of the Internal Revenue Code. This letter responds to that request.

Taxpayer is an accrual basis taxpayer and the common parent of an affiliated group of companies. On Date 1, Corporation A completed a merger with Corporation B. It is represented that this constituted a reverse acquisition under § 1.1502-75(d)(3) of the Income Tax Regulations. Corporation A was renamed Taxpayer and Corporation B became a wholly-owned subsidiary of Taxpayer.

Prior to its acquisition by Corporation A, Corporation B was a calendar year taxpayer. For the taxable year ending on x, Corporation B elected to determine its credit for increasing research activities under the alternative incremental research credit rules of § 41(c)(4). Corporation A had not elected to determine its credit for increasing research activities under the alternative incremental research credit rules of § 41(c)(4). However, by reason of the reverse acquisition, it is represented that Taxpayer was deemed to have made the § 41(c)(4) election.

Before the due date of its return (including extensions) for the taxable year ending on y, Taxpayer 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 on or after the taxable year ending on y and all subsequent taxable years.

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). 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 Taxpayer to revoke its election to determine its credit for increasing research activities 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. Taxpayer should compute its credit for increasing research expenses for the taxable year ending on y and all succeeding taxable years using the general rule of § 41(a) provided that Taxpayer does not make a new election to determine its credit for increasing research activities 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 Taxpayer treated as qualified research expenses.

This ruling is directed only to the taxpayer 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 representative. A copy of this letter must be attached to any income tax return to which it is relevant.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer 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 & Special Industries)