§ 1.904(g)-2

26 CFR Ch. I (4–1–10 Edition)

(2) Domestic loss defined. For purposes of this section and §§1.904(g)-2T and 1.904(g)-3T, the term domestic loss means the amount by which the U.S. source gross income for the taxable year is exceeded by the sum of the expenses, losses and other deductions properly apportioned or allocated to such income, taking into account any net operating loss carried forward from a prior taxable year, but not any loss carried back. If a taxpayer has any capital gains or losses, the amount of the taxpayer's domestic loss shall be determined by taking into account adjustments under section 904(b)(2) and §1.904(b)-1. See §1.904(b)-1(h)(1)(iii).

(3) Qualified taxable year defined. For purposes of this section and §§1.904(g)-2T and 1.904(g)-3T, the term qualified taxable year means any taxable year for which the taxpayer chooses the benefits of section 901.

(4) Method of allocation and apportionment of deductions. In determining its overall domestic loss, a taxpayer shall allocate and apportion expenses, losses, and other deductions to U.S. gross income in accordance with sections 861(b) and 865 and the regulations thereunder, including §§1.861–8T through 1.861–14T.

(d) Additions to overall domestic loss accounts—(1) General rule. A taxpayer's overall domestic loss as determined under paragraph (c) of this section shall be added to the applicable overall domestic loss account at the end of its taxable year to the extent that the overall domestic loss either reduces foreign source income for the year (but only if such year is a qualified taxable year) or reduces foreign source income for a qualified taxable year to which the loss has been carried back.

(2) Overall domestic loss of another taxpayer. If any portion of any overall domestic loss of another taxpayer is allocated to the taxpayer in accordance with §1.1502–9T (relating to consolidated overall domestic losses) the term qualified taxable year means any taxable year for which the taxpayer chooses the benefits of section 901.

(e) Adjustments for capital gains and losses. If the taxpayer has capital gains or losses, the amount by which an overall domestic loss reduces foreign source income in a taxable year shall be determined in accordance with §1.904(b)-1(h)(1)(i) and (iii).

(f) Effective/applicability date. This section applies to any taxpayer that sustains an overall domestic loss for a taxable year beginning after December 31, 2007. Taxpayers may choose to apply this section to overall domestic losses sustained in other taxable years beginning after December 31, 2006, as well.

(g) Expiration date. The applicability of this section expires on December 20, 2010.

[T.D. 9371, 72 FR 72599, Dec. 21, 2007]

§ 1.904(g)-2 Recapture of overall domestic losses.

[Reserved] For further guidance, see §1.904(g)-2T.

[T.D. 9371, 72 FR 72599, Dec. 21, 2007]

§ 1.904(g)-2T Recapture of overall domestic losses (temporary).

(a) In general. A taxpayer shall recapture an overall domestic loss as provided in this section. Recapture is accomplished by treating a portion of the taxpayer’s U.S. source taxable income as foreign source income. The recharacterized income is allocated among and increases foreign source income in separate categories in proportion to the balances of the overall domestic loss accounts with respect to those separate categories. As a result, if the taxpayer elects the benefits of section 901, the taxpayer’s foreign tax credit limitation is increased. As provided in §1.904(g)-1T(f)(2), the balance