

to such remaining stock basis. If the acquired corporation held the authority indirectly, appropriate basis reductions shall be made to reflect the transfers deemed to have occurred under paragraph (e)(iv) of this section.

(vii) *Pre-TEFRA law applies.* References made in this section to section 334 of the Code relate to such section as it existed before amendment by the Tax Equity and Fiscal Responsibility Act of 1982.

(f) *Adjustment to basis of motor carrier operating authority.* A taxpayer's basis in a motor carrier operating authority must be reduced by the amount of any amortization deductions allowable to the taxpayer under this section.

(g) *Examples.* The principles of this section may be illustrated by the following examples:

Example (1). (i) Corporation X acquired all the stock of corporation Y for \$130,000 in 1970. Y's assets at the time of acquisition consisted of a motor carrier operating authority valued at \$180,000 in which it has a basis of \$60,000, trucks with a fair market value of \$70,000 and an aggregate basis of \$30,000, and goodwill valued at \$30,000. Y has \$50,000 of liabilities secured by the trucks and \$100,000 of unsecured liabilities. Both X and Y use a June 30 fiscal year for tax purposes.

(ii) Y is the only taxpayer eligible to claim a deduction under § 1.9200-1(b). If X sold its Y stock to Z in October 1980 (other than pursuant to a binding contract in effect on July 1, 1980), Y would continue to be the only taxpayer eligible to claim the deduction. However, if Y sold the operating authority to W in February 1981, neither Y nor W would be eligible to claim the monthly deduction for the remainder of the 60-month period. Also, Y would realize gain or loss on the sale after reducing its basis in the authority by any amortization claimed for the period prior to the sale.

(iii) Y must begin the 60-month period in July 1980 unless it elects under paragraph (c)(1)(ii) of this section to begin the 60-month period with the first month of the first taxable year beginning after July 1, 1980, which in Y's case would be July 1981.

(iv) Y's allowable monthly deduction is equal to its adjusted basis in the operating authority of \$60,000, divided by 60, or \$1,000. However, Y may elect under § 1.9200-1(e)(2) to allocate to its basis in the authority a portion of X's basis in Y stock, since X is a qualified acquiring party under paragraph (e)(2)(i) of this section and Y is a member of an affiliated group of which X is a member. Assuming Y makes the election, Y may allocate to the basis of the authority the amount

of X's basis in Y stock that would have been allocable under section 334(b)(2) if X had received the authority in a distribution of all of Y's assets in a complete liquidation of Y immediately after X acquired Y's stock.

Therefore, for purposes of the allocation, X's \$130,000 cost basis in Y stock is deemed to be increased by Y's \$100,000 of unsecured liabilities to \$230,000. Of the \$230,000 deemed basis, \$180,000 is allocated to the authority, \$30,000 to goodwill, and \$20,000 to the trucks. Y's allowable monthly amortization deduction would be \$180,000 divided by 60, or \$3,000. X's \$130,000 cost basis in its Y stock must be decreased to \$62,174 as provided in paragraph (e)(2)(vi) of this section. Y's \$30,000 aggregate basis in its trucks remains unchanged.

Example (2). Assume the same facts as in Example (1), except that Y's aggregate basis in the trucks is \$120,000. If Y makes the election under § 1.9200-1(e)(2), the same allocation as in Example (1) would occur. However, in addition to the decrease in X's basis in its Y stock to \$62,174, the \$120,000 aggregate basis in the trucks must be reduced to \$112,174 (so that the \$112,174 basis minus secured liabilities of \$50,000 is equal to X's \$62,174 remaining stock basis).

Example (3). Assume the same facts as in Example (1), except that X pays a negotiated purchase price of \$120,000 for the Y stock, in order to take into account an anticipated tax liability of \$10,000, relating to potential section 1245 recapture. If Y makes the election under § 1.9200-1(e)(2), then for purposes of allocating X's basis in Y stock, X's cost basis is deemed to be increased by Y's \$100,000 of unsecured liabilities as well as the \$10,000 of potential tax liability resulting from section 1245 recapture, to \$230,000. The \$10,000 of potential recapture tax is treated as a general liability and the deemed basis is allocated among Y's assets as in Example (1). In order to take into account the potential recapture tax liability, such amount must be based on the same fair market values that are used to determine the amount of the stock basis allocable to the operating authority.

(Sec. 266, Economic Recovery Tax Act of 1981 (Pub. L. 97-34; 95 Stat. 265); sec. 517, Highway Revenue Act of 1982 (Pub. L. 97-424; 96 Stat. 2097); and sec. 7805, Internal Revenue Code of 1954 (68A Stat. 917; 26 U.S.C. 7805))

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§ 1.9200-2 Manner of taking deduction.

(a) *In general.* The deduction provided by § 1.9200-1 shall be taken by multiplying the amount of the monthly deduction determined under § 1.9200-1(c)(2) for each motor carrier operating authority by the number of months in

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the taxable year for which the deduction is allowable, and entering the resulting amount at the appropriate place on the taxpayer's return for each year in which the deduction is properly claimed. Additionally, any taxpayer who has claimed the deduction provided by §1.9200-1 must (unless it has already filed a statement containing the required information) attach a statement to the next income tax return of the taxpayer which has a filing due date on or after June 4, 1984. The statement shall provide, in addition to the taxpayer's name, address, and taxpayer identification number, the following information for each motor carrier operating authority for which a deduction was claimed:

(1) The taxable year of the taxpayer for which the deduction was first claimed;

(2) Whether the taxpayer's deduction was determined using the adjusted basis of the authority under section 1012 or an allocated stock basis under §1.9200-1 (e) (2); and

(3) If an allocation of stock basis has been made under §1.9200-1(e)(2), the calculations made in determining the amount of basis to be allocated to the authority.

(b) *Filing and amendment of returns.* A taxpayer who has filed its return for the taxable year that includes July 1, 1980, claiming the deduction allowed under §1.9200-1, may amend its return for such year in order to elect under §1.9200-1(c)(1)(ii) to begin the 60-month

period in the subsequent taxable year. A taxpayer eligible to take the deduction under §1.9200-1 who has filed its returns for both the taxable year that includes July 1, 1980, and the following taxable year without claiming the deduction, may claim the deduction by filing amended returns or claims for refund for the taxable year in which the taxpayer elects to begin the 60-month period, and for subsequent taxable years. If a taxpayer first claims the deduction on an amended return under the preceding sentence, the statement required by paragraph (a) of this section must be attached to such amended return.

(c) *Deduction taken for operating authority other than under §1.9200-1.* If a deduction other than the deduction allowed under §1.9200-1 was taken in any taxable year for the reduction in value of a motor carrier operating authority caused by administrative or legislative actions to decrease restrictions on entry into the interstate motor carrier business, the taxpayer should file an amended return for such taxable year which computes taxable income without regard to such deduction.

(Approved by the Office of Management and Budget under control number 1545-0767)

(Sec. 266, Economic Recovery Tax Act of 1981 (Pub. L. 97-34; 95 Stat. 265); sec. 517, Highway Revenue Act of 1982 (Pub. L. 97-424; 96 Stat. 2097); and sec. 7805, Internal Revenue Code of 1954 (68A Stat. 917; 26 U.S.C. 7805)

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