Internal Revenue Service

Department of the Treasury

Washington, DC 20224

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Person to Contact:

Telephone Number:

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Date:
December 19, 2002

LEGEND:

Taxpayer:

Year 1:

Year 2:

Parent:

Year 3:

Date 1:

Date 2:

Dear :

We received a letter 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.

The facts and representations submitted are as follows:

Taxpayer is a calendar year taxpayer formed in Year 1. In Year 2, Taxpayer was acquired by Parent. In Year 3, Parent elected to determine its credit for increasing research activities under the alternative incremental research credit (AIRC) rules of § 41(c)(4) for itself and on behalf of its consolidated group.

On Date 1, Parent completed a plan to divest itself of Taxpayer through a stock exchange, which resulted in Taxpayer's stock being distributed to Parent's shareholders.

Before the due date of its return (including extensions) for the taxable year ending on Date 2, Taxpayer requested permission to revoke its AIRC election under § 41(c)(4), and to determine its credit for increasing research activities using § 41(a) for the taxable year ending on Date 2 and all subsequent 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 the credit for increasing research activities under the AIRC rules of § 41(c)(4). Taxpayer should compute its credit for increasing research activities under the general rule of § 41(a) for the taxable year ending on Date 2 and all subsequent years, provided that Taxpayer does not make a new election to determine its credit for increasing research activities under the AIRC 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 or Parent treated as qualified research expenses.

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.

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.

Sincerely,

/s/
Brenda M. Stewart
Senior Counsel
Office of Associate Chief Counsel
(Passthroughs and Special Industries)