



To: Whom it may concern

From: Donovan Thomas Billings, CPA on behalf of DTB Tax

Date: November 1, 2006

Re: Internal Revenue Code § 382

In general, the rules of section 382 apply to limit a corporation's ability to utilize existing net operating loss ("NOL") carryovers once the corporation experiences an "ownership change."

Generally, an ownership change occurs when, within a span of 36 months (or, if shorter, the period beginning the day after the most recent ownership change), there is an increase in the stock ownership by one or more shareholders of more than 50 percentage points.

For example, if Shareholder A owned 25 percent of Corporation X, and within a space of three years, acquired another 51 percent, there would be an ownership change, triggering section 382.

In general, the rules of section 382 allow post-change corporations to use pre-change NOLs, but limit the amount that may be used annually to a percentage of the entity value of the corporation at the date of change of ownership. That percentage is the highest federal long-term tax-exempt rate, for the month during which the change in ownership occurs and the preceding two months; the federal long-term tax-exempt rate is determined monthly by the IRS along with other applicable federal rates.

Numerous special rules and limitations apply, including provisions dealing with "built-in gains and losses."

Adjusted Long Term Rates	
November 2006 Rev.Rul. 2006-55	4.15%

October 2006 Rev.Rul. 2006-50	4.22%
September 2006 Rev.Rul. 2006-44	4.41%
August 2006 Rev.Rul. 2006-39	4.52%

The **Long Term Tax-Exempt Rate** for a particular month, used under Internal Revenue Code section 382 to compute the annual limitation on the utilization of corporate net operating loss carryovers following any "change in ownership" during such month, is equal to the **highest** Adjusted Long Term Rate for that month and the prior two months.

For more information, please contact Donovan Billings, CPA at:

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