gain for 1996 computed without partnership 1374 items is $55,000 and with partnership 1374 items is $155,000. Thus, X has a partnership RBIG of $60,000. In 1999, X sells its entire interest in P for $350,000 and recognizes a gain of $250,000. Under paragraph (i)(3) of this section, X’s recognized built-in gain on the sale is limited by its RBIG limitation to $140,000 ($200,000 − $60,000=$140,000).

Example 8. Section 704(c) case. Y is a C corporation that elects to become an S corporation on January 1, 1996. On that date, Y contributes Asset 1, a 5-year property with a value of $40,000 and a basis of $0, and an unrelated party contributes $40,000 in cash, each for a 50 percent interest in partnership P. The partnership adopts the traditional method under §1.704-3(b). If P sold Asset 1 for $40,000 immediately after it was contributed by Y, P’s $40,000 gain would be allocated to Y under section 704(c). Instead, Asset 1 is sold by P in 1999 for $36,000 and P recognizes gain of $36,000 ($36,000−$0=$36,000) on the sale. However, because book depreciation of $8,000 per year has been taken on Asset 1 in 1996, 1997, and 1998, Y is allocated only $16,000 of P’s $36,000 gain ($36,000− ($8,000−($8,000−($8,000−$8,000))=($16,000−$0)=($16,000−$0) under section 704(c). The remaining $20,000 of P’s $36,000 gain ($36,000−$16,000=$20,000) is allocated 50 percent to each partner under section 704(b). Thus, a total of $26,000 ($16,000+$10,000=$26,000) of P’s $36,000 gain is allocated to Y. However, under paragraph (i)(6) of this section, Y treats $36,000 as a partnership 1374 item on P’s sale of Asset 1.

Example 9. Disposition of distributed partnership asset. X is a C corporation that elects to become an S corporation on January 1, 1996. On that date, X owns a fifty percent interest in partnership P and P owns (among other assets) Blackacre, 5-year property with a value of $50,000, and an unrelated party contributes $40,000 in cash, each for a 50 percent interest in partnership P. The partnership adopts the traditional method under §1.704-3(b). If P sold Blackacre to X, when Blackacre has a value of $40,000. On January 1, 1998, P distributes Blackacre to X, when Blackacre has a basis of $20,000 and a value of $50,000. Under section 732(a)(1), X has a transferred basis of $20,000 in Blackacre, on January 1, 1998, X sells Blackacre for $90,000 and recognizes a gain of $40,000. Under paragraph (i)(7) of this section and section 1374(d)(3), X has recognized built-in gain from the sale of $30,000, the amount of built-in gain in Blackacre on the first day of the recognition period.

§ 1.1374-6 Credits and credit carryforwards.

(a) In general. The credits and credit carryforwards allowed as credits against the section 1374 tax under section 1374(b)(3) are allowed only to the extent their use is allowed under the rules applying to C corporations. Any other credits or credit carryforwards, such as foreign tax credits under section 901, are not allowed as credits against the section 1374 tax.

(b) Limitations. The amount of business credit carryforwards and minimum tax credit allowed against the section 1374 tax are subject to the limitations described in section 38(c) and section 53(c), respectively, as modified by this paragraph. The tentative tax determined under paragraph (a)(3) of §1.1374-1 is treated as the regular tax liability described in sections 38(c)(1) and 53(c)(1), and as the net income tax and net regular tax liability described in section 38(c)(1). The tentative minimum tax described in section 55(b) is determined using the rate of tax applicable to corporations and without regard to any alternative minimum tax foreign tax credit described in that section and by treating the net recognized built-in gain determined under §1.1374-