liability (other than taxes imposed under sections 56, 531, and 541) of $120,000 and $40,000 of items of tax preference. In 1974, A had $400,000 of items of tax preference and no liability for tax under chapter 1 other than under section 56(a). Under section 56(c), the excess of the taxes described in paragraph (1) of that section arising in an earlier taxable year not used to reduce the amount subject to tax under section 56(a) for such taxable year can be carried over as provided in section 56(c) to reduce the amount subject to tax under section 56(a).

(a) The amount of the carryover from 1972 is $180,000 computed as follows:

<table>
<thead>
<tr>
<th>Carryover under paragraph (b) of this section:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 1 taxes</td>
<td>$200,000</td>
</tr>
<tr>
<td>Items of tax preference in excess of exemption</td>
<td>20,000</td>
</tr>
<tr>
<td>Total</td>
<td>180,000</td>
</tr>
</tbody>
</table>

(b) The amount of the carryover from 1973 is $110,000 computed as follows:

<table>
<thead>
<tr>
<th>Carryover under paragraph (b) of this section:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 1 taxes</td>
<td>$120,000</td>
</tr>
<tr>
<td>Items of tax preference in excess of exemption</td>
<td>10,000</td>
</tr>
<tr>
<td>Total</td>
<td>110,000</td>
</tr>
</tbody>
</table>

(c) For 1974, the excess of taxes in the preceding taxable years is used to reduce the amount subject to tax under section 56(a). The amount of carryover attributable to excess taxes arising in 1972 is used before such excess arising in 1973. The amount of tax under section 56(a) is $80,000 computed as follows:

| 1974 tax preferences                         | $400,000 |
| Less exemption                               | 30,000   |
| Less 1972 carryover                          | 370,000  |
| Less 1973 carryover                          | 190,000  |
| 1974 minimum tax base                       | 110,000  |
| 1974 minimum tax ($80,000−10%)              | 8,000    |

Example 3. The facts are the same as in example 2 except that in 1974 A had $300,000 of items of tax preference. The amount of the carryover for taxable years after 1974 is computed as follows:

| 1974 tax preferences                         | $300,000 |
| Less exemption                               | 30,000   |
| Less 1972 carryover                          | 270,000  |
| Less 1973 carryover                          | 180,000  |
| 1974 minimum tax base                       | 90,000   |
| Minimum tax base                             | 0        |
| Amount used in 1974                          | 110,000  |
| Amount available for taxable years after 1974| 20,000   |

The $20,000 remaining of the 1973 carryover is available to reduce the amount subject to tax under section 56(a) in 1975 or other future taxable years as provided in section 56(c).

Example 4. M Corporation is a calendar year taxpayer. N Corporation uses a June 30 fiscal year. For the fiscal year 1970–1971, N Corporation had excess chapter 1 tax liability as described in paragraph (a) of this section in the amount of $75,000. On January 1, 1972, M Corporation acquired N Corporation in a reorganization described in section 368(a)(1)(A). N Corporation does not use any of such excess chapter 1 tax liability to reduce the amount subject to tax under section 56(a) for the short taxable year beginning on July 1, 1971, and ending on December 31, 1971. Thus, the excess chapter 1 tax liability is available to M Corporation as a carryover under paragraph (a) of this section to reduce the amount subject to tax for the next 6 succeeding taxable years beginning with taxable year 1972 as provided in this section. In applying the carryover to 1972 and succeeding taxable years, the carryover of N Corporation subject to the limitation of §1.56A-5(e)(4) is combined with any carryovers originating with M Corporation in 1978.


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Adjustment for adjusted current earnings—(1) Positive adjustment. For taxable years beginning after December 31, 1989, the alternative minimum taxable income of any taxpayer described in paragraph (a)(4) of this section is increased by the adjustment for adjusted current earnings. The adjustment for adjusted current earnings is 75 percent of the excess, if any, of—

(i) The adjusted current earnings (as defined in paragraph (a)(6)(ii) of this section) of the taxpayer for the taxable year over—

(ii) The pre-adjustment alternative minimum taxable income (as defined in paragraph (a)(6)(i) of this section) of the taxpayer for the taxable year.

(2) Negative adjustment—(i) In general. For taxable years beginning after December 31, 1989, the alternative minimum taxable income of any taxpayer is decreased, subject to the limitation of paragraph (a)(2)(ii) of this section, by 75 percent of the excess, if any, of pre-adjustment alternative minimum taxable income (as defined in paragraph (a)(6)(ii) of this section), over adjusted current earnings (as defined in paragraph (a)(6)(ii) of this section).

(ii) Limitation on negative adjustments. The amount of the negative adjustment for any taxable year is limited to the excess, if any, of—

(A) The aggregate increases in alternative minimum taxable income in prior years under paragraph (a)(1) of this section over—

(B) The aggregate decreases in alternative minimum taxable income in prior years under this paragraph (a)(2).

Any excess of pre-adjustment alternative minimum taxable income over adjusted current earnings that is not allowed as a negative adjustment for the taxable year because of the limitation in this paragraph (a)(2)(ii) is not applied to reduce any positive adjustment in any other taxable year.

(iii) Example. The following example illustrates the provisions of this paragraph (a)(2):

(A) Corporation P is a calendar-year taxpayer and has pre-adjustment alternative minimum taxable income and adjusted current earnings in the following amounts for 1990 through 1993:

<table>
<thead>
<tr>
<th>Year</th>
<th>Pre-adjustment alternative minimum taxable income</th>
<th>Adjusted current earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>$800,000</td>
<td>$700,000</td>
</tr>
<tr>
<td>1991</td>
<td>$600,000</td>
<td>$800,000</td>
</tr>
<tr>
<td>1992</td>
<td>$500,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>1993</td>
<td>$500,000</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

(B) Under these facts, corporation P has the following positive and negative adjustments for adjusted current earnings:

<table>
<thead>
<tr>
<th>Year</th>
<th>Negative adjustment</th>
<th>Positive adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1991</td>
<td>0</td>
<td>$225,000</td>
</tr>
</tbody>
</table>