


Internal Revenue Code Section 172(d)(4)(C)

Net operating loss deduction

(d) Modifications. The modifications referred to in this section are as follows:

- (1) Net operating loss deduction. No net operating loss deduction shall be allowed.
- (2) Capital gains and losses of taxpayers other than corporations. In the case of a taxpayer other than a corporation—
 - (A) the amount deductible on account of losses from sales or exchanges of capital assets shall not exceed the amount includable on account of gains from sales or exchanges of capital assets; and
 - (B) the exclusion provided by section 1202 shall not be allowed.
- (3) Deduction for personal exemptions. No deduction shall be allowed under section 151 (relating to personal exemptions). No deduction in lieu of any such deduction shall be allowed.
- (4) Nonbusiness deductions of taxpayers other than corporations. In the case of a taxpayer other than a corporation, the deductions allowable by this chapter which are not attributable to a taxpayer's trade or business shall be allowed only to the extent of the amount of the gross income not derived from such trade or business. For purposes of the preceding sentence—
 - (A) any gain or loss from the sale or other disposition of—
 - (i) property, used in the trade or business, of a character which is subject to the allowance for depreciation provided in section 167, or
 - (ii) real property used in the trade or business, shall be treated as attributable to the trade or business;
 - (B) the modifications specified in paragraphs (1), 2(B), and (3) shall be taken into account;
 -  (C) any deduction for casualty or theft losses allowable under paragraph (2) or (3) of section 165(c) shall be treated as attributable to the trade or business; and

(D) any deduction allowed under section 404 to the extent attributable to contributions which are made on behalf of an individual who is an employee within the meaning of section 401(c)(1) shall not be treated as attributable to the trade or business of such individual.

(5) Computation of deduction for dividends received, etc. The deductions allowed by sections 243 (relating to dividends received by corporations), 244 (relating to dividends received on certain preferred stock of public utilities), and 245 (relating to dividends received from certain foreign corporations) shall be computed without regard to section 246(b) (relating to limitation on aggregate amount of deductions); and the deduction allowed by section 247 (relating to dividends paid on certain preferred stock of public utilities) shall be computed without regard to subsection (a)(1)(B) of such section.

(6) Modifications related to real estate investment trusts. In the case of any taxable year for which part II of subchapter M (relating to real estate investment trusts) applies to the taxpayer—

(A) the net operating loss for such taxable year shall be computed by taking into account the adjustments described in section 857(b)(2) (other than the deduction for dividends paid described in section 857(b)(2)(B)); and

(B) where such taxable year is a "prior taxable year" referred to in paragraph (2) of subsection (b), the term "taxable income" in such paragraph shall mean "real estate investment trust taxable income" (as defined in section 857(b)(2)).

(7) Manufacturing deduction. The deduction under section 199 shall not be allowed.