

INTERNAL REVENUE BULLETIN



HIGHLIGHTS OF THIS ISSUE

Bulletin No. 2016-18
May 2, 2016

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

INCOME TAX

REG-133673-15, page 697.

While current law is clear that changes in conversion ratios in convertible instruments may result in deemed distributions under section 305, ambiguities exist whether the deemed distribution is of shares of stock or rights to acquire stock, and concerning the amount and timing of these deemed distributions. These proposed regulations clarify that the deemed distribution is of rights to acquire stock, and the amount and timing of the deemed distribution. Guidance is also provided to withholding agents regarding their withholding obligations under sections 860G, 861, 1441, 1461, 1471, and 1473, as well as information reporting guidance for such deemed distributions under section 6045B.

REG-135734-14, page 712.

This document contains proposed regulations that address transactions that are structured to avoid the purposes of sections 7874 and 367 of the Internal Revenue Code (the Code) and certain post-inversion tax avoidance transactions. These regulations affect certain domestic corporations and domestic partnerships whose assets are directly or indirectly acquired by a foreign corporation and certain persons related to such domestic corporations and domestic partnerships. The regulations are issued by cross-reference to temporary regulations in TD 9761.

Rev. Proc. 2016-24, page 677.

This revenue procedure provides indexing adjustments for certain provisions under sections 36B and 5000A of the Internal Revenue Code. In particular, it updates the Applicable Percentage Table in § 36B(b)(3)(A)(i) to provide the Applicable Percentage Table for 2017 that is used to calculate an individual's premium tax credit. This revenue procedure also updates the

required contribution percentage in § 36B(c)(2)(C)(i)(II) for plan years beginning after calendar year 2016. The percentage is used to determine whether an individual is eligible for affordable employer-sponsored minimum essential coverage under § 36B. Additionally, this revenue procedure cross-references the required contribution percentage under § 5000A(e)(1)(A) for plan years beginning after calendar year 2016, as determined under guidance issued by the Department of Health and Human Services. The percentage is used to determine whether an individual is eligible for an exemption from the individual shared responsibility payment because of a lack of affordable minimum essential coverage.

Notice 2016-30, page 676.

The Notice provides that the Service has designated, under I.R.C. section 7502(f), eight new delivery services as designated Private Delivery Services that qualify for the timely mailing treated as timely filing/paying rule of section 7502.

EMPLOYEE PLANS

Announcement 2016-16, page 697.

The announcement states that certain provisions of proposed regulations that were published on January 29, 2016 (81 FR 4976) pertaining to the nondiscrimination rules applicable to qualified retirement plans will be withdrawn.

(Continued on the next page)

Notice 2016–29, page 673.

This notice sets forth updates on the corporate bond monthly yield curve, the corresponding spot segment rates for April 2016 used under § 417(e)(3)(D), the 24-month average segment rates applicable for April 2016, and the 30-year Treasury rates. These rates reflect the application of § 430(h)(2)(C)(iv), which was added by the Moving Ahead for Progress in the 21st Century Act, Public Law 112–141 (MAP–21) and amended by section 2003 of the Highway and Transportation Funding Act of 2014 (HATFA).

ADMINISTRATIVE**Rev. Proc. 2016–25, page 678.**

This procedure provides issuers of qualified mortgage bonds (QMBs) and qualified mortgage credit certificates (MCCs) with average area purchase price safe harbors for statistical areas in the United States and with a nationwide average purchase price for residences in the United States for purposes of the QMB rules under section 143 of the Code and the MCC rules under section 25. Rev. Proc. 2015–31 obsoleted in part.

Notice 2016–30, page 676.

The Notice provides that the Service has designated, under I.R.C. section 7502(f), eight new delivery services as designated Private Delivery Services that qualify for the timely mailing treated as timely filing/paying rule of section 7502.

The IRS Mission

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Introduction

The Internal Revenue Bulletin is the authoritative instrument of the Commissioner of Internal Revenue for announcing official rulings and procedures of the Internal Revenue Service and for publishing Treasury Decisions, Executive Orders, Tax Conventions, legislation, court decisions, and other items of general interest. It is published weekly.

It is the policy of the Service to publish in the Bulletin all substantive rulings necessary to promote a uniform application of the tax laws, including all rulings that supersede, revoke, modify, or amend any of those previously published in the Bulletin. All published rulings apply retroactively unless otherwise indicated. Procedures relating solely to matters of internal management are not published; however, statements of internal practices and procedures that affect the rights and duties of taxpayers are published.

Revenue rulings represent the conclusions of the Service on the application of the law to the pivotal facts stated in the revenue ruling. In those based on positions taken in rulings to taxpayers or technical advice to Service field offices, identifying details and information of a confidential nature are deleted to prevent unwarranted invasions of privacy and to comply with statutory requirements.

Rulings and procedures reported in the Bulletin do not have the force and effect of Treasury Department Regulations, but they may be used as precedents. Unpublished rulings will not be relied on, used, or cited as precedents by Service personnel in the disposition of other cases. In applying published rulings and procedures, the effect of subsequent legislation, regulations, court decisions, rulings, and procedures must be considered, and Service personnel and others concerned are cautioned

against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same.

The Bulletin is divided into four parts as follows:

Part I.—1986 Code.

This part includes rulings and decisions based on provisions of the Internal Revenue Code of 1986.

Part II.—Treaties and Tax Legislation.

This part is divided into two subparts as follows: Subpart A, Tax Conventions and Other Related Items, and Subpart B, Legislation and Related Committee Reports.

Part III.—Administrative, Procedural, and Miscellaneous.

To the extent practicable, pertinent cross references to these subjects are contained in the other Parts and Subparts. Also included in this part are Bank Secrecy Act Administrative Rulings. Bank Secrecy Act Administrative Rulings are issued by the Department of the Treasury's Office of the Assistant Secretary (Enforcement).

Part IV.—Items of General Interest.

This part includes notices of proposed rulemakings, disbarment and suspension lists, and announcements.

The last Bulletin for each month includes a cumulative index for the matters published during the preceding months. These monthly indexes are cumulated on a semiannual basis, and are published in the last Bulletin of each semiannual period.

The contents of this publication are not copyrighted and may be reprinted freely. A citation of the Internal Revenue Bulletin as the source would be appropriate.

Part III. Administrative, Procedural, and Miscellaneous

Update for Weighted Average Interest Rates, Yield Curves, and Segment Rates

Notice 2016–29

This notice provides guidance on the corporate bond monthly yield curve, the corresponding spot segment rates used under § 417(e)(3), and the 24-month average segment rates under § 430(h)(2) of the Internal Revenue Code. In addition, this notice provides guidance as to the interest rate on 30-year Treasury securities under § 417(e)(3)(A)(ii)(II) as in effect for plan years beginning before 2008 and the 30-year Treasury weighted average rate under § 431(c)(6)(E)(ii)(I).

YIELD CURVE AND SEGMENT RATES

Generally, except for certain plans under sections 104 and 105 of the Pension Protection Act of 2006 and CSEC plans under § 414(y), § 430 of the Code specifies the minimum funding requirements

that apply to single-employer plans pursuant to § 412. Section 430(h)(2) specifies the interest rates that must be used to determine a plan’s target normal cost and funding target. Under this provision, present value is generally determined using three 24-month average interest rates (“segment rates”), each of which applies to cash flows during specified periods. To the extent provided under § 430(h)(2)(C)(iv), these segment rates are adjusted by the applicable percentage of the 25-year average segment rates for the period ending September 30 of the year preceding the calendar year in which the plan year begins.¹ However, an election may be made under § 430(h)(2)(D)(ii) to use the monthly yield curve in place of the segment rates.

Notice 2007–81, 2007–44 I.R.B. 899, provides guidelines for determining the monthly corporate bond yield curve, and the 24-month average corporate bond segment rates used to compute the target normal cost and the funding target. Consistent with the methodology specified in Notice 2007–81, the monthly corporate bond yield curve derived from March 2016 data is in Table I at the end of this

notice. The spot first, second, and third segment rates for the month of March 2016 are, respectively, 1.68, 3.87, and 4.84.

The 24-month average segment rates determined under § 430(h)(2)(C)(i) through (iii) must be adjusted pursuant to § 430(h)(2)(C)(iv) to be within the applicable minimum and maximum percentages of the corresponding 25-year average segment rates. For plan years beginning before 2018, the applicable minimum percentage is 90% and the applicable maximum percentage is 110%. The 25-year average segment rates for plan years beginning in 2014, 2015, and 2016 were published in Notice 2013–58, 2013–40 I.R.B. 294, Notice 2014–50, 2014–40 I.R.B. 590, and Notice 2015–61, 2015–39 I.R.B. 408, respectively.

24-MONTH AVERAGE CORPORATE BOND SEGMENT RATES

The three 24-month average corporate bond segment rates applicable for April 2016 without adjustment for the 25-year average segment rate limits are as follows:

Applicable Month	First Segment	Second Segment	Third Segment
April 2016	1.47	3.92	4.92

Based on § 430(h)(2)(C)(iv), the 24-month averages applicable for April 2016

adjusted to be within the applicable minimum and maximum percentages of the

corresponding 25-year average segment rates, are as follows:

For Plan Years Beginning In	Adjusted 24-Month Average Segment Rates				
	Applicable Month		First Segment	Second Segment	Third Segment
2015	April	2016	4.72	6.11	6.81
2016	April	2016	4.43	5.91	6.65

30-YEAR TREASURY SECURITIES INTEREST RATES

Generally for plan years beginning after 2007, § 431 specifies the minimum funding requirements that apply to multi-employer plans pursuant to § 412. Sec-

tion 431(c)(6)(B) specifies a minimum amount for the full-funding limitation described in § 431(c)(6)(A), based on the plan’s current liability. Section 431(c)(6)(E)(ii)(I) provides that the interest rate used to calculate current liability for this purpose must be no more than 5 percent above and

no more than 10 percent below the weighted average of the rates of interest on 30-year Treasury securities during the four-year period ending on the last day before the beginning of the plan year. Notice 88–73, 1988–2 C.B. 383, provides guidelines for determining the weighted

¹Pursuant to § 433(h)(3)(A), the 3rd segment rate determined under § 430(h)(2)(C) is used to determine the current liability of a CSEC plan (which is used to calculate the minimum amount of the full funding limitation under § 433(c)(7)(C)).

average interest rate. The rate of interest on 30-year Treasury securities for March 2016 is 2.68 percent. The Service determined this rate as the average of the daily

determinations of yield on the 30-year Treasury bond maturing in February 2046. For plan years beginning in the month shown below, the weighted average of the

rates of interest on 30-year Treasury securities and the permissible range of rate used to calculate current liability are as follows:

For Plan Years Beginning in		30-Year Treasury Weighted Average	Permissible Range		
<i>Month</i>	<i>Year</i>		90%	to	105%
April	2016	3.08	2.77		3.23

MINIMUM PRESENT VALUE SEGMENT RATES

In general, the applicable interest rates under § 417(e)(3)(D) are segment rates

computed without regard to a 24-month average. Notice 2007–81 provides guidelines for determining the minimum present value segment rates. Pursuant to that notice, the minimum present value seg-

ment rates determined for March 2016 are as follows:

First Segment	Second Segment	Third Segment
1.68	3.87	4.84

DRAFTING INFORMATION

The principal author of this notice is Tom Morgan of the Office of the Associate Chief Counsel (Tax Exempt and Government Entities). However, other personnel from the IRS participated in the development of this guidance. For further information regarding this notice, contact Mr. Morgan at 202-317-6700 or Tony Montanaro at 202-317-8698 (not toll-free numbers).

Table I
 Monthly Yield Curve for March 2016
 Derived from March 2016 Data

<i>Maturity</i>	<i>Yield</i>								
0.5	0.72	20.5	4.61	40.5	4.87	60.5	4.97	80.5	5.01
1.0	1.08	21.0	4.62	41.0	4.87	61.0	4.97	81.0	5.01
1.5	1.39	21.5	4.63	41.5	4.88	61.5	4.97	81.5	5.02
2.0	1.62	22.0	4.64	42.0	4.88	62.0	4.97	82.0	5.02
2.5	1.78	22.5	4.65	42.5	4.88	62.5	4.97	82.5	5.02
3.0	1.88	23.0	4.66	43.0	4.89	63.0	4.97	83.0	5.02
3.5	1.96	23.5	4.67	43.5	4.89	63.5	4.97	83.5	5.02
4.0	2.04	24.0	4.68	44.0	4.89	64.0	4.98	84.0	5.02
4.5	2.13	24.5	4.69	44.5	4.90	64.5	4.98	84.5	5.02
5.0	2.23	25.0	4.70	45.0	4.90	65.0	4.98	85.0	5.02
5.5	2.35	25.5	4.70	45.5	4.90	65.5	4.98	85.5	5.02
6.0	2.49	26.0	4.71	46.0	4.90	66.0	4.98	86.0	5.02
6.5	2.63	26.5	4.72	46.5	4.91	66.5	4.98	86.5	5.02
7.0	2.78	27.0	4.73	47.0	4.91	67.0	4.98	87.0	5.02
7.5	2.93	27.5	4.73	47.5	4.91	67.5	4.99	87.5	5.03
8.0	3.08	28.0	4.74	48.0	4.92	68.0	4.99	88.0	5.03
8.5	3.23	28.5	4.75	48.5	4.92	68.5	4.99	88.5	5.03
9.0	3.37	29.0	4.75	49.0	4.92	69.0	4.99	89.0	5.03
9.5	3.50	29.5	4.76	49.5	4.92	69.5	4.99	89.5	5.03
10.0	3.62	30.0	4.77	50.0	4.92	70.0	4.99	90.0	5.03
10.5	3.74	30.5	4.77	50.5	4.93	70.5	4.99	90.5	5.03
11.0	3.84	31.0	4.78	51.0	4.93	71.0	4.99	91.0	5.03
11.5	3.94	31.5	4.79	51.5	4.93	71.5	5.00	91.5	5.03
12.0	4.02	32.0	4.79	52.0	4.93	72.0	5.00	92.0	5.03
12.5	4.10	32.5	4.80	52.5	4.94	72.5	5.00	92.5	5.03
13.0	4.17	33.0	4.80	53.0	4.94	73.0	5.00	93.0	5.03
13.5	4.23	33.5	4.81	53.5	4.94	73.5	5.00	93.5	5.03
14.0	4.29	34.0	4.81	54.0	4.94	74.0	5.00	94.0	5.03
14.5	4.34	34.5	4.82	54.5	4.94	74.5	5.00	94.5	5.04
15.0	4.38	35.0	4.82	55.0	4.95	75.0	5.00	95.0	5.04
15.5	4.41	35.5	4.83	55.5	4.95	75.5	5.00	95.5	5.04
16.0	4.45	36.0	4.83	56.0	4.95	76.0	5.01	96.0	5.04
16.5	4.47	36.5	4.84	56.5	4.95	76.5	5.01	96.5	5.04
17.0	4.50	37.0	4.84	57.0	4.95	77.0	5.01	97.0	5.04
17.5	4.52	37.5	4.85	57.5	4.96	77.5	5.01	97.5	5.04
18.0	4.54	38.0	4.85	58.0	4.96	78.0	5.01	98.0	5.04
18.5	4.56	38.5	4.85	58.5	4.96	78.5	5.01	98.5	5.04
19.0	4.57	39.0	4.86	59.0	4.96	79.0	5.01	99.0	5.04
19.5	4.59	39.5	4.86	59.5	4.96	79.5	5.01	99.5	5.04
20.0	4.60	40.0	4.87	60.0	4.96	80.0	5.01	100.0	5.04

Designation of Private Delivery Services

Notice 2016-30

This notice updates the list of designated private delivery services (“designated PDSs”) set forth in Notice 2015-38, 2015-21 I.R.B. 21, for purposes of the timely mailing treated as timely filing/paying rule of section 7502 of the Internal Revenue Code, and provides rules for determining the postmark date for these services. These changes are effective April 11, 2016.

BACKGROUND

Section 7502(f) authorizes the Secretary to designate certain private delivery services (“PDSs”) for the timely mailing treated as timely filing/paying rule of section 7502. Revenue Procedure 97-19, 1997-1 C.B. 644, provided rules to apply to be a designated PDS, as well as setting forth the criteria for eligibility for designation as a PDS. Originally, under Rev. Proc. 97-19, there was a semi-annual application period for designation as a PDS with set dates for announcing the list of designated PDSs to the public. The current rules provide that there is one annual application period to apply for designation, ending on June 30th, and the list of designated PDSs is updated as PDSs are added or removed from the list. See Notice 97-50, 1997-2 C.B. 305, and Notice 99-41, 1999-2 C.B. 325. In addition, the address for submitting applications listed in Rev. Proc. 97-19 was updated in Notice 2015-38, 2015-21 I.R.B. 21.

Notice 97-26, 1997-1 C.B. 413, provided the first list of designated PDSs as well as special rules to determine the date that will be treated as the postmark date for purposes of section 7502, including certain presumption rules and rules for overcoming the presumption. The list of designated PDS services was updated by Notice 97-50, Notice 99-41, Notice 2001-62, 2001-2 C.B. 307, Notice 2002-62, 2002-2 C.B. 574, Notice 2004-83, 2004-2 C.B. 1030, and Notice 2015-38, 2015-21 I.R.B. 21.

NATURE OF CHANGES

The IRS is adding eight new delivery services to the list of designated delivery services. DHL Express: DHL Express 9:00, DHL Express 10:30, DHL Express 12:00, DHL Express Worldwide, DHL Express Envelope, DHL Import Express 10:30, DHL Import Express 12:00, and DHL Import Express Worldwide are added to the list published in Notice 2015-38.

This notice also extends the rules provided in Notice 2015-38 for determining the postmark date for documents delivered by a designated delivery service to the newly designated delivery services referenced above.

LIST OF DESIGNATED PDSs

Effective April 11, 2016, the list of designated PDSs is as follows:

DHL Express:

1. DHL Express 9:00
2. DHL Express 10:30
3. DHL Express 12:00
4. DHL Express Worldwide
5. DHL Express Envelope
6. DHL Import Express 10:30
7. DHL Import Express 12:00
8. DHL Import Express Worldwide

FedEx:

1. FedEx First Overnight
2. FedEx Priority Overnight
3. FedEx Standard Overnight
4. FedEx 2 Day
5. FedEx International Next Flight Out
6. FedEx International Priority
7. FedEx International First
8. FedEx International Economy

UPS:

1. UPS Next Day Air Early AM
2. UPS Next Day Air
3. UPS Next Day Air Saver
4. UPS 2nd Day Air
5. UPS 2nd Day Air A.M.
6. UPS Worldwide Express Plus
7. UPS Worldwide Express.

Only the specific delivery services enumerated in this list are designated delivery services for purposes of section 7502(f). DHL Express, FedEx, and UPS are not designated with respect to any type of delivery service not enumerated in this list. Taxpayers are cautioned that merely because a delivery service is provided

by DHL Express, FedEx, or UPS, it does not mean that the service is designated for purposes of the timely mailing treated as timely filing/paying rule of section 7502.

This list of designated PDSs and designated services will remain in effect until further notice. The IRS will publish a subsequent notice setting forth a new list only if a designated PDS (or service) is added to, or removed from, the current list, or if there is a change to the application and/or appeal procedures. Delivery services requesting to be designated in time for an upcoming filing season must submit applications by June 30th of the year preceding that filing season, as required by Rev. Proc. 97-19, as modified by Notice 97-50.

SPECIAL RULES FOR DETERMINING POSTMARK DATE IN THE CASE OF A PDS

Section 7502(f)(2)(C) requires a PDS to either (1) record electronically to its data base (kept in the regular course of its business) the date on which an item was given to the PDS for delivery or (2) mark on the cover of the item the date on which an item was given to the PDS for delivery. Under section 7502(f)(1), the date recorded or the date marked by the PDS under section 7502(f)(2)(C) is treated as the postmark date for purposes of section 7502.

For each PDS designated in this notice, the delivery service records electronically the date on which an item was given to it for delivery, which is treated as the postmark date for purposes of section 7502. Under this notice, the postmark date for an item delivered after the due date is presumed to be the day that precedes the delivery date by an amount of time that equals the amount of time it would normally take for an item to be delivered under the terms of the specific type of delivery service used (*e.g.*, two days before the actual delivery date for a two-day delivery service). Taxpayers who wish to overcome this presumption must provide information that shows that the date recorded in the delivery service’s electronic database is on or before the due date, such as a written confirmation produced and issued by the delivery service. Each delivery service stores the date recorded in its database only for a finite period, but for no

less than six months. Senders or recipients using a designated delivery service can obtain information concerning the date recorded by contacting the designated delivery service. Contact information for each delivery service is available on the company's website.

ADDRESS FOR SUBMITTING APPLICATIONS

The application address first provided in Rev. Proc. 97-19 and modified by Notice 2015-38 remains in effect. Applications must be submitted to:

Internal Revenue Service
 Postal and Transport Policy Section, PDS
 MC 7015 NDAL
 4050 Alpha Road
 Dallas, TX 75244

The above address is also where a PDS may write to: (1) obtain administrative review of a letter of denial of designation under section 9.03 of Rev. Proc. 97-19; (2) appeal a letter confirming the denial of designation under section 9.06 of Rev. Proc. 97-19; (3) provide prompt written notification to the IRS of any change in application information under section 10.01 of Rev. Proc. 97-19; and (4) appeal the issuance of a proposed revocation letter under section 12.03 of Rev. Proc. 97-19.

EFFECT ON OTHER DOCUMENTS

Notice 2015-38, 2015-21 I.R.B. 21, is modified and, to the extent modified, superseded.

EFFECTIVE DATE

This notice is effective on April 11, 2016.

FOR FURTHER INFORMATION

The principal author of this notice is Steven L. Karon of the Office of Associate Chief Counsel (Procedure & Administration). For further information regarding this notice contact Steven L. Karon at (202) 317-6834 (not a toll-free number).

*26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability.
 (Also §§ 36B, 5000A; 1.36B-2T, 1.36B-3, 1.5000A-3.)*

Rev. Proc. 2016-24

SECTION 1. PURPOSE

This revenue procedure provides indexing adjustments for certain provisions under sections 36B and 5000A of the Internal Revenue Code. In particular, it updates the Applicable Percentage Table in § 36B(b)(3)(A)(i) to provide the Applicable Percentage Table for 2017. This table is used to calculate an individual's pre-

mium tax credit. This revenue procedure also updates the required contribution percentage in § 36B(c)(2)(C)(i)(II) for plan years beginning after calendar year 2016. The percentage is used to determine whether an individual is eligible for affordable employer-sponsored minimum essential coverage under § 36B. This revenue procedure uses the methodology described in Section 4 of Rev. Proc. 2014-37, 2014-2 C.B. 363, to index the Applicable Percentage Table and the § 36B required contribution percentage for 2017. Rev. Proc. 2014-37 provides indexing adjustments for these amounts for 2015 and Rev. Proc. 2014-62, 2014-2 C.B. 948, provides indexing adjustments for these amounts for 2016. Additionally, this revenue procedure cross-references the required contribution percentage under § 5000A(e)(1)(A) for plan years beginning after calendar year 2016, as determined under guidance issued by the Department of Health and Human Services. The percentage is used to determine whether an individual is eligible for an exemption from the individual shared responsibility payment because of a lack of affordable minimum essential coverage.

SECTION 2. ADJUSTED ITEMS

.01 *Applicable Percentage Table for 2017.* For taxable years beginning in 2017, the Applicable Percentage Table for purposes of § 36B(b)(3)(A)(i) and § 1.36B-3T(g) is:

Household income percentage of Federal poverty line:	Initial percentage	Final percentage
Less than 133%	2.04%	2.04%
At least 133% but less than 150%	3.06%	4.08%
At least 150% but less than 200%	4.08%	6.43%
At least 200% but less than 250%	6.43%	8.21%
At least 250% but less than 300%	8.21%	9.69%
At least 300% but not more than 400%	9.69%	9.69%

.02 *Section 36B Required Contribution Percentage for 2017.* For plan years beginning in 2017, the required contribution percentage for purposes of § 36B(c)(2)(C)(i)(II) and § 1.36B-2T(c)(3)(v)(C) is 9.69%.

.03 *Section 5000A Required Contribution Percentage.* In the 2017 Benefit and Payment Parameters, 81 Fed. Reg. 12203 (March 8, 2016), for plan years beginning in 2017, the Department of Health and Human Services (HHS) announced that

the Section 5000A required contribution percentage for purposes of § 5000A(e)(1)(A) and § 1.5000A-3(e)(2) is 8.16%. See Exchange and Insurance Market Standards for 2015 and beyond, 79 Fed. Reg. 30239, 30302 (May 27, 2014), for further information on the computation methodology and publication approach for the Section 5000A required contribution percentage.

SECTION 3. EFFECTIVE DATE

This revenue procedure is effective for taxable years and plan years beginning after December 31, 2016.

SECTION 4. DRAFTING INFORMATION

The principal author of this revenue procedure is John Lovelace of the Office of Associate Chief Counsel (Income Tax

and Accounting). For further information regarding this revenue procedure, contact Mr. Lovelace at (202) 317-7006 (not a toll-free number).

26 CFR 6a.103A-2: *Qualified mortgage bond*

Rev. Proc. 2016-25

SECTION 1. PURPOSE

This revenue procedure provides issuers of qualified mortgage bonds, as defined in section 143(a) of the Internal Revenue Code, and issuers of mortgage credit certificates, as defined in section 25(c), with (1) the nationwide average purchase price for residences located in the United States, and (2) average area purchase price safe harbors for residences located in statistical areas in each state, the District of Columbia, Puerto Rico, the Northern Mariana Islands, American Samoa, the Virgin Islands, and Guam.

SECTION 2. BACKGROUND

.01 Section 103(a) provides that, except as provided in section 103(b), gross income does not include interest on any state or local bond. Section 103(b)(1) provides that section 103(a) shall not apply to any private activity bond that is not a “qualified bond” within the meaning of section 141. Section 141(e) provides, in part, that the term “qualified bond” means any private activity bond if such bond (1) is a qualified mortgage bond under section 143, (2) meets the volume cap requirements under section 146, and (3) meets the applicable requirements under section 147.

.02 Section 143(a)(1) provides that the term “qualified mortgage bond” means a bond that is issued as part of a qualified mortgage issue. Section 143(a)(2)(A) provides that the term “qualified mortgage issue” means an issue of one or more bonds by a state or political subdivision thereof, but only if: (i) all proceeds of the issue (exclusive of issuance costs and a reasonably required reserve) are to be used to finance owner-occupied residences; (ii) the issue meets the requirements of subsections (c), (d), (e), (f), (g), (h), (i), and (m)(7) of section 143; (iii) the issue does not meet the private business tests of paragraphs (1) and (2) of section 141(b);

and (iv) with respect to amounts received more than 10 years after the date of issuance, repayments of \$250,000 or more of principal on mortgage financing provided by the issue are used by the close of the first semiannual period beginning after the date the prepayment (or complete repayment) is received to redeem bonds that are part of the issue.

Average Area Purchase Price

.03 Section 143(e)(1) provides that an issue of bonds meets the purchase price requirements of section 143(e) if the acquisition cost of each residence financed by the issue does not exceed 90 percent of the average area purchase price applicable to such residence. Section 143(e)(5) provides that, in the case of a targeted area residence (as defined in section 143(j)), section 143(e)(1) shall be applied by substituting 110 percent for 90 percent.

.04 Section 143(e)(2) provides that the term “average area purchase price” means, with respect to any residence, the average purchase price of single-family residences (in the statistical area in which the residence is located) that were purchased during the most recent 12-month period for which sufficient statistical information is available. Under sections 143(e)(3) and (4), respectively, separate determinations are to be made for new and existing residences, and for two-, three-, and four-family residences.

.05 Section 143(e)(2) provides that the determination of the average area purchase price for a statistical area shall be made as of the date on which the commitment to provide the financing is made or, if earlier, the date of the purchase of the residence.

.06 Section 143(k)(2)(A) provides that the term “statistical area” means (i) a metropolitan statistical area (MSA), and (ii) any county (or the portion thereof) that is not within an MSA. Section 143(k)(2)(C) further provides that if sufficient recent statistical information with respect to a county (or portion thereof) is unavailable, the Secretary may substitute another area for which there is sufficient recent statistical information for such county (or portion thereof). In the case of any portion of a State which is not within a county, section 143(k)(2)(D) provides that the Secretary may designate as a county any area

that is the equivalent of a county. Section 6a.103A-1(b)(4)(i) of the Temporary Income Tax Regulations (issued under section 103A of the Internal Revenue Code of 1954, the predecessor of section 143) provides that the term “State” includes a possession of the United States and the District of Columbia.

.07 Section 6a.103A-2(f)(5)(i) provides that an issuer may rely upon the average area purchase price safe harbors published by the Department of the Treasury for the statistical area in which a residence is located. Section 6a.103A-2(f)(5)(i) further provides that an issuer may use an average area purchase price limitation different from the published safe harbor if the issuer has more accurate and comprehensive data for the statistical area.

Qualified Mortgage Credit Certificate Program

.08 Section 25(c) permits a state or political subdivision to establish a qualified mortgage credit certificate program. In general, a qualified mortgage credit certificate program is a program under which the issuing authority elects not to issue an amount of private activity bonds that it may otherwise issue during the calendar year under section 146, and in their place, issues mortgage credit certificates to taxpayers in connection with the acquisition of their principal residences. Section 25(a)(1) provides, in general, that the holder of a mortgage credit certificate may claim a federal income tax credit equal to the product of the credit rate specified in the certificate and the interest paid or accrued during the tax year on the remaining principal of the indebtedness incurred to acquire the residence. Section 25(c)(2)(A)(iii)(III) generally provides that residences acquired in connection with the issuance of mortgage credit certificates must meet the purchase price requirements of section 143(e).

Income Limitations for Qualified Mortgage Bonds and Mortgage Credit Certificates

.09 Section 143(f) imposes limitations on the income of mortgagors for whom financing may be provided by qualified mortgage bonds. In addition, section

25(c)(2)(A)(iii)(IV) provides that holders of mortgage credit certificates must meet the income requirement of section 143(f). Generally, under sections 143(f)(1) and 25(c)(2)(A)(iii)(IV), the income requirement is met only if all owner-financing under a qualified mortgage bond and all mortgage credit certificates issued under a qualified mortgage credit certificate program are provided to mortgagors whose family income is 115 percent or less of the applicable median family income. Section 143(f)(5), however, generally provides for an upward adjustment to the percentage limitation in high housing cost areas. High housing cost areas are defined in section 143(f)(5)(C) as any statistical area for which the housing cost/income ratio is greater than 1.2.

.10 Under section 143(f)(5)(D), the housing cost/income ratio with respect to any statistical area is determined by dividing (a) the applicable housing price ratio for such area by (b) the ratio that the area median gross income for such area bears to the median gross income for the United States. The applicable housing price ratio is the new housing price ratio (new housing average area purchase price divided by the new housing average purchase price for the United States) or the existing housing price ratio (existing housing average area purchase price divided by the existing housing average purchase price for the United States), whichever results in the housing cost/income ratio being closer to 1.

Average Area and Nationwide Purchase Price Limitations

.11 Average area purchase price safe harbors for each state, the District of Columbia, Puerto Rico, the Northern Mariana Islands, American Samoa, the Virgin Islands, and Guam were last published in Rev. Proc. 2015–31, 2015–23 I.R.B. 1017.

.12 The nationwide average purchase price limitation was last published in section 4.02 of Rev. Proc. 2015–31. Guidance with respect to the United States and area median gross income figures that are to be used in computing the housing cost/income ratio described in section 143(f)(5) was last published in Rev. Proc. 2015–23, 2015–13 I.R.B. 820.

.13 This revenue procedure uses FHA loan limits for a given statistical area to calculate the average area purchase price safe harbor for that area. FHA sets limits on the dollar value of loans it will insure based on median home prices and conforming loan limits established by the Federal Home Loan Mortgage Corporation. In particular, FHA sets an area's loan limit at 95 percent of the median home sales price for the area, subject to certain floors and caps measured against conforming loan limits.

.14 To calculate the average area purchase price safe harbors in this revenue procedure, the FHA loan limits are adjusted to take into account the differences between average and median purchase prices. Because FHA loan limits do not differentiate between new and existing residences, this revenue procedure contains a single average area purchase price safe harbor for both new and existing residences in a statistical area. The Treasury Department and the Internal Revenue Service have determined that FHA loan limits provide a reasonable basis for determining average area purchase price safe harbors. If the Treasury Department and the Internal Revenue Service become aware of other sources of average purchase price data, including data that differentiate between new and existing residences, consideration will be given as to whether such data provide a more accurate method for calculating average area purchase price safe harbors.

.15 The average area purchase price safe harbors listed in section 4.01 of this revenue procedure are based on FHA loan limits released December 9, 2015. FHA loan limits are available for statistical areas in each state, the District of Columbia, Puerto Rico, the Northern Mariana Islands, American Samoa, the Virgin Islands, and Guam. See section 3.03 of this revenue procedure with respect to FHA loan limits revised after December 9, 2015.

.16 OMB Bulletin No. 03–04, dated and effective June 6, 2003, revised the definitions of the nation's metropolitan areas and recognized 49 new metropolitan statistical areas. The OMB bulletin no longer includes primary metropolitan statistical areas.

SECTION 3. APPLICATION

Average Area Purchase Price Safe Harbors

.01 Average area purchase price safe harbors for statistical areas in each state, the District of Columbia, Puerto Rico, the Northern Mariana Islands, American Samoa, the Virgin Islands, and Guam are set forth in section 4.01 of this revenue procedure. Average area purchase price safe harbors are provided for single-family and two to four-family residences. For each type of residence, section 4.01 of this revenue procedure contains a single safe harbor that may be used for both new and existing residences. Issuers of qualified mortgage bonds and issuers of mortgage credit certificates may rely on these safe harbors to satisfy the requirements of sections 143(e) and (f). Section 4.01 of this revenue procedure provides safe harbors for MSAs and for certain counties and county equivalents. If no purchase price safe harbor is available for a statistical area, the safe harbor for "ALL OTHER AREAS" may be used for that statistical area.

.02 If a residence is in an MSA, the safe harbor applicable to it is the limitation of that MSA. If an MSA falls in more than one state, the MSA is listed in section 4.01 of this revenue procedure under each state.

.03 If the FHA revises the FHA loan limit for any statistical area after December 9, 2015, an issuer of qualified mortgage bonds or mortgage credit certificates may use the revised FHA loan limit for that statistical area to compute (as provided in the next sentence) a revised average area purchase price safe harbor for the statistical area provided that the issuer maintains records evidencing the revised FHA loan limit. The revised average area purchase price safe harbor for that statistical area is computed by dividing the revised FHA loan limit by .9545.

.04 If, pursuant to section 6a.103A–2(f)(5)(i), an issuer uses more accurate and comprehensive data to determine the average area purchase price for a statistical area, the issuer must make separate average area purchase price determinations for new and existing residences. Moreover, when computing the average area purchase price for a statistical area

that is an MSA, as defined in OMB Bulletin No. 03–04, the issuer must make the computation for the entire applicable MSA. When computing the average area purchase price for a statistical area that is not an MSA, the issuer must make the computation for the entire statistical area and may not combine statistical areas. Thus, for example, the issuer may not combine two or more counties.

.05 If an issuer receives a ruling permitting it to rely on an average area purchase price limitation that is higher than the applicable safe harbor in this revenue procedure, the issuer may rely on that higher limitation for the purpose of satisfying the requirements of section 143(e) and (f) for bonds sold, and mortgage credit certificates issued, not more than 30 months following the termination date of the 12-month period used by the issuer to compute the limitation.

Nationwide Average Purchase Price

.06 Section 4.02 of this revenue procedure sets forth a single nationwide average purchase price for purposes of computing the housing cost/income ratio under section 143(f)(5).

.07 Issuers must use the nationwide average purchase price set forth in section 4.02 of this revenue procedure when computing the housing cost/income ratio under section 143(f)(5) regardless of whether they are relying on the average area purchase price safe harbors contained in this revenue procedure or using more accurate and comprehensive data to determine average area purchase prices for new and existing residences for a statistical area that are different from the published safe harbors in this revenue procedure.

.08 If, pursuant to section 6.02 of this revenue procedure, an issuer relies on the average area purchase price safe harbors contained in Rev. Proc. 2015–31, the is-

suer must use the nationwide average purchase price set forth in section 4.02 of Rev. Proc. 2015–31 in computing the housing cost/income ratio under section 143(f)(5). Likewise, if, pursuant to section 6.04 of this revenue procedure, an issuer relies on the nationwide average purchase price published in Rev. Proc. 2015–31, the issuer may not rely on the average area purchase price safe harbors published in this revenue procedure.

SECTION 4. AVERAGE AREA AND NATIONWIDE AVERAGE PURCHASE PRICES

.01 Average area purchase prices for single-family and two to four-family residences in MSAs, and for certain counties and county equivalents are set forth below. The safe harbor for “ALL OTHER AREAS” (found at the end of the table below) may be used for a statistical area that is not listed below.

2016 Average Area Purchase Prices for Mortgage Revenue Bonds

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
ALEUTIANS WEST CENSUS	AK	\$403,614	\$516,710	\$624,568	\$776,166
ANCHORAGE MUNICIPALITY	AK	\$409,639	\$524,411	\$633,892	\$787,742
BRISTOL BAY BOROUGH	AK	\$328,916	\$421,058	\$508,958	\$632,530
DENALI BOROUGH	AK	\$312,048	\$399,476	\$482,871	\$600,105
FAIRBANKS NORTH STAR	AK	\$287,952	\$368,622	\$445,574	\$553,745
HAINES BOROUGH	AK	\$297,590	\$380,932	\$460,503	\$572,289
JUNEAU CITY AND BOROUGH	AK	\$428,916	\$549,083	\$663,698	\$824,830
KETCHIKAN GATEWAY BOROUGH	AK	\$337,349	\$431,849	\$522,001	\$648,769
KODIAK ISLAND BOROUGH	AK	\$400,000	\$512,048	\$618,963	\$769,251
MATANUSKA-SUSITNA BOROUGH	AK	\$409,639	\$524,411	\$633,892	\$787,742
NOME CENSUS AREA	AK	\$298,795	\$382,504	\$462,336	\$574,594
NORTH SLOPE BOROUGH	AK	\$348,193	\$445,731	\$538,816	\$669,618
PETERSBURG CENSUS AREA	AK	\$348,193	\$445,731	\$538,816	\$669,618
SITKA CITY AND BOROUGH	AK	\$473,494	\$606,129	\$732,687	\$910,581
SKAGWAY MUNICIPALITY	AK	\$403,614	\$516,710	\$624,568	\$776,166
VALDEZ-CORDOVA CENSUS	AK	\$307,229	\$393,295	\$475,380	\$590,833
WRANGELL CITY AND BOROUGH	AK	\$348,193	\$445,731	\$538,816	\$669,618
YAKUTAT CITY AND BOROUGH	AK	\$440,964	\$564,484	\$682,347	\$848,036
HALE	AL	\$346,988	\$444,212	\$536,930	\$667,260
PICKENS	AL	\$346,988	\$444,212	\$536,930	\$667,260
RUSSELL	AL	\$303,614	\$388,685	\$469,827	\$583,866
TUSCALOOSA	AL	\$346,988	\$444,212	\$536,930	\$667,260

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
COCONINO	AZ	\$379,518	\$485,856	\$587,271	\$729,859
ALAMEDA	CA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
ALPINE	CA	\$485,542	\$621,582	\$751,336	\$933,735
AMADOR	CA	\$348,193	\$445,731	\$538,816	\$669,618
BUTTE	CA	\$307,229	\$393,295	\$475,380	\$590,833
CALAVERAS	CA	\$391,566	\$501,257	\$605,919	\$753,012
CONTRA COSTA	CA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
EL DORADO	CA	\$497,590	\$636,983	\$769,984	\$956,888
FRESNO	CA	\$295,181	\$377,894	\$456,784	\$567,627
HUMBOLDT	CA	\$343,373	\$439,550	\$531,325	\$660,346
INYO	CA	\$386,747	\$495,076	\$598,481	\$743,740
LOS ANGELES	CA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
MARIN	CA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
MARIPOSA	CA	\$337,349	\$431,849	\$522,001	\$648,769
MENDOCINO	CA	\$391,566	\$501,257	\$605,919	\$753,012
MONO	CA	\$554,217	\$709,481	\$857,622	\$1,065,794
MONTEREY	CA	\$554,217	\$709,481	\$857,622	\$1,065,794
NAPA	CA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
NEVADA	CA	\$500,000	\$640,073	\$773,704	\$961,551
ORANGE	CA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
PLACER	CA	\$497,590	\$636,983	\$769,984	\$956,888
PLUMAS	CA	\$353,012	\$451,912	\$546,255	\$678,889
RIVERSIDE	CA	\$373,494	\$478,104	\$577,947	\$718,229
SACRAMENTO	CA	\$497,590	\$636,983	\$769,984	\$956,888
SAN BENITO	CA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SAN BERNARDINO	CA	\$373,494	\$478,104	\$577,947	\$718,229
SAN DIEGO	CA	\$608,434	\$778,889	\$941,540	\$1,170,089
SAN FRANCISCO	CA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SAN JOAQUIN	CA	\$349,398	\$447,302	\$540,650	\$671,922
SAN LUIS OBISPO	CA	\$587,952	\$752,698	\$909,796	\$1,130,697
SAN MATEO	CA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SANTA BARBARA	CA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SANTA CLARA	CA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SANTA CRUZ	CA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SHASTA	CA	\$286,747	\$367,051	\$443,688	\$551,441
SIERRA	CA	\$319,277	\$408,696	\$494,028	\$613,986
SOLANO	CA	\$419,277	\$536,721	\$648,821	\$806,286
SONOMA	CA	\$580,723	\$743,426	\$898,638	\$1,116,763
STANISLAUS	CA	\$289,157	\$370,141	\$447,459	\$556,050
TUOLUMNE	CA	\$346,988	\$444,212	\$536,930	\$667,260
VENTURA	CA	\$632,530	\$809,743	\$978,785	\$1,216,396
YOLO	CA	\$497,590	\$636,983	\$769,984	\$956,888
ADAMS	CO	\$480,723	\$615,401	\$743,897	\$924,463

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
ARAPAHOE	CO	\$480,723	\$615,401	\$743,897	\$924,463
ARCHULETA	CO	\$298,795	\$382,504	\$462,336	\$574,594
BOULDER	CO	\$497,590	\$636,983	\$769,984	\$956,888
BROOMFIELD	CO	\$480,723	\$615,401	\$743,897	\$924,463
CHAFFEE	CO	\$287,952	\$368,622	\$445,574	\$553,745
CLEAR CREEK	CO	\$480,723	\$615,401	\$743,897	\$924,463
DENVER	CO	\$480,723	\$615,401	\$743,897	\$924,463
DOUGLAS	CO	\$480,723	\$615,401	\$743,897	\$924,463
EAGLE	CO	\$655,317	\$838,947	\$1,014,091	\$1,260,267
ELBERT	CO	\$480,723	\$615,401	\$743,897	\$924,463
GARFIELD	CO	\$655,317	\$838,947	\$1,014,091	\$1,260,267
GILPIN	CO	\$480,723	\$615,401	\$743,897	\$924,463
GRAND	CO	\$349,398	\$447,302	\$540,650	\$671,922
GUNNISON	CO	\$374,699	\$479,675	\$579,832	\$720,587
HINSDALE	CO	\$448,193	\$573,756	\$693,557	\$861,917
JEFFERSON	CO	\$480,723	\$615,401	\$743,897	\$924,463
LA PLATA	CO	\$398,795	\$510,529	\$617,077	\$766,894
LARIMER	CO	\$356,627	\$456,522	\$551,860	\$685,804
MESA	CO	\$296,386	\$379,413	\$458,617	\$569,984
OURAY	CO	\$445,783	\$570,665	\$689,838	\$857,255
PARK	CO	\$480,723	\$615,401	\$743,897	\$924,463
PITKIN	CO	\$655,317	\$838,947	\$1,014,091	\$1,260,267
ROUTT	CO	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SAN MIGUEL	CO	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SUMMIT	CO	\$655,317	\$838,947	\$1,014,091	\$1,260,267
WELD	CO	\$304,819	\$390,204	\$471,661	\$586,171
FAIRFIELD	CT	\$630,120	\$806,653	\$975,065	\$1,211,786
HARTFORD	CT	\$369,880	\$473,494	\$572,342	\$711,315
LITCHFIELD	CT	\$374,699	\$479,675	\$579,832	\$720,587
MIDDLESEX	CT	\$369,880	\$473,494	\$572,342	\$711,315
NEW HAVEN	CT	\$320,482	\$410,267	\$495,914	\$616,291
NEW LONDON	CT	\$293,976	\$376,323	\$454,898	\$565,322
TOLLAND	CT	\$369,880	\$473,494	\$572,342	\$711,315
WINDHAM	CT	\$298,795	\$382,504	\$462,336	\$574,594
DISTRICT OF COL	DC	\$655,317	\$838,947	\$1,014,091	\$1,260,267
NEW CASTLE	DE	\$397,590	\$508,958	\$615,244	\$764,589
SUSSEX	DE	\$331,325	\$424,149	\$512,677	\$637,140
BAKER	FL	\$331,325	\$424,149	\$512,677	\$637,140
BROWARD	FL	\$361,446	\$462,703	\$559,298	\$695,076
CLAY	FL	\$331,325	\$424,149	\$512,677	\$637,140
COLLIER	FL	\$469,880	\$601,519	\$727,082	\$903,614
DUVAL	FL	\$331,325	\$424,149	\$512,677	\$637,140

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
LAKE	FL	\$287,952	\$368,622	\$445,574	\$553,745
MANATEE	FL	\$298,795	\$382,504	\$462,336	\$574,594
MARTIN	FL	\$331,325	\$424,149	\$512,677	\$637,140
MIAMI-DADE	FL	\$361,446	\$462,703	\$559,298	\$695,076
MONROE	FL	\$554,217	\$709,481	\$857,622	\$1,065,794
NASSAU	FL	\$331,325	\$424,149	\$512,677	\$637,140
OKALOOSA	FL	\$343,373	\$439,550	\$531,325	\$660,346
ORANGE	FL	\$287,952	\$368,622	\$445,574	\$553,745
OSCEOLA	FL	\$287,952	\$368,622	\$445,574	\$553,745
PALM BEACH	FL	\$361,446	\$462,703	\$559,298	\$695,076
SARASOTA	FL	\$298,795	\$382,504	\$462,336	\$574,594
SEMINOLE	FL	\$287,952	\$368,622	\$445,574	\$553,745
ST. JOHNS	FL	\$331,325	\$424,149	\$512,677	\$637,140
ST. LUCIE	FL	\$331,325	\$424,149	\$512,677	\$637,140
SUMTER	FL	\$301,205	\$385,595	\$466,108	\$579,256
WALTON	FL	\$343,373	\$439,550	\$531,325	\$660,346
BARROW	GA	\$359,036	\$459,612	\$555,579	\$690,466
BARTOW	GA	\$359,036	\$459,612	\$555,579	\$690,466
BUTTS	GA	\$359,036	\$459,612	\$555,579	\$690,466
CARROLL	GA	\$359,036	\$459,612	\$555,579	\$690,466
CHATTAHOOCHEE	GA	\$303,614	\$388,685	\$469,827	\$583,866
CHEROKEE	GA	\$359,036	\$459,612	\$555,579	\$690,466
CLARKE	GA	\$336,145	\$430,330	\$520,168	\$646,412
CLAYTON	GA	\$359,036	\$459,612	\$555,579	\$690,466
COBB	GA	\$359,036	\$459,612	\$555,579	\$690,466
COWETA	GA	\$359,036	\$459,612	\$555,579	\$690,466
DAWSON	GA	\$359,036	\$459,612	\$555,579	\$690,466
DEKALB	GA	\$359,036	\$459,612	\$555,579	\$690,466
DOUGLAS	GA	\$359,036	\$459,612	\$555,579	\$690,466
FAYETTE	GA	\$359,036	\$459,612	\$555,579	\$690,466
FORSYTH	GA	\$359,036	\$459,612	\$555,579	\$690,466
FULTON	GA	\$359,036	\$459,612	\$555,579	\$690,466
GREENE	GA	\$539,759	\$690,990	\$835,254	\$1,038,030
GWINNETT	GA	\$359,036	\$459,612	\$555,579	\$690,466
HARALSON	GA	\$359,036	\$459,612	\$555,579	\$690,466
HARRIS	GA	\$303,614	\$388,685	\$469,827	\$583,866
HEARD	GA	\$359,036	\$459,612	\$555,579	\$690,466
HENRY	GA	\$359,036	\$459,612	\$555,579	\$690,466
JASPER	GA	\$359,036	\$459,612	\$555,579	\$690,466
LAMAR	GA	\$359,036	\$459,612	\$555,579	\$690,466
MADISON	GA	\$336,145	\$430,330	\$520,168	\$646,412
MARION	GA	\$303,614	\$388,685	\$469,827	\$583,866
MERIWETHER	GA	\$359,036	\$459,612	\$555,579	\$690,466
MORGAN	GA	\$359,036	\$459,612	\$555,579	\$690,466
MUSCOGEE	GA	\$303,614	\$388,685	\$469,827	\$583,866

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
NEWTON	GA	\$359,036	\$459,612	\$555,579	\$690,466
OCONEE	GA	\$336,145	\$430,330	\$520,168	\$646,412
OGLETHORPE	GA	\$336,145	\$430,330	\$520,168	\$646,412
PAULDING	GA	\$359,036	\$459,612	\$555,579	\$690,466
PICKENS	GA	\$359,036	\$459,612	\$555,579	\$690,466
PIKE	GA	\$359,036	\$459,612	\$555,579	\$690,466
ROCKDALE	GA	\$359,036	\$459,612	\$555,579	\$690,466
SPALDING	GA	\$359,036	\$459,612	\$555,579	\$690,466
WALTON	GA	\$359,036	\$459,612	\$555,579	\$690,466
HAWAII	HI	\$385,542	\$493,557	\$596,595	\$741,435
HONOLULU	HI	\$755,422	\$967,051	\$1,168,989	\$1,452,750
KALAWAO	HI	\$689,157	\$882,242	\$1,066,422	\$1,325,301
KAUAI	HI	\$746,988	\$956,260	\$1,155,946	\$1,436,511
MAUI	HI	\$689,157	\$882,242	\$1,066,422	\$1,325,301
BLAINE	ID	\$655,317	\$838,947	\$1,014,091	\$1,260,267
CAMAS	ID	\$655,317	\$838,947	\$1,014,091	\$1,260,267
LINCOLN	ID	\$655,317	\$838,947	\$1,014,091	\$1,260,267
TETON	ID	\$655,317	\$838,947	\$1,014,091	\$1,260,267
VALLEY	ID	\$285,542	\$365,532	\$441,854	\$549,136
BOONE	IL	\$355,422	\$455,003	\$549,974	\$683,499
COOK	IL	\$383,133	\$490,466	\$592,876	\$736,773
DEKALB	IL	\$383,133	\$490,466	\$592,876	\$736,773
DUPAGE	IL	\$383,133	\$490,466	\$592,876	\$736,773
GRUNDY	IL	\$383,133	\$490,466	\$592,876	\$736,773
KANE	IL	\$383,133	\$490,466	\$592,876	\$736,773
KENDALL	IL	\$383,133	\$490,466	\$592,876	\$736,773
LAKE	IL	\$383,133	\$490,466	\$592,876	\$736,773
MCHENRY	IL	\$383,133	\$490,466	\$592,876	\$736,773
WILL	IL	\$383,133	\$490,466	\$592,876	\$736,773
WINNEBAGO	IL	\$355,422	\$455,003	\$549,974	\$683,499
BOONE	IN	\$313,253	\$400,995	\$484,704	\$602,410
BROWN	IN	\$313,253	\$400,995	\$484,704	\$602,410
CLARK	IN	\$301,205	\$385,595	\$466,108	\$579,256
FLOYD	IN	\$301,205	\$385,595	\$466,108	\$579,256
HAMILTON	IN	\$313,253	\$400,995	\$484,704	\$602,410
HANCOCK	IN	\$313,253	\$400,995	\$484,704	\$602,410
HARRISON	IN	\$301,205	\$385,595	\$466,108	\$579,256
HENDRICKS	IN	\$313,253	\$400,995	\$484,704	\$602,410
JASPER	IN	\$383,133	\$490,466	\$592,876	\$736,773
JOHNSON	IN	\$313,253	\$400,995	\$484,704	\$602,410
LAKE	IN	\$383,133	\$490,466	\$592,876	\$736,773
MADISON	IN	\$313,253	\$400,995	\$484,704	\$602,410

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
MARION	IN	\$313,253	\$400,995	\$484,704	\$602,410
MORGAN	IN	\$313,253	\$400,995	\$484,704	\$602,410
NEWTON	IN	\$383,133	\$490,466	\$592,876	\$736,773
PORTER	IN	\$383,133	\$490,466	\$592,876	\$736,773
PUTNAM	IN	\$313,253	\$400,995	\$484,704	\$602,410
SCOTT	IN	\$301,205	\$385,595	\$466,108	\$579,256
SHELBY	IN	\$313,253	\$400,995	\$484,704	\$602,410
WASHINGTON	IN	\$301,205	\$385,595	\$466,108	\$579,256
JOHNSON	KS	\$291,566	\$373,232	\$451,179	\$560,712
LEAVENWORTH	KS	\$291,566	\$373,232	\$451,179	\$560,712
LINN	KS	\$291,566	\$373,232	\$451,179	\$560,712
MIAMI	KS	\$291,566	\$373,232	\$451,179	\$560,712
WYANDOTTE	KS	\$291,566	\$373,232	\$451,179	\$560,712
BULLITT	KY	\$301,205	\$385,595	\$466,108	\$579,256
HENRY	KY	\$301,205	\$385,595	\$466,108	\$579,256
JEFFERSON	KY	\$301,205	\$385,595	\$466,108	\$579,256
OLDHAM	KY	\$301,205	\$385,595	\$466,108	\$579,256
SHELBY	KY	\$301,205	\$385,595	\$466,108	\$579,256
SPENCER	KY	\$301,205	\$385,595	\$466,108	\$579,256
TRIMBLE	KY	\$301,205	\$385,595	\$466,108	\$579,256
BARNSTABLE	MA	\$425,301	\$544,474	\$658,146	\$817,863
BRISTOL	MA	\$446,988	\$572,237	\$691,671	\$859,612
DUKES	MA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
ESSEX	MA	\$548,193	\$701,781	\$848,298	\$1,054,217
HAMPDEN	MA	\$297,590	\$380,932	\$460,503	\$572,289
HAMPSHIRE	MA	\$297,590	\$380,932	\$460,503	\$572,289
MIDDLESEX	MA	\$548,193	\$701,781	\$848,298	\$1,054,217
NANTUCKET	MA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
NORFOLK	MA	\$548,193	\$701,781	\$848,298	\$1,054,217
PLYMOUTH	MA	\$548,193	\$701,781	\$848,298	\$1,054,217
SUFFOLK	MA	\$548,193	\$701,781	\$848,298	\$1,054,217
WORCESTER	MA	\$298,795	\$382,504	\$462,336	\$574,594
ANNE ARUNDEL	MD	\$542,169	\$694,081	\$838,973	\$1,042,640
BALTIMORE	MD	\$542,169	\$694,081	\$838,973	\$1,042,640
BALTIMORE CITY	MD	\$542,169	\$694,081	\$838,973	\$1,042,640
CALVERT	MD	\$655,317	\$838,947	\$1,014,091	\$1,260,267
CARROLL	MD	\$542,169	\$694,081	\$838,973	\$1,042,640
CECIL	MD	\$397,590	\$508,958	\$615,244	\$764,589
CHARLES	MD	\$655,317	\$838,947	\$1,014,091	\$1,260,267
FREDERICK	MD	\$655,317	\$838,947	\$1,014,091	\$1,260,267
HARFORD	MD	\$542,169	\$694,081	\$838,973	\$1,042,640
HOWARD	MD	\$542,169	\$694,081	\$838,973	\$1,042,640

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
KENT	MD	\$304,819	\$390,204	\$471,661	\$586,171
MONTGOMERY	MD	\$655,317	\$838,947	\$1,014,091	\$1,260,267
PRINCE GEORGE'S	MD	\$655,317	\$838,947	\$1,014,091	\$1,260,267
QUEEN ANNE'S	MD	\$542,169	\$694,081	\$838,973	\$1,042,640
SOMERSET	MD	\$331,325	\$424,149	\$512,677	\$637,140
ST. MARY'S	MD	\$363,855	\$465,794	\$563,017	\$699,738
TALBOT	MD	\$401,205	\$513,620	\$620,849	\$771,556
WICOMICO	MD	\$331,325	\$424,149	\$512,677	\$637,140
WORCESTER	MD	\$331,325	\$424,149	\$512,677	\$637,140
CUMBERLAND	ME	\$316,867	\$405,657	\$490,309	\$609,377
HANCOCK	ME	\$284,337	\$364,013	\$439,969	\$546,778
KNOX	ME	\$292,771	\$374,804	\$453,012	\$563,017
SAGADAHOC	ME	\$316,867	\$405,657	\$490,309	\$609,377
YORK	ME	\$316,867	\$405,657	\$490,309	\$609,377
ANOKA	MN	\$342,169	\$438,030	\$529,492	\$657,988
CARVER	MN	\$342,169	\$438,030	\$529,492	\$657,988
CHISAGO	MN	\$342,169	\$438,030	\$529,492	\$657,988
COOK	MN	\$296,386	\$379,413	\$458,617	\$569,984
DAKOTA	MN	\$342,169	\$438,030	\$529,492	\$657,988
HENNEPIN	MN	\$342,169	\$438,030	\$529,492	\$657,988
ISANTI	MN	\$342,169	\$438,030	\$529,492	\$657,988
LE SUEUR	MN	\$342,169	\$438,030	\$529,492	\$657,988
MILLE LACS	MN	\$342,169	\$438,030	\$529,492	\$657,988
RAMSEY	MN	\$342,169	\$438,030	\$529,492	\$657,988
SCOTT	MN	\$342,169	\$438,030	\$529,492	\$657,988
SHERBURNE	MN	\$342,169	\$438,030	\$529,492	\$657,988
SIBLEY	MN	\$342,169	\$438,030	\$529,492	\$657,988
WASHINGTON	MN	\$342,169	\$438,030	\$529,492	\$657,988
WRIGHT	MN	\$342,169	\$438,030	\$529,492	\$657,988
BATES	MO	\$291,566	\$373,232	\$451,179	\$560,712
CALDWELL	MO	\$291,566	\$373,232	\$451,179	\$560,712
CASS	MO	\$291,566	\$373,232	\$451,179	\$560,712
CLAY	MO	\$291,566	\$373,232	\$451,179	\$560,712
CLINTON	MO	\$291,566	\$373,232	\$451,179	\$560,712
JACKSON	MO	\$291,566	\$373,232	\$451,179	\$560,712
LAFAYETTE	MO	\$291,566	\$373,232	\$451,179	\$560,712
PLATTE	MO	\$291,566	\$373,232	\$451,179	\$560,712
RAY	MO	\$291,566	\$373,232	\$451,179	\$560,712
COPIAH	MS	\$291,566	\$373,232	\$451,179	\$560,712
HINDS	MS	\$291,566	\$373,232	\$451,179	\$560,712
MADISON	MS	\$291,566	\$373,232	\$451,179	\$560,712
RANKIN	MS	\$291,566	\$373,232	\$451,179	\$560,712

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
SIMPSON	MS	\$291,566	\$373,232	\$451,179	\$560,712
YAZOO	MS	\$291,566	\$373,232	\$451,179	\$560,712
FALLON	MT	\$296,386	\$379,413	\$458,617	\$569,984
FLATHEAD	MT	\$315,663	\$404,086	\$488,476	\$607,019
GALLATIN	MT	\$362,651	\$464,222	\$561,184	\$697,381
JEFFERSON	MT	\$300,000	\$384,023	\$464,222	\$576,899
LEWIS AND CLARK	MT	\$300,000	\$384,023	\$464,222	\$576,899
MADISON	MT	\$340,964	\$436,459	\$527,606	\$655,684
MISSOULA	MT	\$303,614	\$388,685	\$469,827	\$583,866
SWEET GRASS	MT	\$303,614	\$388,685	\$469,827	\$583,866
CABARRUS	NC	\$293,976	\$376,323	\$454,898	\$565,322
CAMDEN	NC	\$655,317	\$838,947	\$1,014,091	\$1,260,267
CHATHAM	NC	\$367,470	\$470,403	\$568,622	\$706,653
CURRITUCK	NC	\$480,723	\$615,401	\$743,897	\$924,463
DARE	NC	\$409,639	\$524,411	\$633,892	\$787,742
DURHAM	NC	\$367,470	\$470,403	\$568,622	\$706,653
FRANKLIN	NC	\$301,205	\$385,595	\$466,108	\$579,256
GASTON	NC	\$293,976	\$376,323	\$454,898	\$565,322
GATES	NC	\$480,723	\$615,401	\$743,897	\$924,463
HYDE	NC	\$506,024	\$647,774	\$783,028	\$973,127
IREDELL	NC	\$293,976	\$376,323	\$454,898	\$565,322
JOHNSTON	NC	\$301,205	\$385,595	\$466,108	\$579,256
LINCOLN	NC	\$293,976	\$376,323	\$454,898	\$565,322
MECKLENBURG	NC	\$293,976	\$376,323	\$454,898	\$565,322
ORANGE	NC	\$367,470	\$470,403	\$568,622	\$706,653
PASQUOTANK	NC	\$655,317	\$838,947	\$1,014,091	\$1,260,267
PERQUIMANS	NC	\$655,317	\$838,947	\$1,014,091	\$1,260,267
PERSON	NC	\$367,470	\$470,403	\$568,622	\$706,653
ROWAN	NC	\$293,976	\$376,323	\$454,898	\$565,322
TYRRELL	NC	\$409,639	\$524,411	\$633,892	\$787,742
UNION	NC	\$293,976	\$376,323	\$454,898	\$565,322
WAKE	NC	\$301,205	\$385,595	\$466,108	\$579,256
WATAUGA	NC	\$287,952	\$368,622	\$445,574	\$553,745
BILLINGS	ND	\$355,422	\$455,003	\$549,974	\$683,499
BURLEIGH	ND	\$307,229	\$393,295	\$475,380	\$590,833
MCINTOSH	ND	\$298,795	\$382,504	\$462,336	\$574,594
MCKENZIE	ND	\$313,253	\$400,995	\$484,704	\$602,410
MORTON	ND	\$307,229	\$393,295	\$475,380	\$590,833
OLIVER	ND	\$307,229	\$393,295	\$475,380	\$590,833
SIOUX	ND	\$307,229	\$393,295	\$475,380	\$590,833
STARK	ND	\$322,892	\$413,358	\$499,633	\$620,953
WILLIAMS	ND	\$345,783	\$442,640	\$535,045	\$664,955

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
HILLSBOROUGH	NH	\$309,639	\$396,386	\$479,151	\$595,443
ROCKINGHAM	NH	\$548,193	\$701,781	\$848,298	\$1,054,217
STRAFFORD	NH	\$548,193	\$701,781	\$848,298	\$1,054,217
ATLANTIC	NJ	\$331,325	\$424,149	\$512,677	\$637,140
BERGEN	NJ	\$655,317	\$838,947	\$1,014,091	\$1,260,267
BURLINGTON	NJ	\$397,590	\$508,958	\$615,244	\$764,589
CAMDEN	NJ	\$397,590	\$508,958	\$615,244	\$764,589
CAPE MAY	NJ	\$433,735	\$555,265	\$671,189	\$834,102
ESSEX	NJ	\$655,317	\$838,947	\$1,014,091	\$1,260,267
GLOUCESTER	NJ	\$397,590	\$508,958	\$615,244	\$764,589
HUDSON	NJ	\$655,317	\$838,947	\$1,014,091	\$1,260,267
HUNTERDON	NJ	\$655,317	\$838,947	\$1,014,091	\$1,260,267
MERCER	NJ	\$361,446	\$462,703	\$559,298	\$695,076
MIDDLESEX	NJ	\$655,317	\$838,947	\$1,014,091	\$1,260,267
MONMOUTH	NJ	\$655,317	\$838,947	\$1,014,091	\$1,260,267
MORRIS	NJ	\$655,317	\$838,947	\$1,014,091	\$1,260,267
OCEAN	NJ	\$655,317	\$838,947	\$1,014,091	\$1,260,267
PASSAIC	NJ	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SALEM	NJ	\$397,590	\$508,958	\$615,244	\$764,589
SOMERSET	NJ	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SUSSEX	NJ	\$655,317	\$838,947	\$1,014,091	\$1,260,267
UNION	NJ	\$655,317	\$838,947	\$1,014,091	\$1,260,267
WARREN	NJ	\$390,361	\$499,738	\$604,034	\$750,707
CATRON	NM	\$404,819	\$518,229	\$626,401	\$778,523
LOS ALAMOS	NM	\$398,795	\$510,529	\$617,077	\$766,894
SANTA FE	NM	\$385,542	\$493,557	\$596,595	\$741,435
TAOS	NM	\$300,000	\$384,023	\$464,222	\$576,899
CARSON CITY	NV	\$300,000	\$384,023	\$464,222	\$576,899
CLARK	NV	\$301,205	\$385,595	\$466,108	\$579,256
DOUGLAS	NV	\$367,470	\$470,403	\$568,622	\$706,653
STOREY	NV	\$340,964	\$436,459	\$527,606	\$655,684
WASHOE	NV	\$340,964	\$436,459	\$527,606	\$655,684
ALBANY	NY	\$306,024	\$391,776	\$473,546	\$588,476
BRONX	NY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
DUTCHESS	NY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
KINGS	NY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
NASSAU	NY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
NEW YORK	NY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
ORANGE	NY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
PUTNAM	NY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
QUEENS	NY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
RENSSELAER	NY	\$306,024	\$391,776	\$473,546	\$588,476

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
RICHMOND	NY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
ROCKLAND	NY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SARATOGA	NY	\$306,024	\$391,776	\$473,546	\$588,476
SCHENECTADY	NY	\$306,024	\$391,776	\$473,546	\$588,476
SCHOHARIE	NY	\$306,024	\$391,776	\$473,546	\$588,476
SUFFOLK	NY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
WESTCHESTER	NY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
DELAWARE	OH	\$331,325	\$424,149	\$512,677	\$637,140
FAIRFIELD	OH	\$331,325	\$424,149	\$512,677	\$637,140
FRANKLIN	OH	\$331,325	\$424,149	\$512,677	\$637,140
HOCKING	OH	\$331,325	\$424,149	\$512,677	\$637,140
LICKING	OH	\$331,325	\$424,149	\$512,677	\$637,140
MADISON	OH	\$331,325	\$424,149	\$512,677	\$637,140
MORROW	OH	\$331,325	\$424,149	\$512,677	\$637,140
PERRY	OH	\$331,325	\$424,149	\$512,677	\$637,140
PICKAWAY	OH	\$331,325	\$424,149	\$512,677	\$637,140
UNION	OH	\$331,325	\$424,149	\$512,677	\$637,140
BENTON	OR	\$316,867	\$405,657	\$490,309	\$609,377
CLACKAMAS	OR	\$385,542	\$493,557	\$596,595	\$741,435
CLATSOP	OR	\$295,181	\$377,894	\$456,784	\$567,627
COLUMBIA	OR	\$385,542	\$493,557	\$596,595	\$741,435
CURRY	OR	\$343,373	\$439,550	\$531,325	\$660,346
DESCHUTES	OR	\$325,301	\$416,448	\$503,353	\$625,563
HOOD RIVER	OR	\$389,157	\$498,167	\$602,200	\$748,402
JACKSON	OR	\$292,771	\$374,804	\$453,012	\$563,017
LINCOLN	OR	\$289,157	\$370,141	\$447,459	\$556,050
MULTNOMAH	OR	\$385,542	\$493,557	\$596,595	\$741,435
TILLAMOOK	OR	\$301,205	\$385,595	\$466,108	\$579,256
WASHINGTON	OR	\$385,542	\$493,557	\$596,595	\$741,435
YAMHILL	OR	\$385,542	\$493,557	\$596,595	\$741,435
BUCKS	PA	\$397,590	\$508,958	\$615,244	\$764,589
CARBON	PA	\$390,361	\$499,738	\$604,034	\$750,707
CHESTER	PA	\$397,590	\$508,958	\$615,244	\$764,589
DELAWARE	PA	\$397,590	\$508,958	\$615,244	\$764,589
LEHIGH	PA	\$390,361	\$499,738	\$604,034	\$750,707
MONTGOMERY	PA	\$397,590	\$508,958	\$615,244	\$764,589
NORTHAMPTON	PA	\$390,361	\$499,738	\$604,034	\$750,707
PHILADELPHIA	PA	\$397,590	\$508,958	\$615,244	\$764,589
PIKE	PA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
BRISTOL	RI	\$446,988	\$572,237	\$691,671	\$859,612
KENT	RI	\$446,988	\$572,237	\$691,671	\$859,612
NEWPORT	RI	\$446,988	\$572,237	\$691,671	\$859,612

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
PROVIDENCE	RI	\$446,988	\$572,237	\$691,671	\$859,612
WASHINGTON	RI	\$446,988	\$572,237	\$691,671	\$859,612
BEAUFORT	SC	\$367,470	\$470,403	\$568,622	\$706,653
BERKELEY	SC	\$349,398	\$447,302	\$540,650	\$671,922
CHARLESTON	SC	\$349,398	\$447,302	\$540,650	\$671,922
CHESTER	SC	\$293,976	\$376,323	\$454,898	\$565,322
DORCHESTER	SC	\$349,398	\$447,302	\$540,650	\$671,922
GEORGETOWN	SC	\$343,373	\$439,550	\$531,325	\$660,346
JASPER	SC	\$367,470	\$470,403	\$568,622	\$706,653
LANCASTER	SC	\$293,976	\$376,323	\$454,898	\$565,322
YORK	SC	\$293,976	\$376,323	\$454,898	\$565,322
CANNON	TN	\$457,831	\$586,118	\$708,434	\$880,461
CHEATHAM	TN	\$457,831	\$586,118	\$708,434	\$880,461
DAVIDSON	TN	\$457,831	\$586,118	\$708,434	\$880,461
DICKSON	TN	\$457,831	\$586,118	\$708,434	\$880,461
HICKMAN	TN	\$457,831	\$586,118	\$708,434	\$880,461
MACON	TN	\$457,831	\$586,118	\$708,434	\$880,461
MAURY	TN	\$457,831	\$586,118	\$708,434	\$880,461
ROBERTSON	TN	\$457,831	\$586,118	\$708,434	\$880,461
RUTHERFORD	TN	\$457,831	\$586,118	\$708,434	\$880,461
SMITH	TN	\$457,831	\$586,118	\$708,434	\$880,461
SUMNER	TN	\$457,831	\$586,118	\$708,434	\$880,461
TROUSDALE	TN	\$457,831	\$586,118	\$708,434	\$880,461
WILLIAMSON	TN	\$457,831	\$586,118	\$708,434	\$880,461
WILSON	TN	\$457,831	\$586,118	\$708,434	\$880,461
ATASCOSA	TX	\$331,325	\$424,149	\$512,677	\$637,140
AUSTIN	TX	\$345,783	\$442,640	\$535,045	\$664,955
BANDERA	TX	\$331,325	\$424,149	\$512,677	\$637,140
BASTROP	TX	\$349,398	\$447,302	\$540,650	\$671,922
BEXAR	TX	\$331,325	\$424,149	\$512,677	\$637,140
BRAZORIA	TX	\$345,783	\$442,640	\$535,045	\$664,955
CALDWELL	TX	\$349,398	\$447,302	\$540,650	\$671,922
CHAMBERS	TX	\$345,783	\$442,640	\$535,045	\$664,955
COLLIN	TX	\$350,602	\$448,821	\$542,535	\$674,227
COMAL	TX	\$331,325	\$424,149	\$512,677	\$637,140
DALLAS	TX	\$350,602	\$448,821	\$542,535	\$674,227
DENTON	TX	\$350,602	\$448,821	\$542,535	\$674,227
ELLIS	TX	\$350,602	\$448,821	\$542,535	\$674,227
FORT BEND	TX	\$345,783	\$442,640	\$535,045	\$664,955
GALVESTON	TX	\$345,783	\$442,640	\$535,045	\$664,955
GUADALUPE	TX	\$331,325	\$424,149	\$512,677	\$637,140
HARRIS	TX	\$345,783	\$442,640	\$535,045	\$664,955
HAYS	TX	\$349,398	\$447,302	\$540,650	\$671,922

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
HOOD	TX	\$350,602	\$448,821	\$542,535	\$674,227
HUNT	TX	\$350,602	\$448,821	\$542,535	\$674,227
JOHNSON	TX	\$350,602	\$448,821	\$542,535	\$674,227
KAUFMAN	TX	\$350,602	\$448,821	\$542,535	\$674,227
KENDALL	TX	\$331,325	\$424,149	\$512,677	\$637,140
LIBERTY	TX	\$345,783	\$442,640	\$535,045	\$664,955
MARTIN	TX	\$298,795	\$382,504	\$462,336	\$574,594
MEDINA	TX	\$331,325	\$424,149	\$512,677	\$637,140
MIDLAND	TX	\$298,795	\$382,504	\$462,336	\$574,594
MONTGOMERY	TX	\$345,783	\$442,640	\$535,045	\$664,955
PARKER	TX	\$350,602	\$448,821	\$542,535	\$674,227
ROCKWALL	TX	\$350,602	\$448,821	\$542,535	\$674,227
SOMERVELL	TX	\$350,602	\$448,821	\$542,535	\$674,227
TARRANT	TX	\$350,602	\$448,821	\$542,535	\$674,227
TRAVIS	TX	\$349,398	\$447,302	\$540,650	\$671,922
WALLER	TX	\$345,783	\$442,640	\$535,045	\$664,955
WILLIAMSON	TX	\$349,398	\$447,302	\$540,650	\$671,922
WILSON	TX	\$331,325	\$424,149	\$512,677	\$637,140
WISE	TX	\$350,602	\$448,821	\$542,535	\$674,227
BOX ELDER	UT	\$408,434	\$522,839	\$632,006	\$785,437
DAGGETT	UT	\$316,867	\$405,657	\$490,309	\$609,377
DAVIS	UT	\$408,434	\$522,839	\$632,006	\$785,437
JUAB	UT	\$318,072	\$407,177	\$492,195	\$611,682
MORGAN	UT	\$408,434	\$522,839	\$632,006	\$785,437
RICH	UT	\$310,843	\$397,905	\$480,985	\$597,748
SALT LAKE	UT	\$327,711	\$419,539	\$507,124	\$630,225
SUMMIT	UT	\$628,916	\$805,134	\$973,232	\$1,209,481
TOOELE	UT	\$327,711	\$419,539	\$507,124	\$630,225
UTAH	UT	\$318,072	\$407,177	\$492,195	\$611,682
WASATCH	UT	\$384,337	\$491,985	\$594,709	\$739,130
WASHINGTON	UT	\$301,205	\$385,595	\$466,108	\$579,256
WEBER	UT	\$408,434	\$522,839	\$632,006	\$785,437
ALBEMARLE	VA	\$457,831	\$586,118	\$708,434	\$880,461
ALEXANDRIA CITY	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
AMELIA	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
AMHERST	VA	\$306,024	\$391,776	\$473,546	\$588,476
APPOMATTOX	VA	\$306,024	\$391,776	\$473,546	\$588,476
ARLINGTON	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
BEDFORD	VA	\$306,024	\$391,776	\$473,546	\$588,476
BEDFORD CITY	VA	\$306,024	\$391,776	\$473,546	\$588,476
BUCKINGHAM	VA	\$457,831	\$586,118	\$708,434	\$880,461
CAMPBELL	VA	\$306,024	\$391,776	\$473,546	\$588,476
CAROLINE	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
CHARLES CITY	VA	\$561,446	\$718,753	\$868,779	\$1,079,728

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
CHARLOTTESVIL LE	VA	\$457,831	\$586,118	\$708,434	\$880,461
CHESAPEAKE CITY	VA	\$480,723	\$615,401	\$743,897	\$924,463
CHESTERFIELD	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
CLARKE	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
COLONIAL HEIGHT	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
CULPEPER	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
DINWIDDIE	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
FAIRFAX	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
FAIRFAX CITY	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
FALLS CHURCH CI	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
FAUQUIER	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
FLOYD	VA	\$306,024	\$391,776	\$473,546	\$588,476
FLUVANNA	VA	\$457,831	\$586,118	\$708,434	\$880,461
FREDERICK	VA	\$284,337	\$364,013	\$439,969	\$546,778
FREDERICKSBURG	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
GILES	VA	\$306,024	\$391,776	\$473,546	\$588,476
GLOUCESTER	VA	\$480,723	\$615,401	\$743,897	\$924,463
GOOCHLAND	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
GREENE	VA	\$457,831	\$586,118	\$708,434	\$880,461
HAMPTON CITY	VA	\$480,723	\$615,401	\$743,897	\$924,463
HANOVER	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
HARRISONBURG CI	VA	\$290,361	\$371,713	\$449,293	\$558,355
HENRICO	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
HOPEWELL CITY	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
ISLE OF WIGHT	VA	\$480,723	\$615,401	\$743,897	\$924,463
JAMES CITY	VA	\$480,723	\$615,401	\$743,897	\$924,463
KING GEORGE	VA	\$367,470	\$470,403	\$568,622	\$706,653
KING WILLIAM	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
LANCASTER	VA	\$463,855	\$593,819	\$717,758	\$892,038
LEXINGTON CITY	VA	\$304,819	\$390,204	\$471,661	\$586,171
LOUDOUN	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
LYNCHBURG CITY	VA	\$306,024	\$391,776	\$473,546	\$588,476
MANASSAS CITY	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
MANASSAS PARK C	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
MATHEWS	VA	\$480,723	\$615,401	\$743,897	\$924,463
MONTGOMERY	VA	\$306,024	\$391,776	\$473,546	\$588,476
NELSON	VA	\$457,831	\$586,118	\$708,434	\$880,461
NEW KENT	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
NEWPORT NEWS CI	VA	\$480,723	\$615,401	\$743,897	\$924,463
NORFOLK CITY	VA	\$480,723	\$615,401	\$743,897	\$924,463
NORTHUMBERL AND	VA	\$333,735	\$427,239	\$516,448	\$641,802
PETERSBURG CITY	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
POQUOSON CITY	VA	\$480,723	\$615,401	\$743,897	\$924,463
PORTSMOUTH CITY	VA	\$480,723	\$615,401	\$743,897	\$924,463
POWHATAN	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
PRINCE GEORGE	VA	\$561,446	\$718,753	\$868,779	\$1,079,728

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
PRINCE WILLIAM	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
PULASKI	VA	\$306,024	\$391,776	\$473,546	\$588,476
RADFORD CITY	VA	\$306,024	\$391,776	\$473,546	\$588,476
RAPPAHANNOCK	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
RICHMOND CITY	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
ROCKINGHAM	VA	\$290,361	\$371,713	\$449,293	\$558,355
SPOTSYLVANIA	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
STAFFORD	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SUFFOLK CITY	VA	\$480,723	\$615,401	\$743,897	\$924,463
SUSSEX	VA	\$561,446	\$718,753	\$868,779	\$1,079,728
VIRGINIA BEACH	VA	\$480,723	\$615,401	\$743,897	\$924,463
WARREN	VA	\$655,317	\$838,947	\$1,014,091	\$1,260,267
WILLIAMSBURG CI	VA	\$480,723	\$615,401	\$743,897	\$924,463
WINCHESTER CITY	VA	\$284,337	\$364,013	\$439,969	\$546,778
YORK	VA	\$480,723	\$615,401	\$743,897	\$924,463
BENNINGTON	VT	\$290,361	\$371,713	\$449,293	\$558,355
CHITTENDEN	VT	\$359,036	\$459,612	\$555,579	\$690,466
FRANKLIN	VT	\$359,036	\$459,612	\$555,579	\$690,466
GRAND ISLE	VT	\$359,036	\$459,612	\$555,579	\$690,466
LAMOILLE	VT	\$289,157	\$370,141	\$447,459	\$556,050
CHELAN	WA	\$359,036	\$459,612	\$555,579	\$690,466
CLALLAM	WA	\$402,410	\$515,139	\$622,682	\$773,861
CLARK	WA	\$385,542	\$493,557	\$596,595	\$741,435
DOUGLAS	WA	\$359,036	\$459,612	\$555,579	\$690,466
ISLAND	WA	\$337,349	\$431,849	\$522,001	\$648,769
JEFFERSON	WA	\$337,349	\$431,849	\$522,001	\$648,769
KING	WA	\$566,265	\$724,935	\$876,270	\$1,088,999
KITSAP	WA	\$321,687	\$411,786	\$497,800	\$618,649
PIERCE	WA	\$566,265	\$724,935	\$876,270	\$1,088,999
SAN JUAN	WA	\$506,024	\$647,774	\$783,028	\$973,127
SKAGIT	WA	\$330,120	\$422,577	\$510,843	\$634,835
SKAMANIA	WA	\$385,542	\$493,557	\$596,595	\$741,435
SNOHOMISH	WA	\$566,265	\$724,935	\$876,270	\$1,088,999
THURSTON	WA	\$307,229	\$393,295	\$475,380	\$590,833
WHATCOM	WA	\$319,277	\$408,696	\$494,028	\$613,986
COLUMBIA	WI	\$284,337	\$364,013	\$439,969	\$546,778
DANE	WI	\$284,337	\$364,013	\$439,969	\$546,778
GREEN	WI	\$284,337	\$364,013	\$439,969	\$546,778
IOWA	WI	\$284,337	\$364,013	\$439,969	\$546,778
KENOSHA	WI	\$383,133	\$490,466	\$592,876	\$736,773
MILWAUKEE	WI	\$302,410	\$387,114	\$467,941	\$581,561
OZAUKEE	WI	\$302,410	\$387,114	\$467,941	\$581,561
PIERCE	WI	\$342,169	\$438,030	\$529,492	\$657,988

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
ST. CROIX	WI	\$342,169	\$438,030	\$529,492	\$657,988
WASHINGTON	WI	\$302,410	\$387,114	\$467,941	\$581,561
WAUKESHA	WI	\$302,410	\$387,114	\$467,941	\$581,561
HAMPSHIRE	WV	\$284,337	\$364,013	\$439,969	\$546,778
JEFFERSON	WV	\$655,317	\$838,947	\$1,014,091	\$1,260,267
SUBLETTE	WY	\$301,205	\$385,595	\$466,108	\$579,256
SWEETWATER	WY	\$325,301	\$416,448	\$503,353	\$625,563
TETON	WY	\$655,317	\$838,947	\$1,014,091	\$1,260,267
GUAM	GU	\$590,361	\$755,788	\$913,567	\$1,135,306
NORTHERN ISLAND	MP	\$549,398	\$703,300	\$850,131	\$1,056,522
ROTA	MP	\$430,120	\$550,602	\$665,584	\$827,135
SAIPAN	MP	\$554,217	\$709,481	\$857,622	\$1,065,794
TINIAN	MP	\$557,831	\$714,144	\$863,227	\$1,072,761
AGUAS BUENAS	PR	\$403,614	\$516,710	\$624,568	\$776,166
AIBONITO	PR	\$403,614	\$516,710	\$624,568	\$776,166
BARCELONETA	PR	\$403,614	\$516,710	\$624,568	\$776,166
BARRANQUITAS	PR	\$403,614	\$516,710	\$624,568	\$776,166
BAYAMON	PR	\$403,614	\$516,710	\$624,568	\$776,166
CAGUAS	PR	\$403,614	\$516,710	\$624,568	\$776,166
CANOVANAS	PR	\$403,614	\$516,710	\$624,568	\$776,166
CAROLINA	PR	\$403,614	\$516,710	\$624,568	\$776,166
CATANO	PR	\$403,614	\$516,710	\$624,568	\$776,166
CAYEY	PR	\$403,614	\$516,710	\$624,568	\$776,166
CEIBA	PR	\$403,614	\$516,710	\$624,568	\$776,166
CIALES	PR	\$403,614	\$516,710	\$624,568	\$776,166
CIDRA	PR	\$403,614	\$516,710	\$624,568	\$776,166
COMERIO	PR	\$403,614	\$516,710	\$624,568	\$776,166
COROZAL	PR	\$403,614	\$516,710	\$624,568	\$776,166
CULEBRA	PR	\$296,386	\$379,413	\$458,617	\$569,984
DORADO	PR	\$403,614	\$516,710	\$624,568	\$776,166
FAJARDO	PR	\$403,614	\$516,710	\$624,568	\$776,166
FLORIDA	PR	\$403,614	\$516,710	\$624,568	\$776,166
GUAYNABO	PR	\$403,614	\$516,710	\$624,568	\$776,166
GURABO	PR	\$403,614	\$516,710	\$624,568	\$776,166
HUMACAO	PR	\$403,614	\$516,710	\$624,568	\$776,166
JUNCOS	PR	\$403,614	\$516,710	\$624,568	\$776,166
LAS PIEDRAS	PR	\$403,614	\$516,710	\$624,568	\$776,166
LOIZA	PR	\$403,614	\$516,710	\$624,568	\$776,166
LUQUILLO	PR	\$403,614	\$516,710	\$624,568	\$776,166
MANATI	PR	\$403,614	\$516,710	\$624,568	\$776,166
MAUNABO	PR	\$403,614	\$516,710	\$624,568	\$776,166

County Name	State	One-Unit Limit	Two-Unit Limit	Three-Unit Limit	Four-Unit Limit
MOROVIS	PR	\$403,614	\$516,710	\$624,568	\$776,166
NAGUABO	PR	\$403,614	\$516,710	\$624,568	\$776,166
NARANJITO	PR	\$403,614	\$516,710	\$624,568	\$776,166
OROCOVIS	PR	\$403,614	\$516,710	\$624,568	\$776,166
RIO GRANDE	PR	\$403,614	\$516,710	\$624,568	\$776,166
SAN JUAN	PR	\$403,614	\$516,710	\$624,568	\$776,166
SAN LORENZO	PR	\$403,614	\$516,710	\$624,568	\$776,166
TOA ALTA	PR	\$403,614	\$516,710	\$624,568	\$776,166
TOA BAJA	PR	\$403,614	\$516,710	\$624,568	\$776,166
TRUJILLO ALTO	PR	\$403,614	\$516,710	\$624,568	\$776,166
VEGA ALTA	PR	\$403,614	\$516,710	\$624,568	\$776,166
VEGA BAJA	PR	\$403,614	\$516,710	\$624,568	\$776,166
YABUCOA	PR	\$403,614	\$516,710	\$624,568	\$776,166
ST. CROIX ISLAN	VI	\$343,373	\$439,550	\$531,325	\$660,346
ST. JOHN ISLAND	VI	\$653,012	\$835,987	\$1,010,477	\$1,255,788
ST. THOMAS ISLA	VI	\$467,470	\$598,428	\$723,363	\$899,005
All other areas (floor):		\$283,971	\$363,541	\$439,419	\$546,097
National Average Housing Price:		\$266,400			

.02 The nationwide average purchase price (for use in the housing cost/income ratio for new and existing residences) is \$266,400.

SECTION 5. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2015–31 is obsolete except as provided in section 6 of this revenue procedure.

SECTION 6. EFFECTIVE DATES

.01 Issuers may rely on this revenue procedure to determine average area purchase price safe harbors for commitments to provide financing or issue mortgage credit certificates that are made, or (if the purchase precedes the commitment) for residences that are purchased, in the period that begins on April 15, 2016, and ends on the date as of which the safe harbors contained in section 4.01 of this revenue procedure are rendered obsolete by a new revenue procedure.

.02 Notwithstanding section 5 of this revenue procedure, issuers may continue to rely on the average area purchase price safe harbors contained in Rev. Proc. 2015–31, with respect to bonds sold, or for mortgage credit certificates issued with respect to bond authority exchanged, before May 15, 2016, if the commitments to provide financing or issue mortgage credit certificates are made on or before June 14, 2016.

.03 Except as provided in section 6.04, issuers must use the nationwide average purchase price limitation contained in this revenue procedure for commitments to provide financing or issue mortgage credit certificates that are made, or (if the purchase precedes the commitment) for residences that are purchased, in the period that begins on April 15, 2016, and ends on the date when the nationwide average purchase price limitation is rendered obsolete by a new revenue procedure.

.04 Notwithstanding sections 5 and 6.03 of this revenue procedure, issuers may continue to rely on the nationwide average purchase price set forth in Rev.

Proc. 2015–31 with respect to bonds sold, or for mortgage credit certificates issued with respect to bond authority exchanged, before May 15, 2016, if the commitments to provide financing or issue mortgage credit certificates are made on or before June 14, 2016.

SECTION 7. PAPERWORK REDUCTION ACT

The collection of information contained in this revenue procedure has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1877.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid OMB control number.

This revenue procedure contains a collection of information requirement in section 3.03. The purpose of the collection of

information is to verify the applicable FHA loan limit that issuers of qualified mortgage bonds and qualified mortgage certificates have used to calculate the average area purchase price for a given metropolitan statistical area for purposes of section 143(e) and 25(c). The collection of information is required to obtain the benefit of using revisions to FHA loan limits to determine average area purchase prices. The likely respondents are state and local governments.

The estimated total annual reporting and/or recordkeeping burden is: 15 hours.

The estimated annual burden per respondent and/or recordkeeper: 15 minutes.

The estimated number of respondents and/or recordkeepers: 60.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.

SECTION 8. DRAFTING INFORMATION

The principal authors of this revenue procedure are David White and James Polfer of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure contact David E. White on (202) 317-4562 (not a toll-free number).

Part IV. Items of General Interest

Announcement 2016–16

Withdrawal of Proposed Nondiscrimination Rules Applicable to Certain Qualified Retirement Plan Benefit Formulas

The Department of the Treasury (Treasury Department) and the Internal Revenue Service (IRS) announce that they will withdraw certain provisions of proposed regulations published on January 29, 2016 (81 FR 4976) (“Proposed Regulations”) relating to nondiscrimination requirements applicable to qualified retirement plans under § 401(a)(4). The provisions of the Proposed Regulations that will be withdrawn are the provisions that would modify §§ 1.401(a)(4)–2(c) and 1.401(a)(4)–3(c).

The provisions of the Proposed Regulations that would modify §§ 1.401(a)(4)–2(c) and 1.401(a)(4)–3(c) were intended to address certain qualified retirement plan designs that take advantage of flexibility in the existing nondiscrimination rules to provide a special benefit formula for selected employees without extending that formula to a classification of employees that is reasonable and established under objective business criteria. See Part IV of the preamble to the Proposed Regulations for a discussion of these provisions.

Following publication of the Proposed Regulations, the Treasury Department and the IRS have given additional consideration to the potential effects of the provisions that would modify §§ 1.401(a)(4)–2(c) and 1.401(a)(4)–3(c) on the adoption and continued maintenance of qualified retirement plans with a variety of designs and have concluded that further consideration will be needed with respect to issues relating to those provisions. Accordingly, the Treasury Department and the IRS will withdraw the provisions of the Proposed Regulations that would modify §§ 1.401(a)(4)–2(c) and 1.401(a)(4)–3(c).

The Proposed Regulations also include provisions, in addition to those that would modify §§ 1.401(a)(4)–2(c) and 1.401(a)(4)–3(c), that would provide relief from the nondiscrimination requirements for certain qualified retirement plans that provide addi-

tional benefits to a grandfathered group of employees following certain changes in the coverage of a defined benefit plan or a defined benefit plan formula and would make other changes to the nondiscrimination rules. These provisions of the Proposed Regulations are not affected by this announcement.

For further information regarding this announcement, contact Linda S. F. Marshall or Kelly C. Scanlon at 202-317-6700 (not a toll free number).

Deemed Distributions Under Section 305(c) of Stock and Rights to Acquire Stock

REG–133673–15

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking.

SUMMARY: This document contains proposed regulations regarding deemed distributions of stock and rights to acquire stock. The proposed regulations would resolve ambiguities concerning the amount and timing of deemed distributions that are or result from adjustments to rights to acquire stock. The proposed regulations also would provide additional guidance to withholding agents regarding their current withholding and information reporting obligations under chapters 3 and 4 with respect to these deemed distributions. The proposed regulations would affect corporations issuing rights to acquire stock, their shareholders and holders of these rights, and withholding agents with respect to these deemed distributions.

DATES: Written or electronic comments and requests for a public hearing must be received by July 12, 2016.

ADDRESSES: Send submissions to: CC:PA:LPD:PR (REG–133673–15), Room 5203, Internal Revenue Service, PO Box 7604, Ben Franklin Station, Washington, DC, 20044. Submissions may be hand-delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to

CC:PA:LPD:PR (REG–133673–15), Courier’s Desk, Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC, 20224 or sent electronically, via the Federal eRulemaking Portal at www.regulations.gov (indicate IRS and REG–133673–15).

FOR FURTHER INFORMATION

CONTACT: Concerning the proposed regulations under section 305, Maurice M. LaBrie, (202) 317-5322; concerning the proposed regulations under sections 860G, 861, 1441, 1461, 1471, and 1473, Subin Seth, (202) 317-6942; concerning the proposed regulations under section 6045B, Pamela Lew, (202) 317-7053; concerning submission of comments, contact Regina Johnson, (202) 317-6901 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Background and Explanation of Provisions

1. Overview

This document contains proposed regulations that amend 26 CFR part 1 under sections 305, 860G, 861, 1441, 1461, 1471, 1473, and 6045B of the Internal Revenue Code of 1986 (Code) concerning deemed distributions that are or result from adjustments to rights to acquire stock.

Final regulations under section 305 were published in the **Federal Register** on July 12, 1973 (TD 7281, 38 FR 18531), and amendments to those final regulations were published in the **Federal Register** on October 15, 1974 (TD 7329, 39 FR 36860), and in the **Federal Register** on December 21, 1995 (TD 8643, 60 FR 66134).

Final regulations under sections 1441 and 1461 were published in the **Federal Register** on October 14, 1997 (TD 8734, 62 FR 53387), and the following amendments to those final regulations were published in the **Federal Register** on: December 31, 1998 (TD 8804, 63 FR 72187); December 30, 1999 (TD 8856, 64 FR 73412); May 22, 2000 (TD 8881, 65 FR 32186); August 1, 2006 (TD 9272, 71 FR 43366); July 14, 2008 (TD 9415, 73 FR 40172) (corrected on August 6, 2008

(73 FR 45612)); January 23, 2012 (TD 9572, 77 FR 3109); December 5, 2013 (TD 9648, 78 FR 73081); March 6, 2014 (TD 9658, 79 FR 12726) (corrected on July 1, 2014 (79 FR 37175)); and, September 18, 2015 (TD 9734, 80 FR 56866). Final regulations under sections 1471 and 1473 were published in the **Federal Register** on January 28, 2013 (TD 9610, 78 FR 5874) (corrected on September 10, 2013 (78 FR 55202)), and the amendments to those final regulations were published as temporary regulations in the **Federal Register** on March 6, 2014 (TD 9657, 79 FR 12812) (corrected on July 1, 2014 (79 FR 37175)).

Final regulations under section 6045B were published in the **Federal Register** on October 18, 2010 (TD 9504, 75 FR 64072), and amendments to those final regulations were published in the **Federal Register** on April 18, 2013 (TD 9616, 78 FR 23116).

2. Amount and Timing of Deemed Distributions Under Section 305(c)

A. Application of section 305(b) and (c) generally

Section 305 and the regulations thereunder apply to actual and deemed distributions by a corporation of its own stock and rights to acquire its own stock. Section 305(a) provides the general rule that the receipt of these distributions is not included in the gross income of the recipient; however, under section 305(b)(1) through (b)(5) certain actual and deemed distributions of stock and stock rights are treated as distributions of property to which section 301 applies. For example, under section 305(b)(2), if a distribution (or series of distributions) by a corporation has the result of a receipt of property by some shareholders and an increase in the proportionate interests of other shareholders in the assets or earnings and profits of the corporation, all the distributions are treated as distributions of property to which section 301 applies.

Section 305(c) authorizes the Secretary to prescribe regulations to treat changes in the conversion ratio of instruments convertible into stock and other events having similar effects as distributions to shareholders whose proportionate interests in

the assets or earnings and profits of the corporation are increased by such events.

Under section 305(d)(1) and current § 1.305-1(d), for purposes of section 305 and the regulations thereunder, the term *stock* includes rights to acquire stock, and under section 305(d)(2), for purposes of section 305(b) and (c) and the regulations thereunder, the term *shareholder* includes a holder of rights to acquire stock. For purposes of this preamble:

The term *actual shareholder* means a holder of stock (not including rights to acquire stock).

The term *deemed shareholder* means a holder of a right to acquire stock.

The term *deemed distribution* means a transaction or event, other than an actual distribution of stock, money, or other property, that is a distribution under section 305(b) and (c).

The term *applicable adjustment* means an adjustment to a right to acquire stock, including an increase or reduction in conversion ratio, conversion price, option price, or number of shares the holder would receive upon conversion or exercise.

The term *right to acquire stock* means any right to acquire stock, whether pursuant to a convertible instrument (such as a debt instrument that is convertible into shares of stock), a warrant, subscription right, or stock right issued by the corporation that issued or will issue the underlying stock, or any other right to acquire stock of the corporation issuing such right (whether settled in stock or in cash).

Under current § 1.305-1(b)(1), when a distribution of stock (including a right to acquire stock) is a distribution of property to which sections 305(b) and 301 apply, the amount of the distribution is the fair market value, on the date of the distribution, of the stock or right to acquire stock that is distributed.

B. Application of section 305(b) and (c) to adjustments to rights to acquire stock

A corporation may issue rights to acquire its stock in a number of forms, including warrants, subscription rights, options, convertible instruments that give the holder a right to convert the instruments into shares of stock in the issuing corporation, and similar instruments. In any of

these forms, rights to acquire stock may provide for applicable adjustments that grant deemed shareholders economic benefits that correspond to distributions of stock, cash, or other property made to actual shareholders. Similarly, rights to acquire stock may provide for adjustments to prevent actual shareholders' interests from being diluted as a result of distributions of stock, cash, or other property to deemed shareholders (that is, holders of rights to acquire stock).

An applicable adjustment to a convertible instrument may consist of an increase in the number of shares of stock a holder would receive upon conversion. Similarly, an applicable adjustment to a warrant, subscription right, stock right, option, or similar right to acquire stock may consist of an increase in the number of shares the holder would receive upon exercise. In either situation, the applicable adjustment may have the effect of increasing the deemed shareholders' proportionate interests in the assets or earnings and profits of the corporation. If this increase has a result described in section 305(b), then under section 305(c) the applicable adjustment is a deemed distribution to the deemed shareholder, and section 301 applies to the deemed distribution.

Under current § 1.305-7(b)(1), an applicable adjustment made pursuant to a bona fide, reasonable adjustment formula that has the effect of preventing dilution of a shareholder's interest is not a deemed distribution of stock to which sections 305(b) and 301 apply. However, also under current § 1.305-7(b)(1), an applicable adjustment to compensate for a distribution of cash or property to actual shareholders that is taxable under section 301, 356(a)(2), 871(a)(1)(A), 881(a)(1), 852(b), or 857(b) is not considered as made pursuant to such a bona fide, reasonable adjustment formula, and therefore may be a distribution to which sections 305(b) and 301 apply.

The Treasury Department and the IRS have concluded that, under section 305(b) and (c) and the regulations thereunder, it is clear that an applicable adjustment is a deemed distribution to which section 301 applies, if: (i) the applicable adjustment increases the proportionate interest of an actual shareholder or a deemed shareholder in the corporation's assets or earn-

ings and profits; (ii) such increase in proportionate interest has a result described in section 305(b); and (iii) the anti-dilution exception of § 1.305-7(b)(1) does not apply. For example, it has been the position of the Treasury Department and the IRS for over forty years that, under section 305(b) and (c) and the regulations thereunder, an increase in the conversion ratio of a convertible debt instrument may be treated as a deemed distribution to the deemed shareholder that holds the instrument, and, if so treated, section 301 applies to the deemed distribution. *See* Rev. Rul. 75-513 (1975-2 CB 114) (section 301 applied to deemed distribution where conversion ratio of convertible debentures increased due to payment of cash dividend to common shareholders); and Rev. Rul. 76-186 (1976-1 CB 86) (same; basis of the convertible debentures was increased by the value of the deemed distribution); *cf.* Rev. Rul. 77-37 (1977-1 CB 85) (no deemed distribution because anti-dilution exception of § 1.305-7(b) applied where distribution to actual shareholders was tax-free under section 355).

The current regulations are unclear, however, as to the amount of a deemed distribution to a deemed shareholder. The current regulations may reasonably be interpreted as providing either that such a deemed distribution is treated as a distribution of a right to acquire stock (the amount of which is the fair market value of the right), or that such a distribution is treated as a distribution of the actual stock to which the right relates (the amount of which is the fair market value of the stock). Accordingly, for deemed distributions to deemed shareholders occurring before final regulations are published, the IRS will not challenge either position.

The current regulations are also unclear as to the timing of such a distribution. Under the proposed regulations, such a distribution generally would be deemed to occur at the time the applicable adjustment occurs, in accordance with the instrument setting forth the terms of the right to acquire stock, but in no event later than the date of the distribution of cash or property that results in the deemed distribution (taking into account § 1.305-3(b)).

These proposed regulations would amend the current regulations under section 305(b) and (c) only to clarify the

amount and timing of such deemed distributions, not the fact of their occurrence, which is clear under current law.

C. Summary of proposed regulations

i. Amount of deemed distributions

After studying this area, the Treasury Department and the IRS have concluded that a deemed distribution of a right to acquire stock is more accurately viewed as a distribution of additional rights to acquire stock, the amount of which is the fair market value of the right.

Under the terms of a convertible instrument, a distribution of cash or property to actual shareholders may increase the number of shares the holder of the convertible instrument would receive upon conversion. Similarly, a distribution of cash or property to actual shareholders may increase the number of shares the holder of other rights to acquire stock, such as warrants or options, would receive upon exercise. In either case, the increase is an applicable adjustment and a deemed distribution of additional rights to acquire stock to the holders of the rights to acquire stock. Under the proposed regulations, the amount of the deemed distribution would be the excess of (i) the fair market value of the right to acquire stock immediately after the applicable adjustment over (ii) the fair market value of the right to acquire stock without the applicable adjustment. In determining the fair market value of a right to acquire stock, any particular facts pertaining to the deemed shareholder's rights, including the number of actual shares of stock or rights to acquire stock held by such deemed shareholder, would be disregarded.

Also, under the terms of a convertible debt instrument or other right to acquire stock, a payment of cash or property to the holder may cause a reduction in the number of shares the holder would receive upon conversion or exercise. Such a reduction is an applicable adjustment that increases the actual shareholders' proportionate interests in the assets or earnings and profits of the corporation. Thus, the applicable adjustment results in a deemed distribution of stock to the actual shareholders, and section 301 applies to the deemed distribution. Under the proposed

regulations, the amount of this deemed distribution would be the fair market value of the stock deemed distributed, determined in accordance with § 1.305-3(e), *Examples 8 and 9* (relating to deemed distributions to shareholders resulting from certain redemptions of stock from other shareholders). *See also* Tax Revenue Act of 1969: Hearings on H.R. 13270 Before the House Ways and Means Comm., 91st Cong. 1st Sess., pt. 14, 5196-98 (1969).

ii. Timing of deemed distributions

When an applicable adjustment is or results in a deemed distribution under proposed § 1.305-7(c)(1) or (2), the deemed distribution occurs at the time such applicable adjustment occurs, in accordance with the instrument setting forth the terms of the right to acquire stock, but in no event later than the date of the distribution of cash or property that results in the deemed distribution (taking into account § 1.305-3(b)). For such an applicable adjustment relating to a right to acquire publicly-traded stock, if the instrument setting forth the terms of such right does not set forth the date and time the applicable adjustment occurs, the deemed distribution would occur immediately prior to the opening of business on the ex-dividend date for the distribution of cash or property that results in the deemed distribution. For such an applicable adjustment relating to a right to acquire non-publicly traded stock, if the instrument setting forth the terms of such right does not set forth the date and time the applicable adjustment occurs, the deemed distribution occurs on the date that a holder is legally entitled to the distribution of cash or property that results in the deemed distribution.

3. Withholding under Chapters 3 and 4 on Deemed Distributions under Section 305(c)

This section provides a discussion of the proposed rules regarding deemed distributions under section 305(c). Section 4 of the preamble provides a discussion of the proposed rules regarding substitute dividend payments that are deemed payments determined with respect to a

deemed distribution under section 305(c). The proposed rules that would apply for deemed payments are analogous to the proposed rules that would apply to deemed distributions.

A. Background

Sections 1441 and 1442 (referred to herein as “chapter 3”) require all persons having the control, receipt, custody, disposal, or payment of items of income subject to withholding of any nonresident alien, foreign partnership, or foreign corporation to withhold tax at a 30-percent rate unless a reduced rate of withholding applies. Amounts subject to withholding include amounts from sources within the United States that are fixed or determinable annual or periodical income, which generally includes, among other things, interest, dividends, and similar types of investment income. § 1.1441–2(b)(1)(i). Under § 1.1441–2(e)(1), “a payment” is considered made to a person “if that person realizes income whether or not such income results from an actual transfer of cash or other property.” For this purpose, a payment is considered made when the amount would be includible in the income of the beneficial owner under the U.S. tax principles governing the cash basis method of accounting. § 1.1441–2(e)(1).

On March 18, 2010, the Hiring Incentives to Restore Employment Act of 2010, Pub. L. 111–147 (H.R. 2847), added chapter 4 to the Code (sections 1471 through 1474, commonly known as “FATCA”). Chapter 4 generally requires a withholding agent to withhold tax at a 30-percent rate on a “withholdable payment” (as defined in § 1.1473–1(a)) made to a foreign financial institution (FFI) unless the FFI has entered into an agreement described in section 1471(b) to obtain status as a participating FFI or the FFI is deemed to have satisfied the requirements of section 1471(b). Chapter 4 also generally requires a withholding agent to withhold tax at a 30-percent rate on a withholdable payment made to a nonfinancial foreign entity (NFFE) unless the NFFE has provided information to the withholding agent with respect to the NFFE’s substantial U.S. owners or has certified that it has no such owners. See section 1472.

These proposed regulations would provide guidance to withholding agents regarding their obligations to withhold under chapters 3 and 4 on deemed distributions under section 305(c). Withholding agents have commented that ambiguities in the current law have made it difficult for them to satisfy their withholding obligations. In particular, withholding agents have commented that these deemed distributions often occur when there is no cash payment that corresponds to the deemed distribution, which makes it difficult for them to satisfy their withholding obligation on the date of the deemed distribution. In addition, withholding agents commented that they often lack knowledge of the fact that a deemed distribution on a security has been made and are therefore unable to withhold on the date of the deemed distribution.

B. Amendments to Chapter 3

i. Withholding on deemed distributions, and new exception for deemed distributions on specified securities

Proposed § 1.1441–2(d)(4)(i) would clarify that a withholding agent has an obligation to withhold on a deemed distribution (as defined in § 1.305–1(d)(7)) that is made on a security. Proposed § 1.1441–7(a)(4) would clarify that an issuer of a security upon which a deemed distribution is made and any person that holds directly or indirectly (for example, through an account maintained for an intermediary) a security on behalf of the beneficial owner of the security, or a flow-through entity that owns directly or indirectly (through another flow-through entity) a security, is considered to have custody of or control over the deemed distribution made on the security and, therefore, is a withholding agent with respect to the distribution.

Under current § 1.1441–2(d)(1), a withholding agent does not have an obligation to withhold on a payment when it lacks control over, or custody of, money or property of the recipient, or knowledge of the facts giving rise to the payment (the general exception). This general exception does not apply when, in relevant part, the payment is a distribution with respect to stock. The proposed regulations, however, would allow a withholding agent

(other than the issuer of the specified security) to benefit from a new exception to withholding in proposed § 1.1441–2(d)(4) for deemed distributions (as defined in § 1.305–1(d)(7)) of stock or a right to acquire stock on a specified security (as defined in § 1.6045–1(a)(14)). Under this new exception, a withholding agent (other than the issuer of the specified security) would have an obligation to withhold on such a deemed distribution only if, before the due date (not including extensions) for filing Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, with respect to the calendar year in which the deemed distribution occurred, either (i) the issuer meets its reporting requirements under § 1.6045B–1 (by furnishing an issuer statement or publicly reporting the information required under that section) or (ii) the withholding agent has actual knowledge that a deemed distribution has occurred, in which case the obligation to withhold would not arise until January 15 of the year following the calendar year of the deemed distribution.

ii. When and how to withhold

Once the requirements of proposed § 1.1441–2(d)(4)(i) have been satisfied, a withholding agent would have an obligation to withhold on a deemed distribution. Except as provided in § 1.1441–5 regarding the time to withhold for partnerships and trusts, under proposed § 1.1441–2(d)(4)(ii), a withholding agent would be required to satisfy its withholding obligation by withholding on the earliest of (i) the date on which a future cash payment is made with respect to the security; (ii) the date on which the security is sold, exchanged, or otherwise disposed of (including a transfer of the security to another account not maintained by the withholding agent or a termination of the account relationship); or (iii) the due date (not including extensions) for filing Form 1042 with respect to the calendar year in which the deemed distribution occurred. Under this approach, a withholding agent that continues to directly or indirectly hold or own the security when the requirements of proposed § 1.1441–2(d)(4)(i) are satisfied generally would be able to satisfy its withholding obligation by withholding on future cash payments on the security (for

example, an interest payment on a convertible bond). If, however, the security is disposed of before sufficient future cash payments have been made on the security, the withholding agent would be required to withhold at the time of disposition and generally would be expected to do so by, for example, withholding on the proceeds from the disposal, liquidating other property held in custody for the beneficial owner, or obtaining other funds directly or indirectly from the beneficial owner to satisfy the withholding.

If there are not sufficient future cash payments on the security and the security has not been disposed of or transferred before the due date (not including extensions) for filing Form 1042 with respect to the calendar year in which the deemed distribution occurred, then, to avoid having to pay the tax out of the withholding agent's own funds, the withholding agent may apply current § 1.1461-2(b) in order to collect the underwithheld amount. Under these rules, the withholding agent can satisfy the tax by withholding on other cash payments made to the same beneficial owner or by liquidating other property held in custody for the beneficial owner or over which it has control. The proposed regulations would amend current § 1.1461-2(b) to clarify that a withholding agent may obtain the property from which to withhold under these rules through additional contributions obtained directly or indirectly from the beneficial owner. The proposed regulations also would add a sentence to current § 1.1461-2(b) to clarify that a withholding agent that satisfies its obligation to withhold under § 1.1461-2(b) will not be subject to any penalties for failure to deposit or failure to pay under sections 6656, 6672, and 7202 when it deposits the amounts obtained in this manner by the due date (not including extensions) for filing Form 1042 with respect to the calendar year in which the deemed distribution occurred. These clarifications reflect the IRS interpretation of current § 1.1461-2(b) in applying these penalties, and thus no penalties will be imposed for withholding agents that apply these rules to satisfy their obligations to withhold before the effective date of these regulations.

When the requirements of proposed § 1.1441-2(d)(4)(i) are satisfied after a withholding agent has terminated its relationship with the beneficial owner of the security, the withholding agent would remain liable for any underwithheld amount with respect to the deemed distribution. In order to avoid having to pay the tax due out of the withholding agent's own funds, before terminating an account relationship, a withholding agent should make arrangements with the beneficial owner to ensure that the withholding agent can satisfy any tax due, such as by retaining funds or other property of the owner.

iii. Foreign entities assuming withholding responsibilities

Proposed § 1.1441-2(d)(4)(iii) would provide that a withholding agent may treat certain foreign entities (qualified intermediaries, withholding foreign partnerships, withholding foreign trusts, and U.S. branches treated as U.S. persons) as assuming primary chapter 3 withholding responsibilities for a deemed distribution on a specified security only if (i) the withholding agent provides the foreign entity with a copy of the issuer statement described in § 1.6045B-1(b)(1) within 10 days of the issuer furnishing the statement to the holder of record or its nominee, or (ii) the issuer has met the public reporting requirements under § 1.6045B-1(a)(3). The foreign entity would have an obligation to withhold on the deemed distribution only if it receives a copy of the issuer statement or if the issuer has met the public reporting requirements by the due date (not including extensions) for filing Form 1042 with respect to the calendar year in which the deemed distribution occurred. A withholding agent that fails to provide a copy of the issuer statement to a foreign entity (in the absence of public reporting) would not be permitted to treat the foreign entity as having assumed primary withholding responsibilities for the deemed distribution and would therefore have to withhold and report based on the information that it has regarding the recipient of the deemed distribution. The purpose of this proposed rule is to ensure that foreign entities that assume primary withholding responsibilities for deemed distributions will possess the

information described in § 1.6045B-1 to meet their withholding and information reporting obligations, as these entities (or their nominees) may not be holders of record that otherwise would receive the issuer statement described in § 1.6045B-1(b)(1).

iv. Reliance on issuer information reporting

Under proposed § 1.1441-3(c)(5), a withholding agent (other than the issuer of the specified security) would be permitted to rely on the information that an issuer provides on an issuer statement described in § 1.6045B-1(b)(1) or on a public website described in § 1.6045B-1(a)(3) to determine the proper amount of withholding on a deemed distribution on a specified security unless it knows that the information is incorrect or unreliable. Additionally, a foreign entity that has assumed primary withholding responsibilities would be permitted to rely on the copy of the issuer statement described in § 1.6045B-1(b)(1) that it receives from another withholding agent under the circumstances described in proposed § 1.1441-2(d)(4)(iii) unless it knows that the information is incorrect or unreliable.

v. Other changes to current § 1.1441-2(d)(1)

The proposed regulations would add language to § 1.1441-2(d)(1) to clarify that a withholding agent does not lack control over money or property if it directs another person to make a payment, and that a withholding agent does not lack knowledge of the facts that give rise to a payment merely because the withholding agent does not know the character or source of the payment for U.S. tax purposes. The proposed regulations also would add an example to § 1.1441-2(d)(1) of when a withholding agent lacks knowledge of the facts that give rise to a payment. These clarifications and the example are consistent with similar rules in current § 1.1471-2(a)(4)(i) that apply for chapter 4 purposes.

The proposed regulations also would make nonsubstantive changes to reorganize the structure of current § 1.1441-2(d)(1).

C. Amendments to Chapter 4

The proposed regulations would modify the regulations under chapter 4 to provide guidance similar to the rules described in proposed §§ 1.1441-2(d)(1), 1.1441-2(d)(4), 1.1441-3(c)(5), and 1.1441-7(a)(4) for withholding on a deemed distribution (as defined in § 1.305-1(d)(7)) that is a withholdable payment under chapter 4. The amendment to proposed § 1.1461-2(b) that clarifies that a withholding agent may obtain additional contributions of property directly or indirectly from a beneficial owner and the new sentence added to proposed § 1.1461-2(b) regarding penalties also would apply to withholding agents adjusting underwithholding under chapter 4 through cross-reference in § 1.1474-2(b). The proposed regulations also would make nonsubstantive changes to reorganize the structure of current § 1.1471-2(a)(4)(i), which are consistent with the organizational changes proposed for current § 1.1441-2(d)(1).

4. A Substitute Dividend May Include Deemed Payments

Section 1.861-3(a)(6) provides that a substitute dividend payment made to a transferor in a securities lending transaction or sale-repurchase transaction is sourced in the same manner as a dividend on the transferred securities. The regulations define a substitute dividend payment as “a payment, made to the transferor of a security in a securities lending transaction or a sale-repurchase transaction, of an amount equivalent to a dividend distribution which the owner of the transferred security is entitled to receive during the term of the transaction.” These proposed regulations would modify § 1.861-3(a)(6) to clarify that a substitute dividend payment includes a deemed payment made in the amount (as determined under § 1.305-7(c)(4)) of a deemed distribution (as defined in § 1.305-1(d)(7)).

These proposed regulations would provide that the general exception to withholding in § 1.1441-2(d)(1)(i) does not apply for deemed payments (as defined in § 1.861-3(a)(6)). However, proposed § 1.1441-2(d)(4) would allow a withholding agent to benefit from the same exception to withholding that would apply to

deemed distributions (as defined in § 1.305-1(d)(7)) on a specified security for deemed payments (as defined in § 1.861-3(a)(6)) that are determined with respect to a deemed distribution on a specified security. Thus, a withholding agent would have an obligation to withhold on such a deemed payment only if, before the due date (not including extensions) for filing Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, with respect to the calendar year in which the deemed distribution on a specified security occurred, either (i) the issuer meets its reporting requirements under § 1.6045B-1 (by furnishing an issuer statement or publicly reporting the information required under that section) or (ii) the withholding agent has actual knowledge that a deemed distribution has occurred, in which case the obligation to withhold would not arise until January 15 of the year following the calendar year of the deemed distribution or the deemed payment. If a withholding agent has an obligation to withhold on a deemed payment (as defined in § 1.861-3(a)(6)) under § 1.1441-2(d)(4)(i), it would be required to withhold subject to the rules regarding when and how to withhold in proposed § 1.1441-2(d)(4)(ii) and the rules regarding foreign entities that assume withholding responsibilities in § 1.1441-2(d)(4)(iii). These proposed regulations also would modify the regulations under chapter 4 to provide similar guidance with respect to deemed payments that are withholdable payments.

5. Issuer Reporting Under Section 6045B

To facilitate broker reporting of a security's adjusted basis to the holder of the security under section 6045, section 6045B provides that, according to the forms or regulations prescribed by the Secretary, an issuer of a specified security (for example, stock, a convertible debt instrument, or a warrant) must report certain information relating to an organizational action that affects the basis of the security to both the IRS and the holders of the security. Under section 6045B and current § 1.6045B-1, an issuer must file an issuer return (Form 8937, Report of Organizational Actions Affecting Basis of

Securities) with the IRS by the earlier of 45 days after the organizational action or January 15 of the calendar year following the organizational action. In addition, the issuer must send a written statement (for example, a copy of the issuer return) to holders by January 15 of the calendar year following the organizational action. In lieu of filing the issuer return with the IRS and furnishing the written statement to holders, current § 1.6045B-1(a)(3) permits an issuer to post the required information on its public website by the due date for reporting the issuer return to the IRS. Under current § 1.6045B-1, however, an issuer is not required to send a statement to exempt recipients, such as C corporations and foreign persons, nor is an issuer required to file an issuer return if the issuer reasonably determines that all of the holders of the security are exempt recipients. An issuer must comply with current § 1.6045B-1 for an organizational action that occurs on or after the applicability date prescribed in current § 1.6045B-1(j). For example, an issuer of a convertible debt instrument must comply with current § 1.6045B-1 for an organizational action that occurs after December 31, 2015.

An applicable adjustment, including a conversion ratio adjustment, is an organizational action that often will affect the holder's basis in a specified security. For example, the instructions to Form 8937 provide that if a conversion ratio adjustment on a convertible debt instrument occurring after December 31, 2015, results in a distribution under section 305(c) (for example, because it is made in conjunction with a cash distribution to shareholders), the issuer of the debt instrument must file Form 8937.

Brokers and withholding agents have expressed concerns about the difficulty of complying with their reporting and withholding obligations in the absence of information about the fact and amount of a deemed distribution under section 305(c), including a deemed distribution under section 305(c) resulting from an applicable adjustment. Even after December 31, 2015, when issuers are generally required to report an applicable adjustment on a convertible debt instrument, brokers and withholding agents may not have the necessary information to comply with their

reporting and withholding obligations because of the exempt recipient exception for providing a written statement (and assuming that the issuer does not choose the public reporting alternative). In response to these concerns, § 1.6045B-1(i)(2) of the proposed regulations would require that an issuer provide an issuer return to the IRS and a written statement to each holder of record of a specified security (or to the holder's nominee) relating to a deemed distribution under section 305(c) on the security, without regard to any of the general exceptions in the current regulations under section 6045B or in the instructions to Form 8937. The proposed regulations, like the current regulations, permit an issuer to not provide an issuer return to the IRS or a written statement to the holders regarding the deemed distribution if the issuer satisfies the public reporting requirements in current § 1.6045B-1(a)(3).

6. Reporting for U.S. Persons

Section 1.6045B-1 generally applies when a deemed distribution affects the basis of a specified security. It is expected that similar principles would apply under section 6042 with respect to reporting of deemed distributions made to U.S. persons on Form 1099-DIV. Comments are requested on the implementation of Form 1099-DIV reporting on these amounts.

Proposed Effective/Applicability Date

The proposed regulations under section 305 would apply to deemed distributions occurring on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**. A taxpayer, however, may rely on these proposed regulations for deemed distributions under section 305(c) that occur prior to such date. For purposes of determining the amount of a deemed distribution to a deemed shareholder occurring prior to the date of publication, a taxpayer may determine the amount of the deemed distribution by treating such distribution either as a distribution of a right to acquire stock or as a distribution of the actual stock to which the right relates.

The proposed regulations under sections 860G, 861, 1441, 1461, 1471, and 1473 would apply to payments made on or

after the date of publication. A withholding agent, however, may rely on the proposed regulations under sections 861, 1441, 1471, and 1473 for all deemed distributions under section 305(c) or, to the extent applicable, deemed payments (as defined in § 1.861-3(a)(6)) occurring on or after January 1, 2016 until the date of publication. No inference as to the application of these provisions under current law is intended by permitting reliance on these proposed regulations. A withholding agent also may rely on the proposed regulations under section 1461 for any payments occurring on or after January 1, 2016 until the date of publication, including for any deemed distribution under section 305(c) or deemed payment (as defined in § 1.861-3(a)(6)) for which the withholding agent failed to withhold.

Section 1.6045B-1(i)(2) would apply to a deemed distribution under section 305(c) occurring on or after the date of publication. In addition, an issuer would report the amount and timing of a deemed distribution in accordance with the proposed regulations under section 305 for a deemed distribution occurring on or after the date of publication. For purposes of reporting the amount of a deemed distribution occurring prior to the date of publication, an issuer may determine the amount of the deemed distribution by treating such distribution either as a distribution of a right to acquire stock, or as a distribution of the shares of stock that would be received upon exercise of the right. In addition, an issuer may rely on § 1.305-7(c)(5) of the proposed regulations to determine the date of a deemed distribution occurring prior to the date of publication.

Statement of Availability of IRS Documents

IRS Revenue Rulings cited in this preamble are published in the Internal Revenue Bulletin (or Cumulative Bulletin) and are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or by visiting the IRS website at <http://www.irs.gov>.

Effect on Other Documents

The IRS will modify, clarify, or obsolete publications as necessary to conform

to these proposed regulations as of the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**. See, e.g., Rev. Rul. 75-513 (1975-2 CB 114) and Rev. Rul. 76-186 (1976-1 CB 186). The IRS solicits comments as to whether other publications should be modified, clarified, or obsolete.

Special Analyses

Certain IRS regulations, including this one, are exempt from the requirements of Executive Order 12866, as supplemented and reaffirmed by Executive Order 13563. Therefore, a regulatory impact assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations.

Pursuant to the Regulatory Flexibility Act (5 U.S.C. chapter 6), it is hereby certified that the proposed regulations under section 6045B in this document will not have a significant economic impact on a substantial number of small entities. Any effect on small entities by the rules in the proposed regulations flows directly from section 403 of the Energy Improvement and Extension Act of 2008, Division B of Public Law 110-343 (122 Stat. 3765, 3854 (2008)) (the Act).

Section 403(d) of the Act added section 6045B, which requires an issuer, including an issuer that is a small entity, to report certain information relating to any organizational action by the issuer that affects the basis of a specified security. In general, an issuer reports the information required under section 6045B to the IRS and to holders or nominees on Form 8937. The proposed regulations limit reporting to the information necessary to meet the Act's requirements. In addition, the proposed regulations retain the rule in the current regulations under section 6045B that permits an issuer to report each action publicly on its website instead of filing a return and furnishing each holder or nominee a statement about the action. The proposed regulations therefore do not add to the statutory impact on small entities but instead eases this impact to the extent the statute permits. Moreover, any economic impact on small entities is expected to be minimal.

Therefore, because the proposed regulations in this document will not have a significant economic impact on a substantial number of small entities, a regulatory flexibility analysis is not required.

Pursuant to section 7805(f) of the Code, this notice of proposed rulemaking has been submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Requests for Public Hearing

Before the proposed regulations are adopted as final regulations, consideration will be given to any comments that are submitted timely to the IRS as prescribed in this preamble under the “Addresses” heading. The Treasury Department and the IRS request comments on all aspects of the proposed regulations. All comments will be available for public inspection and copying upon request, or at www.regulations.gov. A public hearing will be scheduled if requested in writing by any person that timely submits written comments. If a public hearing is scheduled, notice of the date, time, and place for the public hearing will be published in the **Federal Register**.

Drafting Information

The principal authors of these regulations are: with respect to the regulations under section 305, Maurice M. LaBrie of the Office of Associate Chief Counsel (Corporate); with respect to the regulations under sections 860G, 861, 1441, 1461, 1471, and 1473, Subin Seth of the Office of Associate Chief Counsel (International); and with respect to the regulations under section 6045B, Pamela Lew of the Office of Associate Chief Counsel (Financial Institutions and Products), all within the Office of Chief Counsel, IRS. Other personnel from the Treasury Department and the IRS participated in developing the regulations.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1—INCOME TAX REGULATIONS

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Par. 2. Section 1.305-1 is amended by:

1. Revising paragraphs (b)(3) and (d).
2. Adding paragraph (e).

The revisions and addition read as follows:

§ 1.305-1 Stock dividends.

* * * * *

(b) * * *

(3) For rules determining the amount of the distribution for certain transactions, such as periodic redemptions or applicable adjustments (as defined in § 1.305-7(a)) of rights to acquire stock that are treated as distributions under section 305(b) and (c), *see* § 1.305-7 and *Examples 6, 7, 8, 9, and 15* of § 1.305-3(e).

* * * * *

(d) *Definitions.* For purposes of section 305, this section, and §§ 1.305-2 through 1.305-7:

(1) *Stock.* The term *stock* means actual stock or a right to acquire stock.

(2) *Actual stock.* The term *actual stock* means stock issued by a corporation, excluding rights to acquire stock as defined in paragraph (d)(3) of this section.

(3) *Right to acquire stock.* The term *right to acquire stock* means—

(i) A right of a holder of a convertible instrument (including a debt instrument that is convertible into shares of stock and stock that is convertible into shares of another class of stock) to convert the instrument into one or more shares of stock of the corporation issuing the instrument;

(ii) A warrant, subscription right, stock right, or other option to acquire shares of stock of the corporation issuing the instrument;

(iii) A right to acquire stock of the corporation issuing such right similar to the rights described in paragraphs (d)(3)(i) and (ii) of this section; and

(iv) A right to receive an amount of cash or other property determined in whole or in part by reference to the value of a specified number of shares of stock (whether or not in lieu of such stock) of the corporation issuing the right.

(4) *Shareholder.* The term *shareholder* means a holder of actual stock or a holder of a right to acquire stock.

(5) *Actual shareholder.* The term *actual shareholder* means a holder of actual stock.

(6) *Deemed shareholder.* The term *deemed shareholder* means a holder of a right to acquire stock.

(7) *Deemed distribution.* The term *deemed distribution* means a transaction or event, other than an actual distribution of cash or property, that constitutes a distribution under section 305(b) and (c). An applicable adjustment to a right to acquire stock is not and does not result in a deemed distribution if either—

(i) The right to acquire stock is a non-qualified stock option without a readily ascertainable fair market value (*see* section 83(e) and § 1.83-7), or

(ii) Section 83(a) applies to the right to acquire stock or the stock to which the right relates or the stock is subject to a substantial risk of forfeiture, and the holder of the right has not made an election under section 83(b).

(e) *Effective/applicability date.* Paragraphs (b)(3) and (d) of this section apply to deemed distributions under section 305(b) and (c) occurring on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**. A taxpayer, however, may rely on these proposed regulations for deemed distributions under section 305(c) that occur prior to such date. For purposes of determining the amount of a deemed distribution to a deemed shareholder occurring prior to such date, a taxpayer may determine the amount of the deemed distribution by treating such distribution either as a distribution of a right to acquire stock or as a distribution of the actual stock to which the right relates.

Par. 3. Section 1.305-3 is amended by:

1. Revising paragraph (e) introductory text,

Example (6)(ii),

Example (7)(ii) and (iii).

2. Adding paragraph (f).

The revisions and addition read as follows:

§ 1.305-3 Disproportionate distributions.

* * * * *

(e) *Examples.* The following examples illustrate the application of section 305(b)(2) to distributions of stock and rights to acquire stock and the application of section 305(c) to deemed distributions of stock and rights to acquire stock.

* * *

Example 6. * * *

(ii) M pays an annual cash dividend on the class A stock. At the beginning of the second year, when the conversion ratio is increased to 1.05 shares of class A stock for each share of class B stock, an applicable adjustment occurs, as defined in § 1.305-7(a), and a distribution of rights to acquire 0.05 shares of class A stock is deemed made under section 305(c) and § 1.305-7(c)(1) with respect to each share of class B stock. The proportionate interests of the class B shareholders in the assets or earnings and profits of M are increased, and the transaction has the effect described in section 305(b)(2). Accordingly, sections 305(b)(2) and 301 apply to the transaction. The amount of the deemed distribution is determined in accordance with § 1.305-7(c)(4)(ii), and the date and time of the deemed distribution are determined in accordance with § 1.305-7(c)(5).

Example 7. * * *

(ii) In 2017, a \$1 cash dividend per share is declared and paid on the class B stock. Pursuant to the terms of the class B stock, on the date of payment, the conversion ratio of the class B stock is reduced. The reduction in conversion ratio is an applicable adjustment, as defined in § 1.305-7(a). Under section 305(c) and § 1.305-7(c)(2), the reduction is a deemed distribution of stock to the class A shareholders, since their proportionate interest in the assets or earnings and profits of the corporation is increased, and the transaction has the effect described in section 305(b)(2). Accordingly, sections 305(b)(2) and 301 apply to the transaction. The amount of the distribution is determined in accordance with § 1.305-7(c)(4)(ii), and the date and time of the deemed distribution are determined in accordance with § 1.305-7(c)(5).

(iii) In the following year a cash dividend is paid on the class A stock but not on the class B stock, and the conversion ratio of the class B stock increases. The increase in the conversion ratio of the class B shares is an applicable adjustment. Under section 305(c) and § 1.305-7(c)(1), the adjustment is a deemed distribution of rights to acquire stock to the class B shareholders since their proportionate interest in the assets or earnings and profits of the corporation is increased, and the transaction has the effect described in section 305(b)(2). Accordingly, sections 305(b)(2) and 301 apply to the transaction. The amount of the distribution is determined in accordance with § 1.305-7(c)(4)(i), and the date and time of the deemed distribution are determined in accordance with § 1.305-7(c)(5).

* * * * *

(f) *Effective/applicability date.* The first sentence of paragraph (e) of this section and *Examples 6* and *7* of paragraph (e) of this section apply to deemed distributions under section 305(c) occurring on or after the date of publication of the

Treasury decision adopting these rules as final regulations in the **Federal Register**. A taxpayer, however, may rely on these proposed regulations for deemed distributions under section 305(c) that occur prior to such date. For purposes of determining the amount of a deemed distribution to a deemed shareholder occurring prior to the date of publication, a taxpayer may determine the amount of the deemed distribution by treating such distribution either as a distribution of a right to acquire stock or as a distribution of the actual stock to which the right relates.

Par. 4. Section 1.305-7 is revised to read as follows:

§ 1.305-7 Certain transactions treated as distributions.

(a) *Applicable adjustment.* For purposes of section 305, §§ 1.305-1 through 1.305-6, and this section, the term *applicable adjustment* means an adjustment to a right to acquire stock (as defined in § 1.305-1(d)(3)), including—

(1) With respect to a convertible instrument and a holder thereof, an increase in the conversion ratio or a reduction in the conversion price of such instrument;

(2) With respect to a warrant, subscription right, stock right, option, or other similar right and a holder thereof, an increase in the number of shares to be received by the holder upon exercise or a reduction in exercise price;

(3) With respect to a convertible instrument and a holder of actual stock into which such instrument may be converted, an increase in the conversion price or a reduction in the conversion ratio of such instrument;

(4) With respect to a warrant, subscription right, stock right, option, or similar right and a holder of actual stock into which such instrument is exercisable, an increase in the exercise price or a reduction in the number of shares to be received by the holder upon exercise; and

(5) An adjustment in the terms of a right to acquire stock having an effect similar to the effects of the adjustments described in paragraphs (a)(1) through (a)(4) of this section, including, for example, an extension or reduction of the term during which a right to acquire stock may be exercised.

(b) *Transactions treated as distributions—(1) In general.* Under section 305(c), an applicable adjustment, a change in redemption price, a difference between redemption price and issue price, a redemption that is treated as a distribution to which section 301 applies, or any transaction (including a recapitalization) having a similar effect on the interest of any shareholder is treated as a distribution of stock to which sections 305(b) and 301 apply if such transaction increases a shareholder's proportionate interest in the assets or earnings and profits of the corporation deemed to make such distribution, and the distribution has the result described in section 305(b)(2), (3), (4), or (5). Depending upon the facts presented, the distribution may be deemed to be made in shares of actual stock or in additional rights to acquire stock (which, in either case, may be common or preferred stock).

(c) *Applicable adjustment to right to acquire stock—(1) Increase in deemed shareholder's proportionate interest.* Under section 305(c), if an applicable adjustment has the effect of increasing a deemed shareholder's proportionate interest in the assets or earnings and profits of the corporation, and if such increase has the effect described in section 305(b)(2), (3), (4) or (5), the applicable adjustment is a deemed distribution to the deemed shareholder of a right to acquire stock, and section 301 applies to the deemed distribution. Applicable adjustments that can have this effect include, with respect to a convertible instrument, an increase in the conversion ratio or the number of shares of stock to be received upon conversion or a reduction in the conversion price.

(2) *Increase in actual shareholder's proportionate interest.* If an applicable adjustment has the effect of reducing a deemed shareholder's proportionate interest in the assets or earnings and profits of the corporation and thereby increasing an actual shareholder's proportionate interest, and if such increase has the effect described in section 305(b)(2), (3), (4), or (5), then the applicable adjustment is a deemed distribution of stock to the actual shareholder, and section 301 applies to the deemed distribution. Applicable adjustments that can have this effect include, with respect to a convertible instrument, a

reduction in the conversion ratio or in the number of shares to be received upon conversion, or an increase in the conversion price.

(3) *Exception.* For purposes of applying section 305(c) in conjunction with section 305(b), an applicable adjustment that is made pursuant to a bona fide, reasonable adjustment formula (including but not limited to an applicable adjustment made to compensate for a distribution of stock to another shareholder) and that has the effect of preventing dilution of the proportionate interest of the holders of actual stock or rights to acquire stock does not result in a deemed distribution of stock. An applicable adjustment that is made to compensate for a cash or property distribution to another shareholder and that is taxable under section 301, 356(a)(2), 871(a)(1)(A), 881(a)(1), 852(b), or 857(b) is not made pursuant to a bona fide adjustment formula described in the preceding sentence.

(4) *Amount of deemed distribution—(i) Deemed distribution to deemed shareholder.* For a deemed distribution under section 305(b) and (c) that is made to a deemed shareholder and is an applicable adjustment, the amount of the deemed distribution is the excess of—

(A) The fair market value of the right to acquire stock held by the deemed shareholder immediately after the applicable adjustment, over

(B) The fair market value, determined immediately after the applicable adjustment, of such right to acquire stock as if no applicable adjustment had occurred.

(ii) *Deemed distribution to actual shareholder.* For a deemed distribution under section 305(b) and (c) that is made to an actual shareholder and results from an applicable adjustment, the amount of the deemed distribution is the fair market value of the stock deemed distributed, determined in accordance with the methodology set forth in § 1.305-3(e), *Examples 8 and 9.*

(iii) *Fair market value standard.* In determining the fair market value of a right to acquire stock for purposes of this paragraph (c)(4),

(A) Any particular facts pertaining to the deemed shareholder, including the number of rights or shares such deemed

shareholder owns, will be disregarded, and

(B) Any value or reduction in value attributable to the possibility of future applicable adjustments that may result from actual or deemed distributions will not be taken into account.

(5) *Date and time of deemed distribution.* When an applicable adjustment is a deemed distribution under paragraphs (c)(1) or (2) of this section, the deemed distribution occurs at the time such applicable adjustment occurs, in accordance with the instrument setting forth the terms of the right to acquire stock, but in no event later than the date of the distribution of cash or property that results in the deemed distribution (taking into account § 1.305-3(b)). For such applicable adjustment relating to a right to acquire publicly-traded stock, if the instrument setting forth the terms of such right does not set forth the time the applicable adjustment occurs, the deemed distribution occurs immediately prior to the opening of business on the ex-dividend date for the distribution of the cash or property that results in the deemed distribution. For such an applicable adjustment relating to a right to acquire non-publicly traded stock, if the instrument setting forth the terms of such right does not set forth the time the applicable adjustment occurs, the deemed distribution occurs on the date that a holder is legally entitled to the distribution of cash or property that results in the deemed distribution.

(6) *Examples.* The following examples and the examples in §§ 1.305-3(e) and 1.305-5(d) illustrate the application of section 305(c) and paragraphs (a), (b) and (c) of this section.

Example 1. (i) *Facts.* Corporation U has two classes of actual stock outstanding, class A and class B. Each class B share is convertible into class A stock. In accordance with a bona fide, reasonable antidilution provision, the conversion price is adjusted downward if the corporation transfers class A stock to anyone for consideration below the conversion price. The corporation sells class A stock to the public at the current market price, which is below the conversion price. Pursuant to the antidilution provision, the conversion price is adjusted downward.

(ii) *Analysis.* Although such a reduction in conversion price is an applicable adjustment, under paragraph (c)(3) of this section the reduction is not a distribution under section 305(c) for the purposes of section 305(b).

Example 2. (i) *Facts.* Corporation X has outstanding one class of actual common stock and con-

vertible debt securities. The convertible securities have a bona fide, reasonable antidilution provision that provides for an increase in conversion ratio in the event stock dividends or rights to acquire stock are distributed to the common shareholders. Corporation X distributes to the common shareholders an actual stock dividend that results in an increase in the conversion ratio of the convertible securities. Pursuant to the antidilution provision, the conversion ratio is increased.

(ii) *Analysis.* Under section 305(d) and § 1.305-1(d)(4), the holders of convertible securities are shareholders for purposes of section 305(b) and (c). The convertible securities are rights to acquire stock and are stock for purposes of section 305. The increase in conversion ratio caused by the distribution of the stock dividend to the common shareholders is an applicable adjustment. Because the applicable adjustment is made pursuant to a bona fide, reasonable adjustment formula within the meaning of paragraph (c)(3) of this section, the applicable adjustment is not a deemed distribution under section 305(c) of rights to acquire stock.

Example 3. (i) *Facts.* Corporation X has outstanding one class of publicly-traded common stock and convertible debt securities. The terms of the convertible securities provide for an increase in the conversion ratio in the event stock, cash, or property is distributed to the holders of the common stock. Corporation X distributes cash to the holders of the common stock, and the distribution results in an increase in the conversion ratio of the convertible securities.

(ii) *Analysis.* Under section 305(d) and § 1.305-1(d)(5), the holders of the convertible securities are shareholders for purposes of section 305(b) and (c). The conversion rights in the convertible securities are rights to acquire stock (as defined in § 1.305-1(d)(3)) and is stock for purposes of section 305. The increase in conversion ratio resulting from the cash distribution to the holders of common stock is an applicable adjustment. Because the applicable adjustment is not made pursuant to a bona fide, reasonable adjustment formula within the meaning of paragraph (c)(3) of this section, it is a deemed distribution to the holders of the convertible securities of rights to acquire stock under section 305(c) and paragraph (c)(1) of this section. Because the proportionate interests of these deemed shareholders in the assets or earnings and profits of Corporation X are increased by the change in conversion ratio, the distribution has the result described in section 305(b)(2) and is treated as a distribution to which section 301 applies. The amount of the deemed distribution is determined in accordance with paragraph (c)(4)(i) of this section, and the date and time of the deemed distribution are determined in accordance with paragraph (c)(5) of this section.

(d) *Recapitalizations—(1) In general.* A recapitalization (whether or not an isolated transaction) will be deemed to result in a distribution to which section 305(c) and this section apply if—

(i) It is pursuant to a plan to periodically increase a shareholder's proportionate interest in the assets or earnings and profits of the corporation, or

(ii) A shareholder owning preferred stock with dividends in arrears exchanges his stock for other stock and, as a result, increases his proportionate interest in the assets or earnings and profits of the corporation. An increase in a preferred shareholder's proportionate interest occurs in any case where the fair market value or the liquidation preference, whichever is greater, of the stock received in the exchange (determined immediately following the recapitalization), exceeds the issue price of the preferred stock surrendered.

(2) *Amount of distribution.* In a case to which paragraph (d)(1)(ii) of this section applies, the amount of the distribution deemed under section 305(c) to result from the recapitalization is the lesser of—

(i) The amount by which the fair market value or the liquidation preference, whichever is greater, of the stock received in the exchange (determined immediately following the recapitalization) exceeds the issue price of the preferred stock surrendered, or

(ii) The amount of the dividends in arrears.

(3) *Definition.* For purposes of applying paragraphs (d)(1) and (2) of this section with respect to stock issued before July 12, 1973, the term *issue price of the preferred stock surrendered* shall mean the greater of the issue price or the liquidation preference (not including dividends in arrears) of the stock surrendered.

(4) *Examples.* For an illustration of the application of this paragraph (d), see *Example 12* of § 1.305-3(e) and *Examples 1, 2, 3, and 6* of § 1.305-5(d).

(e) *Redemption premiums with respect to preferred stock.* Under section 305(c), if a redemption premium exists with respect to a class of preferred stock under the circumstances described in § 1.305-5(b) and the other requirements of this section are met, the distribution will be deemed made with respect to such preferred stock, in stock of the same class. Accordingly, the preferred shareholders are considered under section 305(b)(4) and (c) to have received a deemed distribution of preferred stock to which section 301 applies.

(f) *Coordination with section 871(m).* For coordination of sections 305 and 871(m), see § 1.871-15(c)(2)(ii).

(g) *Effective date.* This section applies to deemed distributions under section 305(c) occurring on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**. A taxpayer, however, may rely on these proposed regulations for deemed distributions under section 305(c) that occur prior to such date. For purposes of determining the amount of a deemed distribution to a deemed shareholder occurring prior to the date of publication, a taxpayer may determine the amount of the deemed distribution by treating such distribution either as a distribution of a right to acquire stock or as a distribution of the actual stock to which the right relates.

§ 1.860G-3 [Amended]

Par. 5. Section 1.860G-3(b)(1) is amended by removing the language “1.1441-2(d)(4)” in the last sentence, and adding the language “1.1441-2(d)(1)(ii)(C)” in its place, and by removing the language “1.1441-5(b)(2)(i)(A), and” and adding the language “1.1441-5(b)(2)(i)(A), 1.1471-2(a)(4)(i)(B)(4), and” in its place.

Par. 6. Section 1.861-3 is amended by:

1. In paragraph (a)(6), removing “A substitute dividend payment is a payment” in the first sentence and adding “A substitute dividend payment is a payment or a deemed payment” in its place, and adding a new second sentence.

2. In paragraph (d), replacing the third sentence with a new sentence.

The additions read as follows:

§ 1.861-3. Dividends.

(a) * * * * *

(6) *Substitute dividend payments.* * * * A deemed payment is a payment deemed to have been made in the amount (as determined under § 1.305-7(c)(4)) of a deemed distribution (as defined in § 1.305-1(d)(7)) that the owner of the transferred security is entitled to during the term of the transaction. * * *

* * * * *

(d) *Effective/applicability date.* * * * Paragraph (a)(6) of this section applies to payments made on or after the date of publication of the Treasury decision adopting these rules as final regulations in

the **Federal Register**; however, a taxpayer may rely on the rule in the second sentence of paragraph (a)(6) of this section for all deemed distributions (as defined in § 1.305-1(d)(7)) occurring on or after January 1, 2016, until the date of publication of a Treasury decision adopting these rules as final regulations in the **Federal Register**. * * *

Par. 7. Section 1.1441-2 is amended by:

1. Revising paragraphs (d)(1) and (4).
2. Amending paragraph (f) by removing the language “(d)(4)” in the second sentence and adding in its place “(d)(1)(ii)(C),” and adding a fourth and fifth sentence.

The revisions and addition read as follows:

§ 1.1441-2 Amounts subject to withholding.

* * * * *

(d) * * *

(1) *General rule—(i) Control or custody and knowledge.* Except as provided in paragraph (d)(1)(ii) of this section, a withholding agent has an obligation to withhold under section 1441 only to the extent that, at any time between the date that the obligation to withhold would arise (but for the provisions of this paragraph (d)) and the due date (including extensions) for filing Form 1042 with respect to the calendar year in which the payment occurs, it has—

(A) Control over, or custody of, money or property owned by the recipient or beneficial owner from which to withhold an amount; and

(B) Knowledge of the facts that give rise to the payment.

(ii) *Exception not available.* The exception from the obligation to withhold under paragraph (d)(1)(i) of this section does not apply if—

(A) The withholding agent is related (within the meaning of section 482) to the recipient or the beneficial owner of the payment;

(B) The payment is a distribution with respect to stock (including a deemed distribution (as defined in § 1.305-1(d)(7)) of stock or a right to acquire stock); see, however, paragraph (d)(4) of this section, which provides a limited exception from

the obligation to withhold on a deemed distribution;

(C) The amounts are described in § 1.860G-3(b)(1) (regarding certain partnership allocations of REMIC net income with respect to a REMIC residual interest);

(D) The lack of control over or custody of money or property from which to withhold is part of a pre-arranged plan known to the withholding agent to avoid withholding under section 1441, 1442, or 1443; or

(E) The payment is a deemed payment (as defined in § 1.861-3(a)(6)); *see*, however, paragraph (d)(4) of this section, which provides a limited exception from the obligation to withhold on a deemed payment.

(iii) *Documentation.* Any exception from withholding pursuant to paragraph (d)(1)(i) of this section applies without a requirement that documentation be furnished to the withholding agent. However, documentation may have to be furnished for purposes of the information reporting provisions under chapter 61 of the Code and backup withholding under section 3406.

(iv) *Scope of exception.* The exception from withholding under this paragraph (d) is not a determination that the amounts are not fixed or determinable annual or periodical income, nor is it an exception from reporting the amount under § 1.1461-1(b) and (c).

(v) *Lack of money or property or lack of knowledge.* A withholding agent does not lack control over money or property for purposes of this paragraph (d)(1) if the withholding agent directs another party to make the payment. Thus, for example, a principal does not cease to have control over a payment when it contracts with a paying agent to make the payments to its account holders in lieu of paying the account holders directly. Further, a withholding agent does not lack knowledge of the facts that give rise to a payment merely because the withholding agent does not know the character or source of the payment for U.S. tax purposes. *See* § 1.1441-3(d)(1) for rules addressing a withholding agent's obligations when the withholding agent has knowledge of the facts that give rise to the payment, but the

character or source of the payment is not known.

(vi) *Example.* A, an individual, owns stock in DC, a domestic corporation, through a custodian, Bank 1. A also has a money market account at Bank 2. DC pays a dividend of \$1,000 that is deposited in A's custodial account at Bank 1. A then directs Bank 1 to transfer \$1,000 to A's money market account at Bank 2. With respect to the payment of the dividend into A's custodial account with Bank 1, both DC and Bank 1 are withholding agents making a payment of an amount subject to withholding for which they have custody, control, and knowledge. *See* §§ 1.1441-2(b)(1) and 1.1441-7(a)(1). Therefore, both DC and Bank 1 have an obligation to withhold on the payment unless they can reliably associate the payment with documentation sufficient to treat the respective payees as not subject to withholding under chapter 3. With respect to the wire transfer of \$1,000 from A's account at Bank 1 to A's account at Bank 2, neither Bank 1 nor Bank 2 is required to withhold on the transfer because neither bank has knowledge of the facts that give rise to the payment. Even though Bank 1 is a custodian for A's stock in DC and has knowledge regarding the \$1,000 dividend paid to A, once Bank 1 credits the \$1,000 dividend to A's account, the \$1,000 becomes A's property. When A transfers the \$1,000 to its account at Bank 2, this is a separate transfer about which Bank 1 has no knowledge regarding the type of payment made. Further, Bank 2 only has knowledge that it receives \$1,000 to be credited to A's account but has no knowledge regarding the type of payment made. Accordingly, Bank 1 and Bank 2 have no withholding obligation with respect to the transfer from A's custodial account at Bank 1 to A's money market account at Bank 2.

* * * * *

(4) *Deemed distributions under section 305(c) and deemed payments—(i) General rule.* Subject to the rules in this paragraph (d)(4)(i) and paragraph (d)(4)(iii) of this section, and any other exception to withholding (for example, under § 1.1441-4), a withholding agent has an obligation to withhold on a deemed distribution (as defined in § 1.305-1(d)(7)) or a deemed payment (as defined in § 1.861-3(a)(6)) on a security. However, a withholding agent other than the issuer of a specified security (as defined in § 1.6045-1(a)(14)) has an obligation to withhold on a deemed distribution (as defined in § 1.305-1(d)(7)) on a specified security or a deemed payment (as defined in § 1.861-3(a)(6)) that is determined with respect to a deemed distribution on a specified security only if:

(A) The issuer of the specified security reports the information required under § 1.6045B-1 regarding the deemed distribution before the due date (not including extensions) for the withholding agent to file Form 1042 for the calendar year in

which the deemed distribution or the deemed payment occurred; or

(B) The withholding agent has actual knowledge of the deemed distribution before the due date (not including extensions) for it to file Form 1042 for the calendar year in which the deemed distribution or the deemed payment occurred, but in such case the requirements of this paragraph (d)(4)(i) will not be considered to be met until January 15 of the year following the calendar year in which the deemed distribution or the deemed payment occurred.

(ii) *Time to withhold on a deemed distribution or deemed payment.* After the requirements of paragraph (d)(4)(i) of this section have been met, except as provided in § 1.1441-5 regarding the time to withhold for partnerships and trusts, a withholding agent must withhold on a deemed distribution (as defined in § 1.305-1(d)(7)) or a deemed payment (as defined in § 1.861-3(a)(6)) on the earliest of:

(A) The date on which a payment of cash is made with respect to the security or the securities lending or sales-repurchase transaction;

(B) The date on which the security is sold, exchanged, or otherwise disposed of (including a transfer of the security to a separate account not maintained by the withholding agent or a termination of the account relationship); or

(C) The due date (not including extensions) for the withholding agent to file Form 1042 for the calendar year in which the deemed distribution or the deemed payment occurred.

(iii) *Treatment of foreign entities assuming withholding responsibilities.* Notwithstanding § 1.1441-1(b)(1), a withholding agent may not treat a foreign entity as having assumed primary withholding responsibility under § 1.1441-1(e)(5), § 1.1441-1(b)(2)(iv), § 1.1441-5(c)(2)(i), or § 1.1441-5(e)(5)(v) for a deemed distribution (as defined in § 1.305-1(d)(7)) on a specified security (as defined in § 1.6045-1(a)(14)) or a deemed payment (as defined in § 1.861-3(a)(6)) that is determined with respect to a deemed distribution on a specified security unless the withholding agent has provided the foreign entity a copy of the issuer statement described in § 1.6045B-1(b)(1) within 10 days of the issuer fur-

nishing the statement to the holder of record (or its nominee), or the issuer has met the public reporting requirements described in § 1.6045B-1(a)(3). A foreign entity described in the preceding sentence has an obligation to withhold on the deemed distribution or the deemed payment (unless an exception to withholding under section 1441 applies) if it receives a copy of the statement described in § 1.6045B-1(b)(1) or the issuer has met the public reporting requirements described in § 1.6045B-1(a)(3) by the due date (not including extensions) for filing Form 1042 with respect to the calendar year in which the deemed distribution or the deemed payment occurred. See § 1.1441-3(c)(5)(i) for when the foreign entity may rely on the copy of the issuer statement that it receives to determine the amount to withhold.

(iv) *Examples.* The following examples illustrate when a withholding agent must satisfy its obligation to withhold under paragraph (d)(4) of this section on a deemed distribution.

Example 1 (i) Facts. WA is a U.S. custodian that holds a convertible debt instrument (CDI) of Corporation X that is a specified security (as defined in § 1.6045-1(a)(14)) on behalf of A, a foreign person. On March 1 of Year 1, there is a change in the conversion ratio of the CDI that is treated as a deemed distribution under § 1.305-7(b) and (c). On March 15 of Year 1, Corporation X makes an interest payment on the CDI to WA as custodian for A. On April 1 of Year 1, Corporation X reports the information required under § 1.6045B-1 regarding the deemed distribution on its public website. On April 15 of Year 1, Corporation X makes another interest payment on the CDI to WA as custodian for A.

(ii) *Analysis.* Under paragraph (d)(4)(i) of this section, WA does not have an obligation to withhold on the deemed distribution on the CDI that it holds on behalf of A until April 1 of Year 1, the date on which Corporation X satisfied its reporting requirements under § 1.6045B-1 regarding the deemed distribution. WA must withhold on the April 15 cash payment, which is the earliest of the dates specified in paragraph (d)(4)(ii) of this section for withholding on the deemed distribution.

Example 2 (i) Facts. The facts are the same as in Example 1, except that an interest payment is not made on the Corporation X CDI on April 15 of Year 1, and the CDI is transferred to a separate account of A that is not maintained by WA on April 15 of Year 1.

(ii) *Analysis.* Because WA is a withholding agent under § 1.1441-7(a)(4) with respect to the deemed distribution on March 1 of Year 1 and Corporation X reports the information required under

§ 1.6045B-1, WA is required to satisfy the withholding obligation even though the CDI was transferred before a cash payment is made with respect to the CDI. WA does not have an obligation to withhold on the deemed distribution until April 1 of Year 1, the date on which Corporation X reported the conversion ratio adjustment as required by § 1.6045B-1 regarding the deemed distribution. WA must withhold upon the transfer of the CDI to an account not maintained by WA on April 15 of Year 1, which is the earliest of the dates specified in paragraph (d)(4)(ii) of this section for withholding.

Example 3 (i) Facts. The facts are the same as in Example 2, except that the CDI is transferred to a separate account of A that is not maintained by WA on March 30 of Year 1.

(ii) *Analysis.* Because WA is a withholding agent under § 1.1441-7(a)(4) with respect to the deemed distribution on March 1 of Year 1 and Corporation X has satisfied its reporting requirements with respect to the deemed distribution, WA is required to satisfy the withholding obligation even though the CDI was transferred before WA received the issuer reporting from Corporation X under § 1.6045B-1 regarding the deemed distribution. WA does not have an obligation to withhold on the deemed distribution until April 1 of Year 1, the date on which Corporation X satisfied its reporting requirements under § 1.6045B-1 regarding the deemed distribution. Because neither of the events specified in paragraphs (d)(4)(ii)(A) and (B) of this section occurred after April 1 of Year 1, WA must satisfy its withholding obligation by the due date (not including extensions) for filing Form 1042 (that is, by March 15 of Year 2), as provided in paragraph (d)(4)(ii)(C) of this section. WA may apply § 1.1461-2(b) in order to collect the underwithheld amount.

* * * * *

(f) *Effective/applicability date.* * * * Paragraphs (d)(1) and (d)(4) of this section apply to payments made on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**. A withholding agent may, however, rely on the rules in paragraphs (d)(1) and (d)(4) of this section for all deemed distributions (as defined in § 1.305-1(d)(7)) or deemed payments (as defined in § 1.861-3(a)(6)) occurring on or after January 1, 2016, until the date of publication of a Treasury decision adopting these rules as final regulations in the **Federal Register**.

Par. 8. Section 1.1441-3 is amended by:

1. Adding paragraph (c)(5).
2. Amending paragraph (i) by removing the language “paragraphs (g) and (h)” and adding in its place “paragraphs (c)(5), (g), and (h)”.

The addition reads as follows:

§ 1.1441-3 *Determination of amounts to be withheld.*

* * * * *

(c) * * *

(5) *Reliance rule for applicable adjustments—(i) In general.* For purposes of determining the amount of a deemed distribution (as defined in § 1.305-1(d)(7)) on a specified security (as defined in § 1.6045-1(a)(14)) or a deemed payment (as defined in § 1.861-3(a)(6)) that is determined with respect to a deemed distribution on a specified security, a withholding agent other than the issuer of the specified security (as defined in § 1.6045-1(a)(14)) may rely on the information provided by the issuer under § 1.6045B-1 (or a copy of the issuer statement in the circumstances described in § 1.1441-2(d)(4)(iii)) unless it knows that such information is incorrect or unreliable. See § 1.1441-2(d)(4) for a withholding agent’s obligation to withhold on a deemed distribution or a deemed payment.

(ii) *Effective/applicability date.* Paragraph (c)(5)(i) of this section applies to payments made on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**. A withholding agent may, however, rely on the rules in paragraph (c)(5)(i) of this section for all deemed distributions (as defined in § 1.305-1(d)(7)) or deemed payments (as defined in § 1.861-3(a)(6)) occurring on or after January 1, 2016, until the date of publication of a Treasury decision adopting these rules as final regulations in the **Federal Register**.

* * * * *

Par. 9. Section 1.1441-7 is amended by:

1. Redesignating paragraph (a)(4) as (a)(5) and adding a second and third sentence to newly redesignated (a)(5).
2. Adding a new paragraph (a)(4).
3. Amending paragraph (g) by removing the language “paragraphs (a)(4)” and adding in its place “paragraphs (a)(5).” The addition reads as follows:

§ 1.1441-7 *General provisions relating to withholding agents.*

(a) * * *

(4) *Withholding agent with respect to deemed distributions under section 305(c)*. Any person that issues or holds directly or indirectly (for example, through an account maintained for another intermediary) on behalf of a beneficial owner, or a flow through entity that owns directly or indirectly (through another flow-through entity), a security upon which a deemed distribution (as defined in § 1.305-1(d)(7)) is made has custody of or control over the deemed distribution. See § 1.1441-2(d)(4) for a withholding agent's obligation to withhold on the deemed distribution and § 1.1441-3(c)(5)(i) for when a withholding agent may rely on the information reported by the issuer under § 1.6045B-1 to determine the amount to withhold.

(5) * * * Paragraph (a)(4) of this section applies to payments made on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**. A withholding agent may, however, rely on the rules in paragraph (a)(4) of this section for all deemed distributions (as defined in § 1.305-1(d)(7)) occurring on or after January 1, 2016, until the date of publication of a Treasury decision adopting these rules as final regulations in the **Federal Register**.

Par. 10. Section 1.1461-2 is amended by revising the second sentence to paragraph (b), adding a fourth sentence to paragraph (b), and adding a second and third sentence to paragraph (d) to read as follows:

§ 1.1461-2 Adjustments for overwithholding or underwithholding of tax.

* * * * *

(b) *Withholding of additional tax when underwithholding occurs.* * * * In the alternative, the withholding agent may satisfy the tax from property that it holds in custody for the beneficial owner, property over which it has control, or additional contributions of property obtained directly or indirectly from the beneficial owner. * * * A withholding agent that adjusts its underwithholding under the procedure described in this paragraph (b) will not be subject to any penalties or additions to tax described in § 1.1461-

1(a)(2) if it timely deposits the amounts that it withholds from future payments, proceeds from the liquidation of property, or additional contributions of property obtained directly or indirectly from the beneficial owner. * * *

(d) * * * Paragraph (b) of this section applies to payments made on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**. A withholding agent may, however, rely on the rules in paragraph (b) of this section for payments occurring on or after January 1, 2016, until the date of publication of a Treasury decision adopting these rules as final regulations in the **Federal Register**.

Par. 11. Section 1.1471-2 is amended by:

1. Revising paragraph (a)(4)(i)(A) , redesignating paragraph (B) as new paragraph (E), and adding new paragraphs (B) through (D).
2. Amending paragraph (c) by adding a third and fourth sentence.

The revisions and addition read as follows:

§ 1.1471-2 Requirement to deduct and withhold tax on withholdable payments to certain FFIs.

* * * * *

(a) * * *

(4) * * *

(i) * * *

(A) *In general.* Except as provided in paragraph (a)(4)(i)(B) of this section, a withholding agent has an obligation to withhold under chapter 4 only to the extent that, at any time between the date that the obligation to withhold would arise (but for the provisions of this paragraph (a)(4)(i)(A)) and the due date (including extensions) for filing Form 1042 (including extensions) with respect to the calendar year in which the payment occurs, it has—

(1) Control over, or custody of, money or property owned by the recipient or beneficial owner from which to withhold an amount, and

(2) Knowledge of the facts that give rise to the payment.

(B) *Exception not available.* The exception from the obligation to withhold

under paragraph (a)(4)(i)(A) of this section does not apply if—

(1) The withholding agent is related (within the meaning of section 482) to the recipient or the beneficial owner of the payment;

(2) The payment is with respect to stock (including a deemed distribution (as defined in § 1.305-1(d)(7)) of stock or a right to acquire stock) or other securities; however, the limited exception from the obligation to withhold on a deemed distribution provided in § 1.1441-2(d)(4) also applies to a deemed distribution that is a withholdable payment under chapter 4;

(3) The lack of control over or custody of money or property from which to withhold is part of a pre-arranged plan known to the withholding agent to avoid withholding under section 1471 or 1472;

(4) The amounts are described in § 1.860G-3(b)(1) (regarding certain partnership allocations of REMIC net income with respect to a REMIC residual interest);

(5) Any of the special rules described in § 1.1441-2(d)(2) or (3), regarding the obligation of a withholding agent with respect to cancellation of debt or the satisfaction of tax liability following underwithholding by a withholding agent, apply with respect to the payment (by applying such rules to payments that are withholdable payments under chapter 4); or

(6) The payment is a deemed payment (as defined in § 1.861-3(a)(6)); however, the limited exception from the obligation to withhold on a deemed payment provided in § 1.1441-2(d)(4) also applies to a deemed payment that is determined with respect to a deemed distribution on a specified security and that is a withholdable payment under chapter 4.

(C) *Documentation.* Any exception from withholding pursuant to paragraph (a)(4)(i)(A) of this section applies without a requirement that documentation be furnished to the withholding agent. However, documentation may have to be furnished for purposes of the information reporting provisions under chapter 61 of the Code and backup withholding under section 3406.

(D) *Lack of money or property or lack of knowledge.* A withholding agent does not lack control over money or property for purposes of this paragraph (a)(4)(i)(A) if the withholding agent directs another party to make the payment. Thus, for example, a principal does not cease to have control over a payment when it contracts with a paying agent to make the payments to its account holders in lieu of paying the account holders directly. Further, a withholding agent does not lack knowledge of the facts that give rise to a payment merely because the withholding agent does not know the character or source of the payment for U.S. tax purposes. See paragraph (a)(5) of this section for rules addressing a withholding agent's obligations when the withholding agent has knowledge of the facts that give rise to the payment, but the character or source of the payment is not known.

* * * * *

(c) * * * Paragraph (a)(4)(i) of this section applies to payments made on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**. A withholding agent may, however, rely on the rules in paragraph (a)(4)(i) of this section (together with the rules in § 1.1441-2(d)(4)), for all deemed distributions (as defined in § 1.305-1(d)(7)) or deemed payments (as defined in § 1.861-3(a)(6)) that are withholdable payments occurring on or after January 1, 2016, until the date of publication of a Treasury decision adopting these rules as final regulations in the **Federal Register**.

Par. 12. Section 1.1473-1 is amended by:

1. Amending paragraph (a)(2)(vii)(A) by adding a sentence to the end of the paragraph.
2. Adding paragraph (d)(7).
3. Amending paragraph (f) by adding a third and fourth sentence.
The additions read as follows:

§ 1.1473-1 Section 1473 definitions.

(a) * * *

(2) * * *

(vii) * * *

(A) * * * For purposes of determining the amount of a deemed distribution (as

defined in § 1.305-1(d)(7)) on a specified security (as defined in § 1.6045-1(a)(14)) or a deemed payment (as defined in § 1.861-3(a)(6)) that is determined with respect to a deemed distribution on a specified security, a withholding agent other than the issuer of the specified security may rely on issuer reporting by applying the rule under § 1.1441-3(c)(5)(i) to deemed distributions or deemed payments that are withholdable payments under chapter 4.

* * * * *

(d) * * *

(7) *Withholding agent with respect to deemed distributions under section 305(c).* Any person that issues or holds directly or indirectly (for example, through an account maintained for another intermediary) on behalf of a beneficial owner or a flow through entity that owns directly or indirectly (through another flow-through entity), a security upon which a deemed distribution (as defined in § 1.305-1(d)(7)) is made has custody of or control over the deemed distribution.

* * * * *

(f) * * * Paragraphs (a)(2)(vii) and (d)(7) of this section apply to payments made on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**. A withholding agent may, however, rely on the rules in paragraphs (a)(2)(vii) and (d)(7) of this section for all deemed distributions (as defined in § 1.305-1(d)(7)) or deemed payments (as defined in § 1.861-3(a)(6)) that are withholdable payments occurring on or after January 1, 2016, until the date of publication of a Treasury decision adopting these rules as final regulations in the **Federal Register**.

Par. 13. Section 1.6045B-1 is amended by adding paragraph (i) to read as follows:

§ 1.6045B-1 Returns relating to actions affecting basis of securities.

* * * * *

(i) *Deemed distribution under section 305(c)—(1) In general.* This paragraph (i) provides special rules for an organizational action resulting in a deemed distribution under section 305(c) that affects the basis of a specified security, including a deemed distribution resulting from an

applicable adjustment (for example, a conversion ratio adjustment). See paragraph (j) of this section to determine when this section applies to an organizational action that affects the basis of a specified security. For example, under paragraph (j)(4) of this section, this section applies to a deemed distribution under section 305(c) resulting from an applicable adjustment to a convertible debt instrument if the deemed distribution occurs on or after January 1, 2016, and the deemed distribution could affect the basis of the convertible debt instrument.

(2) *Mandatory reporting.* Notwithstanding any other provision in this section (including the reporting exceptions for exempt recipients in paragraphs (a)(4) and (b)(5) of this section), for an organizational action described in paragraph (i)(1) of this section the issuer must file an issuer return in accordance with paragraphs (a)(1) and (2) of this section and issuer statements in accordance with paragraphs (b)(1), (2), and (3) of this section. However, the requirement to file an issuer return and issuer statement in accordance with the preceding sentence does not apply if the issuer satisfies the public reporting requirements of paragraph (a)(3) of this section.

(3) *Information required to be reported.* For purposes of paragraph (i)(2) of this section, an issuer must provide the information required under paragraph (a)(1) of this section, including—

(i) The date of the deemed distribution under section 305(c) as determined in accordance with § 1.305-7(c)(5) (pursuant to paragraph (a)(1)(iv) of this section); and

(ii) The amount of the deemed distribution under section 305(c) as determined in accordance with § 1.305-7(c)(4) (pursuant to paragraph (a)(1)(v) of this section).

(4) *Effective/applicability date.* Paragraph (i)(2) of this section applies to a deemed distribution under section 305(c) occurring on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**. For purposes of paragraphs (a)(1)(v) and (i)(3)(ii) of this section, an issuer must determine the amount of a deemed distribution under section 305(c) in accordance with § 1.305-7(c)(4) for a

deemed distribution occurring on or after the date of publication. For purposes of reporting the amount of a deemed distribution occurring prior to the date of publication, an issuer may determine the amount of the deemed distribution by treating such distribution either as a distribution of a right to acquire stock in accordance with § 1.305-7(c)(4), or as a distribution of the shares of stock that would be received upon exercise of the right. For purposes of paragraphs (a)(1)(iv) and (i)(3)(i) of this section, an issuer must determine the date of a deemed distribution under section 305(c) occurring on or after the date of publication in accordance with § 1.305-7(c)(5). An issuer, however, may rely on § 1.305-7(c)(5) to determine the date of a deemed distribution that occurs prior to the date of publication.

* * * * *

John M. Dalrymple,
*Deputy Commissioner for
Services and Enforcement.*

(Filed by the Office of the Federal Register on April 12, 2016, 8:45 a.m., and published in the issue of the Federal Register for April 13, 2016, 81 F.R. 21795)

Notice of Proposed Rulemaking by Cross- reference to Temporary Regulation

Inversions and Related Transactions

REG-135734-14

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking by cross-reference to temporary regulation.

SUMMARY: The Department of Treasury (Treasury Department) and the IRS are issuing temporary regulations that address transactions that are structured to avoid the purposes of sections 7874 and 367 of the Internal Revenue Code (the Code) and certain post-inversion tax avoidance transactions in the Rules and Regulations section of this issue of the **Internal Revenue Bulletin**. The tempo-

rary regulations affect certain domestic corporations and domestic partnerships whose assets are directly or indirectly acquired by a foreign corporation and certain persons related to such domestic corporations and domestic partnerships. The text of the temporary regulations also serves as the text of these proposed regulations.

DATES: Written or electronic comments and requests for a public hearing must be received by July 7, 2016.

ADDRESSES: Send submissions to: CC:PA:LPD:PR (REG-135734-14), room 5203, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20224. Submissions may be hand-delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to CC:PA:LPD:PR (REG-135734-14), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue NW, Washington, DC 20224, or sent electronically via the Federal eRulemaking Portal at <http://www.regulations.gov> (IRS REG-135734-14).

FOR FURTHER INFORMATION

CONTACT: Concerning the proposed regulations under sections 304, 367, and 7874, Shane M. McCarrick or David A. Levine, (202) 317-6937; concerning the proposed regulations under sections 956 and 7701(l), Rose E. Jenkins, (202) 317-6934 (not toll-free numbers); concerning submissions of comments or requests for a public hearing, Regina Johnson, (202) 317-5177 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Background

The temporary regulations in the Rules and Regulations section of this issue of the **Internal Revenue Bulletin** contain regulations under sections 304, 367, 954, 956, 7701(l), and 7874 of the Internal Revenue Code (Code) that address transactions that are structured to avoid the purposes of sections 7874 and 367 of the Internal Revenue Code (the Code) and certain post-inversion tax avoidance transactions. The text of the temporary regulations also serves as the text of the proposed regulations herein. The preamble to the temporary regulations explains the

temporary regulations and the corresponding proposed regulations.

Special Analyses

Certain IRS regulations, including this one, are exempt from the requirements of Executive Order 12866, as supplemented and reaffirmed by Executive Order 13563. Therefore, a regulatory assessment is not required. It has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. Chapter 5) does not apply to these regulations, and because the regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f), this notice of proposed rulemaking has been submitted to the Chief Counsel of Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Requests for Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any comments that are submitted timely to the IRS as prescribed in this preamble under the "Addresses" heading. Treasury and the IRS request comments on all aspects of the proposed rules. All comments will be available at www.regulations.gov or upon request. A public hearing will be scheduled if requested in writing by any person that timely submits electronic or written comments. If a public hearing is scheduled, notice of the date, time, and place for the public hearing will be published in the **Federal Register**.

Drafting Information

The principal authors of these proposed regulations are Rose E. Jenkins, David A. Levine, and Shane M. McCarrick of the Office of Associate Chief Counsel (International). However, other personnel from the Treasury Department and the IRS participated in their development.

* * * * *

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by adding and revising entries in numerical order to read in part as follows:

Authority: 26 U.S.C. 7805 * * *

Section 1.304-7 also issued under 26 U.S.C. 304(b)(5)(C).

Section 1.367(b)-4 also issued under 26 U.S.C. 367(a), 367(b), and 954(c)(6)(A).

Section 1.956-2 also issued under 26 U.S.C. 956(d) and 956(e).

Section 1.7701(l)-4 also issued under 26 U.S.C. 7701(l) and 954(c)(6)(A).

Section 1.7874-2 also issued under 26 U.S.C. 7874(c)(6) and 7874(g).

Section 1.7874-4 also issued under 26 U.S.C. 7874(c)(6) and 7874(g).

Section 1.7874-6 also issued under 26 U.S.C. 7874(c)(6) and 7874(g).

Section 1.7874-7 also issued under 26 U.S.C. 7874(c)(6) and 7874(g).

Section 1.7874-8 also issued under 26 U.S.C. 7874(c)(6) and 7874(g).

Section 1.7874-9 also issued under 26 U.S.C. 7874(c)(6) and 7874(g).

Section 1.7874-10 also issued under 26 U.S.C. 7874(c)(4) and 7874(g).

Section 1.7874-11 also issued under 26 U.S.C. 7874(g).

Section 1.7874-12 also issued under 26 U.S.C. 7874(g).

Par. 2. Section 1.304-7 is added to read as follows:

§ 1.304-7 Certain acquisitions by foreign acquiring corporations.

[The text of proposed § 1.304-7 is the same as the text of § 1.304-7T published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Par. 3. Section 1.367(a)-3 is amended by revising paragraphs (c)(3)(iii)(C) and (c)(11)(ii) to read as follows:

§ 1.367(a)-3 Treatment of transfers of stock or securities to foreign corporations.

* * * * *

(c) * * *

(3) * * *

(iii) * * *

(C) [The text of the proposed amendment to § 1.367(a)-3(c)(3)(iii)(C) is the same as the text of § 1.367(a)-3T(c)(3)(iii)(C) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

(11) * * *

(ii) [The text of the proposed amendment to § 1.367(a)-3(c)(11)(ii) is the same as the text of § 1.367(a)-3T(c)(11)(ii) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

Par. 4. Section 1.367(b)-4 is amended by revising paragraph (a), paragraph (b) introductory text, and paragraphs (b)(1)(i)(C), (d)(1), (e), (f), (g), and (h) to read as follows:

§ 1.367(b)-4 Acquisition of foreign corporate stock or assets by a foreign corporation in certain nonrecognition transactions.

(a) [The text of the proposed amendment to § 1.367(b)-4(a) is the same as the text of § 1.367(b)-4T(a) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(b) [The text of the proposed amendment to the introductory text to § 1.367(b)-4(b) is the same as the introductory text of § 1.367(b)-4T(b) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(1) * * *

(i) * * *

(C) [The text of the proposed amendment to § 1.367(b)-4(b)(1)(i)(C) is the same as the text of § 1.367(b)-4T(b)(1)(i)(C) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

(d) * * *

(1) [The text of the proposed amendment to § 1.367(b)-4(d)(1) is the same as the text of § 1.367(b)-4T(d)(1) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

(e) [The text of the proposed amendment to § 1.367(b)-4(e) is the same as the text of § 1.367(b)-4T(e) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(f) [The text of the proposed amendment to § 1.367(b)-4(f) is the same as the text of § 1.367(b)-4T(f) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(g) [The text of the proposed amendment to § 1.367(b)-4(g) is the same as the text of § 1.367(b)-4T(g) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(h) [The text of proposed § 1.367(b)-4(h) is the same as the text of § 1.367(b)-4T(h) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Par. 5. Section 1.956-2 is amended by revising paragraphs (a)(4), (c)(5), (d)(2), and (i) to read as follows:

§ 1.956-2 Definition of United States property.

(a) * * *

(4) [The text of the proposed amendment to § 1.956-2(a)(4) is the same as the text of § 1.956-2T(a)(4) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

(c) * * *

(5) [The text of the proposed amendment to § 1.956-2(c)(5) is the same as the text of § 1.956-2T(c)(5) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(d) * * *

(2) [The text of the proposed amendment to § 1.956-2(d)(2) is the same as the text of § 1.956-2T(d)(2) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

(i) [The text of the proposed amendment to § 1.956-2(i) is the same as the text of § 1.956-2T(i) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Par. 6. Section 1.7701(l)-4 is added to read as follows:

§ 1.7701(l)–4 Rules regarding inversion transactions.

[The text of proposed § 1.7701(l)–4 is the same as the text of § 1.7701(l)–4T published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Par. 7. Section 1.7874–1 is amended by revising paragraphs (c)(2)(iii), (f), and (h)(2) to read as follows.

§ 1.7874–1 Disregard of affiliate-owned stock.

* * * * *

(c) * * *

(2) * * *

(iii) [The text of the proposed amendment to § 1.7874–1(c)(2)(iii) is the same as the text of § 1.7874–1T(c)(2)(iii) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

(f) [The text of the proposed amendment to § 1.7874–1(f) is the same as the text of § 1.7874–1T(f) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

(h) * * *

(2) [The text of the proposed amendment to § 1.7874–1(h)(2) is the same as the text of § 1.7874–1T(h)(2) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Par. 8. Section 1.7874–2 is amended by:

1. Revising paragraphs (a), (b)(7), (b)(8), (b)(9), (b)(10), (b)(11), (b)(12), (b)(13), (c)(2), and (c)(4).
2. Revising paragraph (f)(1) introductory text.
3. Revising paragraph (f)(1)(iv).
4. Revising *Example 21* of paragraph (k)(2).
5. Revising paragraph (l)(2).

The revisions read as follows:

§ 1.7874–2 Surrogate foreign corporation.

(a) [The text of the proposed amendment to § 1.7874–2(a) is the same as the text of § 1.7874–2T(a) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(b) * * *

(7) [The text of the proposed amendment to § 1.7874–2(b)(7) is the same as the text of § 1.7874–2T(b)(7) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(8) [The text of the proposed amendment to § 1.7874–2(b)(8) is the same as the text of § 1.7874–2T(b)(8) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(9) [The text of the proposed amendment to § 1.7874–2(b)(9) is the same as the text of § 1.7874–2T(b)(9) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(10) [The text of the proposed amendment to § 1.7874–2(b)(10) is the same as the text of § 1.7874–2T(b)(10) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(11) [The text of the proposed amendment to § 1.7874–2(b)(11) is the same as the text of § 1.7874–2T(b)(11) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(12) [The text of the proposed amendment to § 1.7874–2(b)(12) is the same as the text of § 1.7874–2T(b)(12) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(13) [The text of the proposed amendment to § 1.7874–2(b)(13) is the same as the text of § 1.7874–2T(b)(13) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(c) * * *

(2) [The text of the proposed amendment to § 1.7874–2(c)(2) is the same as the text of § 1.7874–2T(c)(2) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

(4) [The text of the proposed amendment to § 1.7874–2(c)(4) is the same as the text of § 1.7874–2T(c)(4) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

(f) * * *

(1) [The proposed amendment to the introductory text of § 1.7874–2(f)(1) is the same as the introductory text of § 1.7874–2T(f)(1) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

(iv) [The text of the proposed amendment to § 1.7874–2(f)(1)(iv) is the same as the text of § 1.7874–2T(f)(1)(iv) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

(k) * * *

(2) * * *

Example 21. [The text of the proposed amendment to *Example 21* of § 1.7874–2(k)(2) is the same as the text of *Example 21* of § 1.7874–2T(k)(2) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(1) * * *

(2) [The text of the proposed amendment to § 1.7874–2(l)(2) is the same as the text of § 1.7874–2T(l)(2) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Par. 9. Section 1.7874–3 is amended by revising paragraphs (b)(4), (d)(10), and (f)(2) to read as follows:

§ 1.7874–3 Substantial business activities.

* * * * *

(b) * * *

(4) [The text of the proposed amendment to § 1.7874–3(b)(4) is the same as the text of § 1.7874–3T(b)(4) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

* * * * *

(d) * * *

(10) [The text of the proposed amendment to § 1.7874–3(d)(10) is the same as the text of § 1.7874–3T(d)(10) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(f) * * *

(2) [The text of the proposed amendment to § 1.7874–3(f)(2) is the same as the text of § 1.7874–3T(f)(2) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Par. 10. Section 1.7874–4 is added to read as follows.

§ 1.7874–4 Disregard of certain stock related to the acquisition.

(a) though (c)(1) introductory text [Reserved].

(i) [The text of proposed § 1.7874–4(c)(1)(i) is the same as the text of

§ 1.7874–4T(c)(1)(i) as revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

(ii) [Reserved].

(B) [The text of proposed § 1.7874–4(c)(1)(ii)(B) is the same as the text of § 1.7874–4T(c)(1)(ii)(B) as revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

(2) [The text of proposed § 1.7874–4(c)(2) is the same as the text of § 1.7874–4T(c)(2) as revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

(d) introductory text through (d)(1) introductory text [Reserved].

(i) [The text of proposed § 1.7874–4(d)(1)(i) is the same as the text of § 1.7874–4T(d)(1)(i) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(ii) [The text of proposed § 1.7874–4(d)(1)(ii) is the same as the text of § 1.7874–4T(d)(1)(ii) as revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

(d)(2) through (g) [Reserved].

(h) [The text of proposed § 1.7874–4(h) is the same as the text of § 1.7874–4T(h) as revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

(i) introductory text through (i)(5) [Reserved].

(6) [The text of proposed § 1.7874–4(i)(6) is the same as the text of § 1.7874–4T(i)(6) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(i)(7) introductory text through (i)(7)(iii) introductory text [Reserved].

(C) [The text of proposed § 1.7874–4(i)(7)(iii)(C) is the same as the text of § 1.7874–4T(i)(7)(iii)(C) as revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

(iv) [The text of proposed § 1.7874–4(i)(7)(iv) is the same as the text of § 1.7874–4T(i)(7)(iv) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(j) introductory text through (j)(6) [Reserved].

(7) [The text of proposed § 1.7874–4(j)(7) is the same as the text of § 1.7874–4T(j)(7) as revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

(8) [The text of proposed § 1.7874–4(j)(8) is the same as the text of § 1.7874–

4T(j)(8) as revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

(9) [The text of proposed § 1.7874–4(j)(9) is the same as the text of § 1.7874–4T(j)(9) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(10) [The text of proposed § 1.7874–4(j)(10) is the same as the text of § 1.7874–4T(j)(10) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(11) [The text of proposed § 1.7874–4(j)(11) is the same as the text of § 1.7874–4T(j)(11) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Example 1 introductory text through *Example 1* paragraph (i) [Reserved].

(ii) [The text of proposed paragraph (ii) of *Example 1* of § 1.7874–4(j) is the same as the text of paragraph (ii) of *Example 1* of § 1.7874–4T(j) as revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

Example 2 introductory text through *Example 2* paragraph (i) [Reserved].

(ii) [The text of proposed paragraph (ii) of *Example 2* of § 1.7874–4(j) is the same as the text of paragraph (ii) of *Example 2* of § 1.7874–4T(j) as revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

Example 3. [The text of proposed *Example 3* of § 1.7874–4(j) is the same as the text of *Example 3* of § 1.7874–4T(j) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Example 4. [The text of proposed *Example 4* of § 1.7874–4(j) is the same as the text of *Example 4* of § 1.7874–4T(j) as redesignated and revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

Example 5. [The text of proposed *Example 5* of § 1.7874–4(j) is the same as the text of *Example 5* of § 1.7874–4T(j) as redesignated and revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

Example 6. [The text of proposed *Example 6* of § 1.7874–4(j) is the same as the text of *Example 6* of § 1.7874–4T(j) as redesignated and revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

Example 7. [The text of proposed *Example 7* of § 1.7874–4(j) is the same as the text of *Example 7* of § 1.7874–4T(j) as redesignated and revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

Example 8. [The text of proposed *Example 8* of § 1.7874–4(j) is the same as the text of *Example 8* of § 1.7874–4T(j) as redesignated and revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

Example 9. [The text of proposed *Example 9* of § 1.7874–4(j) is the same as the text of *Example 9* of § 1.7874–4T(j) as redesignated and revised elsewhere in this issue of the **Internal Revenue Bulletin**.]

(k) introductory text [Reserved].

(1) [The text of proposed § 1.7874–4(k)(1) is the same as the text of § 1.7874–4T(k)(1) published elsewhere in this issue of the **Internal Revenue Bulletin**.]

(k)(2) through (k)(3) [Reserved].

Par. 11. Section 1.7874–6 is added to read as follows:

§ 1.7874–6 Stock transferred by members of the EAG.

[The text of proposed § 1.7874–6 is the same as the text of § 1.7874–6T published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Par. 12. Section 1.7874–7 is added to read as follows:

§ 1.7874–7 Disregard of certain stock attributable to passive assets.

[The text of proposed § 1.7874–7 is the same as the text of § 1.7874–7T published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Par. 13. Section 1.7874–8 is added to read as follows:

§ 1.7874–8 Disregard of certain stock attributable to multiple domestic entity acquisitions.

[The text of proposed § 1.7874–8 is the same as the text of § 1.7874–8T published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Par. 14. Section 1.7874–9 is added to read as follows:

§ 1.7874–9 Disregard of certain stock in third-country transactions.

[The text of proposed § 1.7874–9 is the same as the text of § 1.7874–9T published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Par. 15. Section 1.7874–10 is added to read as follows:

§ 1.7874–10 Disregard of certain distributions.

[The text of proposed § 1.7874–10 is the same as the text of § 1.7874–10T published elsewhere in this issue of the **Internal Revenue Bulletin**.]

Par. 16. Section 1.7874-11 is added to read as follows:

§ 1.7874-11 Rules regarding inversion gain.

[The text of proposed § 1.7874-11 is the same as the text of § 1.7874-11T published elsewhere in this issue of the **Internal Revenue Bulletin.**]

Par. 17. Section 1.7874-12 is added to read as follows:

§ 1.7874-12 Definitions.

[The text of proposed § 1.7874-12 is the same as the text of § 1.7874-12T published elsewhere in this issue of the **Internal Revenue Bulletin.**]

John Dalrymple,
*Deputy Commissioner for
Services and Enforcement.*

(Filed by the Office of the Federal Register on April 4, 2016, 5:00 p.m., and published in the issue of the Federal Register for April 8, 2016, 81 F.R. 20588)

Definition of Terms

Revenue rulings and revenue procedures (hereinafter referred to as “rulings”) that have an effect on previous rulings use the following defined terms to describe the effect:

Amplified describes a situation where no change is being made in a prior published position, but the prior position is being extended to apply to a variation of the fact situation set forth therein. Thus, if an earlier ruling held that a principle applied to A, and the new ruling holds that the same principle also applies to B, the earlier ruling is amplified. (Compare with modified, below).

Clarified is used in those instances where the language in a prior ruling is being made clear because the language has caused, or may cause, some confusion. It is not used where a position in a prior ruling is being changed.

Distinguished describes a situation where a ruling mentions a previously published ruling and points out an essential difference between them.

Modified is used where the substance of a previously published position is being changed. Thus, if a prior ruling held that a principle applied to A but not to B, and the new ruling holds that it applies to both A

and B, the prior ruling is modified because it corrects a published position. (Compare with amplified and *clarified*, above).

Obsoleted describes a previously published ruling that is not considered determinative with respect to future transactions. This term is most commonly used in a ruling that lists previously published rulings that are obsoleted because of changes in laws or regulations. A ruling may also be obsoleted because the substance has been included in regulations subsequently adopted.

Revoked describes situations where the position in the previously published ruling is not correct and the correct position is being stated in a new ruling.

Superseded describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the new ruling does more than restate the sub-

stance of a prior ruling, a combination of terms is used. For example, modified and *superseded* describes a situation where the substance of a previously published ruling is being changed in part and is continued without change in part and it is desired to restate the valid portion of the previously published ruling in a new ruling that is self contained. In this case, the previously published ruling is first modified and then, as modified, is superseded.

Supplemented is used in situations in which a list, such as a list of the names of countries, is published in a ruling and that list is expanded by adding further names in subsequent rulings. After the original ruling has been supplemented several times, a new ruling may be published that includes the list in the original ruling and the additions, and supersedes all prior rulings in the series.

Suspended is used in rare situations to show that the previous published rulings will not be applied pending some future action such as the issuance of new or amended regulations, the outcome of cases in litigation, or the outcome of a Service study.

Abbreviations

The following abbreviations in current use and formerly used will appear in material published in the Bulletin.

A—Individual.
Acq.—Acquiescence.
B—Individual.
BE—Beneficiary.
BK—Bank.
B.T.A.—Board of Tax Appeals.
C—Individual.
C.B.—Cumulative Bulletin.
CFR—Code of Federal Regulations.
CI—City.
COOP—Cooperative.
Ct.D.—Court Decision.
CY—County.
D—Decedent.
DC—Dummy Corporation.
DE—Donee.
Del. Order—Delegation Order.
DISC—Domestic International Sales Corporation.
DR—Donor.
E—Estate.
EE—Employee.
E.O.—Executive Order.
ER—Employer.

ERISA—Employee Retirement Income Security Act.
EX—Executor.
F—Fiduciary.
FC—Foreign Country.
FICA—Federal Insurance Contributions Act.
FISC—Foreign International Sales Company.
FPH—Foreign Personal Holding Company.
F.R.—Federal Register.
FUTA—Federal Unemployment Tax Act.
FX—Foreign corporation.
G.C.M.—Chief Counsel’s Memorandum.
GE—Grantee.
GP—General Partner.
GR—Grantor.
IC—Insurance Company.
I.R.B.—Internal Revenue Bulletin.
LE—Lessee.
LP—Limited Partner.
LR—Lessor.
M—Minor.
Nonacq.—Nonacquiescence.
O—Organization.
P—Parent Corporation.
PHC—Personal Holding Company.
PO—Possession of the U.S.
PR—Partner.
PRS—Partnership.

PTE—Prohibited Transaction Exemption.
Pub. L.—Public Law.
REIT—Real Estate Investment Trust.
Rev. Proc.—Revenue Procedure.
Rev. Rul.—Revenue Ruling.
S—Subsidiary.
S.P.R.—Statement of Procedural Rules.
Stat.—Statutes at Large.
T—Target Corporation.
T.C.—Tax Court.
T.D.—Treasury Decision.
TFE—Transferee.
TFR—Transferor.
T.I.R.—Technical Information Release.
TP—Taxpayer.
TR—Trust.
TT—Trustee.
U.S.C.—United States Code.
X—Corporation.
Y—Corporation.
Z—Corporation.

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¹A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2015–27 through 2015–52 is in Internal Revenue Bulletin 2015–52, dated December 28, 2015.

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INTERNAL REVENUE BULLETIN

The Introduction at the beginning of this issue describes the purpose and content of this publication. The weekly Internal Revenue Bulletins are available at www.irs.gov/irb/.

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