HIGHLIGHTS OF THIS ISSUE

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

Insurance companies; interest rate tables. Prevailing state assumed interest rates are provided for the determination of reserves under section 807 of the Internal Revenue Code for contracts issued in 2013 and 2014. Rev. Rul. 92–19 is supplemented in part.

Notice 2014–9, page 455.
This Notice provides guidance on current refunding of outstanding prior issues of bonds that met the qualification requirements for Recovery Zone Facility Bonds under § 1400U–3 of the Internal Revenue Code.

This revenue procedure updates Rev. Proc. 2012–51, 2012–51 I.R.B. 719 and identifies circumstances under which the disclosure on a taxpayer’s income tax return with respect to an item or position is adequate for the purpose of reducing the understatement of income tax under section 6662 (d) of the Internal Revenue Code.

EMPLOYEE PLANS

Notice 2014–8, page 452.
This notice contains updates for the corporate bond weighted average interest rate for plan years beginning in January 2014; the 24 month average segment rates; the funding segment rates applicable for January 2014; and the minimum present value rates for December 2013. The rates in this notice reflect certain changes implemented by the Moving Ahead for Progress in the 21st Century Act, Public Law 112–141 (MAP–21).

ADMINISTRATIVE

This revenue procedure updates Rev. Proc. 2012–51, 2012–51 I.R.B. 719 and identifies circumstances under which the disclosure on a taxpayer’s income tax return with respect to an item or position is adequate for the purpose of reducing the understatement of income tax under section 6662 (d) of the Internal Revenue Code.

Finding Lists begin on page ii.
Index for July through January begins on page iv.
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:

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 I. Rulings and Decisions Under the Internal Revenue Code of 1986

Section 807.—Rules for Certain Reserves

Rev. Rul. 2014–4

For purposes of § 807(d)(4) of the Internal Revenue Code, for taxable years beginning after December 31, 2012, this ruling supplements the schedules of prevailing state assumed interest rates set forth in Rev. Rul. 92–19, 1992–1 C.B. 227. This information is to be used by insurance companies in computing their reserves for (1) life insurance and supplementary total and permanent disability benefits, (2) individual annuities and pure endowments, and (3) group annuities and pure endowments. As § 807(d)(2)(B) requires that the interest rate used to compute these reserves be the greater of (1) the applicable federal interest rate, or (2) the prevailing state assumed interest rate, the table of applicable federal interest rates in Rev. Rul. 92–19 is also supplemented.

Following are supplements to schedules A, B, C, and D to Part III of Rev. Rul. 92–19, providing prevailing state assumed interest rates for insurance products with different features issued in 2013 and 2014, and a supplement to the table in Part IV of Rev. Rul. 92–19, providing the applicable federal interest rates under § 807(d) for 2013 and 2014. This ruling does not supplement Parts I and II of Rev. Rul. 92–19.


Part III. Prevailing State Assumed Interest Rates — Products Issued in Years After 1982.*

Schedule A

STATUTORY VALUATION INTEREST RATES
BASED ON THE 1980 AMENDMENTS TO THE NAIC STANDARD VALUATION LAW

A. Life insurance valuation:

<table>
<thead>
<tr>
<th>Guarantee Duration (years)</th>
<th>Calendar Year of Issue</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 or fewer</td>
<td>3.75**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>More than 10 but not more than 20</td>
<td>3.75**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>More than 20</td>
<td>3.50**</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Rates calculated from the monthly averages, ending June 30, 2013, of Moody’s Composite Yield on Seasoned Corporate Bonds.

*The terms used in the schedules in this ruling and in Part III of Rev. Rul. 92–19 are those used in the Standard Valuation Law; the terms are defined in Rev. Rul. 92–19.

**As these rates exceed the applicable federal interest rate for 2014 of 1.79 percent, the valuation interest rate to be used for this product under § 807 is the applicable rate specified in this table.
Part III, Schedule B

STATUTORY VALUATION INTEREST RATES
BASED ON THE 1980 AMENDMENTS TO THE
NAIC STANDARD VALUATION LAW

B. Single premium immediate annuities and annuity benefits involving life contingencies arising from other annuities with cash settlement options and from guaranteed interest contracts with cash settlement options:

<table>
<thead>
<tr>
<th>Calendar Year of Issue</th>
<th>Valuation Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>4.00*</td>
</tr>
</tbody>
</table>

Source: Rates calculated from the monthly averages, ending June 30, 2013, of Moody’s Composite Yield on Seasoned Corporate Bonds.

*As this prevailing state assumed interest rate exceeds the applicable federal interest rate for 2013 of 2.16 percent, the valuation interest rate of 4.00 percent is to be used for this product under § 807.

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Part III, Schedule C24 – 2013

STATUTORY VALUATION INTEREST RATES
BASED ON NAIC STANDARD VALUATION LAW
FOR 2013 CALENDAR YEAR BUSINESS
GOVERNED BY THE 1980 AMENDMENTS

C. Valuation interest rates for other annuities and guaranteed interest contracts that are valued on an issue year basis:

<table>
<thead>
<tr>
<th>Cash Settlement Options?</th>
<th>Future Interest Guarantee?</th>
<th>Guarantee Duration (years)</th>
<th>Valuation Interest Rate For Plan Type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
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<td>Yes</td>
<td>5 or fewer</td>
<td>4.00*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 5, but not more than 10</td>
<td>3.75*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 10, but not more than 20</td>
<td>3.75*</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>5 or fewer</td>
<td>4.00*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 5, but not more than 10</td>
<td>4.00*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 10, but not more than 20</td>
<td>3.75*</td>
</tr>
<tr>
<td></td>
<td>Yes or No</td>
<td>5 or fewer</td>
<td>4.00*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 5, but not more than 10</td>
<td>3.75*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 10, but not more than 20</td>
<td>3.75*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 20</td>
<td>3.50*</td>
</tr>
</tbody>
</table>

Source: Rates calculated from the monthly averages, ending June 30, 2013, of Moody’s Composite Yield on Seasoned Corporate Bonds.

*As these rates exceed the applicable federal interest rate for 2013 of 2.16 percent, the valuation interest rate to be used for this product under § 807 is the applicable rate specified in the above table.
D. Valuation interest rates for other annuities and guaranteed interest contracts that are contracts with cash settlement options and that are valued on a change in fund basis:

<table>
<thead>
<tr>
<th>Cash Settlement Options?</th>
<th>Future Interest Guarantee?</th>
<th>Guarantee Duration (years)</th>
<th>Valuation Interest Rate For Plan Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>5 or fewer</td>
<td>4.00* 4.00* 3.75*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 5, but not more than 10</td>
<td>4.00* 4.00* 3.75*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 10, but not more than 20</td>
<td>4.00* 3.75* 3.50*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 20</td>
<td>3.75* 3.75* 3.50*</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
<td>5 or fewer</td>
<td>4.25* 4.00* 3.75*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 5, but not more than 10</td>
<td>4.00* 4.00* 3.75*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 10, but not more than 20</td>
<td>4.00* 4.00* 3.75*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>More than 20</td>
<td>3.75* 3.75* 3.50*</td>
</tr>
</tbody>
</table>

Source: Rates calculated from the monthly averages, ending June 30, 2013, of Moody’s Composite Yield on Seasoned Corporate Bonds.

* As these rates exceed the applicable federal interest rate for 2013 of 2.16 percent, the valuation interest rate to be used for this product under § 807 is the applicable rate specified in the above table.

Part IV. Applicable Federal Interest Rates.

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2.16</td>
</tr>
<tr>
<td>2014</td>
<td>1.79</td>
</tr>
</tbody>
</table>


EFFECT ON OTHER REVENUE RULINGS

Rev. Rul. 92–19 is supplemented by the addition to Part III of that ruling of prevailing state assumed interest rates under § 807 for certain insurance products issued in 2013 and 2014 and is further supplemented by an addition to the table in Part IV of Rev. Rul. 92–19 listing applicable federal interest rates. Parts I and II of Rev. Rul. 92–19 are not affected by this ruling.

DRAFTING INFORMATION

The principal author of this revenue ruling is Alexis A. MacIvor of the Office of Associate Chief Counsel (Financial Institutions and Products). For further information regarding this revenue ruling contact her at (202) 317-6995 (not a toll-free number).
YIELD CURVE AND SEGMENT RATES

Generally, except for certain plans under sections 104 and 105 of the Pension Protection Act of 2006, § 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. 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. Pursuant to Notice 2007–81, the monthly corporate bond yield curve derived from December 2013 data is in Table I at the end of this notice. The spot first, second, and third segment rates for the month of December 2013 are, respectively, 1.25, 4.57, and 5.60. For plan years beginning on or after January 1, 2012, the 24-month average segment rates determined under § 430(h)(2)(C)(iv) must be adjusted by the applicable percentage of the corresponding 25-year average segment rates. The 25-year average segment rates for plan years beginning in 2012, 2013, and 2014 were published in Notice 2012–55, 2012–36 I.R.B. 332, Notice 2013–11, 2013–11 I.R.B. 610, and Notice 2013–58, 2013–40 I.R.B. 294, respectively. The three 24-month average corporate bond segment rates applicable for January 2014 without adjustment, and the adjusted 24-month average segment rates taking into account the applicable percentages of the corresponding 25-year average segment rates, are as follows:

<table>
<thead>
<tr>
<th>For Plan Years Beginning In</th>
<th>Applicable Month</th>
<th>24-Month Average Segment Rates Not Adjusted</th>
<th>Adjusted 24-Month Average Segment Rates, Based on Applicable Percentage of 25-Year Average Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>First Segment</td>
<td>Second Segment</td>
</tr>
<tr>
<td>2012</td>
<td>January 2014</td>
<td>1.25</td>
<td>4.06</td>
</tr>
<tr>
<td></td>
<td>January 2014</td>
<td>1.25</td>
<td>4.06</td>
</tr>
<tr>
<td></td>
<td>January 2014</td>
<td>1.25</td>
<td>4.06</td>
</tr>
</tbody>
</table>

30-YEAR TREASURY SECURITIES INTEREST RATES

Generally for plan years beginning after 2007, § 431 specifies the minimum funding requirements that apply to multiemployer plans pursuant to § 412. Section 431(c)(6)(B) specifies a minimum amount for the full-funding limitation described in section 431(c)(6)(A), based on the plan’s current liability. Section 431(c)(6)(E)(ii)(I) provides that for purposes of § 430(h)(2), the segment rates are limited by the applicable maximum percentage or the applicable minimum percentage based on the average of segment rates over a 25 year period.
<table>
<thead>
<tr>
<th>Month</th>
<th>Year</th>
<th>30-Year Treasury Weighted Average</th>
<th>Permissible Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>2014</td>
<td>3.46</td>
<td>90% to 105%</td>
</tr>
</tbody>
</table>

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 segment rates determined for December 2013 are as follows:

<table>
<thead>
<tr>
<th>First Segment</th>
<th>Second Segment</th>
<th>Third Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.25</td>
<td>4.57</td>
<td>5.60</td>
</tr>
</tbody>
</table>

DRAFTING INFORMATION

The principal author of this notice is Tony Montanaro of the Employee Plans, Tax Exempt and Government Entities Division. Mr. Montanaro may be e-mailed at RetirementPlanQuestions@irs.gov.
<table>
<thead>
<tr>
<th>Maturity</th>
<th>Yield</th>
<th>Maturity</th>
<th>Yield</th>
<th>Maturity</th>
<th>Yield</th>
<th>Maturity</th>
<th>Yield</th>
<th>Maturity</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.5</td>
<td>0.27</td>
<td>20.5</td>
<td>5.38</td>
<td>40.5</td>
<td>5.62</td>
<td>60.5</td>
<td>5.72</td>
<td>80.5</td>
<td>5.76</td>
</tr>
<tr>
<td>1.0</td>
<td>0.44</td>
<td>21.0</td>
<td>5.39</td>
<td>41.0</td>
<td>5.63</td>
<td>61.0</td>
<td>5.72</td>
<td>81.0</td>
<td>5.76</td>
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<tr>
<td>1.5</td>
<td>0.63</td>
<td>21.5</td>
<td>5.40</td>
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<td>61.5</td>
<td>5.72</td>
<td>81.5</td>
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<td>2.0</td>
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<td>62.5</td>
<td>5.72</td>
<td>82.5</td>
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<td>5.72</td>
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<td>5.67</td>
<td>68.5</td>
<td>5.74</td>
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<td>5.77</td>
</tr>
<tr>
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<td>5.52</td>
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<td>5.74</td>
<td>89.5</td>
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</tr>
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Current Refundings of Recovery Zone Facility Bonds
Notice 2014–9

SECTION 1. PURPOSE

This Notice provides guidance on “current refunding issues” (as defined in § 1.150–1(d)(3) of the Income Tax Regulations) that refund outstanding prior issues of bonds that qualify as Recovery Zone Facility Bonds (Recovery Zone Facility Bonds) under § 1400U–3 of the Internal Revenue Code (“Code”). In particular, this Notice applies to current refunding issues that are used (directly or indirectly in a series of current refunding issues) to refund original tax-exempt bonds issued before January 1, 2011 (the “Applicable Deadline”), that meet the qualification requirements for qualified Recovery Zone Facility Bonds. These original qualified tax-exempt bonds are referred to in this Notice as “Qualified Bonds.”

SECTION 2. BACKGROUND

Section 1401 of the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111–5, 123 Stat. 115, 348 (2009) (“ARRA”), added §§ 1400U–1 and 1400U–3 to the Code to authorize State and local governments to issue Recovery Zone Facility Bonds. Section 1400U–1(a)(4)(B) imposes a national bond volume limitation of $15 billion for Recovery Zone Facility Bonds. Section 1400U–1(a)(1)(A) provides that the Secretary shall allocate the national recovery zone facility bond limitation among the States in the proportion that each such State’s 2008 State employment decline bears to the aggregate of 2008 State employment declines for all of the States. Notice 2009–50, 2009–26 I.R.B. 1118 (June 29, 2009), provides guidance regarding the maximum face amount of Recovery Zone Facility Bonds that may be issued by each State and counties and large municipalities within each State as provided in § 1400U–1(a).

In general, Recovery Zone Facility Bonds may be used to finance certain property, referred to as “recovery zone property,” for use within certain designated zones, referred to as “recovery zones.” Section 1400U–1(b) provides that, for purposes of §§ 1400U–1 through 1400U–3, the term “recovery zone” means: (1) any area designated by the issuer as having significant poverty, unemployment, rate of home foreclosures, or general distress; (2) any area designated by the issuer as economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990; and (3) any area for which a designation as an empowerment or renewal community is in effect as of the effective date of ARRA, which is February 17, 2009.

Section 1400U–3(c)(1) defines the term “recovery zone property” to mean any property in a recovery zone to which § 168 (relating to the accelerated cost recovery system) applies (or would apply but for § 179 (relating to the election to expense certain depreciable business assets)) if: (A) such property was constructed, reconstructed, renovated, or acquired by purchase (as defined in § 179(d)(2)) by the taxpayer after the date on which the designation of the recovery zone took effect; (B) the original use of which in the recovery zone commences with the taxpayer; and (C) substantially all of the use of which is in the recovery zone and is in the active conduct of a qualified business (as defined in § 1400U–3(c)(2)) by the taxpayer in the recovery zone. Section 1400U–3(d) provides in part that § 146 (relating to volume cap) and § 147(d) (relating to prohibition against acquisition of existing property) shall not apply to any Recovery Zone Facility Bond.

Section 141(e) provides that an “exempt facility bond” under §142 is one type of qualified private activity bond that may be issued with interest that is excludable from gross income under §103(a). Section 1400U–3(a) provides that, for purposes of §§ 141 through 150, the term “exempt facility bond” includes any Recovery Zone Facility Bond. Section 1400U–3(b)(1) defines the term “Recovery Zone Facility Bond” to mean any bond issued as part of an issue if (A) 95 percent or more of the net proceeds (as defined in § 150(a)(3)) of such issue are to be used for recovery zone property; (B) such bond is issued before the Applicable Deadline; and (C) the issuer designates such bond for purposes of § 1400U–3.

The statutory provisions relating to Recovery Zone Facility Bonds are silent regarding the permissibility of current refundings of these bonds after the Applicable Deadline. Under similar provisions for exempt facility bonds for disaster relief, the Treasury Department and the IRS have previously provided guidance permitting current refundings within certain size limitations for purposes of bond issuance deadlines applicable to those bonds. See Notice 2012–3, 2012–3 I.R.B. 289 (January 17, 2012) (permitting current refundings of outstanding prior issues of Gulf Opportunity Zone Bonds issued under § 1400N and outstanding prior issues under certain other disaster relief bond programs) and Notice 2003–40, 2003–27 I.R.B. 10, at Question 5 (July 7, 2003) (permitting current refundings of qualified New York Liberty Bonds issued under § 1400L).

SECTION 3. SCOPE AND APPLICATION

.01 Guidance and Reliance. Pending the promulgation and effective date of future administrative or regulatory guidance, taxpayers may rely on the guidance provided in this Notice.

.02 Scope of Application. This Notice applies to any current refunding issue that is used (directly or indirectly in a series of current refunding issues) to refund Qualified Bonds described in Section 1 of this Notice if the following requirements are met:

(1) The original Qualified Bonds were issued before the Applicable Deadline, or any statutory extension of such deadline.

(2) Except as provided herein, the “issue price” (as defined in § 1.118–1(b)) of the current refunding issue is no greater than the outstanding stated principal amount of the refunded bonds. For refunded bonds originally issued with more than a de minimis amount of original issue discount or premium (as defined in § 1.118–4(e)), the present value of the refunded bonds (as determined under § 1.118–4(e)) must be used in lieu of the outstanding stated principal amount to determine the maximum issue price of the current refunding issue.
The principal author of this Notice is Zoran Stojanovic of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this Notice, contact Mr. Stojanovic at (202) 317-6980 (not a toll-free number).

SECTION 4. DRAFTING INFORMATION

Editorial changes have been made throughout this revenue procedure. No substantive changes have been made.

SECTION 3. BACKGROUND

If section 6662 applies to any portion of an underpayment of tax required to be shown on a return, an amount equal to 20 percent of the portion of the underpayment is added to the tax. The penalty rate increases to 40 percent in the case of gross-valuation misstatements under section 6662(h), nondisclosed noneconomic-substance transactions under section 6662(i), or undisclosed foreign financial-asset understatements under section 6662(j). Section 6662(b)(2) applies to the portion of an underpayment of tax that is attributable to a substantial understatement of income tax.

There is a substantial understatement of income tax if the amount of the understatement exceeds the greater of 10 percent of the amount of tax required to be shown on the return for the taxable year or $5,000. Section 6662(d)(1). Section 6662(d)(1)(B) provides a special rule for corporations. A corporation (other than an S corporation or a personal holding company) has a substantial understatement of income tax if the amount of the understatement exceeds the lesser of (i) 10 percent of the tax required to be shown on the return for a taxable year (or, if greater, $10,000) or (ii) $10,000,000. An understatement is the excess of the amount of tax required to be shown on the return for the taxable year over the amount of the tax that is shown on the return reduced by any rebate. Section 6662(d)(2).

In the case of an item not attributable to a tax shelter, if the taxpayer has a reasonable basis for the tax treatment of the item, the amount of the understatement is reduced by the portion of the understatement attributable to any item with respect to which the relevant facts affecting the item’s tax treatment are adequately disclosed in the return or in a statement attached to the return. Section 6662(d)(2)(B).

Section 6694(a) imposes a penalty on a tax-return preparer who prepares a return or claim for refund reflecting an unreasonable position if the tax return preparer knew (or reasonably should have known) of the position. A position (other than a position with respect to a tax shelter or a reportable transaction to which section 6662A applies) is generally treated as unreasonable unless (i) there is or was substantial authority for the position, or (ii) the position was properly disclosed in accordance with section 6662(d)(2)(B)(ii)(I) and had a reasonable basis. If the position is with respect to a tax shelter (as defined in section 6662(d)(2)(C)(iii)) or a reportable transaction to which section 6662A applies, the position is treated as unreasonable unless it is reasonable to believe...
that the position would more likely than not be sustained on the merits. See Notice 2009–5, 2009–3 I.R.B. 309 (January 21, 2009) for interim penalty compliance rules for tax shelter transactions.

.05 In general, this revenue procedure provides guidance for determining when disclosure by return is adequate for purposes of section 6662(d)(2)(B)(ii) and section 6694(a)(2)(B). For purposes of this revenue procedure, the taxpayer must furnish all required information in accordance with the applicable forms and instructions, and the money amounts entered on these forms must be verifiable.

.06 Fiscal- and short tax-year returns.

(a) In general. This revenue procedure may apply to a return for a fiscal tax year that begins in 2013 and ends in 2014. This revenue procedure may also apply to a short year return for a period beginning in 2014 if the return is to be filed before the 2014 forms are available. (Note that individuals are generally not put in this position, as the only situation in which a short year arises is when filing a decedent’s final return for a fractional part of a year, which is due the fifteenth day of the fourth month following the close of the 12-month period that began with the first day of such fractional part of the year (after the 2014 form is available). See Treas. Reg. § 1.6072–1(b).) In the case of fiscal-year and short-year returns, the taxpayer must take into account any tax law changes that are effective for tax years beginning after December 31, 2013, even though these changes are not reflected on the form.

(b) Tax law changes effective after December 31, 2013. This document does not take into account the effect of tax law changes effective for tax years beginning after December 31, 2013. If a line referenced in this revenue procedure is affected by such a change and requires additional reporting, a taxpayer may have to file Form 8275, Disclosure Statement, or Form 8275–R, Regulation Disclosure Statement, until the Service prescribes criteria for complying with the requirement.

.07 A complete and accurate disclosure of a tax position on the appropriate year’s Schedule UTP, Uncertain Tax Position Statement, will be treated as if the corporation filed a Form 8275 or Form 8275–R regarding the tax position. The filing of a Form 8275 or Form 8275–R, however, will not be treated as if the corporation filed a Schedule UTP.

SECTION 4. PROCEDURE

.01 General

(1) Additional disclosure of facts relevant to, or positions taken with respect to, issues involving any of the items set forth below is unnecessary for purposes of reducing any understatement of income tax under section 6662(d) (except as otherwise provided in section 4.02(3) concerning Schedules M–1 and M–3), provided that the forms and attachments are completed in a clear manner and in accordance with their instructions.

(2) The money amounts entered on the forms must be verifiable, and the information on the return must be disclosed in the manner described below. For purposes of this revenue procedure, a number is verifiable if, on audit, the taxpayer can prove the origin of the amount (even if that number is not ultimately accepted by the Internal Revenue Service) and the taxpayer can show good faith in entering that number on the applicable form.

(3) The disclosure of an amount as provided in section 4.02 below is not adequate when the understatement arises from a transaction between related parties. If an entry may present a legal issue or controversy because of a related-party transaction, then that transaction and the relationship must be disclosed on a Form 8275 or Form 8275–R.

(4) When the amount of an item is shown on a line that does not have a preprinted description identifying that item (such as on an unnamed line under an “Other Expense” category), the taxpayer must clearly identify the item by including the description on that line. For example, to disclose a bad debt for a sole proprietorship, the words “bad debt” must be written or typed on the line of Schedule C that shows the amount of the bad debt. Also, for Schedule M–3 (Form 1120), Part II, line 25, Other income (loss) items with differences, or Part III, line 37, Other expense/deduction items with differences, the entry must provide descriptive language; for example, “Cost of non-compete agreement deductible not capitalizable.” If space limitations on a form do not allow for an adequate description, the description must be continued on an attachment.

(5) Although a taxpayer may literally meet the disclosure requirements of this revenue procedure, the disclosure will have no effect for purposes of the section 6662 accuracy-related penalty if the item or position on the return: (1) does not have a reasonable basis as defined in Treas. Reg. § 1.6662–3(b)(3); (2) is attributable to a tax shelter item as defined in section 6662(d)(2); or (3) is not properly substantiated or the taxpayer failed to keep adequate books and records with respect to the item or position.

(6) Disclosure also will have no effect for purposes of the section 6694(a) penalty as applicable to tax-return preparers if the position is with respect to a tax shelter (as defined in section 6662(d)(2)(C)(ii)) or a reportable transaction to which section 6662A applies.

.02 Items

(1) Form 1040, Schedule A, Itemized Deductions:

(a) Medical and Dental Expenses: Complete lines 1 through 4, supplying all required information.

(b) Taxes: Complete lines 5 through 9, supplying all required information. Line 8 must list each type of tax and the amount paid.

(c) Interest Expenses: Complete lines 10 through 15, supplying all required information. This section 4.02(1)(c) does not apply to (i) amounts disallowed under section 163(d) unless Form 4952, Investment Interest Expense Deduction, is completed, or (ii) amounts disallowed under section 265.

(d) Contributions: Complete lines 16 through 19, supplying all required information. Enter the amount of the contribution reduced by the value of any substantial benefit (goods or services) provided by the donee organization in consideration, in whole or in part, for the contribution. Entering the contribution’s value, unreduced by the value of the benefit received, will not constitute adequate disclosure. If a contribution of $250 or more is made, this section will not apply unless a contemporaneous written acknowledgment, as required by section 170(f)(8), is obtained from the donee organization. If a contribution of cash of less than $250 is made, this section will not apply unless a
bank record or written communication from the donee organization, as required by section 170(f)(17), is obtained. If a contribution of property other than cash is made and the amount claimed as a deduction exceeds $500, attach a properly completed Form 8283, Noncash Charitable Contributions, to the return. In addition to the Form 8283, if a contribution of a qualified motor vehicle, boat, or airplane has a value of more than $500, this section will not apply unless a contemporaneous written acknowledgment, as required by section 170(f)(12), is obtained from the donee organization and attached to the return. An acknowledgment under section 170(f)(8) is not required if an acknowledgment under section 170(f)(12) is required.

(c) Casualty and Theft Losses: Complete Form 4684, Casualties and Thefts, and attach to the return. Each item or article for which a casualty or theft loss is claimed must be listed on Form 4684.

(2) Certain Trade or Business Expenses (including, for purposes of this section, the following six expenses as they relate to the rental of property):

(a) Casualty and Theft Losses: The procedure outlined in section 4.02(1)(e) must be followed.

(b) Legal Expenses: The amount claimed must be stated. This section does not apply, however, to amounts properly characterized as capital expenditures, personal expenses, or non-deductible lobbying or political expenditures, including amounts that are required to be (or that are) amortized over a period of years.

(c) Specific Bad Debt Charge-off: The amount written off must be stated.

(d) Reasonableness of Officers’ Compensation: Form 1125–E, Compensation of Officers, must be completed when required by its instructions. The time devoted to business must be expressed as a percentage as opposed to “part” or “as needed.” This section does not apply to “golden parachute” payments, as defined under section 280G. This section will not apply to the extent that remuneration paid or incurred exceeds the employee-remuneration deduction limitations under section 162(m), if applicable.

(e) Repair Expenses: The amount claimed must be stated. This section does not apply, however, to any repair expenses properly characterized as capital expenditures or personal expenses.

(f) Taxes (other than foreign taxes): The amount claimed must be stated.

(3) Differences in book and income tax reporting.

For Schedule M–1 and all Schedules M–3, including those listed in (a)–(f) below, the information provided must reasonably apprise the Service of the potential controversy concerning the tax treatment of the item. If the information provided does not so apprise the Service, a Form 8275 or Form 8275–R must be used to adequately disclose the item (see Part II of the instructions for those forms).

Note: An item reported on a line with a pre-printed description, shown on an attached schedule or “itemized” on Schedule M–1, may represent the aggregate amount of several transactions producing that item (i.e., a group of similar items, such as amounts paid or incurred for supplies by a taxpayer engaged in business). In some instances, a potentially controversial item may involve a portion of the aggregate amount disclosed on the schedule. The Service will not be reasonably apprised of a potential controversy by the aggregate amount disclosed. In these instances, the taxpayer must use Form 8275 or Form 8275–R regarding that portion of the item.

Combining unlike items, whether on Schedule M–1 or Schedule M–3 (or on an attachment when directed by the instructions), will not constitute an adequate disclosure.

Additionally, for taxpayers that file the Schedule M–3 (Form 1120), Schedule B, Additional Information for Schedule M–3 Filers, must also be completed. For taxpayers that file the Schedule M–3 (Form 1065), Schedule C, Additional Information for Schedule M–3 Filers, must also be completed. When required, these Schedules are necessary to constitute adequate disclosure.

(a) Form 1065. Schedule M–3 (Form 1065), Net Income (Loss) Reconciliation for Certain Partnerships: Column (a), Income (Loss) per Income Statement, of Part II (reconciliation of income (loss) items) and Column (a), Expense per Income Statement, of Part III (reconciliation of expense/deduction items); Column (b), Temporary Difference, and Column (c), Permanent Difference, of Part II (reconciliation of income (loss) items) and Part III (reconciliation of expense/deduction items); and Column (d), Income (Loss) per Tax Return, of Part II (reconciliation of income (loss) items) and Column (d), Deduction per Tax Return, of Part III (reconciliation of expense/deduction items).

(b) Form 1120. (i) Schedule M–1, Reconciliation of Income (Loss) per Books With Income per Return.

(ii) Schedule M–3 (Form 1120), Net Income (Loss) Reconciliation for Corporations with Total Assets of $10 Million or More: Column (a), Income (Loss) per Income Statement, of Part II (reconciliation of income (loss) items) and Column (a), Expense per Income Statement, of Part III (reconciliation of expense/deduction items); Column (b), Temporary Difference, and Column (c), Permanent Difference, of Part II (reconciliation of income (loss) items) and Part III (reconciliation of expense/deduction items) and Column (d), Income (Loss) per Tax Return, of Part II (reconciliation of income (loss) items) and Column (d), Deduction per Tax Return, of Part III (reconciliation of expense/deduction items).

(c) Form 1120–L. Schedule M–3 (Form 1120–L), Net Income (Loss) Reconciliation for U.S. Life Insurance Companies With Total Assets of $10 Million or More: Column (a), Income (Loss) per Income Statement, of Part II (reconciliation of income (loss) items) and Column (a), Expense per Income Statement, of Part III (reconciliation of expense/deduction items); Column (b), Temporary Difference, and Column (c), Permanent Difference, of Part II (reconciliation of income (loss) items) and Part III (reconciliation of expense/deduction items) and Column (d), Income (Loss) per Tax Return, of Part II (reconciliation of income (loss) items) and Column (d), Deduction per Tax Return, of Part III (reconciliation of expense/deduction items).

(d) Form 1120–PC. Schedule M–3 (Form 1120–PC), Net Income (Loss) Reconciliation for U.S. Property and Casualty Insurance Companies With Total Assets of $10 Million or More: Column (a), Income (Loss) per Income Statement, of Part II (reconciliation of income (loss) items) and Column (a), Expense per Income Statement, of Part III (reconciliation of expense/deduction items); Column (b), Temporary Difference, and Column (c), Permanent Difference, of Part II (reconciliation of income (loss) items) and Part III (reconciliation of expense/deduction items).
Expense per Income Statement, of Part III (reconciliation of expense/deduction items); Column (b), Temporary Difference, and Column (c), Permanent Difference, of Part II (reconciliation of income (loss) items) and Part III (reconciliation of expense/deduction items); and Column (d), Income (Loss) per Tax Return, of Part II (reconciliation of income (loss) items) and Part III (reconciliation of expense/deduction items).

(e) Form 1120–S. Schedule M–3 (Form 1120–S), Net Income (Loss) Reconciliation for S Corporations With Total Assets of $10 Million or More: Column (a), Income (Loss) per Income Statement, of Part II (reconciliation of income (loss) items) and Column (a), Expense per Income Statement, of Part III (reconciliation of expense/deduction items); Column (b), Temporary Difference, and Column (c), Permanent Difference, of Part II (reconciliation of income (loss) items) and Column (d), Deduction per Tax Return, of Part III (reconciliation of expense/deduction items).

(f) Form 1120–F. Schedule M–3 (Form 1120–F), Net Income (Loss) Reconciliation for Foreign Corporations With Total Assets of $10 Million or More: Column (b), Temporary Difference, Column (c), Permanent Difference, and Column (d), Other Permanent Differences for Allocations to Non-ECI and ECI, of Part II (reconciliation of income (loss) items) and Part III (reconciliation of expense/deduction items).

(4) Foreign Tax Items:
(a) International Boycott Transactions: Transactions disclosed on Form 5713, International Boycott Report; Schedule A, International Boycott Factor (Section 999(c)(1)); Schedule B, Specifically Attributable Taxes and Income (Section 999(c)(2)); and Schedule C, Tax Effect of the International Boycott Provisions, must be completed when required by their instructions.
(b) Treaty-Based Return Position: Transactions and amounts under section 6114 or section 7701(b) as disclosed on Form 8833, Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b), must be completed when required by its instructions.
(c) Fuels Credit: Complete Form 4136, Credit for Federal Tax Paid on Fuels, and attach to the return.
(d) Investment Credit: Complete Form 3468, Investment Credit, and attach to the return.

SECTION 5. EFFECTIVE DATE

This revenue procedure applies to any income-tax return filed on a 2013 tax form for a taxable year beginning in 2013 and to any income tax return filed on a 2013 tax form in 2014 for a short taxable year beginning in 2014.

SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is Larry Pounders of the Office of Associate Chief Counsel (Procedure & Administration). For further information regarding this revenue procedure, contact Branch 1 of Procedure and Administration at (202) 317-6845 (not a toll free number).
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.

Revised 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 rulings 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 substance 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.
CB.—Cumulative Bulletin.
CI—City.
COOP—Cooperative.
C.D.—Court Decision.
CY—County.
D—Decedent.
DC—Dummy Corporation.
DE—Donee.
Del. Ord.—Delegation Order.
DISC—Domestic International Sales Corporation.
DR—Donor.
E—Estate.
EE—Employee.
E.O.—Executive Order.
ER—Employer.
EX—Executor.
F—Fiduciary.
FC—Foreign Country.
FISC—Foreign International Sales Company.
FPH—Foreign Personal Holding Company.
F.R.—Federal Register.
FX—Foreign corporation.
G.C.M.—Chief Counsel’s Memorandum.
GE—Grantee.
GP—General Partner.
GR—Grantor.
IC—Insurance Company.
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.
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Key to Abbreviations:
Ann Announcement
CD Court Decision
DO Delegation Order
EO Executive Order
PL Public Law
PTE Prohibited Transaction Exemption
RP Revenue Procedure
RR Revenue Ruling
SPR Statement of Procedural Rules
TC Tax Convention
TD Treasury Decision
TDO Treasury Department Order

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