

INTERNAL REVENUE BULLETIN



HIGHLIGHTS OF THIS ISSUE

Bulletin No. 2016-22
May 31, 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

Notice 2016-34, page 1016.

The notice publishes the calendar year 2016 inflation adjustment factors and reference prices for the renewable electricity production credit, the refined coal credit and the Indian coal credit under section 45.

EMPLOYEE PLANS

Notice 2016-33, page 1013.

This notice sets forth updates on the corporate bond monthly yield curve, the corresponding spot segment rates for May 2016 used under § 417(e)(3)(D), the 24-month average segment rates applicable for May 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).

EXEMPT ORGANIZATIONS

Rev. Proc. 2016-32, page 1019.

Revenue Procedure 2016-32 modifies Revenue Procedure 2016-8 by reducing the user fee listed in in Rev. Proc. 2016-8 for Form 1023-EZ, Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code, from \$400 to \$275.

ADMINISTRATIVE

Rev. Proc. 2016-26, page 1018.

The revenue procedure provides guidance with respect to median gross income figures used by issuers of qualified mortgage bonds as defined in section 143(a) and issuers of mortgage credit certificates as defined in section 25(c).

Rev. Proc. 2016-32, page 1019.

Revenue Procedure 2016-32 modifies Revenue Procedure 2016-8 by reducing the user fee listed in in Rev. Proc. 2016-8 for Form 1023-EZ, Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code, from \$400 to \$275.

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.

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Part III. Administrative, Procedural, and Miscellaneous

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

Notice 2016–33

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 April 2016

data is in Table I at the end of this notice. The spot first, second, and third segment rates for the month of April 2016 are, respectively, 1.47, 3.65, and 4.62.

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 May 2016 without adjustment for the 25-year average segment rate limits are as follows:

Applicable Month	First Segment	Second Segment	Third Segment
May 2016	1.48	3.90	4.90

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

justed 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	May	2016	4.72	6.11	6.81
2016	May	2016	4.43	5.91	6.65

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)).

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 § 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 average interest rate. The rate of interest on 30-year Treasury secu-

rities for April 2016 is 2.62 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		
Month	Year		90%	to	105%
May	2016	3.06	2.76		3.22

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 April 2016 are as follows:

First Segment	Second Segment	Third Segment
1.47	3.65	4.62

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 a toll-free number).

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

<i>Maturity</i>	<i>Yield</i>								
0.5	0.66	20.5	4.39	40.5	4.64	60.5	4.74	80.5	4.79
1.0	0.95	21.0	4.40	41.0	4.65	61.0	4.74	81.0	4.79
1.5	1.20	21.5	4.41	41.5	4.65	61.5	4.74	81.5	4.79
2.0	1.40	22.0	4.42	42.0	4.65	62.0	4.74	82.0	4.79
2.5	1.53	22.5	4.43	42.5	4.66	62.5	4.74	82.5	4.79
3.0	1.62	23.0	4.44	43.0	4.66	63.0	4.75	83.0	4.79
3.5	1.70	23.5	4.45	43.5	4.66	63.5	4.75	83.5	4.79
4.0	1.78	24.0	4.46	44.0	4.67	64.0	4.75	84.0	4.79
4.5	1.88	24.5	4.46	44.5	4.67	64.5	4.75	84.5	4.79
5.0	1.98	25.0	4.47	45.0	4.67	65.0	4.75	85.0	4.79
5.5	2.11	25.5	4.48	45.5	4.68	65.5	4.75	85.5	4.79
6.0	2.25	26.0	4.49	46.0	4.68	66.0	4.75	86.0	4.80
6.5	2.39	26.5	4.49	46.5	4.68	66.5	4.76	86.5	4.80
7.0	2.55	27.0	4.50	47.0	4.68	67.0	4.76	87.0	4.80
7.5	2.70	27.5	4.51	47.5	4.69	67.5	4.76	87.5	4.80
8.0	2.85	28.0	4.52	48.0	4.69	68.0	4.76	88.0	4.80
8.5	3.00	28.5	4.52	48.5	4.69	68.5	4.76	88.5	4.80
9.0	3.14	29.0	4.53	49.0	4.69	69.0	4.76	89.0	4.80
9.5	3.28	29.5	4.54	49.5	4.70	69.5	4.76	89.5	4.80
10.0	3.40	30.0	4.54	50.0	4.70	70.0	4.76	90.0	4.80
10.5	3.52	30.5	4.55	50.5	4.70	70.5	4.77	90.5	4.80
11.0	3.62	31.0	4.56	51.0	4.70	71.0	4.77	91.0	4.80
11.5	3.72	31.5	4.56	51.5	4.70	71.5	4.77	91.5	4.80
12.0	3.81	32.0	4.57	52.0	4.71	72.0	4.77	92.0	4.80
12.5	3.88	32.5	4.57	52.5	4.71	72.5	4.77	92.5	4.80
13.0	3.95	33.0	4.58	53.0	4.71	73.0	4.77	93.0	4.81
13.5	4.01	33.5	4.58	53.5	4.71	73.5	4.77	93.5	4.81
14.0	4.07	34.0	4.59	54.0	4.72	74.0	4.77	94.0	4.81
14.5	4.12	34.5	4.59	54.5	4.72	74.5	4.77	94.5	4.81
15.0	4.16	35.0	4.60	55.0	4.72	75.0	4.78	95.0	4.81
15.5	4.19	35.5	4.60	55.5	4.72	75.5	4.78	95.5	4.81
16.0	4.23	36.0	4.61	56.0	4.72	76.0	4.78	96.0	4.81
16.5	4.25	36.5	4.61	56.5	4.72	76.5	4.78	96.5	4.81
17.0	4.28	37.0	4.62	57.0	4.73	77.0	4.78	97.0	4.81
17.5	4.30	37.5	4.62	57.5	4.73	77.5	4.78	97.5	4.81
18.0	4.32	38.0	4.62	58.0	4.73	78.0	4.78	98.0	4.81
18.5	4.34	38.5	4.63	58.5	4.73	78.5	4.78	98.5	4.81
19.0	4.35	39.0	4.63	59.0	4.73	79.0	4.78	99.0	4.81
19.5	4.37	39.5	4.64	59.5	4.74	79.5	4.78	99.5	4.81
20.0	4.38	40.0	4.64	60.0	4.74	80.0	4.79	100.0	4.81

Credit for Renewable Electricity Production and Refined Coal Production, and Publication of Inflation Adjustment Factor and Reference Prices for Calendar Year 2016

Notice 2016-34

This notice publishes the inflation adjustment factor and reference prices for calendar year 2016 for the renewable electricity production and refined coal production and Indian coal production credit under section 45 of the Internal Revenue Code. The 2016 inflation adjustment factor and reference prices are used in determining the availability of the credits. The 2016 inflation adjustment factor and reference prices apply to calendar year 2016 sales of kilowatt hours of electricity produced in the United States or a possession thereof from qualified energy resources and to calendar year 2016 sales of refined coal and Indian coal produced in the United States or a possession thereof.

BACKGROUND

Section 45(a) provides that the renewable electricity production credit for any tax year is an amount equal to the product of 1.5 cents multiplied by the kilowatt hours of specified electricity produced by the taxpayer and sold to an unrelated person during the tax year. This electricity must be produced from qualified energy resources and at a qualified facility during the 10-year period beginning on the date the facility was originally placed in service.

Section 45(b)(1) provides that the amount of the credit determined under section 45(a) is reduced by an amount which bears the same ratio to the amount of the credit as (A) the amount by which the reference price for the calendar year in which the sale occurs exceeds 8 cents, bears to (B) 3 cents. Under section 45(b)(2), the 1.5 cent amount in section 45(a), the 8 cent amount in section 45(b)(1), the \$4.375 amount in section 45(e)(8)(A), and, in section 45(e)(8)(B)(i), the reference price of fuel used as feedstock (within the meaning of section 45(c)(7)(A)) in 2002 are each

adjusted by multiplying the amount by the inflation adjustment factor for the calendar year in which the sale occurs. If any amount as increased under the preceding sentence is not a multiple of 0.1 cent, the amount is rounded to the nearest multiple of 0.1 cent. In the case of electricity produced in open-loop biomass facilities, small irrigation power facilities, landfill gas facilities, trash facilities, qualified hydropower facilities, and marine and hydrokinetic renewable energy facilities, section 45(b)(4)(A) requires the amount in effect under section 45(a)(1) (before rounding to the nearest 0.1 cent) to be reduced by one-half.

Section 45(c)(1) defines qualified energy resources as wind, closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic renewable energy.

Section 45(d)(1) defines a qualified facility using wind to produce electricity as any facility owned by the taxpayer that is originally placed in service after December 31, 1993, and the construction of which begins before January 1, 2020. See section 45(e)(7) for rules relating to the inapplicability of the credit to electricity sold to utilities under certain contracts.

Section 45(d)(2)(A) defines a qualified facility using closed-loop biomass to produce electricity as any facility (i) owned by the taxpayer that is originally placed in service after December 31, 1992, and the construction of which begins before January 1, 2017, or (ii) owned by the taxpayer which before January 1, 2017, is originally placed in service and modified to use closed-loop biomass to co-fire with coal, with other biomass, or with both, but only if the modification is approved under the Biomass Power for Rural Development Programs or is part of a pilot project of the Commodity Credit Corporation as described in 65 Fed. Reg. 63052. For purposes of section 45(d)(2)(A)(ii), a facility shall be treated as modified before January 1, 2017, if the construction of such modification begins before such date. Section 45(d)(2)(C) provides that in the case of a qualified facility described in section 45(d)(2)(A)(ii), (i) the 10-year period referred to in section 45(a) is treated as beginning no earlier than the date of enactment of section 45(d)(2)(C)(i) (October

22, 2004), and (ii) if the owner of the facility is not the producer of the electricity, the person eligible for the credit allowable under section 45(a) is the lessee or the operator of the facility.

Section 45(d)(3)(A) defines a qualified facility using open-loop biomass to produce electricity as any facility owned by the taxpayer which (i) in the case of a facility using agricultural livestock waste nutrients, (I) is originally placed in service after the date of enactment of section 45(d)(3)(A)(i)(I) (October 22, 2004) and the construction of which begins before January 1, 2017, and (II) the nameplate capacity rating of which is not less than 150 kilowatts, and (ii) in the case of any other facility, the construction of which begins before January 1, 2017. In the case of any facility described in section 45(d)(3)(A), if the owner of the facility is not the producer of the electricity, section 45(d)(3)(C) provides that the person eligible for the credit allowable under section 45(a) is the lessee or the operator of the facility.

Section 45(d)(4) defines a qualified facility using geothermal or solar energy to produce electricity as any facility owned by the taxpayer which is originally placed in service after the date of enactment of section 45(d)(4) (October 22, 2004) and which, (A) in the case of a facility using solar energy, is placed in service before January 1, 2006, or (B) in the case of a facility using geothermal energy, the construction of which begins before January 1, 2017. A qualified facility using geothermal or solar energy does not include any property described in section 48(a)(3) the basis of which is taken into account by the taxpayer for purposes of determining the energy credit under section 48.

Section 45(d)(5) defines a qualified facility using small irrigation power to produce electricity as any facility owned by the taxpayer which is originally placed in service after the date of enactment of section 45(d)(5) (October 22, 2004) and before October 3, 2008.

Section 45(d)(6) defines a qualified facility using gas derived from the biodegradation of municipal solid waste to produce electricity as any facility owned by the taxpayer which is originally placed in service after the date of enactment of section 45(d)(6) (October 22, 2004) and the

construction of which begins before January 1, 2017.

Section 45(d)(7) defines a qualified facility (other than a facility described in section 45(d)(6)) that burns municipal solid waste to produce electricity as any facility owned by the taxpayer which is originally placed in service after the date of enactment of section 45(d)(7) (October 22, 2004) and the construction of which begins before January 1, 2017. A qualified facility burning municipal solid waste includes a new unit placed in service in connection with a facility placed in service on or before the date of enactment of section 45(d)(7), but only to the extent of the increased amount of electricity produced at the facility by reason of such new unit.

Section 45(d)(8) provides, in the case of a facility that produces refined coal (other than a facility producing steel industry fuel), the term “refined coal production facility” means any facility producing refined coal placed in service after the date of the enactment of the American Jobs Creation Act of 2004 (October 22, 2004) and before January 1, 2012.

Section 45(d)(9) defines a qualified facility producing qualified hydroelectric production described in section 45(c)(8) as (i) any facility producing incremental hydropower production, but only to the extent of its incremental hydropower production attributable to efficiency improvements or additions to capacity described in section 45(c)(8)(B) placed in service after the date of enactment of section 45(d)(9)(A)(i) (August 8, 2005) and before January 1, 2017, and (ii) any other facility placed in service after the date of enactment of section 45(d)(9)(A)(ii) (August 8, 2005) and the construction of which begins before January 1, 2017. Section 45(d)(9)(B) provides that, in the case of a qualified facility described in section 45(d)(9)(A), the 10-year period referred to in section 45(a) is treated as beginning on the date the efficiency improvements or additions to capacity are placed in service. Section 45(d)(9)(C) provides that for purposes of section 45(d)(9)(A)(i), an efficiency improvement or addition to capacity is treated as placed in service before January 1, 2017, if the construction of such improvement or addition begins before such date.

Section 45(d)(10) provides that the term “Indian Coal Production Facility” means a facility that produces Indian coal.

Section 45(d)(11) provides in the case of a facility producing electricity from marine and hydrokinetic renewable energy, the term “qualified facility” means any facility owned by the taxpayer which (A) has a nameplate capacity rating of at least 150 kilowatts, and (B) which is originally placed in service on or after the date of the enactment of section 45(d)(11)(B) (October 3, 2008) and the construction of which begins before January 1, 2017.

Section 45(e)(8)(A) provides that the refined coal production credit is an amount equal to \$4.375 per ton of qualified refined coal (i) produced by the taxpayer at a refined coal production facility during the 10-year period beginning on the date the facility was originally placed in service, and (ii) sold by the taxpayer (I) to an unrelated person and (II) during the 10-year period and the tax year. Section 45(e)(8)(B) provides that the amount of credit determined under section 45(e)(8)(A) is reduced by an amount which bears the same ratio to the amount of the increase as (i) the amount by which the reference price of fuel used as feedstock (within the meaning of section 45(c)(7)(A)) for the calendar year in which the sale occurs exceeds an amount equal to 1.7 multiplied by the reference price for such fuel in 2002, bears to (ii) \$8.75.

Section 45(e)(2)(A) requires the Secretary to determine and publish in the Federal Register each calendar year the inflation adjustment factor and the reference price for the calendar year. The inflation adjustment factor and the reference prices for the 2016 calendar year were published in the Federal Register on April 29, 2016.

Section 45(e)(2)(B) defines the inflation adjustment factor for a calendar year as the fraction the numerator of which is the GDP implicit price deflator for the preceding calendar year and the denominator of which is the GDP implicit price deflator for the calendar year 1992. The term “GDP implicit price deflator” means the most recent revision of the implicit price deflator for the gross domestic product as computed and published by the Department of Commerce before March 15 of the calendar year.

Section 45(e)(2)(C) provides that the reference price is the Secretary’s determination of the annual average contract price per kilowatt hour of electricity generated from the same qualified energy resource and sold in the previous year in the United States. Only contracts entered into after December 31, 1989, are taken into account.

Under section 45(e)(8)(C), the determination of the reference price for fuel used as feedstock within the meaning of section 45(c)(7)(A) is made according to rules similar to the rules under section 45(e)(2)(C).

INFLATION ADJUSTMENT FACTOR AND REFERENCE PRICES

The inflation adjustment factor for calendar year 2016 for qualified energy resources and refined coal is 1.5556. The inflation adjustment factor for Indian coal is 1.1934.

The reference price for calendar year 2016 for facilities producing electricity from wind (based upon information provided by the Department of Energy) is 4.50 cents per kilowatt hour. The reference prices for fuel used as feedstock within the meaning of section 45(c)(7)(A), relating to refined coal production (based upon information provided by the Department of Energy) are \$31.90 per ton for calendar year 2002 and \$53.74 per ton for calendar year 2016. The reference prices for facilities producing electricity from closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic energy have not been determined for calendar year 2016.

PHASEOUT CALCULATION

Because the 2016 reference price for electricity produced from wind (4.50 cents per kilowatt hour) does not exceed 8 cents multiplied by the inflation adjustment factor (1.5336), the phaseout of the credit provided in section 45(b)(1) does not apply to such electricity sold during calendar year 2015. Because the 2016 reference price of fuel used as feedstock for refined coal (\$53.74) does not exceed \$84.38 (which is the \$31.90 reference price of

such fuel in 2002 multiplied by the inflation adjustment factor (1.5556) and 1.7), the phaseout of the credit provided in section 45(e)(8)(B) does not apply to refined coal sold during calendar year 2016. Further, for electricity produced from closed-loop biomass, open-loop biomass, geothermal energy, solar energy, small irrigation power, municipal solid waste, qualified hydropower production, and marine and hydrokinetic energy, the phaseout of the credit provided in section 45(b)(1) does not apply to such electricity sold during calendar year 2016.

CREDIT AMOUNT BY QUALIFIED ENERGY RESOURCE AND FACILITY AND REFINED COAL AND INDIAN COAL

As required by section 45(b)(2), the 1.5 cent amount in section 45(a)(1), the 8 cent amount in section 45(b)(1), and the \$4.375 amount in section 45(e)(8)(A) and the \$2.00 amount in section 45(e)(10)(B) are each adjusted by multiplying such amount by the inflation adjustment factor for the calendar year in which the sale occurs. If any amount as increased under the preceding sentence is not a multiple of 0.1 cent, such amount is rounded to the nearest multiple of 0.1 cent. In the case of electricity produced in open-loop biomass facilities, small irrigation power facilities, landfill gas facilities, trash facilities, qualified hydropower facilities, and marine and hydrokinetic renewable energy facilities, section 45(b)(4)(A) requires the amount in effect under section 45(a)(1) (before rounding to the nearest 0.1 cent) to be reduced by one-half. Under the calculation required by section 45(b)(2), the credit for renewable electricity production for calendar year 2016 under section 45(a) is 2.3 cents per kilowatt hour on the sale of electricity produced from the qualified energy resources of wind, closed-loop biomass, geothermal energy, and solar energy, and 1.2 cents per kilowatt hour on the sale of electricity produced in open-loop biomass facilities, small irrigation power facilities, landfill gas facilities, trash facilities, qualified hydropower facilities, and marine and hydrokinetic energy facilities. Under the calculation required by section 45(b)(2), the credit for refined coal production for calendar year 2015 under section 45(e)(8)(A) is \$6.810

per ton on the sale of qualified refined coal. The credit for the production of Indian coal is \$2.387 per ton.

DRAFTING AND CONTACT INFORMATION

The principal author of this notice is Philip Tiegerman of the Office of Associate Chief Counsel (Passthroughs & Special Industries). For further information regarding this notice contact Ms. Records on (202) 317-6853 (not a toll-free number).

*26 CFR 601.601: Rules and Regulations.
(Also Part I, §§ 25, 103, 143; 1.25-4T, 1.103-1, 6a.103A-2.)*

Rev. Proc. 2016-26

SECTION 1. PURPOSE

This revenue procedure provides guidance with respect to the United States and area median gross income figures that are to be used by issuers of qualified mortgage bonds, as defined in § 143(a) of the Internal Revenue Code, and issuers of mortgage credit certificates, as defined in § 25(c), in computing the income requirements described in § 143(f).

SECTION 2. BACKGROUND

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

es; (ii) the issue meets the requirements of subsections (c), (d), (e), (f), (g), (h), (i), and (m)(7) of § 143; (iii) the issue does not meet the private business tests of paragraphs (1) and (2) of § 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 financing provided by the issue are used not later than the close of the first semi-annual period beginning after the date the prepayment (or complete repayment) is received to redeem bonds that are part of the issue.

.03 Section 143(f) imposes eligibility requirements concerning the maximum income of mortgagors for whom financing may be provided by qualified mortgage bonds. Section 25(c)(2)(A)(iii)(IV) provides that recipients of mortgage credit certificates must meet the income requirements of § 143(f). Generally, under §§ 143(f)(1) and 25(c)(2)(A)(iii)(IV), these income requirements are met only if all owner-financing under a qualified mortgage bond and all certified indebtedness amounts under a mortgage credit certificate program are provided to mortgagors whose family income is 115 percent or less of the applicable median family income. Under § 143(f)(6), the income limitation is reduced to 100 percent of the applicable median family income if there are fewer than three individuals in the family of the mortgagor.

.04 Section 143(f)(4) provides that the term “applicable median family income” means the greater of (A) the area median gross income for the area in which the residence is located, or (B) the statewide median gross income for the state in which the residence is located.

.05 Section 143(f)(5) provides for an upward adjustment of the income limitations in certain high housing cost areas. Under § 143(f)(5)(C), a high housing cost area is a statistical area for which the housing cost/income ratio is greater than 1.2. The housing cost/income ratio is determined under § 143(f)(5)(D) by dividing (a) the applicable housing price ratio by (b) the ratio that the area median gross income bears to the median gross income for the United States. The applicable housing price ratio is the new housing price ratio (new housing average purchase price for the area 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. This income adjustment applies only to bonds issued, and nonissued bond amounts elected, after December 31, 1988. See § 4005(h) of the Technical and Miscellaneous Revenue Act of 1988, 1988-3 C.B. 1, 311 (1988).

.06 The Department of Housing and Urban Development (HUD) has computed the median gross income for the United States, the states, and statistical areas within the states. The income information was released to the HUD regional offices on March 28, 2016, and may be obtained by calling the HUD reference service at 1-800-245-2691. The income information is also available at HUD's World Wide Web site, <http://www.huduser.org/portal/datasets/il.html>, which provides a menu from which you may select the year and type of data of interest.

.07 The most recent nationwide average purchase prices and average area purchase price safe harbor limitations were published on May 02, 2016, in Rev. Proc. 2016-25, 2016-18 I.R.B. 1009.

SECTION 3. APPLICATION

.01 When computing the income requirements of § 143(f), issuers of qualified mortgage bonds and mortgage credit certificates must use either (1) the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on March 06, 2015, or (2) the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on March 28, 2016.

.02 If an issuer uses the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on March 06, 2015, to compute the housing cost/income ratio under § 143(f)(5), the issuer must use the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on March 06,

2015, for all purposes under § 143(f). Likewise, if an issuer uses the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on March 28, 2016, to compute the housing cost/income ratio under § 143(f)(5), the issuer must use the median gross income for the United States, the states, and statistical areas within the states, as released to the HUD regional offices on March 28, 2016, for all purposes under § 143(f).

SECTION 4. EFFECT ON OTHER REVENUE PROCEDURES

.01 Rev. Proc. 2015-23, 2015-13 I.R.B. 820, is obsolete except as provided in §§ 3.01, 3.02, or 5.01 of this revenue procedure.

.02 This revenue procedure does not affect the effective date provisions of Rev. Rul. 86-124, 1986-2 C.B. 27. Those effective date provisions will remain operative at least until the Service publishes a new revenue ruling that conforms the approach to effective dates set forth in Rev. Rul. 86-124 to the general approach taken in this revenue procedure.

SECTION 5. EFFECTIVE DATES

.01 Issuers must use the United States and area median gross income figures specified in § 3.01 of this revenue procedure for commitments to provide financing that are made, or (if the purchase precedes the financing commitment) for residences that are purchased, in the period that begins on March 28, 2016, and ends on the date when these United States and area median gross income figures are rendered obsolete by a new revenue procedure.

DRAFTING INFORMATION

The principal authors of this revenue procedure are David White and Timothy Jones of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure contact Mr. White or Mr. Jones at (202) 317-6980 (not a toll-free number).

Rev. Proc. 2016-32

SECTION 1. PURPOSE

This revenue procedure modifies Revenue Procedure 2016-8, 2016-1 I.R.B. 243 by reducing the user fee listed in Rev. Proc. 2016-8 for Form 1023-EZ, *Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code*.

SECTION 2. BACKGROUND

Rev. Proc. 2016-8 provides a fee schedule for requests for determination letters on matters under the jurisdiction of the Commissioner, Tax Exempt and Government Entities Division, and sets the user fee for applications for recognition of exemption under § 501(c)(3) submitted on Form 1023-EZ at \$400.

SECTION 3. MODIFICATION TO REVENUE PROCEDURE 2016-8

.01 The user fee in section 6.09(1) of Rev. Proc. 2016-8, for applications for recognition of exemption under § 501(c)(3) submitted on Form 1023-EZ, is modified by replacing "\$400" with "\$275."

.02 The entry for "Application for recognition of exemption under § 501(c)(3) submitted on Form 1023-EZ" in the summary of exempt organization fees in section 6.10 is modified by replacing "\$400" with "\$275."

SECTION 4. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2016-8 is modified.

SECTION 5. EFFECTIVE DATE

This revenue procedure is effective July 1, 2016.

SECTION 6. DRAFTING INFORMATION

The principal author of this Revenue Procedure is Chelsea Rubin of the Office of Associate Chief Counsel (Tax Exempt and Government Entities). For additional information, please contact Ms. Rubin at 202-317-5800 (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.

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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