

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

Rev. Rul. 97-17, page 5.

Federal rates; adjusted federal rates; adjusted federal long-term rate, and the long-term exempt rate. For purposes of sections 1274, 1288, 382, and other sections of the Code, tables set forth the rates for April, 1997.

T.D. 8713, page 4.

REG-254394-96, page 14.

Temporary and proposed regulations under section 42 of the Code relate to low-income housing tax credit federal grants.

REG-209332-80, page 9.

Proposed regulations under section 453 of the Code relate to the use of the installment method to report the gain recognized by a shareholder who receives, in exchange for the shareholder's stock, certain installment obligations that are distributed upon complete liquidation of a corporation.

EMPLOYEE PLANS

Notice 97-23, page 8.

Weighted average interest rate update. Guidelines are set forth for determining for March 1997, the weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability for purposes of the full funding limitation of section 412(c)(7) of the Code as amended by the Omnibus Budget Reconciliation Act of 1987 and by the Uruguay Round Agreements Act (GATT).

Announcement 97-32, page 17.

Form 5309, Application for Determination of Employee Stock Ownership Plan, has been revised. Prior versions of the application form may be used until July 1, 1997.

EXEMPT ORGANIZATIONS

Announcement 97-28, page 15.

A list is given of organizations now classified as private foundations.

ADMINISTRATIVE

Announcement 97-29, page 16.

The United States recently exchanged instruments of ratification for new income tax treaties with Indonesia and Kazakstan. This announcement provides information on the income tax rates and withholding rates on certain income prescribed by these treaties.

Announcement 97-30, page 16.

The 1996 fourth quarter update of the directory section of Publication 938, Real Estate Mortgage Investment Conduits (REMICs) Reporting Information (And Other Collateralized Debt Obligations (CDOs)), is now available on the IRS electronic bulletin board (IRS-BBS).

Announcement 97-31, page 16.

REG-251520-96, 1996-48 I.R.B. 15, relating to the tax treatment of certain transactions involving the transfer of computer programs, is corrected.

Finding Lists begin on page 20.

Announcement of Disbarments and Suspensions begins on page 18.

Quarterly Index for January, February, and March begins on page 22.

Mission of the Service

The purpose of the Internal Revenue Service is to collect the proper amount of tax revenue at the least cost; serve the public by continually improving the

quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness.

Statement of Principles of Internal Revenue Tax Administration

The function of the Internal Revenue Service is to administer the Internal Revenue Code. Tax policy for raising revenue is determined by Congress.

With this in mind, it is the duty of the Service to carry out that policy by correctly applying the laws enacted by Congress; to determine the reasonable meaning of various Code provisions in light of the Congressional purpose in enacting them; and to perform this work in a fair and impartial manner, with neither a government nor a taxpayer point of view.

At the heart of administration is interpretation of the Code. It is the responsibility of each person in the Service, charged with the duty of interpreting the law, to try to find the true meaning of the statutory provision and not to adopt a strained construction in the belief that he or she is "protecting the revenue." The revenue is properly protected only when we ascertain and apply the true meaning of the statute.

The Service also has the responsibility of applying and administering the law in a reasonable, practical manner. Issues should only be raised by examining officers when they have merit, never arbitrarily or for trading purposes. At the same time, the examining officer should never hesitate to raise a meritorious issue. It is also important that care be exercised not to raise an issue or to ask a court to adopt a position inconsistent with an established Service position.

Administration should be both reasonable and vigorous. It should be conducted with as little delay as possible and with great courtesy and considerateness. It should never try to overreach, and should be reasonable within the bounds of law and sound administration. It should, however, be vigorous in requiring compliance with law and it should be relentless in its attack on unreal tax devices and fraud.

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 and may be obtained from the Superintendent of Documents on a subscription basis. Bulletin contents of a permanent nature are consolidated semi-annually into Cumulative Bulletins, which are sold on a single-copy basis.

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 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.

With the exception of the Notice of Proposed Rulemaking and the disbarment and suspension list included in this part, none of these announcements are consolidated in the Cumulative Bulletins.

The first Bulletin for each month includes an index for the matters published during the preceding month. These monthly indexes are cumulated on a quarterly and semiannual basis, and are published in the first Bulletin of the succeeding quarterly and semi-annual period, respectively.

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.

For sale by the Superintendent of Documents U.S. Government Printing Office, Washington, D.C. 20402.

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

Section 42.—Low-Income Housing Credit

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April, 1997. See Rev. Rul. 97-17, page 5.

26 CFR 1.42-16T: Eligible basis reduced by federal grants (temporary).

T.D. 8713

DEPARTMENT OF THE TREASURY Internal Revenue Service 26 CFR Part 1

Section 42(d)(5) Federal Grants.

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Temporary regulations.

SUMMARY: This document contains temporary regulations with respect to the low-income housing tax credit relating to the application of section 42(d)(5) to certain rental assistance programs under section 42(g)(2)(B)(i). The regulations clarify that certain types of federal rental assistance payments do not result in a reduction in the eligible basis of a low-income housing building. The text of these regulations also serves as the text of REG-254394-96, page 14.

EFFECTIVE DATE: These regulations are effective January 27, 1997.

FOR FURTHER INFORMATION CONTACT: Christopher J. Wilson (202) 622-3040 (not a toll-free call).

SUPPLEMENTARY INFORMATION:

Background

Under section 42(d)(1), the eligible basis used to compute the low-income housing tax credit of a new low-income building is the adjusted basis of the building as of the close of the first taxable year of the credit period. Section 42(d)(5) provides that if, during a taxable year in the compliance period (as defined in section 42(i)(1)), a federal grant is made with respect to a low-income building or the operation thereof, the eligible basis of the building for the taxable year and all succeeding taxable years is reduced to the extent of the federal grant. Questions have arisen whether rental assistance payments under section 8 of the United States Housing Act of 1937 (Act) (42 U.S.C. § 1437f) and certain rental assistance

payments under section 9 of the Act (42 U.S.C. 1437g) are federal grants requiring a reduction in eligible basis.

The legislative history of section 42 indicates that section 42(d)(5) was enacted to prevent a taxpayer from “double-dipping” in federal benefits. S. Rep. No. 313, 99th Cong., 2d Sess. II-767 (1986), 1986-3 (Vol 3) C.B. 767. This would occur, for example, if the owner of a building received both the low-income housing credit and a federal-interest subsidy or federal grant with respect to the building. The legislative history further indicates, however, that Congress did not intend to treat federal rental assistance payments as grants for this purpose. Thus, the legislative history indicates that no basis reduction is required for rental assistance payments provided by the Department of Housing and Urban Development (HUD) under section 8 of the Act. (In contrast to this treatment of section 8 rental assistance payments, section 42(c)(2) generally denies the low-income housing tax credit to buildings that receive “moderate rehabilitation assistance” under section 8(e)(2) of the Act).

HUD recently was granted the authority to assist mixed-finance projects under section 9 of the Act. Under this new initiative, public housing authorities receiving HUD assistance are permitted to disburse that assistance to private owners as reimbursement for the operating expenses of units the owner has agreed to maintain for public-housing tenants. This section 9 assistance for operating expenses functions in a manner similar to rental assistance payments under section 8 of the Act. The section 8 rental assistance payments are designed to compensate the unit owner for all or part of the difference between the rent a low-income tenant is able to pay and a fair market rent standard as set by HUD. Similarly, the section 9 payments are designed to cover an allocable share of operating costs of the units rented to low-income tenants, thus, in effect, supplementing the rents that these tenants are required to pay.

Explanation of Provisions

These temporary regulations provide that certain federal rental assistance payments made to the owner of a building on behalf of low-income tenants are not federal grants with respect to a building

or its operation that require a reduction in the building’s eligible basis under section 42(d)(5). These payments include rental assistance payments made under section 8 of the Act, certain payments made under section 9 of the Act, and payments made under such other programs or methods of rental assistance as may be designated in the Federal Register or the Internal Revenue Bulletin.

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory 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 and, because these regulations do not impose on small entities a collection of information requirement, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, this temporary regulation will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Drafting Information

The principal author of these regulations is Christopher J. Wilson, Office of Assistant Chief Counsel (Passthroughs and Special Industries). However, other personnel from the IRS and Treasury Department participated in their development.

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Adoption of Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

PART 1—INCOME TAXES

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

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

Section 1.42-16T also issued under 26 U.S.C. 42(n); * * *

Par. 2. Section 1.42-16T is added to read as follows:

§ 1.42-16T Eligible basis reduced by federal grants (temporary).

(a) *In general.* If, during any taxable year of the compliance period (described in section 42(i)(1)), a grant is made with respect to any building or the operation thereof and any portion of the grant is funded with federal funds (whether or not includible in gross income), the eligible basis of the building for the taxable year and all succeeding taxable years is reduced by the portion of the grant that is so funded.

(b) *Grants do not include certain rental assistance payments.* A federal rental assistance payment made to a building owner on behalf or in respect of a tenant is not a grant made with respect to a building or its operation if the payment is made pursuant to—

(1) Section 8 of the United States Housing Act of 1937;

(2) A qualifying program of rental assistance administered under section 9 of the United States Housing Act of 1937; or

(3) A program or method of rental assistance as the Secretary may designate through the **Federal Register** or in the Internal Revenue Bulletin (see § 601.601(d)(2) of this chapter).

(c) *Qualifying rental assistance program.* For purposes of paragraph (b)(2) of this section, payments are made pursuant to a qualifying rental assistance program administered under section 9 of the United State Housing Act of 1937 to the extent that the payments—

(1) Are made to a building owner pursuant to a contract with a public housing authority with respect to units the owner has agreed to maintain as public housing units (PH-units) in the building;

(2) Are made with respect to units occupied by public housing tenants, provided that, for this purpose, units may be considered occupied during periods of short term vacancy (not to exceed 60 days); and

(3) Do not exceed the difference between the rents received from a building's PH-unit tenants and a pro rata portion of the building's actual operating costs that are reasonably allocable to the PH-units (based on square footage, number of bedrooms, or similar objective criteria), and provided that, for this purpose, operating costs do not include any development costs of a building

(including developer's fees) or the principal or interest of any debt incurred with respect to any part of the building.

(d) *Effective date.* This section is effective January 27, 1997.

Margaret Milner Richardson,
Commissioner of Internal Revenue.

Approved January 8, 1997.

Donald C. Lubick,
Acting Assistant Secretary of the Treasury.

(Filed by the Office of the Federal Register on January 24, 1997, 8:45 a.m., and published in the issue of the Federal Register for January 27, 1997, 62 F.R. 3792)

Section 280G.—Golden Parachute Payments

Federal short-term, mid-term, and long-term rates are set forth for the month of April, 1997. See Rev. Rul. 97-17, this page.

Section 382.—Limitation on Net Operating Loss Carryforwards and Certain Built-In Losses Following Ownership Change

The adjusted federal long-term rate is set forth for the month of April, 1997. See Rev. Rul. 97-17, this page.

Section 412.—Minimum Funding Standards

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April, 1997. See Rev. Rul. 97-17, this page.

Section 467.—Certain Payments for the Use of Property or Services

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April, 1997. See Rev. Rul. 97-17, this page.

Section 468.—Special Rules for Mining and Solid Waste Reclamation and Closing Costs

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April, 1997. See Rev. Rul. 97-17, this page.

Section 483.—Interest on Certain Deferred Payments

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the

month of April, 1997. See Rev. Rul. 97-17, this page.

Section 807.—Rules for Certain Reserves

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April, 1997. See Rev. Rul. 97-17, this page.

Section 846.—Discounted Unpaid Losses Defined

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April, 1997. See Rev. Rul. 97-17, this page.

Section 1274.—Determination of Issue Price in the Case of Certain Debt Instruments Issued for Property

(Also Sections 42, 280G, 382, 412, 467, 468, 482, 483, 642, 807, 846, 1288, 7520, 7872.)

Federal rates; adjusted federal rates; adjusted federal long-term rate, and the long-term exempt rate. For purposes of sections 1274, 1288, 382, and other sections of the Code, tables set forth the rate for April, 1997.

Rev. Rul. 97-17

This revenue ruling provides various prescribed rates for federal income tax purposes for April 1997 (the current month.) Table 1 contains the short-term, mid-term, and long-term applicable federal rates (AFR) for the current month for purposes of section 1274(d) of the Internal Revenue Code. Table 2 contains the short-term, mid-term, and long-term adjusted applicable federal rates (adjusted AFR) for the current month for purposes of section 1288(b). Table 3 sets forth the adjusted federal long-term rate and the long-term tax-exempt rate described in section 382(f). Table 4 contains the appropriate percentages for determining the low-income housing credit described in section 42(b)(2) for buildings placed in service during the current month. Finally, Table 5 contains the federal rate for determining the present value of an annuity, an interest for life or for a term of years, or a remainder or a reversionary interest for purposes of section 7520.

REV. RUL. 97-17 TABLE 1

Applicable Federal Rates (AFR) for April 1997

Period for Compounding

	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
<i>Short-Term</i>				
AFR	5.91%	5.83%	5.79%	5.76%
110% AFR	6.51%	6.41%	6.36%	6.33%
120% AFR	7.12%	7.00%	6.94%	6.90%
130% AFR	7.72%	7.58%	7.51%	7.46%
<i>Mid-Term</i>				
AFR	6.49%	6.39%	6.34%	6.31%
110% AFR	7.15%	7.03%	6.97%	6.93%
120% AFR	7.82%	7.67%	7.60%	7.55%
130% AFR	8.48%	8.31%	8.23%	8.17%
150% AFR	9.82%	9.59%	9.48%	9.40%
175% AFR	11.49%	11.18%	11.03%	10.93%
<i>Long-Term</i>				
AFR	6.88%	6.77%	6.71%	6.68%
110% AFR	7.59%	7.45%	7.38%	7.34%
120% AFR	8.28%	8.12%	8.04%	7.99%
130% AFR	8.99%	8.80%	8.71%	8.64%

REV. RUL. 97-17 TABLE 2

Adjusted AFR for April 1997

Period for Compounding

	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
Short-term adjusted AFR	3.75%	3.72%	3.70%	3.69%
Mid-term adjusted AFR	4.55%	4.50%	4.47%	4.46%
Long-term adjusted AFR	5.45%	5.38%	5.34%	5.32%

REV. RUL. 97-17 TABLE 3

Rates Under Section 382 for April 1997

Adjusted federal long-term rate for the current month	5.45%
Long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the current month and the prior two months.)	5.50%

REV. RUL. 97-17 TABLE 4

Appropriate Percentages Under Section 42(b)(2) for April 1997

Appropriate percentage for the 70% present value low-income housing credit	8.57%
Appropriate percentage for the 30% present value low-income housing credit	3.67%

REV. RUL. 97-17 TABLE 5

Rate Under Section 7520 for April 1997

Applicable federal rate for determining the present value of an annuity, an interest for life or a term of years, or a remainder or reversionary interest	7.8%
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Section 1288.—Treatment of Original Issue Discount on Tax-Exempt Obligations

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April, 1997. See Rev. Rul. 97-17, page 5.

Section 7520.—Valuation Tables

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April, 1997. See Rev. Rul. 97-17, page 5.

Section 7872.—Treatment of Loans With Below-Market Interest Rates

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of April, 1997. See Rev. Rul. 97-17, page 5.

Part III. Administrative, Procedural, and Miscellaneous

Weighted Average Interest Rate Update

Notice 97-23

Notice 88-73 provides guidelines for determining the weighted average interest rate and the resulting permissible

range of interest rates used to calculate current liability for the purpose of the full funding limitation of § 412(c)(7) of the Internal Revenue Code as amended by the Omnibus Budget Reconciliation Act of 1987 and as further amended by the Uruguay Round Agreements Act,

Pub. L. 103-465 (GATT).

The average yield on the 30-year Treasury Constant Maturities for February 1997 is 6.69 percent.

The following rates were determined for the plan years beginning in the month shown below.

Month	Year	Weighted Average	90% to 107% Permissible Range	90% to 110% Permissible Range
March	1997	6.87	6.18 to 7.35	6.18 to 7.56

Drafting Information

The principal author of this notice is Donna Prestia of the Employee Plans Division. For further information regarding this notice, call (202) 622-6076 between 2:30 and 4:00 p.m. Eastern time (not a toll-free number). Ms. Prestia's number is (202) 622-7377 (also not a toll-free number).

Part IV. Items of General Interest

Notice of Proposed Rulemaking and Partial Withdrawal of Previous Notice of Proposed Rulemaking

Installment Obligations Received From Liquidating Corporations

REG-209332-80

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Partial withdrawal of previous notice of proposed rulemaking; Notice of proposed rulemaking.

SUMMARY: This document withdraws portions of the notice of proposed rulemaking published in the **Federal Register** (49 FR 1742[LR-184-80, 1984-1 C.B. 648]) on January 13, 1984, and proposes new regulations relating to the use of the installment method to report the gain recognized by a shareholder who receives, in exchange for the shareholder's stock, certain installment obligations that are distributed upon the complete liquidation of a corporation. Changes to the applicable tax law were made by the Installment Sales Revision Act of 1980 and the Tax Reform Act of 1986. These regulations would affect taxpayers who receive installment obligations in exchange for their stock upon the complete liquidation of a corporation.

DATES: Comments or requests for a public hearing must be received by April 22, 1997.

ADDRESSES: Send submissions to: CC:DOM:CORP:R (REG-209332-80), room 5226, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand delivered between the hours of 8 a.m. and 5 p.m. to: CC:DOM:CORP:R (REG-209332-80), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue NW, Washington, DC. Alternatively, taxpayers may submit comments electronically via the internet by selecting the "Tax Regs" option on the IRS Home Page, or by submitting comments directly to the IRS internet site at http://www.irs.ustreas.gov/prod/tax_regs/comments.html.

FOR FURTHER INFORMATION CONTACT: George F. Wright, (202) 622-4950 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

Section 453(h), relating to the tax treatment of installment obligations received by a shareholder from a liquidating corporation, was added to the Internal Revenue Code of 1954 by the Installment Sales Revision Act of 1980. Proposed regulations under section 453(h) were published in the **Federal Register** on January 13, 1984 (49 FR 1742). Subsequently, section 453(h) was amended by the Tax Reform Act of 1986. This document withdraws a portion of the regulations proposed on January 13, 1984, at 49 FR 1742 and proposes new regulations under section 453(h). The new proposed regulations are issued under the authority contained in sections 453(j)(1), 453(k) and 7805 of the Internal Revenue Code of 1986 (Code).

Explanation of Provisions

Prior to the Installment Sales Revision Act of 1980, a shareholder recognized gain or loss on receipt of an installment obligation that was distributed by a liquidating corporation in exchange for the shareholder's stock. Gain could not be reported under the installment sale provisions of section 453 as payments were received on the obligation distributed by the corporation in the liquidation.

As enacted by the Installment Sales Revision Act of 1980 and amended by the Tax Reform Act of 1986, section 453(h) provides a different treatment for certain installment obligations that are distributed in a complete liquidation to which section 331 applies. Under section 453(h), a shareholder that does not elect out of the installment method treats the payments under the obligation, rather than the obligation itself, as consideration received in exchange for the stock. The shareholder then takes into account the income from the payments under the obligation using the installment method. In this manner, the shareholder generally is treated as if the shareholder sold the shareholder's stock to an unrelated purchaser on the installment method.

This treatment under section 453(h) applies generally to installment obligations received by a shareholder (in exchange for the shareholder's stock) in a complete liquidation to which section

331 applies if (a) the installment obligations are qualifying installment obligations, i.e., the installment obligations are acquired in respect to a sale or exchange of property by the corporation during the 12-month period beginning on the date a plan of complete liquidation is adopted, and (b) the liquidation is completed within that 12-month period. However, an installment obligation acquired in a sale or exchange of inventory, stock in trade, or property held for sale in the ordinary course of business qualifies for this treatment only if the obligation arises from a single bulk sale of substantially all of such property attributable to a trade or business of the corporation. If an installment obligation arises from both a sale or exchange of inventory, etc., that does not comply with the requirements of the preceding sentence and a sale or exchange of other assets, the portion of the installment obligation that is attributable to the sale or exchange of other assets is a qualifying installment obligation.

Interaction of Section 453(h) and Limitations on the Installment Method

Under section 453(k)(2), an installment obligation arising out of a sale of stock or securities that are traded on an established securities market does not qualify for installment method reporting. Accordingly, if the stock of a liquidating corporation is traded on an established securities market, an installment obligation received by a shareholder from that corporation as a liquidating distribution is not a qualifying installment obligation and does not qualify for installment reporting, regardless of whether the requirements of section 453(h) are otherwise satisfied. However, if an installment obligation received by a shareholder from a liquidating corporation, the stock of which is not publicly traded, arose from a sale by the corporation of stock or securities that are traded on an established securities market, then the obligation generally is a qualifying installment obligation in the hands of the shareholder. An exception to this rule applies to the extent the liquidating corporation is formed or availed of for a principal purpose of avoiding limitations on the availability of installment sale treatment through the use of a related party. For example, the exception would apply if a shareholder contributed a substantial amount of publicly traded

stock to a corporation shortly before or after the corporation adopted a plan of liquidation and sold its assets, including the publicly traded stock, for an installment obligation. Under the exception, the allocable portion of the installment obligation is not a qualifying installment obligation and, thus, is treated as a payment received in exchange for the shareholder's stock. The IRS specifically requests comments on this exception, which is contained in § 1.453-11(c)(5) of these proposed regulations.

Determination of Shareholder's Selling Price

All amounts distributed or treated as distributed incident to the liquidation are included in the selling price of the shareholder's stock in the liquidating corporation. This selling price includes the issue price of a qualifying installment obligation that is distributed in the liquidation. For this purpose, the issue price of a qualifying installment obligation is equal to the sum of the adjusted issue price of the obligation on the date of the distribution and the amount of any qualified stated interest that has accrued prior to the distribution but that is not payable until after the distribution. In this manner, the accrued but unpaid qualified stated interest is treated as having been received and taken into account by the liquidating corporation, and then distributed by the corporation to the shareholder in exchange for the shareholder's stock. The issue price is also used to compute interest and original issue discount accruals for the shareholder.

Liquidating Distributions Received in More Than One Year

Generally, a shareholder that receives liquidating distributions in more than one taxable year may recover the basis in the shareholder's stock completely before recognizing any gain. This general rule is inconsistent with installment method reporting, which requires that basis be ratably recovered as payments are received. Therefore, if a shareholder receives liquidating distributions in more than one taxable year, and included in the distributions is an installment obligation that qualifies for section 453(h) treatment, then upon completion of the liquidation, basis must be reallocated among all property received, or to be received, in all years. See section 453(h)(2). One method of achieving this basis reallocation would be to require

the shareholder to file an amended return if the reallocation of basis would affect the computation of gain recognized in an earlier year. An alternative method would be to require the shareholder to recognize in the current year the additional amount of gain that would have been recognized in the earlier year had the total amount of liquidating distributions been known in the earlier year. This portion of the proposed regulations is reserved and comments are specifically requested regarding these and any other methods of accomplishing the basis reallocation.

Recognition of Gain or Loss to the Distributing Corporation Under Section 453B

Under section 453B, the disposition of an installment obligation generally results in the recognition of gain or loss to the transferor. Thus, in accordance with sections 453B and 336, a C corporation generally recognizes gain or loss upon the distribution of an installment obligation to a shareholder in exchange for the shareholder's stock, including complete liquidations covered by section 453(h). Section 453B(d) provides an exception to this general rule if the installment obligation is distributed in a liquidation to which section 337(a) applies (regarding certain complete liquidations of 80 percent owned subsidiaries). However, that exception does not apply to liquidations under section 331.

The Internal Revenue Code provides for a different treatment in the case of a liquidating distribution by an S corporation. Section 453B(h) provides that if an S corporation distributes an installment obligation in exchange for a shareholder's stock, and payments under the obligation are treated as consideration for the stock pursuant to section 453(h)(1), then the distribution generally is not treated as a disposition of the obligation by the S corporation. Thus, except for purposes of sections 1374 and 1375 (relating to certain built-in gains and passive investment income), the S corporation does not recognize gain or loss on the distribution of the installment obligation to a shareholder in a complete liquidation covered by section 453(h).

Proposed Effective Date

The proposed regulations provide that this section will be effective for distributions of qualifying installment obliga-

tions made on or after the date final regulations are filed with the **Federal Register**.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory 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, 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) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Requests for a Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any comments that are submitted timely (in the manner described in the ADDRESSES portion of the preamble) to the IRS. All comments will be available for public inspection and copying. A public hearing will be scheduled if requested by any person who timely submits comments. If a public hearing is scheduled, notice of the date, time and place for the hearing will be published in the **Federal Register**.

Drafting Information

The principal author of these proposed regulations is George F. Wright of the Office of Assistant Chief Counsel (Income Tax and Accounting). However, other personnel from the IRS and Treasury Department participated in their development.

Partial Withdrawal of Notice of Proposed Rulemaking

Accordingly, under the authority of 26 U.S.C. 7805, § 1.453-2 (a), (b), (c), (d) and (f) in the notice of proposed rulemaking that was published on January 13, 1984 (49 FR 1742) is withdrawn.

* * * * *

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 an entry in numerical order to read as follows:

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

§ 1.453–11 also issued under 26 U.S.C. 453(j)(1) and (k). * * *

Par. 2. Section 1.453–11 is added to read as follows:

§ 1.453–11 Installment obligations received from a liquidating corporation.

(a) *In general*—(1) *Overview*. Except as provided in section 453(h)(1)(C) (relating to installment sales of depreciable property to certain closely related persons), a qualifying shareholder (as defined in paragraph (b) of this section) who receives a qualifying installment obligation (as defined in paragraph (c) of this section) in connection with a liquidation that satisfies section 453(h)(1)(A) treats the receipt of payments in respect to the obligation, rather than the receipt of the obligation itself, as a receipt of payment for the shareholder's stock. The shareholder reports the payments received on the installment method unless the shareholder elects otherwise in accordance with § 15a.453–1(d) of this chapter.

(2) *Coordination with other provisions*—(i) *Deemed sale of stock for installment obligation*. Except as specifically provided in section 453(h)(1)(C), a qualifying shareholder treats a qualifying installment obligation, for all purposes of the Internal Revenue Code, as if the obligation is received by the shareholder from the person issuing the obligation in exchange for the shareholder's stock in the liquidating corporation. For example, if the stock of a corporation that is liquidating is traded on an established securities market, an installment obligation distributed to a shareholder of the corporation in exchange for the shareholder's stock does not qualify for installment reporting pursuant to section 453(k)(2).

(ii) *Special rules to account for the qualifying installment obligation*—(A) *Issue price*. A qualifying installment obligation is treated by a qualifying shareholder as newly issued on the date of the distribution. The issue price of the qualifying installment obligation on that date is equal to the sum of the

adjusted issue price of the obligation on the date of the distribution (as determined under § 1.1275–1(b)) and the amount of any qualified stated interest (as defined in § 1.1273–1(c)) that has accrued prior to the distribution but that is not payable until after the distribution. For purposes of the preceding sentence, if the qualifying installment obligation is subject to § 1.446–2 (e.g., a debt instrument that has unstated interest under section 483), the adjusted issue price of the qualifying installment obligation is determined by reference to the issue price of the qualifying installment obligation under § 1.446–2(d)(1).

(B) *Variable rate debt instrument*. If the qualifying installment obligation is a variable rate debt instrument (as defined in § 1.1275–5), the shareholder uses the equivalent fixed rate debt instrument (within the meaning of § 1.1275–5(e)(3)(ii)) constructed for the qualifying installment obligation on the date the obligation was issued to the liquidating corporation to determine the accruals of original issue discount, if any, and interest on the obligation.

(3) *Liquidating distributions treated as selling price*. All amounts distributed or treated as distributed to a qualifying shareholder incident to the liquidation, including cash, the issue price of qualifying installment obligations as determined under paragraph (a)(2)(ii)(A) of this section, and the fair market value of other property (including obligations that are not qualifying installment obligations) are considered as having been received by the shareholder as the selling price (as defined in § 15a.453–1(b)(2)(ii) of this chapter) for the shareholder's stock in the liquidating corporation. For the proper method of reporting liquidating distributions received in more than one taxable year of a shareholder, see paragraph (d) of this section. An election not to report on the installment method an installment obligation received as a liquidating distribution applies to all distributions received in the liquidation.

(4) *Assumption of corporate liability by shareholders*. For purposes of this section, if in the course of a liquidation a shareholder assumes secured or unsecured liabilities of the liquidating corporation, or receives property from the corporation subject to such liabilities (including any tax liabilities incurred by the corporation on the distribution), the amount of the liabilities is added to the shareholder's basis in the stock of the liquidating corporation. These additions

to basis do not affect the shareholder's holding period for the stock. These liabilities do not reduce the amounts received in computing the selling price.

(5) *Examples*. The provisions of this paragraph (a) are illustrated by the following examples. Except as otherwise provided, assume in each example that A, an individual who is a calendar-year taxpayer, owns all of the stock of T corporation. A's adjusted tax basis in that stock is \$100,000. On February 1, 1998, T, an accrual basis taxpayer, adopts a plan of complete liquidation that satisfies section 453(h)(1)(A) and immediately sells all of its assets to unrelated B corporation in a single transaction. The examples are as follows:

Example 1. (i) The stated purchase price for T's assets is \$3,500,000. In consideration for the sale, B makes a down payment of \$500,000 and issues a 10-year installment obligation with a stated principal amount of \$3,000,000. The obligation provides for interest payments of \$150,000 on January 31 of each year, with the total principal amount due at maturity.

(ii) Assume that for purposes of section 1274, the test rate on February 1, 1998, is 8 percent, compounded semi-annually. Also assume that a semi-annual accrual period is used. Under § 1.1274–2, the issue price of the obligation on February 1, 1998, is \$2,368,450. Accordingly, the obligation has \$631,550 of original issue discount (\$3,000,000 – \$2,368,450). Between February 1 and July 31, \$19,738 of original issue discount and \$75,000 of qualified stated interest accrue with respect to the obligation and are taken into account by T.

(iii) On July 31, 1998, T distributes the installment obligation to A in exchange for A's stock. No other property is ever distributed to A. On January 31, 1999, A receives the first annual payment of \$150,000 from B.

(iv) When the obligation is distributed to A on July 31, 1998, it is treated as if the obligation is received by A in an installment sale of shares directly to B on that date. Under § 1.1275–1(b), the adjusted issue price of the obligation on that date is \$2,388,188 (original issue price of \$2,368,450 plus accrued original issue discount of \$19,738). Accordingly, the issue price of the obligation under paragraph (a)(2)(ii)(A) of this section is \$2,463,188, the sum of the adjusted issue price of the obligation on that date (\$2,388,188) and the amount of accrued but unpaid qualified stated interest (\$75,000).

(v) The selling price and contract price of A's stock in T is \$2,463,188, and the gross profit is \$2,363,188 (\$2,463,188 selling price less A's adjusted tax basis of \$100,000). A's gross profit ratio is thus 96 percent (gross profit of \$2,363,188 divided by total contract price of \$2,463,188).

(vi) Under §§ 1.446–2(e)(1) and 1.1275–2(a), \$98,527 of the \$150,000 payment is treated as a payment of the interest and original issue discount that accrued on the obligation from July 31, 1998, to January 31, 1999 (\$75,000 of qualified stated interest and \$23,527 of original issue discount). The balance of the payment (\$51,473) is treated as a payment of principal. A's gain recognized in 1999 is \$49,414 (96 percent of \$51,473).

Example 2. (i) T owns Blackacre, unimproved real property, with an adjusted tax basis of

\$700,000. Blackacre is subject to a mortgage (underlying mortgage) of \$1,100,000. A is not personally liable on the underlying mortgage and the T shares held by A are not encumbered by the underlying mortgage. The other assets of T consist of \$400,000 of cash and \$600,000 of accounts receivable attributable to sales of inventory in the ordinary course of business. The unsecured liabilities of T total \$900,000.

(i) On February 1, 1998, T adopts a plan of complete liquidation complying with section 453(h)(1)(A), and promptly sells Blackacre to B for a 4-year mortgage note (bearing adequate stated interest and otherwise meeting all of the requirements of section 453) in the face amount of \$4 million. Under the agreement between T and B, T (or its successor) is to continue to make principal and interest payments on the underlying mortgage. Immediately thereafter, T completes its liquidation by distributing to A its remaining cash of \$400,000 (after payment of T's tax liabilities), accounts receivable of \$600,000, and the \$4 million B note. A assumes T's \$900,000 of unsecured liabilities and receives the distributed property subject to the obligation to make payments on the \$1,100,000 underlying mortgage. A receives no payments from B on the B note during 1998.

(iii) Unless A elects otherwise, the transaction is reported by A on the installment method. The selling price is \$5 million (cash of \$400,000, accounts receivable of \$600,000, and the B note of \$4 million). The total contract price also is \$5 million. A's adjusted tax basis in the T shares, initially \$100,000, is increased by the \$900,000 of unsecured T liabilities assumed by A and by the obligation (subject to which A takes the distributed property) to make payments on the \$1,100,000 underlying mortgage on Blackacre, for an aggregate adjusted tax basis of \$2,100,000. Accordingly, the gross profit is \$2,900,000 (selling price of \$5 million less aggregate adjusted tax basis of \$2,100,000). The gross profit ratio is 58 percent (gross profit of \$2,900,000 divided by the total contract price of \$5 million). The 1998 payments to A are \$1 million (\$400,000 cash plus \$600,000 receivables) and A recognizes gain in 1998 of \$580,000 (58 percent of \$1 million).

(iv) In 1999, A receives payment from B on the B note of \$1 million (exclusive of interest). A's gain recognized in 1999 is \$580,000 (58 percent of \$1 million).

(b) *Qualifying shareholder.* For purposes of this section, *qualifying shareholder* means a shareholder to which, with respect to the liquidating distribution, section 331 applies. For example, a creditor that receives a distribution from a liquidating corporation, in exchange for the creditor's claim, is not a qualifying shareholder as a result of that distribution regardless of whether the liquidation satisfies section 453(h)(1)(A).

(c) *Qualifying installment obligation—(1) In general.* For purposes of this section, *qualifying installment obligation* means an installment obligation (other than an evidence of indebtedness described in § 15a.453-1(e) of this chapter, relating to obligations that are payable on demand or are readily tradable) acquired in a sale or exchange of corporate assets by a liquidating corporation during the 12-month period be-

ginning on the date the plan of liquidation is adopted. See paragraph (c)(4) of this section for an exception for installment obligations acquired in respect to certain sales of inventory. Also see paragraph (c)(5) of this section for an exception for installment obligations attributable to sales of certain property that do not generally qualify for installment sale treatment.

(2) *Corporate assets.* Except as provided in section 453(h)(1)(C), in paragraph (c)(4) of this section (relating to certain sales of inventory), and in paragraph (c)(5) of this section (relating to certain tax avoidance transactions), the nature of the assets sold by, and the tax consequences to, the selling corporation do not affect whether an installment obligation is a qualifying installment obligation. Thus, for example, the fact that the fair market value of an asset is less than the adjusted basis of that asset in the hands of the corporation; or that the sale of an asset will subject the corporation to depreciation recapture (e.g., under section 1245 or section 1250); or that the assets of a trade or business sold by the corporation for an installment obligation include depreciable property, certain marketable securities, accounts receivable, installment obligations, or cash; or that the distribution of assets to the shareholder is or is not taxable to the corporation under sections 336 and 453B, does not affect whether installment obligations received in exchange for those assets are treated as qualifying installment obligations by the shareholder. However, an obligation received by the corporation in exchange for cash, in a transaction unrelated to a sale or exchange of noncash assets by the corporation, is not treated as a qualifying installment obligation.

(3) *Installment obligations distributed in liquidations described in section 453(h)(1)(E)—(i) In general.* In the case of a liquidation to which section 453(h)(1)(E) (relating to certain liquidating subsidiary corporations) applies, a qualifying installment obligation acquired in respect to a sale or exchange by the liquidating subsidiary corporation will be treated as a qualifying installment obligation if distributed by a controlling corporate shareholder (within the meaning of section 368(c)) to a qualifying shareholder. The preceding sentence is applied successively to each controlling corporate shareholder, if any, above the first controlling corporate shareholder.

(ii) *Examples.* The provisions of this paragraph (c)(3) are illustrated by the following examples:

Example 1. (i) A, an individual, owns all of the stock of T corporation, a C corporation. T has an operating division and three wholly-owned subsidiaries, X, Y, and Z. On February 1, 1998, T, Y, and Z all adopt plans of complete liquidation.

(ii) On March 1, 1998, the following sales are made to unrelated purchasers: T sells the assets of its operating division to B for cash and an installment obligation. T sells the stock of X to C for an installment obligation. Y sells all of its assets to D for an installment obligation. Z sells all of its assets to E for cash. The B, C, and D installment obligations bear adequate stated interest and meet the requirements of section 453.

(iii) In June 1998, Y and Z completely liquidate, distributing their respective assets (the D installment obligation and cash) to T. In July 1998, T completely liquidates, distributing to A cash and the installment obligations respectively issued by B, C, and D. The liquidation of T is a liquidation to which section 453(h) applies and the liquidations of Y and Z into T are liquidations to which section 332 applies.

(iv) Because T is in control of Y (within the meaning of section 368(c)), the D obligation acquired by Y is treated as acquired by T pursuant to section 453(h)(1)(E). A is a qualifying shareholder and the installment obligations issued by B, C, and D are qualifying installment obligations. Unless A elects otherwise, A reports the transaction on the installment method as if the cash and installment obligations had been received in an installment sale of the stock of T corporation. Under section 453B(d), no gain or loss is recognized by Y on the distribution of the D installment obligation to T. Under sections 453B(a) and 336, T recognizes gain or loss on the distribution of the B, C, and D installment obligations to A in exchange for A's stock.

Example 2. (i) A, a cash-method individual taxpayer, owns all of the stock of P corporation, a C corporation. P owns 30 percent of the stock of Q corporation. The balance of the Q stock is owned by unrelated individuals. On February 1, 1998, P adopts a plan of complete liquidation and sells all of its property, other than its Q stock, to B, an unrelated purchaser for cash and an installment obligation bearing adequate stated interest. On March 1, 1998, Q adopts a plan of complete liquidation and sells all of its property to an unrelated purchaser, C, for cash and installment obligations. Q immediately distributes the cash and installment obligations to its shareholders in completion of its liquidation. Promptly thereafter, P liquidates, distributing to A cash, the B installment obligation, and a C installment obligation that P received in the liquidation of Q.

(ii) In the hands of A, the B installment obligation is a qualifying installment obligation. In the hands of P, the C installment obligation was a qualifying installment obligation. However, in the hands of A, the C installment obligation is not treated as a qualifying installment obligation because P owned only 30 percent of the stock of Q. Because P did not own the requisite 80 percent stock interest in Q, P was not a controlling corporate shareholder of Q (within the meaning of section 368(c)) immediately before the liquidation. Therefore, section 453(h)(1)(E) does not apply. Thus, in the hands of A, the C obligation is considered to be a third-party note (not a purchaser's evidence of indebtedness) and is treated as a payment to A in the year of distribution. Accordingly, for 1998, A reports as payment the cash and

the fair market value of the C obligation distributed to A in the liquidation of P.

(iii) Because P held 30 percent of the stock of Q, section 453B(d) is inapplicable to P. Under sections 453B(a) and 336, accordingly, Q recognizes gain or loss on the distribution of the C obligation. P also recognizes gain or loss on the distribution of the B and C installment obligations to A in exchange for A's stock. See sections 453B and 336.

(4) Installment obligations attributable to certain sales of inventory—

(i) In general. An installment obligation acquired by a corporation in a liquidation that satisfies section 453(h)(1)(A) in respect to a broken lot of inventory is not a qualifying installment obligation. If an installment obligation is acquired in respect to a broken lot of inventory and other assets, only the portion of the installment obligation acquired in respect to the broken lot of inventory is not a qualifying installment obligation. The portion of the installment obligation attributable to other assets is a qualifying installment obligation. For purposes of this section, the term *broken lot of inventory* means inventory property that is sold or exchanged other than in bulk to one person in one transaction involving substantially all of the inventory property attributable to a trade or business of the corporation. See paragraph (c)(4)(ii) of this section for rules for determining what portion of an installment obligation is not a qualifying installment obligation.

(ii) Rules for determining nonqualifying portion of an installment obligation. If a broken lot of inventory is sold to a purchaser together with other corporate assets for consideration consisting of an installment obligation and either cash, other property, the assumption of (or taking property subject to) corporate liabilities by the purchaser, or some combination thereof, the installment obligation is treated as having been acquired in respect to a broken lot of inventory only to the extent that the fair market value of the broken lot of inventory exceeds the sum of unsecured liabilities assumed by the purchaser, secured liabilities which encumber the broken lot of inventory and are assumed by the purchaser or to which the broken lot of inventory is subject, and the sum of the cash and fair market value of other property received. This rule applies solely for the purpose of determining the portion of the installment obligation (if any) that is attributable to the broken lot of inventory.

(iii) Example. The following example illustrates the provisions of this para-

graph (c)(4). In this example, assume that all obligations bear adequate stated interest within the meaning of section 1274(c)(2) and that the fair market value of each nonqualifying installment obligation equals its face amount. The example is as follows:

Example. (i) P corporation has three operating divisions, X, Y, and Z, each engaged in a separate trade or business, and a minor amount of investment assets. On July 1, 1998, P adopts a plan of complete liquidation that meets the criteria of section 453(h)(1)(A). The following sales are promptly made to purchasers unrelated to P: P sells all of the assets of the X division (including all of the inventory property) to B for \$30,000 cash and installment obligations totalling \$200,000. P sells substantially all of the inventory property of the Y division to C for a \$100,000 installment obligation, and sells all of the other assets of the Y division (excluding cash but including installment receivables previously acquired in the ordinary course of the business of the Y division) to D for a \$170,000 installment obligation. P sells 1/3 of the inventory property of the Z division to E for \$100,000 cash, 1/3 of the inventory property of the Z division to F for a \$100,000 installment obligation, and all of the other assets of the Z division (including the remaining 1/3 of the inventory property worth \$100,000) to G for \$60,000 cash, a \$240,000 installment obligation, and the assumption by G of the liabilities of the Z division. The liabilities assumed by G, which are unsecured liabilities and liabilities encumbering the inventory property acquired by G, aggregate \$30,000. Thus, the total purchase price G pays is \$330,000.

(ii) P immediately completes its liquidation, distributing the cash and installment obligations, which otherwise meet the requirements of section 453, to A, an individual cash-method taxpayer who is its sole shareholder. In 1999, G makes a payment to A of \$100,000 (exclusive of interest) on the \$240,000 installment obligation.

(iii) In the hands of A, the installment obligations issued by B, C, and D are qualifying installment obligations because they were timely acquired by P in a sale or exchange of its assets. In addition, the installment obligation issued by C is a qualifying installment obligation because it arose from a sale to one person in one transaction of substantially all of the inventory property of the trade or business engaged in by the Y division.

(iv) The installment obligation issued by F is not a qualifying installment obligation because it is in respect to a broken lot of inventory. A portion of the installment obligation issued by G is a qualifying installment obligation and a portion is not a qualifying installment obligation, determined as follows: G purchased part of the inventory property (with a fair market value of \$100,000) and all of the other assets of the Z division by paying cash (\$60,000), issuing an installment obligation (\$240,000), and assuming liabilities of the Z division (\$30,000). The assumed liabilities (\$30,000) and cash (\$60,000) are attributed first to the inventory property. Therefore, only \$10,000 of the \$240,000 installment obligation is attributed to inventory property. Accordingly, in the hands of A, the G installment obligation is a qualifying installment obligation to the extent of \$230,000, but is not a qualifying installment obligation to the extent of the \$10,000 attributable to the inventory property.

(v) In the 1998 liquidation of P, A receives a liquidating distribution as follows:

Item	Qualifying Installment Obligations	Cash and Other Property
cash		\$190,000
B note	\$200,000	
C note	\$100,000	
D note	\$170,000	
F note		\$100,000
G note ¹	\$230,000	\$ 10,000
Total	\$700,000	\$300,000

¹face amount \$240,000.

(vi) Assume that A's adjusted tax basis in the stock of P is \$100,000. Under the installment method, A's selling price and the contract price are both \$1 million, the gross profit is \$900,000 (selling price of \$1 million less adjusted tax basis of \$100,000), and the gross profit ratio is 90 percent (gross profit of \$900,000 divided by the contract price of \$1 million). Accordingly, in 1998, A reports gain of \$270,000 (90 percent of \$300,000 payment in cash and other property). A's adjusted tax basis in each of the qualifying installment obligations is an amount equal to 10 percent of the obligation's respective face amount. A's adjusted tax basis in the F note, a nonqualifying installment obligation, is \$100,000, i.e., the fair market value of the note when received by A. A's adjusted tax basis in the G note, a mixed obligation, is \$33,000 (10 percent of the \$230,000 qualifying installment obligation portion of the note, plus the \$10,000 nonqualifying portion of the note).

(vii) In respect to the \$100,000 payment received from G in 1999, \$10,000 is treated as the recovery of the adjusted tax basis of the nonqualifying portion of the G installment obligation and \$9,000 (10 percent of \$90,000) is treated as the recovery of the adjusted tax basis of the portion of the note that is a qualifying installment obligation. The remaining \$81,000 (90 percent of \$90,000) is reported as gain from the sale of A's stock.

(5) Installment obligations attributable to sales of certain property—(i) In general. An installment obligation acquired by a liquidating corporation, to the extent attributable to the sale of property described in paragraph (c)(5)(ii) of this section, is not a qualifying obligation if the corporation is formed or availed of for a principal purpose of avoiding section 453(b)(2)(A) (relating to dealer dispositions), section 453(i) (relating to sales of property subject to recapture), or section 453(k) (relating to dispositions under a revolving credit plan and sales of stock or securities traded on an established securities market) through the use of a party bearing a relationship, either directly or indirectly, described in section 267(b) to any shareholder of the corporation.

(ii) Covered property. Property is described in this paragraph (c)(5)(ii) if, within 12 months before or after the adoption of the plan of liquidation, the property was owned by any shareholder and—

(A) The shareholder regularly sold or otherwise disposed of personal property of the same type on the installment plan or the property is real property that the shareholder held for sale to customers in the ordinary course of a trade or business (provided the property is not described in section 453(l)(2)(relating to certain exceptions to the definition of dealer dispositions));

(B) The sale of the property by the shareholder would result in recapture income (within the meaning of section 453(i)(2)), but only if the amount of recapture is equal to or greater than 50 percent of the property's fair market value on the date of the sale by the corporation;

(C) The property is stock or securities that are traded on an established securities market; or

(D) The sale of the property by the shareholder would have been under a revolving credit plan.

(iii) *Safe harbor.* Paragraph (c)(5)(i) of this section will not apply to the liquidation of a corporation if, on the date the plan of complete liquidation is adopted and thereafter, less than 15 percent of the fair market value of the corporation's assets is attributable to property described in paragraph (c)(5)(ii) of this section.

(iv) *Example.* The provisions of this paragraph (c)(5) are illustrated by the following example:

Example. Ten percent of the fair market value of the assets of T is attributable to stock and securities traded on an established securities market. T owns no other assets described in paragraph (c)(5)(ii) of this section. T, after adopting a plan of complete liquidation, sells all of its stock and securities holdings to C corporation in exchange for an installment obligation bearing adequate stated interest, sells all of its other assets to B corporation for cash, and distributes the cash and installment obligation to its sole shareholder, A, in a complete liquidation that satisfies section 453(h)(1)(A). Because the C installment obligation arose from a sale of publicly traded stock and securities, T cannot report the gain on the sale under the installment method pursuant to section 453(k)(2). In the hands of A, however, the C installment obligation is treated as having arisen out of a sale of the stock of T corporation. In addition, the general rule of paragraph (c)(5)(i) of this section does not apply, even if a principal purpose of the liquidation was the avoidance of section 453(k)(2), because the fair market value of the publicly traded stock and securities is less than 15 percent of the total fair market value of T's assets. Accordingly, section 453(k)(2) does not apply to A, and A may use the installment method to report the gain recognized on the payments it receives in respect to the obligation.

(d) *Liquidating distributions received in more than one taxable year.* [Reserved]

(e) *Effective date.* This section is applicable to distributions of qualifying installment obligations made on or after the date final regulations are filed with the **Federal Register**.

Margaret Milner Richardson,
Commissioner of Internal Revenue.

(Filed by the Office of the Federal Register on January 21, 1997, 8:45 a.m., and published in the issue of the Federal Register for January 22, 1997, 62 F.R. 3244)

Notice of Proposed Rulemaking Section 42(d)(5) Federal Grants

REG-254394-96

AGENCY: Internal Revenue Service (IRS), Treasury.

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

SUMMARY: In *** T.D. 8713, page 4, the IRS is issuing temporary regulations with respect to the low-income housing tax credit relating to the application of section 42(d)(5) to certain rental assistance programs under section 42(g)(2)-(B)(i). The text of those temporary regulations also serves as the text of these proposed regulations.

DATES: Written comments and requests for a public hearing must be received by April 28, 1997.

ADDRESSES: Send submissions to: CC:DOM:CORP:R (REG-254394-96), room 5226, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand delivered between the hours of 8 a.m. and 5 p.m. to: CC:DOM:CORP:R (REG-254394-96), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC. Alternatively, taxpayers may submit comments electronically via the Internet by selecting the "Tax Regs" option on the IRS Home Page, or by submitting comments directly to the IRS Internet site at http://www.irs.ustreas.gov/prod/tax_regs/comments/html.

FOR FURTHER INFORMATION CONTACT: Christopher J. Wilson (202) 622-3040 (not a toll-free call).

SUPPLEMENTARY INFORMATION:

Background

Temporary regulations published in *** T.D. 8713 provide rules with re-

spect to the low-income housing tax credit relating to the application of section 42(d)(5) to certain rental assistance programs under section 42(g)(2)(B)(i). The text of those temporary regulations also serves as the text of these proposed regulations. The preamble to the temporary regulations explains the temporary regulations.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in EO 12866. Therefore, a regulatory 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 and, because these regulations do not impose on small entities a collection of information requirement, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Therefore, a Regulatory Flexibility Analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Requests for a Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments (a signed original and eight (8) copies) that are submitted timely to the IRS. All comments will be available for public inspection and copying. A public hearing may be scheduled if requested in writing by a person that timely submits written comments. If a public hearing is scheduled, a notice of the date, time, and place for the hearing will be published in the **Federal Register**.

Drafting Information

The principal author of these regulations is Christopher J. Wilson, Office of Assistant Chief Counsel (Passthroughs and Special Industries). However, other personnel from the IRS and Treasury Department 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 an entry in numerical order to read in part as follows:

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

Section 1.42-16 also issued under 26 U.S.C. 42(n); * * *

Par. 2. Section 1.42-16 is added to read as follows:

§ 1.42-16 Eligible basis reduced by federal grants.

[The text of this proposed section is the same as the text of § 1.42-16T published in T.D. 8713, page 4.]

Margaret Milner Richardson,
Commissioner of Internal Revenue.

(Filed by the Office of the Federal Register on January 24, 1997, 8:45 a.m., and published in the issue of the Federal Register for January 27, 1997, 62 FR. 3848)

Foundations Status of Certain Organizations

Announcement 97-28

The following organizations have failed to establish or have been unable to maintain their status as public charities or as operating foundations. Accordingly, grantors and contributors may not, after this date, rely on previous rulings or designations in the Cumulative List of Organizations (Publication 78), or on the presumption arising from the filing of notices under section 508(b) of the Code. This listing does *not* indicate that the organizations have lost their status as organizations described in section 501(c)(3), eligible to receive deductible contributions.

Former Public Charities. The following organizations (which have been treated as organizations that are not private foundations described in section 509(a) of the Code) are now classified as private foundations:

AIDS Equity League, Inc., Houston, TX
AIDS Resource Center of Texoma, Sherman, TX
Albuquerque Literacy Program, Inc., Albuquerque, NM
Austin Area Youth, Austin, TX
Austin Junior Chamber of Commerce Foundation, Inc., Austin, TX
Austin Releaf Council, Austin, TX
Big Bend, Inc., Riverton, WY
Brownsville Opportunity Youth Soccer Association, Inc., Brownsville, TX

Buckingham Square Optimist Fund Inc., Aurora, CO
Cancer Scholarship Fund, Katy, TX
Candlelighters Circle of Friends Childhood Cancer Support Group Inc., Tulsa, OK
Christian Center of Universal Peace of Houston, Houston, TX
Classical Traditions International Entertainment, Los Angeles, CA
Clearwater Youth Wrestling Club, Clearwater, KS
Colorado Latino AIDS Community Network, Inc., Denver, CO
Colorado Parents for All Children, Colorado Springs, CO
Cosme Garto Memorial Scholarship Foundation, Salt Lake City, UT
Covenant Ministries, Inc., Fort Worth, TX
Delta Nutrition Services, Houston, TX
Docent Council of Forth Worth Zoo, Fort Worth, TX
ECO-Fair Texas, Inc., Austin, TX
Elfields Residential, Houston, TX
Families Actively Communicating Together, Winfield, KS
Family Outreach of Southern Dallas, Inc., Dallas, TX
Flagstaff Youth Hockey Association, Inc., Flagstaff, AZ
Flour Bluff Helping Hand, Corpus Christi, TX
Fort Worth Foundation, Fort Worth, TX
Foster Place Community Center, Inc., Houston, TX
Freedom for Youth, Denver, CO
Friends of the Utah Center, Salt Lake City, UT
Glendale Centennial Committee, Glendale, AZ
Greater Fort Worth Luis Palau Crusade, Fort Worth, TX
Hispanic American Medical Scholarship Fund, Houston, TX
Housing and Neighborhood Development, Phoenix, AZ
Houston Business League, Houston, TX
Houston Japanese Television Ministry, Inc., San Antonio, TX
ICAK, Inc., Lawrence, KS
Indian Health Care Clinic, Inc., Salt Lake City, UT
Intermountain Society for Parenteral and Enteral Nutrition, Salt Lake City, UT
Irving Elementary School Parent Teacher Organization PTO, Mesa, AZ
Joe Holland Evangelistic Association, Colony, TX
Jones Spiritual Research Center, Inc., Longview, TX
Kerrville South Volunteer Fire Department, Inc., Kerrville, TX

Kiamichi Country Genealogy Society, Broken Bow, OK
Kids Place, Salt Lake City, UT
Killough Middle School Parent Advisory Committee, Killough Middle School Advise Committee, Houston, TX
La Compania Madre, Inc., Honolulu, HI
Life Giving Word Ministries, Inc., Tulsa, OK
Lighthouse Counseling Services, Inc., Oklahoma City, OK
Loyal Companions for the Handicap Training Institute, Oklahoma City, OK
Mayes County Resource Council, Inc., Pryor, OK
Megan Ledue Guardian Angel Foundation, Wichita Falls, TX
Metatheatre, Tucson, AZ
Moore County Crime Stoppers, Inc., Dumas, TX
National Commission on Rape Prevention, Inc., Scottsdale, AZ
Neighborhood Pioneer Clubs, Colorado Springs, CO
Network of Lyricists and Songwriters, Inc., Pearland, TX
New Mexico Partnership for Mathematics and Science Education, Albuquerque, NM
New Mexico Wildlife Foundation, Santa Fe, NM
North Valley Paralegal Service of Arizona, Glendale, AZ
Open Heart, Inc., Houston, TX
Our House, Inc., Denver, CO
Phoenix Center for Rape Prevention, Phoenix, AZ
Prairie Dog Pals of ABQ, Albuquerque, NM
Project Hungry for El Paso, El Paso, TX
Puente De Esperanza, Espanola, NM
Putnam-Fullana Education Association, Inc., Fort Collins, CO
Pylon Salesmanship Club, Dallas, TX
Red River Symphony Guild, Inc., Sherman, TX
Rock Springs Youth Boys Basketball, Rock Springs, WY
Rocky Mountain Center for Attitudinal Healing, Colorado Springs, CO
Sal De Ahi, Santa Fe, NM
Shepherds Center of Chanute, Inc., Chanute, KS
Smithson Valley High School Athletic Booster Club, Spring Branch, TX
Sonshine College for Oriental Senior Citizens, Dallas, TX
Southern Arizona Environmental Management Society, Inc., Tucson, AZ
South Texas Festival of Film, Corpus Christi, TX

South Texas Organization for
Reproductive Medicine, San Antonio,
TX
Southwest Aquatic Specialties, Inc.,
Hobbs, NM
Spectrum Housing, Dallas, TX
Tarrant County Junior Livestock Show
Association, Inc., Fort Worth, TX
Tejanos for Onda Music, Dallas, TX
Texas Tiger Tournament, Inc., Houston,
TX
Tiyospaye, Inc., Wichita, KS
Toe Tappers, Houston, TX
Tomboys, Burkburnett, TX
Touch Foundation, Colorado Springs,
CO
Touch Town Incorporated, Missouri
City, TX
Toy Lending Library, Inc., Kerrville, TX
Triangle Recovery Foundation, Inc.,
Beaumont, TX
Triple Cross Ministries, Inc., Spencer,
OK
Triumph, Inc., Wichita, KS
Troxler Charitable Foundation, Inc.,
Dallas, TX
Tulsa Parents As Teachers, Inc., Tulsa,
OK
Tulsa Theatreworks, Inc., Tulsa, OK
Tulsa Visiting Nurse Services, Inc.,
Tulsa, OK
24 Hour Serenity Club, Poolview, TX
United Hispanic Fund, Uvalde, TX
Ushers of the Coming, Inc., Dallas, TX
Veterans Rainbow House, Inc., Salt
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VNA Management Services, Inc., Tulsa,
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Weatherization Managers Association,
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Youth Development Tae Kwon Do
Foundation, Inc., Oklahoma City, OK
Youth Enchantment Services, Inc.,
Austin, TX
Youth for Christ Association of the
World, Spirit Lake, ID
Zora Neale Hurston-Roof Garden
Museum, Inc., Belle Glade, FL

If an organization listed above submits information that warrants the renewal of its classification as a public charity or as a private operating foundation, the Internal Revenue Service will issue a ruling or determination letter with the revised classification as to foundation status. Grantors and contributors may thereafter rely upon such ruling or determination letter as provided in section 1.509(a)-7 of the Income Tax Regulations. It is not the practice of the

Service to announce such revised classification of foundation status in the Internal Revenue Bulletin.

Changes to Publication 515 for New Income Tax Treaty and Protocol

Announcement 97-29

The United States recently exchanged instruments of ratification for a new income tax treaty with Kazakhstan and a new protocol with Indonesia. This information is not reflected in the 1996 revision of Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Corporations (For withholding in 1997)*, which was printed before these items were exchanged. Use the following information to modify the 1997 withholding tables in Publication 515.

Kazakhstan. The provisions for taxes withheld on interest, dividends, and royalties are effective for amounts paid or credited on or after February 1, 1997. For other taxes, the provisions are effective for tax periods beginning on or after January 1, 1996.

The withholding rates for 1997 are the same as the tax rates for 1996. The provisions and tax rates can be found in Tables 1 and 2 of the March 1997 revision of Publication 901, *U.S. Tax Treaties*.

Indonesia. The provisions of the new protocol are effective for amounts paid or credited on or after February 1, 1997.

Table 1 of Publication 515 reflects the January 1997 rates. For amounts paid or credited on or after February 1, 1997, make the following changes to Table 1:

1) Under income codes 1, 2, 3, 7, 11, and 12, replace "15" with "10."

2) In column 7, add footnote "b." The reduced rate only applies if the foreign parent corporation owns directly at least 25% of the voting stock of the company paying the dividends.

REMICs Publication Updated

Announcement 97-30

The 1996 fourth quarter update of the directory section of Publication 938, *Real Estate Mortgage Investment Conduits (REMICs) Reporting Information (And Other Collateralized Debt Obligations (CDOs))*, is now available on the IRS electronic bulletin board (IRP-BBS). The update contains information received by the Internal Revenue Service during the period September 1,

1996, through December 31, 1996. You can download the publication if you have a computer with a modem. Dial 1-304-264-7070 and follow the instructions. If you have problems downloading the publication, call the help line at 1-304-263-8700 and ask for the bulletin board. (These are not toll-free calls.)

Classification of Certain Transactions Involving Computer Programs; Correction

Announcement 97-31

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Correction to notice of proposed rulemaking.

SUMMARY: This document contains corrections to the notice of proposed rulemaking (REG-251520-96[1996-48 I.R.B. 15]) which was published in the **Federal Register** on Wednesday, November 13, 1996 (61 FR 58152). The notice of proposed rulemaking relates to the tax treatment of certain transactions involving the transfer of computer programs.

FOR FURTHER INFORMATION CONTACT: William H. Morris (202) 622-3880 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

The notice of proposed rulemaking that is subject to these corrections is under section 861 of the Internal Revenue Code.

Need for Correction

As published, the notice of proposed rulemaking (REG-251520-96) contains errors that may prove to be misleading and is in need of clarification.

Correction of Publication

Accordingly, the publication of proposed rulemaking (REG-251520-96) which is the subject of FR Doc. 96-29055 is corrected as follows:

§ 1.861-18 [Corrected]

1. On page 58157, column 2, § 1.861-18, paragraph (h), paragraph (ii)(B) of *Example 10.*, line 2, the language "circumstances, P is properly treated as the" is corrected to read "circumstances, Corp E is properly treated as the".

2. On page 58157, column 2, § 1.861-18, paragraph (h), paragraph (i) of *Example 12.*, line 8, the language “fee, Corp C receives the right to receive” is corrected to read “fee, Corp E receives the right to receive”.

Cynthia E. Grigsby,
Chief, Regulations Unit,
Assistant Chief Counsel (Corporate).

(Filed by the Office of the Federal Register on January 16, 1997, 8:45 a.m., and published in the issue of the Federal Register for January 17, 1997, 62 F.R. 2633)

Form 5309 Revision Announcement 97-32

Form 5309, Application for Determination of Employee Stock Ownership Plan, has been revised and is now available from Internal Revenue Service Distribution Centers by calling 1-800-TAX FORM. The new revision date is January, 1997. Forms with prior revision dates may be used until July 1, 1997.

Changes made to the form include the substitution of “Yes” and “No” questions on lines 6 through 9 for questions

regarding the plan section number, and new questions numbered 6d and 6f. Other question numbers were reformat- ted accordingly. A space was added for plan number, while the space for ad- dress, plan adoption date, and phone number were deleted. These items ap- pear on the forms (Form 5300 or 5303) to which Form 5309 must be attached.

Persons may computer generate this form without approval if it is word-for- word identical to the revised form.

Announcement of the Disbarment, Suspension, or Consent to Voluntary Suspension of Attorneys, Certified Public Accountants, Enrolled Agents and Enrolled Actuaries From Practice Before the Internal Revenue Service

Under 31 Code of Federal Regulations, Part 10, an attorney, certified public accountant, enrolled agent or enrolled actuary, in order to avoid the institution or conclusion of a proceeding for his disbarment or suspension from practice before the Internal Revenue Service, may offer his consent to suspension from such practice. The Director of Practice, in his discretion, may suspend an attorney, certified public accountant, enrolled agent or enrolled actuary in accordance with the consent offered.

Attorneys, certified public accountants, enrolled agents and enrolled actuaries are prohibited in any Internal Revenue

Service matter from directly or indirectly employing, accepting assistance from, being employed by or sharing fees with, any practitioner disbarred or suspended from practice before the Internal Revenue Service.

To enable attorneys, certified public accountants, enrolled agents and enrolled actuaries to identify practitioners under consent suspension from practice before the Internal Revenue Service, the Director of Practice will announce in the Internal Revenue Bulletin the names and addresses of practitioners who have been suspended from such practice, their designation as attorney, certified public

accountant, enrolled agent or enrolled actuary, and date or period of suspension. This announcement will appear in the weekly Bulletin at the earliest practicable date after such action and will continue to appear in the weekly Bulletins for five successive weeks or for as many weeks as is practicable for each attorney, certified public accountant, enrolled agent or enrolled actuary so suspended and will be consolidated and published in the Cumulative Bulletin.

The following individuals have been placed under consent suspension from practice before the Internal Revenue Service:

Name	Address	Designation	Date of Suspension
Vlymen, Neal Van	San Diego, CA	CPA	Indefinite from November 1, 1996
Lombardi, Theresa	Livonia, MI	CPA	November 1, 1996 to October 31, 1998
Orfall, Warren	Hood River, OR	CPA	November 1, 1996 to June 30, 1997
Oberman, Joseph	Highland Park, IL	CPA	December 1, 1996 to August 31, 1997
Gazzola, Frank	N. Mankato, MN	CPA	December 1, 1996 to November 30, 1997
Tumminello, Anthony G.	St. Louis, MO	Attorney	December 17, 1996 to June 16, 1997
Heffelfinger, Harry N.	Buffalo Grove, IL	CPA	December 20, 1996 to June 19, 1998
Zintl Jr., Ernst J.	Newport, MN	CPA	December 23, 1996 to December 22, 1997
Alms, William R.	Lake Forest, CA	CPA	January 1, 1997 to March 31, 1997
Smith, Arthur L.	Athens, GA	CPA	January 1, 1997 to December 31, 1997
DeGroote Sr., Kevin J.	Mesa, AZ	CPA	January 1, 1997 to October 31, 1997
Oliveri, Robert	Bensalem, PA	CPA	January 1, 1997 to December 31, 1997
Davies, Preston S.	Deerfield, IL	CPA	January 15, 1997 to December 14, 1997
Elbert, David L.	Franktown, CO	CPA	Indefinite from January 21, 1997
Smith Jr., Phillip M.	Long Beach, CA	Attorney	February 1, 1997 to March 31, 1997
Pennington, Richard A.	Vandergrift, PA	CPA	February 1, 1997 to January 31, 2000
Tameron, Joseph A.	Chandler, AZ	CPA	February 1, 1997 to September 30, 1998
Kalb, Mary C.	Kearny, NE	CPA	February 1, 1997 to March 31, 1997
Pritchard, John J.	San Diego, CA	Enrolled Agent	February 1, 1997 to March 31, 1997
Garrett, Richard	Torrance, GA	Enrolled Agent	March 1, 1997 to May 30, 1997
Englert, Larry R.	Eaton, OH	CPA	April 1, 1997 to May 30, 1997

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 law 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 the 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 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.

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 Contribution Act.

FISC—Foreign International Sales Company.

FPH—Foreign Personal Holding Company.

FR—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.—Statements 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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Key to Abbreviations:

RR	Revenue Ruling
RP	Revenue Procedure
TD	Treasury Decision
CD	Court Decision
PL	Public Law
EO	Executive Order
DO	Delegation Order
TDO	Treasury Department Order
TC	Tax Convention
SPR	Statement of Procedural Rules
PTE	Prohibited Transaction Exemption

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