

to 15.7 miles northwest of the TACAN, and within a 7.4-mile radius of the Mountain Home Municipal Airport, thence extending east of the radius 3.1 miles each side of the Sturgeon NDB 112° bearing to 7.4 miles east of Sturgeon NDB; that airspace extending upward from 1,200 feet above the surface bounded on the northeast by the southwest edge of V-253; to long. 115°00'11"W; south to lat. 42°24'00" N; east to lat. 42°24'08"N, long. 115°18'09" W; thence on southeast, south, and west by a 46.0-mile radius of Mountain Home AFB; on the west by the southeast edge of V-113; northeast to the southwest edge of V-253.

\* \* \* \* \*

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**Leonard A. Mobley,**  
Acting Area Director, Western Terminal Operations.

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**DEPARTMENT OF THE TREASURY**

**Internal Revenue Service**

**26 CFR Part 1**

[TD 9244]

RIN 1545-BC05; 1545-BE88

**Determination of Basis of Stock or Securities Received in Exchange for, or With Respect to, Stock or Securities in Certain Transactions; Treatment of Excess Loss Accounts; Correction**

**AGENCY:** Internal Revenue Service (IRS), Treasury.

**ACTION:** Correcting amendment.

**SUMMARY:** This document contains a correction to final and temporary regulations (TD 9244), that were published in the **Federal Register** on Thursday, January 26, 2006 (71 FR 4264). This regulation provides guidance regarding the determination of the basis of stock or securities received in exchange for, or with respect to, stock or securities in certain transactions.

**DATES:** This correction is effective January 23, 2006.

**FOR FURTHER INFORMATION CONTACT:** Theresa M. Kolish, (202) 622-7530 (not a toll-free number).

**SUPPLEMENTARY INFORMATION:**

**Background**

The final and temporary regulations (TD 9244) that are the subject of these corrections are under sections 358 and 1502 of the Internal Revenue Code.

**Need for Correction**

As published, TD 9244 contains errors that may prove to be misleading and are in need of clarification.

**List of Subjects in 26 CFR Part 1**

Income taxes, Reporting and recordkeeping requirements.

**Correction of Publication**

■ Accordingly, 26 CFR Part 1 is corrected by making the following correcting amendments:

**PART 1—INCOME TAXES**

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

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

**§ 1.358-1 [Corrected]**

■ **Par. 2.** Section 1.358-1 is amended by revising paragraph (b), *Example* to read as follows:

**§ 1.358-1 Basis to distributees.**

\* \* \* \* \*

(b) \* \* \*

*Example.* A purchased a share of stock in Corporation X in 1935 for \$150. Since that date A has received distributions out of other than earnings and profits (as defined in section 316) totaling \$60, so that A's adjusted basis for the stock is \$90. In a transaction qualifying under section 356, A exchanged this share for one share in Corporation Y, worth \$100, cash in the amount of \$10, and other property with a fair market value of \$30. The exchange had the effect of the distribution of a dividend. A's ratable share of the earnings and profits of Corporation X accumulated after February 28, 1913, was \$5. A realized a gain of \$50 on the exchange, but the amount recognized is limited to \$40, the sum of the cash received and the fair market value of the other property. Of the gain recognized, \$5 is taxable as a dividend, and \$35 is taxable as a gain from the exchange of property. The basis to A of the one share of stock of Corporation Y is \$90, that is, the adjusted basis of the one share of stock of Corporation X (\$90), decreased by the sum of the cash received (\$10) and the fair market value of the other property received (\$30) and increased by the sum of the amount treated as a dividend (\$5) and the amount treated as a gain from the exchange of property (\$35). The basis of the other property received is \$30.

\* \* \* \* \*

**§ 1.358-2 [Corrected]**

■ **Par. 3.** Section 1.358-2(c) is amended by revising paragraphs (ii) in *Examples 4, 5, 6 and 11* to read as follows:

**§ 1.358-2 Allocation of basis among nonrecognition property.**

(a) \* \* \*

(2) \* \* \*

(viii) \* \* \*

(c) \* \* \*

*Example 4.* (i) \* \* \*

(ii) *Analysis.* Under paragraph (a)(2)(ii) of this section and under § 1.356-1(b), because the terms of the exchange do not specify that shares of Corporation Y stock or cash are received in exchange for particular shares of Class A stock or Class B stock of Corporation X, a pro rata portion of the shares of Corporation Y stock and cash received will be treated as received in exchange for each share of Class A stock and Class B stock of Corporation X surrendered based on the fair market value of such stock. Therefore, J is treated as receiving one share of Corporation Y stock and \$5 of cash in exchange for each share of Class A stock of Corporation X and one share of Corporation Y stock and \$5 of cash in exchange for each share of Class B stock of Corporation X. J realizes a gain of \$140 on the exchange of shares of Class A stock of Corporation X, \$100 of which is recognized under § 1.356-1(a). J realizes a gain of \$80 on the exchange of Class B stock of Corporation X, all of which is recognized under § 1.356-1(a). Under paragraph (a)(2)(i) of this section, J has 10 shares of Corporation Y stock, each of which has a basis of \$2 and is treated as having been acquired on Date 1, 10 shares of Corporation Y stock, each of which has a basis of \$4 and is treated as having been acquired on Date 2, and 20 shares of Corporation Y stock, each of which has a basis of \$5 and is treated as having been acquired on Date 3. Under paragraph (a)(2)(vii) of this section, on or before the date on which the basis of a share of Corporation Y stock received becomes relevant, J may designate which of the shares of Corporation Y stock received have a basis of \$2, which have a basis of \$4, and which have a basis of \$5.

*Example 5.* (i) \* \* \*

(ii) *Analysis.* Under paragraph (a)(2)(ii) of this section and under § 1.356-1(b), because the terms of the exchange specify that J receives 40 shares of stock of Corporation Y in exchange for J's shares of Class A stock of Corporation X and \$200 of cash in exchange for J's shares of Class B stock of Corporation X and such terms are economically reasonable, such terms control. J realizes a gain of \$140 on the exchange of shares of Class A stock of Corporation X, none of which is recognized under § 1.356-1(a). J realizes a gain of \$80 on the exchange of shares of Class B stock of Corporation X, all of which is recognized under § 1.356-1(a). Under paragraph (a)(2)(i) of this section, J has 20 shares of Corporation Y stock, each of which has a basis of \$1 and is treated as having been acquired on Date 1, and 20 shares of Corporation Y stock, each of which has a basis of \$2 and is treated as having been acquired on Date 2. Under paragraph (a)(2)(vii) of this section, on or before the date on which the basis of a share of Corporation Y stock received becomes relevant, J may designate which of the shares of Corporation Y stock received have a basis of \$1 and which have a basis of \$2.

*Example 6.* (i) \* \* \*

(ii) *Analysis.* Under paragraph (a)(2)(ii) of this section and under § 1.354-1(a), because the terms of the exchange specify that J receives 10 shares of stock of Corporation Y

in exchange for J's shares of Class A stock of Corporation X and a Corporation Y security in exchange for its Corporation X security and such terms are economically reasonable, such terms control. Pursuant to section 354, J recognizes no gain on either exchange. Under paragraph (a)(2)(i) of this section, J has 10 shares of Corporation Y stock, each of which has a basis of \$2 and is treated as having been acquired on Date 1, and a security that has a basis of \$100 and is treated as having been acquired on Date 2.

\* \* \* \* \*

*Example 11.* (i) \* \* \*

(ii) *Analysis.* Under paragraph (a)(2)(iii) of this section, J is deemed to have received shares of Corporation Y stock with an aggregate fair market value of \$1,000 in exchange for J's Corporation X shares. Consistent with the economics of the transaction and the rights associated with each class of stock of Corporation Y owned by J, J is deemed to receive additional shares of Corporation Y common stock. Because the value of the common stock indicates that the liquidation preference associated with the Corporation Y preferred stock could be satisfied even if the reorganization did not occur, it is not appropriate to deem the issuance of additional Corporation Y preferred stock. Given the number of outstanding shares of common stock of Corporation Y and their value immediately before the effective time of the reorganization, J is deemed to have received 100 shares of common stock of Corporation Y in the reorganization. Under paragraph (a)(2)(i) of this section, each of those shares has a basis of \$1 and is treated as having been acquired on Date 1. Then, the common stock of Corporation Y is deemed to be recapitalized in a reorganization under section 368(a)(1)(E) in which J receives 100 shares of Corporation Y common stock in exchange for those shares of Corporation Y common stock that J held immediately prior to the reorganization and those shares of Corporation Y common stock that J is deemed to have received in the reorganization. Under paragraph (a)(2)(i), immediately after the reorganization, J holds 50 shares of Corporation Y common stock, each of which has a basis of \$2 and is treated as having been acquired on Date 1, and 50 shares of Corporation Y common stock, each of which has a basis of \$4 and is treated as having been acquired on Date 2. Under paragraph (a)(2)(vii) of this section, on or before the date on which the basis of any share of J's Corporation Y common stock becomes relevant, J may designate which of those shares have a basis of \$2 and which have a basis of \$4.

\* \* \* \* \*

#### § 1.1502-19T [Corrected]

■ **Par. 4.** Section 1.1502-19T is amended by removing the cross reference for paragraphs (b)(2) through (c) and adding a cross reference for paragraphs (a) through (c) in its place and revising the text to paragraph (h)(2)(iv) to read as follows:

#### § 1.1502-19T Excess loss accounts (temporary).

(a) through (c) [Reserved]. For further guidance, see § 1.1502-19 (a) through (c).

\* \* \* \* \*

(h)(2)(iv) \* \* \* For guidance regarding determinations of the basis of the stock of a subsidiary acquired in an intercompany reorganization on or after January 23, 2006, see paragraphs (d) and (g) *Example 2* of this section.

\* \* \* \* \*

#### § 1.1502-32 [Corrected]

■ **Par. 5.** Section 1.1502-32 is amended by revising the text of paragraph (h)(8) to read as follows:

#### § 1.1502-32 Investment adjustments.

\* \* \* \* \*

(h) \* \* \*

(h)(8) \* \* \* Paragraph (b)(5)(ii)

*Example 6* of this section applies only with respect to determinations of the basis of the stock of a subsidiary on or after January 23, 2006. For determinations of the basis of the stock of a subsidiary before January 23, 2006, see § 1.1502-32(b)(5)(ii) *Example 6* as contained in the 26 CFR part 1 edition revised as of April 1, 2005.

\* \* \* \* \*

Guy R. Traynor,

*Federal Register Liaison, Publications and Regulations Branch, Legal Processing Division, Associate Chief Counsel (Procedure and Administration).*

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## DEPARTMENT OF HOMELAND SECURITY

### Coast Guard

#### 33 CFR Part 100

[CGD07-06-191]

RIN 1625-AA08

#### Special Local Regulation; ChampBoat Grand Prix of Savannah; Savannah, GA

**AGENCY:** Coast Guard, DHS.

**ACTION:** Temporary final rule.

**SUMMARY:** The Coast Guard is establishing a temporary special local regulation (SLR) for the ChampBoat Grand Prix of Savannah, a speed boat race occurring on the Savannah River. The regulated area is defined as all waters located between the width of the Savannah River bounded on the northern end by the U. S. Highway 17

(Talmadge) Bridge across the Savannah River and on the southern end by a line drawn at 146 degrees True from Day Board 62 on the left descending bank of the Savannah River. This special local regulation is necessary to ensure the safety of commercial and recreational vessels and personnel within the regulated area.

**DATES:** This rule is effective from 7 a.m. on November 4, 2006, until 9 p.m. on November 5, 2006.

**ADDRESSES:** Documents indicated in this preamble as being available in the docket are part of docket CGD07-06-191, and are available for inspection or copying at Coast Guard Marine Safety Unit Savannah, 100 West Oglethorpe Avenue, Suite 1017, Savannah, Georgia 31401 between 7:30 a.m. and 4 p.m., Monday through Friday, except Federal Holidays.

**FOR FURTHER INFORMATION CONTACT:** LT Robert Webb, Waterways Management Officer, Coast Guard Marine Safety Unit Savannah, 912-652-4353.

#### SUPPLEMENTARY INFORMATION:

##### Regulatory Information

We did not publish a notice of proposed rulemaking (NPRM) for this rule. Under 5 U.S.C. 553(b), the Coast Guard finds that good cause exists for not publishing an NPRM. The sponsor's application for this event was not submitted to the Coast Guard with sufficient time for a public comment period before the event date. Publishing an NPRM, which would incorporate a comment period before a final rule could be issued, would be contrary to public safety interests since it would delay the effective date of the rule until after the date of the event. For the same reasons, under 5 U.S.C. 553(d)(3), the Coast Guard finds that good cause exists for making this rule effective less than 30 days after publication in the **Federal Register**. The Coast Guard will issue a broadcast notice to mariners to advise mariners of the regulated area and its requirements.

##### Background and Purpose

Speedway Group, Inc. and ChampBoat Series, LLC., submitted an application for a marine event permit for the ChampBoat Grand Prix of Savannah, to be held November 4-5, 2006, in Savannah, GA. After close review of the application and through extensive conversation with port stakeholders, the Coast Guard approved the application. The approval of the application and issuance of the marine permit was contingent on the ability of race coordinators to periodically open the river to commercial traffic. The race