

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. 2003-74, page 77.

Section 355 management ruling. Where two different businesses operate within the same corporate group, and senior management wishes to focus on only one, the separation of the businesses to enable the management of each to concentrate on its own business satisfies the business purpose requirement of section 1.355-2(b) of the regulations.

Rev. Rul. 2003-75, page 79.

Section 355 capital allocation ruling. Where two different businesses within the same corporate group are competing for limited capital, the separation of these businesses to resolve the capital allocation problem satisfies the business purpose requirement of section 1.355-2(b) of the regulations.

Rev. Rul. 2003-77, page 75.

Community service facility. This ruling describes the type of facility that qualifies as a community service facility under section 42(d)(4)(C)(iii) of the Code.

Rev. Rul. 2003-78, page 76.

Advance refunding bonds. This ruling concludes that tax-exempt bonds are advance refunding bonds within the meaning of section 149(d)(5) of the Code if proceeds of the bonds are loaned to a governmental unit (the conduit borrower) that uses the proceeds to redeem an outstanding tax-exempt obligation on which the conduit borrower is the obligor (the prior obligor) more than 90 days after the issue date of the bonds.

Rev. Rul. 2003-79, page 80.

Section 355 reverse Morris trust. The acquisition by an unrelated corporation of all the assets of a newly formed controlled corporation following distribution of the controlled corporation's stock under section 355 of the Code will satisfy the "substantially all" requirement of section 368(a)(1)(C) even though the acquired assets represent only half of the assets held by the distributing corporation before it formed the controlled corporation.

Rev. Rul. 2003-80, page 83.

Statute of limitations, bankruptcy. This ruling explains the effect of a bankruptcy on the running of the statute of limitations on assessment set forth in section 6501 of the Code. The ruling illustrates that when the IRS issues a Notice of Deficiency less than 90 days before the taxpayer files a bankruptcy petition, the same day the taxpayer files a bankruptcy petition, or after the taxpayer files a bankruptcy petition, and before the termination of the automatic stay imposed by the bankruptcy, the assessment period is suspended not only by the 60-day period provided by section 6503(a), but also by the additional 60-day period provided by section 6213(f).

Rev. Rul. 2003-87, page 82.

LIFO; price indexes; department stores. The May 2003 Bureau of Labor Statistics price indexes are accepted for use by department stores employing the retail inventory and last-in, first-out inventory methods for valuing inventories for tax years ended on, or with reference to, May 31, 2003.

Announcement 2003-47, page 124.

This announcement notifies the public of changes to Form 8873, *Extraterritorial Income Exclusion*, and its Instructions. This announcement also provides the reasons for these changes.

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Finding Lists begin on page ii.



ADMINISTRATIVE

Notice 2003–45, page 86.

Depreciation, mid-quarter convention relief. This notice announces that a taxpayer qualifying under either Notice 2001–70 or Notice 2001–74 who filed a timely return for the taxable year that includes September 11, 2001, but failed to make the election provided under Notice 2001–70 or Notice 2001–74, is granted an automatic extension of time until December 31, 2003, to amend its tax return for the taxable year that includes September 11, 2001, and any subsequent taxable years, in order to make the election under Notice 2001–70 or Notice 2001–74 and reflect any necessary adjustments resulting from the election. Notices 2001–70 and 2001–74 amplified.

Rev. Proc. 2003–48, page 86.

Section 355; update of section 355 checklist questionnaire.

The Service will no longer determine whether a distribution of controlled corporation stock (1) satisfies the business purpose requirement, (2) is used principally as a device for the distribution of earnings and profits, or (3) is part of a plan under section 355(e) of the Code. Taxpayers will be required to address these factual issues by submitting appropriate representations. Rev. Proc. 96–30 modified and amplified, and Rev. Proc. 2003–3 modified.

Rev. Proc. 2003–49, page 89.

This procedure corrects errors found in Rev. Proc. 2003–15, 2003–4 I.R.B. 321. This procedure provides issuers of qualified mortgage bonds, as defined in section 143(a) of the Code, and issuers of mortgage credit certificates, as defined in section 25(c), with a list of qualified census tracts for each state and the District of Columbia. The qualified census tracts are based on data from the 2000 census. Rev. Proc. 2003–15 modified and superseded.

Rev. Proc. 2003–50, page 119.

Additional first year depreciation. This procedure provides additional time for any taxpayer that timely filed its federal tax return for the taxable year that included September 11, 2001, to deduct, or elect not to deduct, the 30-percent additional first year depreciation deduction for qualified property and qualified New York Liberty Zone property placed in service after September 11, 2001, during the taxable year that included September 11, 2001. This procedure also permits an automatic extension of time to allow certain taxpayers to change their selection of section 179 property for the taxable year that included September 11, 2001. Rev. Procs. 2002–9 and 2002–33 amplified and modified.

Rev. Proc. 2003–51, page 121.

Inventories. Guidelines are provided for taxpayers and IRS personnel in making fair market value determinations for inventory items acquired when a taxpayer purchases the assets of a business for a lump sum or a corporation acquires the stock of another corporation and makes an election pursuant to section 338 of the Code. Rev. Proc. 77–12 amplified, modified, and superseded.

The IRS Mission

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

Introduction

The Internal Revenue Bulletin is the authoritative instrument of the Commissioner of Internal Revenue for announcing official rulings and procedures of the Internal Revenue Service and for publishing Treasury Decisions, Executive Orders, Tax Conventions, legislation, court decisions, and other items of general interest. It is published weekly and may be obtained from the Superintendent of Documents on a subscription basis. Bulletin contents are consolidated semiannually 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 Other Related Items, and Subpart B, Legislation and Related Committee Reports.

Part III.—Administrative, Procedural, and Miscellaneous.

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

Part IV.—Items of General Interest.

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

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

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

Section 25.—Interest on Certain Home Mortgages

26 CFR 1.25-3T: *Qualified mortgage credit certificate.*

The qualified census tracts for the states and the District of Columbia are set forth for use in determining the portion of loans required to be placed in targeted areas under section 143(h). See Rev. Proc. 2003-49, page 89.

Section 42.—Low Income Housing Credit

Community service facility. This ruling describes the type of facility that qualifies as a community service facility under section 42(d)(4)(C)(iii) of the Code.

Rev. Rul. 2003-77

ISSUE

Does the facility described below qualify as a community service facility under § 42(d)(4)(C)(iii) of the Internal Revenue Code?

FACTS

A qualified low-income building (the Building) received a housing credit allocation on October 1, 2002, and was placed in service in 2003. The Building is located in a qualified census tract (as defined in § 42(d)(5)(C)). A portion of the Building (the Facility) is used throughout the year to provide services to residents of the Building as well as nonresidents. The Facility consists of a meeting room, an administrative office, a storage room, and several multi-purpose rooms. The services provided at the Facility include day care, career counseling, literacy training, education (including tutorial services), recreation, and outpatient clinical health care. The services are provided free of charge or for a fee that is affordable to individuals whose income is 60 percent or less of area median income (within the meaning of § 42(g)(1)(B)). The adjusted basis of the property comprising the Facility (of a character subject to the allowance for depreciation and not otherwise taken into account in the adjusted basis of the Building) does not exceed 10 percent of the eligible basis of the Building.

As required by § 42(m)(1)(A)(iii), prior to the allocation of housing credit to the Building, a comprehensive market study was conducted to assess the housing needs of the low-income individuals in the area to be served by the Building. The study found, among other things, that providing day care, career counseling, literacy training, education (including tutorial services), recreation, and outpatient clinical health care services would be appropriate and helpful to individuals in the area of the Building whose income is 60 percent or less of area median income.

LAW AND ANALYSIS

Section 42(a) provides that the amount of the low-income housing credit determined for any taxable year in the credit period is an amount equal to the applicable percentage of the qualified basis of each qualified low-income building.

Section 42(c)(1)(A) defines the qualified basis of any qualified low-income building for any taxable year as an amount equal to the applicable fraction (as defined in § 42(c)(1)(B)), determined as of the close of the taxable year, of the eligible basis of the building, determined under § 42(d)(5).

Section 42(d)(1) provides that the eligible basis of a new building is its adjusted basis as of the close of the first taxable year of the credit period. Section 42(d)(4)(A) provides that, except as provided in § 42(d)(4)(B) and (C), the adjusted basis of any building is determined without regard to the adjusted basis of any property that is not residential rental property. Section 42(d)(4)(B) provides that the adjusted basis of any building includes the adjusted basis of property (of a character subject to the allowance for depreciation) used in common areas or provided as comparable amenities to all residential rental units in the building.

Section 42(d)(4)(C)(i) provides that the adjusted basis of any building located in a qualified census tract is determined by taking into account the adjusted basis of property (of a character subject to the allowance for depreciation and not otherwise taken into account) used throughout the taxable year in providing any community service facility. Section

42(d)(5)(C)(ii)(I) defines the term “qualified census tract” as any census tract which is designated by the Secretary of Housing and Urban Development (HUD) and, for the most recent year for which census data are available on household income in the tract, either in which 50 percent or more of the households have an income which is less than 60 percent of the area median gross income for the year or which has a poverty rate of at least 25 percent. See <http://www.huduser.org/datasets/qct.html> for census tracts designated by the Secretary of HUD.

Section 42(d)(4)(C)(ii) provides that the increase in the adjusted basis of any building which is taken into account by reason of § 42(d)(4)(C)(i) may not exceed 10 percent of the eligible basis of the qualified low-income housing project of which it is a part. For this purpose, § 42(d)(4)(C)(ii) provides that all community service facilities which are part of the same qualified low-income housing project are treated as one facility.

Section 42(d)(4)(C)(iii) provides that the term “community service facility” means any facility designed to serve primarily individuals whose income is 60 percent or less of area median income (within the meaning of § 42(g)(1)(B)).

Section 42(m)(1)(A)(iii) provides that the housing credit dollar amount with respect to any building will be zero unless a comprehensive market study of the housing needs of low-income individuals in the area to be served by the project is conducted before the credit allocation is made and at the developer’s expense by a disinterested party who is approved by the housing credit agency.

Under § 42(d)(4)(C)(iii), a community service facility must be designed to serve primarily individuals whose income is 60 percent or less of area median income. This requirement will be satisfied if the following conditions are met. First, the facility must be used to provide services that will improve the quality of life for community residents. Second, the taxpayer must demonstrate that the services provided at the facility will be appropriate and helpful to individuals in the area of the project whose income is 60 percent or less of area median income. This may, for example, be demonstrated in the market study required

to be conducted under § 42(m)(1)(A)(iii), or another similar study. Third, the facility must be located on the same tract of land as one of the buildings that comprises the qualified low-income housing project. Finally, if fees are charged for services provided, they must be affordable to individuals whose income is 60 percent or less of area median income.

Under the facts presented, the Facility is designed to serve primarily individuals whose income is 60 percent or less of area median income for the following reasons:

(1) the services provided at the Facility—day care, career counseling, literacy training, education (including tutorial services), recreation, and outpatient clinical health care—are services that will help improve the quality of life for community residents; (2) the market study required to be conducted under § 42(m)(1)(A)(iii) found that the services provided at the Facility would be appropriate and helpful to individuals in the area of the Building whose income is 60 percent or less of area median income; (3) the Facility is located within the Building; and (4) the services provided at the Facility are affordable to individuals whose income is 60 percent or less of area median income.

HOLDING

The Facility qualifies as a community service facility under § 42(d)(4)(C)(iii). Because the other requirements set forth in § 42(d)(4)(C) are met, the adjusted basis of the Building will be determined by taking into account the adjusted basis of the Facility.

DRAFTING INFORMATION

The principal author of this revenue ruling is Gregory N. Doran of the Office of Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding this revenue ruling, contact Mr. Doran at (202) 622-3040 (not a toll-free call).

Section 103.—Interest on Certain Home Mortgages

26 CFR 1.103-1: Interest upon obligations of a state, territory, etc.

The qualified census tracts for the states and the District of Columbia are set forth for use in determining the portion of loans required to be placed in targeted areas under section 143(h). See Rev. Proc. 2003-49, page 89.

Section 143.—Mortgage Revenue Bonds: Qualified Mortgage Bond and Qualified Veterans' Mortgage Bond

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

The qualified census tracts for the states and the District of Columbia are set forth for use in determining the portion of loans required to be placed in targeted areas under section 143(h). See Rev. Proc. 2003-49, page 89.

Section 149(d).—Advance Refundings

Advance refunding bonds. This ruling concludes that tax-exempt bonds are advance refunding bonds within the meaning of section 149(d)(5) of the Code if proceeds of the bonds are loaned to a governmental unit (the conduit borrower) that uses the proceeds to redeem an outstanding tax-exempt obligation on which the conduit borrower is the obligor (the prior obligation) more than 90 days after the issue date of the bonds.

Rev. Rul. 2003-78

ISSUE

Whether bonds are advance refunding bonds within the meaning of § 149(d)(5) of the Internal Revenue Code if the issuer loans proceeds of the bonds to a governmental unit, and within 90 days of the date the loan is made, but more than 90 days after the issue date of the bonds, the governmental unit uses the proceeds to redeem outstanding tax-exempt obligations of the governmental unit.

FACTS

Issuer X, a governmental unit, issues bonds (Bonds) to make loans to other governmental units to finance or refinance

governmental projects of those units. X loans a portion of the proceeds of the Bonds to a governmental unit (the Borrower) that uses the proceeds to redeem tax-exempt bonds (Prior Bonds) issued by the Borrower. The Borrower is the obligor of the Prior Bonds within the meaning of § 1.150-1(d)(2)(ii)(B) of the Income Tax Regulations. The redemption of the Prior Bonds occurs within 90 days of the date the loan to the Borrower is made, but more than 90 days after the issue date of the Bonds.

LAW AND ANALYSIS

Section 103(a) provides that, except as otherwise provided, gross income does not include interest on any State or local bond. Section 103(b)(3) provides that this exclusion does not apply to any bond unless the bond meets the applicable requirements of § 149.

Section 149(d)(1) provides that nothing in § 103(a) or any other provision of the law shall be construed to provide an exemption from federal income tax for interest on any bond issued as part of an issue described in paragraph (2), (3), or (4) of § 149(d). Section 149(d)(3) provides, in part, that an issue is described in paragraph (3) of § 149(d) if any bond issued as part of the issue is issued to advance refund a bond, unless the refunding bond is only (a) the first advance refunding of the original bond if the original bond is issued after 1985, or (b) the first or second advance refunding of the original bond if the original bond is issued before 1986. Section 149(d)(5) provides that a bond is treated as issued to advance refund another bond if it is issued more than 90 days before the redemption of the refunded bond. See also § 1.150-1(d)(3), (d)(4).

Pursuant to § 1.150-1(a)(1), except as otherwise provided, the definitions in § 1.150-1 apply for all purposes of §§ 103 and 141 through 150.

Section 1.150-1(d)(1) provides that a refunding issue means an issue of obligations the proceeds of which are used to pay principal, interest, or redemption price on another issue, including issuance costs, accrued interest, capitalized interest on the refunding issue, a reserve or replacement fund, or similar costs, if any, properly allocable to that refunding issue. An issue is not a refunding issue, however, to the

extent that the obligor of one issue is neither the obligor of the other issue nor a related party with respect to the obligor of the other issue. § 1.150-1(d)(2)(ii)(A).

In general, § 1.150-1(d)(2)(ii)(B) provides that the obligor of an issue means the actual issuer of the issue, except that the obligor of the portion of an issue properly allocable to an investment in a purpose investment means the conduit borrower under that purpose investment. Section 1.150-1(b) defines the term “conduit borrower” as the obligor on a purpose investment (as defined in § 1.148-1). For example, if an issuer invests proceeds in a purpose investment in the form of a loan, lease, installment sale obligation, or similar obligation to another entity and the obligor uses the proceeds to carry out the governmental purpose of the issue, the obligor is a conduit borrower. The obligor of an issue used to finance qualified mortgage loans, qualified student loans, or similar program investments (as defined in § 1.148-1) does not include the ultimate recipient of the loan (e.g., the homeowner, the student). § 1.150-1(d)(2)(ii)(B).

Section 1.148-1(b) defines the terms “purpose investment” and “program investment”. A purpose investment is an investment that is acquired to carry out the governmental purpose of an issue. A program investment is a purpose investment that is part of a governmental program in which, among other requirements, at least 95 percent (90 percent for qualified student loans under § 144(b)(1)(A)) of the cost of the purpose investments acquired under the program represents one or more loans to a substantial number of persons representing the general public, states or political subdivisions, 501(c)(3) organizations, persons who provide housing and related facilities, or any combination of the foregoing.

Section 1.150-1(b) defines the issue date of an issue as the first date on which the issuer receives the purchase price in exchange for delivery of the evidence of indebtedness representing any bond included in the issue. In reference to a bond, the issue date is the date on which the issuer receives the purchase price in exchange for that bond. In no event is the issue date earlier than the first day on which interest begins to accrue on

the bond or bonds for federal income tax purposes.

The proceeds of the Bonds loaned to the Borrower are used to pay principal, interest, or redemption price on another issue, the Prior Bonds. Thus, under the general definition of refunding issue contained in § 1.150-1(d)(1), the portion of the Bonds allocable to the loan to the Borrower constitutes a refunding issue. There is no change in obligor under § 1.150-1(d)(2)(ii) to alter this conclusion. The loan to the Borrower from proceeds of the Bonds is a purpose investment, and it is not a “similar program investment” within the meaning of § 1.150-1(d)(2)(ii)(B). Although the loans of proceeds of the Bonds may be program investments, loans to governmental units to finance or refinance their governmental projects are not similar to qualified mortgage loans or qualified student loans for purposes of § 1.150-1(d)(2)(ii)(B) because they are not loans made to natural persons not engaged in a trade or business (with respect to the loans). Thus, the Borrower is an obligor of the Bonds. The Borrower is also the obligor of the Prior Bonds. Accordingly, the portion of the Bonds allocable to the loan to the Borrower constitutes a refunding issue. Because the redemption date of the Prior Bonds is more than 90 days after the issue date of the Bonds, the portion of the Bonds allocable to the loan to the Borrower are advance refunding bonds within the meaning of § 149(d)(5).

HOLDING

The portion of the Bonds allocable to the loan to the Borrower are advance refunding bonds within the meaning of § 149(d)(5) if X loans proceeds of the Bonds to the Borrower, and within 90 days of the date the loan is made, but more than 90 days after the issue date of the Bonds, the Borrower uses the proceeds to redeem the Prior Bonds.

DRAFTING INFORMATION

The principal authors of this revenue ruling are David White and Rebecca Harrigal of the Office of the Associate Chief Counsel (Tax-Exempt and Government Entities), Internal Revenue Service.

For further information regarding this revenue ruling, contact David White at (202) 622-3980 (not a toll free call).

Section 168.—Accelerated Cost Recovery System

How does a taxpayer that timely filed its federal tax return for the taxable year that included September 11, 2001, deduct, or elect not to deduct, the additional first year depreciation provided by section 168(k) of the Internal Revenue Code for qualified property? See Rev. Proc. 2003-50, page 119.

Section 179.—Election to Expense Certain Depreciable Business Assets

26 CFR 1.179-5: Time and manner of making election.

How does a taxpayer that timely filed its federal tax return for the taxable year that included September 11, 2001, claim the increased section 179 expense deduction for qualified New York Liberty Zone property, or change its selection of section 179 property for the taxable year that included September 11, 2001? See Rev. Proc. 2003-50, page 119.

Section 338.—Certain Stock Purchases Treated as Asset Acquisitions

26 CFR 1.338-1: General principles: status of old target and new target.

What guidelines are provided for use by taxpayers and IRS personnel in making fair market value determinations for inventory items acquired when a taxpayer purchases the assets of a business for a lump sum or a corporation acquires the stock of another corporation and makes an election under section 338 of the Code. See Rev. Proc. 2003-51, page 121.

Section 355.—Distribution of Stock and Securities of a Controlled Corporation

26 CFR 1.355-2: Business purpose.

Section 355 management ruling. Where two different businesses operate within the same corporate group, and senior management wishes to focus on only one, the separation of the businesses to enable the management of each to concentrate on its own business satisfies the business purpose requirement of section 1.355-2(b) of the regulations.

ISSUE

Whether, in the situation described below, the distribution of the stock of a controlled corporation by a distributing corporation to enable the management of each corporation to concentrate on its own business satisfies the business purpose requirement of § 1.355-2(b) of the Income Tax Regulations.

FACTS

Distributing is a publicly traded corporation that conducts a software technology business. Controlled, a wholly owned subsidiary of Distributing, conducts a paper products business. One shareholder, who does not actively participate in the management or operations of Distributing or Controlled, owns eight percent of the outstanding Distributing stock.

The software business develops and markets software for various applications. It is a high-growth business that depends for its success on innovation and acquisitions of related businesses. It is the business around which Distributing originally developed and remains the core operation. The paper products business manufactures and distributes paper products. It was acquired five years ago to support the software business and is significantly smaller than the software business. The paper products business grows at a slow to moderate rate largely through increased efficiencies in productivity.

Distributing's senior management devotes more of its time to the software business because it believes that business presents better opportunities for growth. Indeed, it would like to concentrate solely on the software business but is prevented from doing so by the need to service the paper products business. The management of the paper products business, on the other hand, believes that the disproportionate attention paid the software business deprives the paper products business of the management resources needed for its full development.

To enable Distributing's senior management to concentrate on the software business and the management of the paper products business to concentrate on its own operation, Distributing distributes the

Controlled stock to Distributing's shareholders, *pro rata*. Because Distributing's senior management would have continued responsibility for the paper products business as long as Distributing owns a controlling interest in the stock of the corporation operating the paper products business, there is no other nontaxable transaction that would permit Distributing's senior management to concentrate on the software business and permit the paper products business to have a senior management that adequately serves that business. Distributing's directors and senior management expect that each business will benefit in a real and substantial way from the separation.

Following the distribution, no officer will serve both Distributing and Controlled. However, two of Distributing's eight directors will also serve on Controlled's six-person board. Director A will help with administrative aspects of the transition. His term will expire after two years, and he cannot seek reelection. Director B is recognized as an expert in corporate finance. His presence on the Controlled board is intended to reassure the financial markets by providing a sense of continuity. His term will expire after six years, at which time he may seek reelection. Both directors are officers of Distributing, but neither will be an officer or employee of Controlled.

Apart from the issue of whether the business purpose requirement of § 1.355-2(b) is satisfied, the distribution meets all of the requirements of § 355.

LAW

Section 355 provides that if certain requirements are met, a corporation may distribute stock and securities in a controlled corporation to its shareholders and security holders without causing the distributing corporation or the distributees to recognize gain or loss.

To qualify as a distribution described in § 355, a distribution must, in addition to satisfying the statutory requirements of § 355, satisfy certain requirements in the regulations, including the business purpose requirement. Section 1.355-2(b)(1) provides that a distribution must be motivated, in whole or substantial part, by one or more corporate business purposes. A corporate business purpose is a real

and substantial non-federal tax purpose germane to the business of the distributing corporation, the controlled corporation, or the affiliated group to which the distributing corporation belongs. Section 1.355-2(b)(2). The principal reason for the business purpose requirement is to provide nonrecognition treatment only to distributions that are incident to readjustments of corporate structures required by business exigencies and that effect only readjustments of continuing interests in property under modified corporate forms. Section 1.355-2(b)(1). If a corporate business purpose can be achieved through a nontaxable transaction that does not involve the distribution of stock of a controlled corporation and that is neither impractical nor unduly expensive, then the separation is not carried out for that corporate business purpose. Section 1.355-2(b)(3).

ANALYSIS

The distribution of Controlled stock by Distributing to Distributing's shareholders will enable Distributing's senior management to concentrate its efforts on the software business, which it believes presents better opportunities for growth, and allow the management of the paper products business to secure for that business the management resources needed for its full development. There is no other nontaxable transaction that would permit Distributing's senior management to concentrate on the software business and permit the paper products business to have a senior management that adequately serves that business, and it is expected that the separation of the two businesses will enhance the success of each business in a real and substantial way.

Although the continuing relationship between Distributing and Controlled evidenced by the two common directors appears inconsistent with the assertion that the software business and the paper products business require independent management teams, this relationship does not conflict with the business purpose for the separation. Director A will serve for only a short period and will further that purpose by aiding in the creation of two independently administered operations. Director B will assist the separation by calming market concerns that might

otherwise adversely affect one or both businesses. Further, the two directors together constitute only a minority of each board.

Hence, the distribution of Controlled stock by Distributing to Distributing's shareholders is motivated in whole or substantial part by a real and substantial non-federal tax purpose germane to the businesses of Distributing and Controlled and satisfies the corporate business purpose requirement of § 1.355-2(b).

HOLDING

In the situation described above, the distribution of the stock of a controlled corporation by a distributing corporation to enable the management of each corporation to concentrate on its own business satisfies the business purpose requirement of § 1.355-2(b).

DRAFTING INFORMATION

The principal author of this revenue ruling is Richard M. Heinecke of the Office of Associate Chief Counsel (Corporate). For further information regarding this revenue ruling, contact Mr. Heinecke at (202) 622-7930 (not a toll-free call).

Section 355 capital allocation ruling.

Where two different businesses within the same corporate group are competing for limited capital, the separation of these businesses to resolve the capital allocation problem satisfies the business purpose requirement of section 1.355-2(b) of the regulations.

Rev. Rul. 2003-75

ISSUE

Whether, in the situation described below, the distribution of the stock of a controlled corporation to resolve a capital allocation problem between the distributing and controlled corporations satisfies the business purpose requirement of § 1.355-2(b) of the Income Tax Regulations.

FACTS

Distributing is a publicly traded corporation that conducts a pharmaceuticals

business. Controlled, a wholly owned subsidiary of Distributing, conducts a cosmetics business. One shareholder, who does not actively participate in the management or operations of Distributing or Controlled, owns six percent of the outstanding Distributing stock.

The pharmaceuticals business develops, manufactures, and markets specialty drugs. It is a high-margin business that emphasizes rapid growth through innovation. The cosmetics business develops, manufactures, and markets cosmetics. It is a low-margin business that grows at a moderate rate by increasing its productivity and market share. Both businesses require substantial capital for reinvestment and research and development.

Distributing does all of the borrowing for both Distributing and Controlled and makes all decisions regarding the allocation of capital spending between the pharmaceuticals and cosmetics businesses. Because Distributing's capital spending in recent years for both the pharmaceuticals and cosmetics businesses has outpaced internally generated cash flow from the businesses, it has had to limit total expenditures to maintain its credit ratings. Although the decisions reached by Distributing's senior management regarding the allocation of capital spending usually favor the pharmaceuticals business due to its higher rate of growth and profit margin, the competition for capital prevents both businesses from consistently pursuing development strategies that the management of each business believes are appropriate.

To eliminate this competition for capital, Distributing distributes the Controlled stock to Distributing's shareholders, *pro rata*. Because the total capital available to the two businesses would continue to be limited as long as the two businesses remained within the same corporate group, there is no other nontaxable transaction that would solve the competition problem. It is expected that both businesses will benefit from the separation, and that the cosmetics business will benefit in a real and substantial way as a result of increased control over its capital spending and direct access to the capital markets.

To facilitate the separation, Distributing and Controlled will enter into transitional agreements that relate to information technology, benefits administration, and accounting and tax matters. Other

than the tax matters agreement, each agreement will terminate after two years absent extraordinary circumstances, in which case the affected agreement may be extended on arm's-length terms for a limited period. Following the separation, there will be no cross-guarantee or cross-colateralization of debt between Distributing and Controlled, and an arm's-length loan from Distributing to Controlled for working capital will have a term of two years.

Apart from the issue of whether the business purpose requirement of § 1.355-2(b) is satisfied, the distribution meets all the requirements of § 355.

LAW

Section 355 provides that if certain requirements are met, a corporation may distribute stock and securities in a controlled corporation to its shareholders and security holders without causing the distributing corporation or the distributees to recognize gain or loss.

To qualify as a distribution described in § 355, a distribution must, in addition to satisfying the statutory requirements of § 355, satisfy certain requirements in the regulations, including the business purpose requirement. Section 1.355-2(b)(1) provides that a distribution must be motivated, in whole or substantial part, by one or more corporate business purposes. A corporate business purpose is a real and substantial non-federal tax purpose germane to the business of the distributing corporation, the controlled corporation, or the affiliated group to which the distributing corporation belongs. Section 1.355-2(b)(2). The principal reason for the business purpose requirement is to provide nonrecognition treatment only to distributions that are incident to readjustments of corporate structures required by business exigencies and that effect only readjustments of continuing interests in property under modified corporate forms. Section 1.355-2(b)(1). If a corporate business purpose can be achieved through a nontaxable transaction that does not involve the distribution of stock of a controlled corporation and that is neither impractical nor unduly expensive, then the separation is not carried out for that corporate business purpose. Section 1.355-2(b)(3).

ANALYSIS

The operation of the pharmaceuticals business and the cosmetics business within the same corporate group causes capital allocation problems that prevent each business from pursuing the development strategies most appropriate to its operation. The separation of the two businesses is the only nontaxable transaction that will resolve these problems. It is expected that both businesses will benefit from the separation, and that the separation will enhance the success of the cosmetics business in a real and substantial way.

The limited continuing relationship between Distributing and Controlled evidenced by the various administrative agreements and the loan for working capital is not incompatible with the extent of separation contemplated by § 355. The administrative agreements, except for the tax matters agreement, and the loan are transitional and short-term, and all are designed to facilitate, rather than impede, the separation of the pharmaceuticals business from the cosmetics business.

Hence, the distribution of Controlled stock by Distributing to Distributing's shareholders is motivated in whole or substantial part by a real and substantial non-federal tax purpose germane to the business of Controlled and satisfies the corporate business purpose requirement of § 1.355-2(b).

HOLDING

In the situation described above, the distribution of the stock of a controlled corporation to resolve a capital allocation problem between the distributing and controlled corporations satisfies the business purpose requirement of § 1.355-2(b).

DRAFTING INFORMATION

The principal author of this revenue ruling is Richard M. Heinecke of the Office of Associate Chief Counsel (Corporate). For further information regarding this revenue ruling, contact Mr. Heinecke at (202) 622-7930 (not a toll-free call).

(Also: §§ 368(a)(1)(D), 368(a)(1)(C) and 1.368-2.)

Section 355 reverse Morris trust. The acquisition by an unrelated corporation of

all the assets of a newly formed controlled corporation following distribution of the controlled corporation's stock under section 355 will satisfy the "substantially all" requirement of section 368(a)(1)(C) even though the acquired assets represent only half of the assets held by the distributing corporation before it formed the controlled corporation.

Rev. Rul. 2003-79

ISSUE

Whether the acquisition by an unrelated corporation of all the assets of a newly formed controlled corporation following the distribution of the stock of the controlled corporation by a distributing corporation will satisfy the requirement of § 368(a)(1)(C) of the Internal Revenue Code that substantially all of the properties of the acquired corporation be acquired where the assets of the controlled corporation represent less than substantially all of the assets that the distributing corporation held before it formed the controlled corporation.

FACTS

D, a domestic corporation, directly conducts Business X and Business Y. D's assets are equally divided between the two businesses. A, a domestic corporation unrelated to D, conducts Business X and wishes to acquire D's Business X, but not D's Business Y.

To accomplish the acquisition, D and A agree to undertake the following steps in the following order: (i) D will transfer its Business X assets to C, a newly formed domestic corporation, in exchange for 100 percent of the stock of C, (ii) D will distribute the C stock to D's shareholders, (iii) A will acquire all the assets of C in exchange solely for voting stock of A, and (iv) C will liquidate. Apart from the question of whether the acquisition of C's assets by A will satisfy the requirement of § 368(a)(1)(C) that the acquiring corporation acquire substantially all of the properties of the acquired corporation, steps (i) and (ii) together meet all the requirements of § 368(a)(1)(D), step (ii) meets all the requirements of § 355(a), and steps (iii) and (iv) together meet all the requirements of § 368(a)(1)(C).

LAW

Section 355 provides that if certain requirements are met, a corporation may distribute stock and securities in a controlled corporation to its shareholders and security holders without causing the distributees to recognize gain or loss.

Section 368(a)(1)(C) defines a reorganization to include the acquisition by one corporation, in exchange solely for all or a part of its voting stock, of substantially all of the properties of another corporation.

Section 368(a)(1)(D) defines a reorganization to include a transfer by a corporation of all or a part of its assets to another corporation if immediately after the transfer the transferor, or one or more of its shareholders (including persons who were shareholders immediately before the transfer), or any combination thereof, is in control of the corporation to which the assets are transferred; but only if, in pursuance of the plan, stock or securities of the corporation to which the assets are transferred are distributed in a transaction that qualifies under § 354, 355, or 356.

In *Helvering v. Elkhorn Coal Co.*, 95 F.2d 732 (4th Cir. 1937), cert. denied, 305 U.S. 605, reh'g denied, 305 U.S. 670 (1938), Elkhorn Coal, in anticipation of being acquired by Mill Creek, transferred part of its operating assets to a newly formed subsidiary and distributed the subsidiary's stock to Elkhorn Coal's shareholders. The court concluded that the distribution of subsidiary stock prevented the subsequent acquisition from qualifying under a predecessor of § 368(a)(1)(C) because, as a result of the distribution, Mill Creek did not acquire substantially all of Elkhorn Coal's historical assets.

In *Commissioner v. Mary Archer W. Morris Trust*, 367 F.2d 794 (4th Cir. 1966), aff'g 42 T.C. 779 (1964), the taxpayer, in anticipation of a merger with a national bank, contributed its insurance business to a new subsidiary and distributed the subsidiary's stock to its shareholders. The divestiture was necessary to comply with national banking laws. The court held that the distribution satisfied the requirements for nonrecognition under § 355(a) and, therefore, that the contribution qualified as a reorganization under § 368(a)(1)(D).

In Rev. Rul. 68-603, 1968-2 C.B. 148, the Internal Revenue Service announced that it would follow the decision in *Mary*

Archer W. Morris Trust to the extent it held that (1) the active business requirements of § 355(b)(1)(A) were satisfied even though the distributing corporation, immediately after the spin-off, merged into the unrelated acquiring corporation, (2) the control immediately after requirement of § 368(a)(1)(D) implies no limitation upon a reorganization of the transferor corporation (the distributing corporation) after the distribution of the stock of the controlled corporation, and (3) there was a business purpose for the spin-off and the merger.

Rev. Rul. 98-27, 1998-1 C.B. 1159, states that the Service will not apply any formulation of the step transaction doctrine to determine whether the distributed corporation was a controlled corporation immediately before a distribution under § 355(a) solely because of any post-distribution acquisition or restructuring of the distributed corporation, whether pre-arranged or not. The holding of Rev. Rul. 98-27 is based on § 1012(a) and § 1012(c) of the Taxpayer Relief Act of 1997 (the "1997 Act"), Pub. L. No. 105-34, 111 Stat. 788, 916-17. Section 1012(c) amended the control requirements of §§ 368(a)(1)(D) and 351 to provide that, generally for transactions seeking qualification after August 5, 1997, under either provision and § 355, the shareholders of the distributing corporation must own stock possessing more than 50 percent of the voting power and more than 50 percent of the total value of the controlled corporation's stock immediately after the distribution. See §§ 368(a)(2)(H) and 351(c). Section 1012(a) amended § 355 by adding subsection (e), which provides rules for the recognition of gain on certain distributions of stock or securities of a controlled corporation in connection with acquisitions of stock representing a 50 percent or greater interest in the distributing corporation or any controlled corporation.

The Conference Report accompanying the 1997 Act states, in part, that:

The . . . bill does not change the present-law requirement under section 355 that the distributing corporation must distribute 80 percent of the voting power and 80 percent of each other class of stock of the controlled corporation. It is expected that this requirement will be applied by the Internal Revenue

Service taking account of the provisions of the proposal regarding plans that permit certain types of planned restructuring of the distributing corporation following the distribution, and to treat similar restructurings of the controlled corporation in a similar manner. Thus, the 80-percent control requirement is expected to be administered in a manner that would prevent the tax-free spin-off of a less-than-80-percent controlled subsidiary, but would not generally impose additional restrictions on post-distribution restructurings of the controlled corporation if such restrictions would not apply to the distributing corporation.

H.R. Rep. No. 105-220, at 529-30 (1997); 1997-4 C.B. 1457, at 1999-2000.

Section 6010(c)(2) of the Internal Revenue Service Restructuring and Reform Act of 1998 (the "1998 Act"), P.L. 105-206, 1998-3 C.B. 145, amended § 1012(c) of the 1997 Act to provide that, in the case of a § 368(a)(1)(D) or § 351 transaction that is followed by a § 355 transaction, solely for purposes of determining the tax treatment of any transfer of property by the distributing corporation to the controlled corporation, the fact that the shareholders of the distributing corporation dispose of part or all of the controlled corporation's stock after the § 355 distribution shall not be taken into account in determining whether the control requirement of either § 368(a)(1)(D) or § 351 has been satisfied.

The Senate Report accompanying the 1998 Act contains three examples in which distributing corporation D transfers appreciated business X to newly created subsidiary C in exchange for at least 85 percent of the C stock and then distributes its C stock to the D shareholders. As part of the same plan, C then merges into unrelated acquiring corporation A. Each example concludes that if the distribution satisfies the requirements of § 355, the control immediately after requirement will be satisfied solely for purposes of determining the tax treatment of the transfer of business X by D to C. See S. Rep. No. 105-174, at 173-176 (1998); 1998-3 C.B. 537, at 709-712.

ANALYSIS

Section 1012 of the 1997 Act, as amended by § 6010(c) of the 1998 Act, evidences the intention of Congress that a corporation formed in connection with a distribution that qualifies for nonrecognition under § 355 will be respected as a separate corporation for purposes of determining (i) whether the corporation was a controlled corporation immediately before the distribution and (ii) whether a pre-distribution transfer of property to the controlled corporation satisfies the requirements of § 368(a)(1)(D) or § 351, even if a post-distribution restructuring causes the controlled corporation to cease to exist. See Rev. Rul. 98-44, 1998-2 C.B. 315; Rev. Rul. 98-27, *supra*; S. Rep. No. 105-174, *supra*. Therefore, the controlled corporation should also be considered independently from the distributing corporation in determining whether an acquisition of the controlled corporation will qualify as a reorganization under § 368. Accordingly, in determining under § 368(a)(1)(C) whether an acquiring corporation has acquired substantially all of the properties of a newly formed controlled corporation, reference should be made solely to the properties held by the controlled corporation immediately following the distributing corporation's transfer of properties to the controlled corporation, rather than to the properties held by the distributing corporation immediately before its formation of the controlled corporation.

Hence, the acquisition by A of all the properties held by C immediately after the distribution will satisfy the requirement of § 368(a)(1)(C) that A acquire substantially all the properties of C. This result obtains even though an acquisition by A of the same properties from D would have failed this requirement if D had retained Business X, contributed Business Y to C, and distributed the stock of C. See *Helvering v. Elkhorn Coal Co.*, *supra*.

HOLDING

The acquisition by an unrelated corporation of all the assets of a newly formed controlled corporation following the distribution of the stock of the controlled corporation by a distributing corporation will satisfy the requirement of

§ 368(a)(1)(C) that substantially all of the properties of the acquired corporation be acquired where the assets of the controlled corporation represent less than substantially all of the assets that the distributing corporation held before it formed the controlled corporation.

DRAFTING INFORMATION

The principal author of this revenue ruling is Gene Raineri of the Office of Associate Chief Counsel (Corporate). For further information regarding this revenue ruling, please contact Mr. Raineri at (202) 622-7530 (not a toll-free call).

Section 368.—Definitions Relating to Corporate Reorganizations

26 CFR 1.368-2: Definition of terms.

Whether the acquisition by an unrelated corporation of all the assets of a newly formed controlled

corporation following distribution of the controlled corporation's stock under section 355 will satisfy the "substantially all" requirement of section 368(a)(1)(C) even though the acquired assets represent only half of the assets held by the distributing corporation before it formed the controlled corporation. See Rev. Rul. 2003-79, page 80.

Section 472.—Last-in, First-out Inventories

26 CFR 1.472-1: Last-in, first-out inventories.

LIFO; price indexes; department stores. The May 2003 Bureau of Labor Statistics price indexes are accepted for use by department stores employing the retail inventory and last-in, first-out inventory methods for valuing inventories for tax years ended on, or with reference to, May 31, 2003.

Rev. Rul. 2003-87

The following Department Store Inventory Price Indexes for May 2003 were

issued by the Bureau of Labor Statistics. The indexes are accepted by the Internal Revenue Service, under § 1.472-1(k) of the Income Tax Regulations and Rev. Proc. 86-46, 1986-2 C.B. 739, for appropriate application to inventories of department stores employing the retail inventory and last-in, first-out inventory methods for tax years ended on, or with reference to, May 31, 2003.

The Department Store Inventory Price Indexes are prepared on a national basis and include (a) 23 major groups of departments, (b) three special combinations of the major groups — soft goods, durable goods, and miscellaneous goods, and (c) a store total, which covers all departments, including some not listed separately, except for the following: candy, food, liquor, tobacco, and contract departments.

BUREAU OF LABOR STATISTICS, DEPARTMENT STORE INVENTORY PRICE INDEXES BY DEPARTMENT GROUPS
(January 1941 = 100, unless otherwise noted)

Groups	May 2002	May 2003	Percent Change from May 2002 to May 2003 ¹
1. Piece Goods	490.1	456.3	-6.9
2. Domestic and Draperies	586.9	557.6	-5.0
3. Women's and Children's Shoes	647.5	637.0	-1.6
4. Men's Shoes	924.6	855.8	-7.4
5. Infants' Wear	614.9	599.6	-2.5
6. Women's Underwear	542.9	519.8	-4.3
7. Women's Hosiery	345.4	349.5	1.2
8. Women's and Girls' Accessories	558.0	550.2	-1.4
9. Women's Outerwear and Girls' Wear	386.7	374.5	-3.2
10. Men's Clothing	597.7	562.3	-5.9
11. Men's Furnishings	602.1	587.2	-2.5
12. Boys' Clothing and Furnishings	495.5	463.5	-6.5
13. Jewelry	901.3	877.9	-2.6
14. Notions	797.6	789.7	-1.0
15. Toilet Articles and Drugs	975.0	979.7	0.5
16. Furniture and Bedding	626.4	620.2	-1.0
17. Floor Coverings	620.1	578.9	-6.6
18. Housewares	758.4	730.9	-3.6
19. Major Appliances	220.7	213.7	-3.2
20. Radio and Television	50.4	45.9	-8.9

BUREAU OF LABOR STATISTICS, DEPARTMENT STORE
INVENTORY PRICE INDEXES BY DEPARTMENT GROUPS
(January 1941 = 100, unless otherwise noted)

Groups	May 2002	May 2003	Percent Change from May 2002 to May 2003 ¹
21. Recreation and Education ²	86.9	83.4	-4.0
22. Home Improvements ²	125.4	126.1	0.6
23. Auto Accessories ²	110.9	111.6	0.6
Groups 1–15: Soft Goods.....	586.0	568.1	-3.1
Groups 16–20: Durable Goods.....	413.1	397.1	-3.9
Groups 21–23: Misc. Goods ²	96.8	94.7	-2.2
Store Total ³	522.3	506.0	-3.1

¹ Absence of a minus sign before the percentage change in this column signifies a price increase.

² Indexes on a January 1986 = 100 base.

³ The store total index covers all departments, including some not listed separately, except for the following: candy, food, liquor, tobacco and contract departments.

DRAFTING INFORMATION

The principal author of this revenue ruling is Michael Burkorn of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this revenue ruling, contact Mr. Burkorn at (202) 622-7718 (not a toll-free call).

Section 1400L.—Tax Benefits for New York Liberty Zone

How does a taxpayer that timely filed its federal tax return for the taxable year that included September 11, 2001, deduct, or elect not to deduct, the additional first year depreciation provided by section 1400L(b) of the Internal Revenue Code for qualified New York Liberty Zone property, or depreciate qualified New York Liberty Zone leasehold improvement property under section 1400L(c)? See Rev. Proc. 2003-50, page 119.

Section 6501.—Limitations on Assessment and Collection

26 CFR 301.6501(a)-1: Period of limitations upon assessment and collection.
(Also section 6213, section 6503.)

Statute of limitations, bankruptcy. This ruling explains the effect of a bankruptcy on the running of the statute of limitations on assessment set forth in section 6501 of the Code. The ruling illustrates that when the IRS issues a

Notice of Deficiency less than 90 days before the taxpayer files a bankruptcy petition, the same day the taxpayer files a bankruptcy petition, or after the taxpayer files a bankruptcy petition, and before the termination of the automatic stay imposed by the bankruptcy, the assessment period is suspended not only by the 60-day period provided by section 6503(a), but also by the additional 60-day period provided by section 6213(f).

Rev. Rul. 2003-80

ISSUE

How is the running of the period of limitations for assessing a deficiency affected when the Internal Revenue Service (Service) issues a Notice of Deficiency before or after the taxpayer files a bankruptcy petition?

FACTS

The issue presented arises in the three different situations described below. In each situation, the taxpayer files a bankruptcy petition on Date 1, and the automatic stay terminates on Date 2, the 100th day after Date 1. Also, the Notice of Deficiency is not addressed to a person outside the United States, and the taxpayer does not file a Tax Court petition for redetermination of the deficiency.

Situation A. The Service issues a Notice of Deficiency on or after Date 1 and before the termination of the automatic stay on Date 2.

Situation B. The Service issues a Notice of Deficiency less than 90 days before Date 1.

Situation C. The Service issues a Notice of Deficiency 90 or more days before Date 1.

LAW AND ANALYSIS

Section 362 of title 11 of the United States Code (Bankruptcy Code) provides that certain acts are automatically stayed upon the filing of a bankruptcy petition. Section 362 does not stay the issuance of a Notice of Deficiency or the assessment of a tax by the Service. 11 U.S.C. § 362(b)(9)(B), (D). Section 362 does, however, stay the commencement or continuation of a Tax Court proceeding concerning the debtor. 11 U.S.C. § 362(a)(8). Pursuant to section 362(c)(2), the stay terminates upon the earliest of the time the bankruptcy case is closed, the time the case is dismissed, or the time a discharge is granted or denied.

Section 6501(a) of the Internal Revenue Code generally affords the Service three years from the time a return is filed to assess the tax for the return period. Under section 6503(a)(1) of the Internal Revenue Code, the running of the section 6501(a)

assessment period is suspended for any period during which the Service is prohibited from making an assessment (and in any event, if a proceeding in respect of the deficiency is placed on the docket of the Tax Court, until the decision of the Tax Court becomes final), and for 60 days thereafter.

Section 6213(a) generally affords the taxpayer 90 days from the time a Notice of Deficiency is issued to file a Tax Court petition for redetermination of the deficiency. In addition, section 6213(a) prohibits the Service from assessing the deficiency during the 90-day period. Section 6213(f) suspends the running of the 90-day period while the taxpayer is prohibited by reason of the bankruptcy case from filing a petition in the Tax Court with respect to the deficiency, and for 60 days thereafter.

Section 6503(h)(1) provides that the running of the period of limitations on assessment is suspended while the Service is prohibited by a bankruptcy case from making the assessment, and for 60 days thereafter. Prior to 1994, section 362(a)(6) of the Bankruptcy Code, which generally prohibits assessment of claims against a debtor, operated to prevent the Service from assessing taxes for the period the stay was in effect. Section 362(b)(9)(D), which provides that the filing of a bankruptcy petition does not stay the making of tax assessments, was added to the Bankruptcy Code by section 116 of the Bankruptcy Reform Act of 1994, Pub. L. No. 103-394, 108 Stat. 4106 (1994), and is effective with regard to bankruptcy cases commenced on or after October 22, 1994. With the addition of section 362(b)(9)(D), the Service is no longer precluded solely by the automatic stay from assessing taxes during the pendency of bankruptcies. Thus, section 6503(h)(1) no longer has any impact on the running of the assessment period.

The following situations illustrate the application of these provisions.

Situation A. The Service issues a Notice of Deficiency on or after the day on which the bankruptcy petition is filed (Date 1) and before the termination of the automatic stay on Date 2.

Under section 362(a)(8) of the Bankruptcy Code, a Tax Court proceeding cannot be commenced while the automatic stay is in effect. Under section 6213(f), the running of the 90-day period for filing a Tax Court petition is suspended while the

automatic stay prevents the filing of a Tax Court petition, and for 60 days thereafter. Thus, the 90-day period for filing a Tax Court petition begins to run 61 days after Date 2. The period for filing a Tax Court petition ends on Date 3A, 150 (60+90) days after Date 2.

Under section 6213(a), the Service is prohibited from making an assessment during the period from issuance of the Notice of Deficiency through Date 3A, the last day for filing a Tax Court petition. Under section 6503(a)(1), the running of the period of limitations on assessment is suspended during this period. Also, under section 6503(a)(1), because no Tax Court petition was filed, the running of the period of limitations on assessment is further suspended for an additional 60 days after Date 3A. On the next day, which is 61 days after Date 3A and 211 (60+90+61) days after Date 2, any portion of the assessment period that had not run when the Notice of Deficiency was issued begins to run.

Situation B. The Service issues a Notice of Deficiency less than 90 days before the day on which the bankruptcy petition is filed (Date 1). In the discussion below, assume that the Notice of Deficiency is issued 10 days before Date 1.

As in *Situation A*, a Tax Court proceeding cannot be commenced while the automatic stay is in effect, and the running of the period for filing a Tax Court petition is suspended under section 6213(f) while the automatic stay prevents the filing of a Tax Court petition, and for 60 days thereafter. Here, however, only 80 days of the 90-day period for filing a Tax Court petition remain as of Date 1. Thus, the 80-day period remaining for filing a Tax Court petition begins to run 61 days after the termination of the automatic stay on Date 2. The period for filing a Tax Court petition ends on Date 3B, 140 (60+80) days after Date 2. This is 240 (100+60+80) days after Date 1, the date on which the bankruptcy petition was filed.

Under section 6213(a), the Service is prohibited from making an assessment during the period from issuance of the Notice of Deficiency through Date 3B, the last day for filing a Tax Court petition. Under section 6503(a)(1), the running of the period of limitations on assessment is suspended during this period. Also, under section 6503(a)(1), because no Tax Court

petition was filed, the running of the period of limitations on assessment is further suspended for an additional 60 days after Date 3B. On the next day, which is 61 days after Date 3B, 201 (60+80+61) days after Date 2, and 301 (100+60+80+61) days after Date 1, the portion of the assessment period that had not run when the Notice of Deficiency was issued begins to run.

Situation C. The Service issues a Notice of Deficiency 90 or more days before the day on which the bankruptcy petition is filed (Date 1).

Since the 90-day period for filing a Tax Court petition expired before the filing of the bankruptcy petition, the Service may assess the deficiency at any time after the expiration of the 90-day period, including while the automatic stay is in effect. See section 362(b)(9)(D) of the Bankruptcy Code. Section 6213(f) does not apply because the 90-day period for filing a Tax Court petition expired before the filing of the bankruptcy petition. The bankruptcy case has no effect on the running of the period of limitations on assessment or on the suspension of the running of this period under section 6503(a)(1).

HOLDING

The timing of the issuance of a Notice of Deficiency and the filing of a bankruptcy petition determines whether and how the running of the period of limitations on assessment is affected by the bankruptcy. When the Notice of Deficiency is issued on or after the day on which the bankruptcy commences and before the termination of the automatic stay, or is issued less than 90 days before the bankruptcy commences (*Situations A and B*, respectively), the bankruptcy has an effect on the running of the period of limitations on assessment because of the application of section 362(a)(8) of the Bankruptcy Code and section 6213(a) and (f) of the Internal Revenue Code. When the Notice of Deficiency is issued 90 or more days before the bankruptcy commences (*Situation C*), the running of the period of limitations on assessment is not affected by the bankruptcy.

DRAFTING INFORMATION

The principal author of this revenue ruling is Debra A. Kohn of the Office of the Associate Chief Counsel (Procedure and

Administration), Collection, Bankruptcy & Summonses Division. For further information regarding this revenue ruling, contact Branch 2 of Collection, Bankruptcy & Summonses at (202) 622-3620 (not a toll-free call).

Part III. Administrative, Procedural, and Miscellaneous

Extension of Time to Elect Mid-quarter Convention Relief Under Notice 2001-70 and Notice 2001-74.

Notice 2003-45

This notice amplifies the tax relief granted in Notice 2001-70, 2001-2 C.B. 437 (November 5, 2001), and in Notice 2001-74, 2001-2 C.B. 551 (December 3, 2001), by permitting an automatic extension of time to make the election provided under Notice 2001-70 and Notice 2001-74.

Section 168(d)(3) of the Internal Revenue Code generally provides that, except as provided in regulations, if the aggregate basis of property placed in service during the last three months of the taxable year exceeds 40 percent of the aggregate basis of property (other than property described in § 168(d)(3)(B)) placed in service during the taxable year, the applicable depreciation convention is the mid-quarter convention for all property (other than property described in § 168(d)(2)) subject to § 168 that is placed in service during the taxable year.

In Notice 2001-70, the Treasury Department and the Internal Revenue Service announced their intention to issue regulations permitting taxpayers to elect not to apply the mid-quarter convention rules contained in § 168(d)(3) to property placed in service in the taxable year that included September 11, 2001, if the third quarter of the taxpayer's taxable year included September 11, 2001. Notice 2001-70 provided that, pending the issuance of the regulations, an eligible taxpayer that wished to elect not to apply the mid-quarter convention rules could make the election by writing "Election Pursuant to Notice 2001-70" across the top of the taxpayer's Form 4562, *Depreciation and Amortization*, for the taxpayer's taxable year that included September 11, 2001. Notice 2001-74 expanded Notice 2001-70 by permitting taxpayers to elect not to apply the mid-quarter convention rules to property placed in service in the taxable year that included September 11, 2001, if the fourth quarter of the taxpayer's taxable year included September 11, 2001.

Notice 2001-74 also provided guidance for taxpayers that file Form 2106, *Employee Business Expenses*, rather than Form 4562, or that file their tax returns electronically, to elect not to apply the mid-quarter convention rules. Under both notices, the election was required to be made on the taxpayer's tax return for the taxable year that included September 11, 2001. No provision was made for an eligible taxpayer wishing to amend its tax return to make the election.

Treasury and the Service have been made aware that certain taxpayers did not receive notice of the availability of this election until after the tax returns for their taxable year that included September 11, 2001, were filed. This notice is intended to relieve taxpayers of the burden of applying for an extension of time pursuant to § 301.9100-3 of the Procedure and Administration Regulations to make the election on an amended tax return for that year.

Accordingly, Notice 2001-70 and Notice 2001-74 are amplified to provide that a taxpayer qualifying under either notice who filed a timely tax return for the taxable year that includes September 11, 2001, but failed to make the election provided under Notice 2001-70 or Notice 2001-74, is granted an automatic extension of time until December 31, 2003, to amend its tax return for the taxable year that includes September 11, 2001, and any subsequent taxable years, in order to make the election under Notice 2001-70 or Notice 2001-74 and reflect any necessary adjustments resulting from the election. For example, a sole proprietor that timely filed its 2001 and 2002 twelve-month calendar year tax returns and qualified under Notice 2001-70 to elect not to apply the mid-quarter convention rules for its taxable year ending December 31, 2001, would be granted an automatic extension of time until December 31, 2003, to make the election on an amended 2001 tax return and reflect any necessary adjustments resulting from the election, as well as amend its 2002 tax return to reflect any necessary adjustments resulting from the election. The election on the amended tax return is made in the same manner provided in Notice 2001-70 and in Notice 2001-74.

Treasury and the Service intend to amend the regulations under § 168 to incorporate the guidance set forth in this notice. Until the regulations are amended, taxpayers may rely on the guidance set forth in this notice.

The principal author of this notice is Bernard P. Harvey of the Office of Associate Chief Counsel, Passthroughs and Special Industries. For further information regarding this notice, contact Mr. Harvey at (202) 622-3110 (not a toll-free call).

26 CFR 601.201: Rulings and determination letters. (Also Part I, §§ 355, 1.355-2.)

Rev. Proc. 2003-48

SECTION 1. PURPOSE

This revenue procedure modifies and amplifies Rev. Proc. 96-30, 1996-1 C.B. 696, which sets forth in a checklist questionnaire the information that must be included in a request for a ruling under § 355 of the Internal Revenue Code. In addition, this revenue procedure modifies Rev. Proc. 2003-3, 2003-1 I.R.B. 113, which sets forth the areas of the Internal Revenue Code under the jurisdiction of the Associate Chief Counsel (Corporate), the Associate Chief Counsel (Financial Institutions and Products), the Associate Chief Counsel (Income Tax and Accounting), the Associate Chief Counsel (Passthroughs and Special Industries), the Associate Chief Counsel (Procedure and Administration), and the Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities) relating to issues on which the Internal Revenue Service will not issue letter rulings or determination letters.

SECTION 2. BACKGROUND

Section 355(a) applies to distributions of stock or securities of a corporation controlled by the distributing corporation if the requirements of § 355 are satisfied. Rev. Proc. 96-30 sets forth in a checklist questionnaire the information that must be included in a request for rulings under § 355.

Section 1.355-2(b) of the Income Tax Regulations provides that to qualify as a distribution described in § 355,

a distribution must not only satisfy the statutory requirements of § 355, but also must satisfy certain requirements in the regulations, including the business purpose requirement. Section 1.355-2(b)(1) provides that a distribution must be motivated, in whole or substantial part, by one or more corporate business purposes. A corporate business purpose is a real and substantial non-federal tax purpose germane to the business of the distributing corporation, the controlled corporation, or the affiliated group to which the distributing corporation belongs. Section 1.355-2(b)(2). Section 4.04 and Appendix A of Rev. Proc. 96-30 provide guidelines and request certain information and representations regarding whether a distribution satisfies the business purpose requirement.

Section 355(a)(1)(B) provides that a distribution will not qualify for nonrecognition treatment under § 355 if it is used principally as a device for the distribution of the earnings and profits of the distributing corporation, the controlled corporation, or both. Generally, the determination of whether a transaction was used principally as a device will be made from all the facts and circumstances, including, but not limited to, the presence of certain device and nondevice factors. Section 1.355-2(d)(1). Section 4.05 of Rev. Proc. 96-30 requests certain information and representations regarding whether a distribution is used principally as a device.

Section 355(e) provides that the stock of a controlled corporation will not be qualified property under § 355(c)(2) or § 361(c)(2) if the stock is distributed as “part of a plan (or series of related transactions) pursuant to which 1 or more persons acquire directly or indirectly stock representing a 50-percent or greater interest in the distributing corporation or any controlled corporation.” See § 355(e)(2)(A)(ii). For this purpose, a 50-percent or greater interest means stock possessing at least 50 percent of the total combined voting power of all classes of stock entitled to vote or at least 50 percent of the total value of shares of all classes of stock. See § 355(e)(4)(A) (referring to § 355(d)(4) for the definition of 50-percent or greater interest). Section 1.355-7T generally provides that whether a distribution and an acquisition are part of a plan (or series of related transactions) (hereinafter,

plan) is determined based on all the facts and circumstances. That section provides a nonexclusive list of factors to consider in determining whether a plan exists, as well as a number of safe harbors that may be relied upon in determining whether a plan exists.

Ordinarily, the Service refrains from issuing letter rulings requesting determinations on issues that are primarily factual. See Rev. Proc. 2003-1, 2003-1 I.R.B. 1, section 7.01, and Rev. Proc. 2003-3, sections 2.01 and 4.02(1). Moreover, it generally is the policy of the Service not to issue “comfort rulings” on transactions the treatment of which is clearly and adequately addressed in published guidance. See Rev. Proc. 2003-1, section 5.17, and Rev. Proc. 2003-3, section 4.02(9). Nonetheless, the Service has not strictly applied its policies of not ruling on factual issues and not issuing comfort rulings in the context of letter ruling requests regarding transactions intended to qualify under § 355.

The Service has concluded that it is appropriate to adhere more closely to its general policies in the context of requests for letter rulings under § 355 and that it can better serve taxpayers by dedicating its resources to increasing the amount of published guidance regarding § 355, including the business purpose requirement, and other legal questions. Thus, this revenue procedure provides that the National Office will not determine whether a proposed or completed distribution of the stock of a controlled corporation is being carried out for one or more corporate business purposes, whether the transaction is used principally as a device, or whether the distribution and an acquisition are part of a plan under § 355(e). Rather, these determinations may be made upon an examination of the taxpayer’s return. Hence, sections 4.01, 4.02, and 4.03 of this revenue procedure require taxpayers seeking a ruling under § 355 to submit representations regarding the business purpose and device requirements and whether there is a plan under § 355(e)(2)(A)(ii). The request for a letter ruling, including representations, must be accompanied by a penalties of perjury statement signed and dated by the taxpayer indicating that the submission contains all the relevant facts relating to the request and such facts are true, correct, and complete. See Rev. Proc. 2003-1, sections 8.01(15) and 10.07(1).

This is a pilot program that applies to ruling requests postmarked or, if not mailed, received after August 8, 2003. This pilot program is intended to operate for at least one year. After that time, the Service may consider further changes, including ruling only on significant issues (as defined in Section 3.01(29) of Rev. Proc. 2003-3) under § 355.

Section 4.05 of this revenue procedure provides that the Service will decline a request for a ruling regarding a proposed or completed transaction if the Service has previously declined to rule on that transaction (or a similar transaction) because the Service was not satisfied that the distribution met the corporate business purpose requirement, was not a device for the distribution of earnings and profits, or was not part of a plan under § 355(e).

Section 4.06 of this revenue procedure provides that the Service will decline a request for a supplemental ruling, unless the request presents a significant issue (as defined in section 3.01(29) of Rev. Proc. 2003-3).

Section 4.01(30) of Rev. Proc. 2003-3 provides that a letter ruling ordinarily will not be issued regarding the issue of whether the active business requirement of § 355(b) is met when the gross assets of the trades or businesses relied on to satisfy that requirement will have a fair market value that is less than 5 percent of the total fair market value of the gross assets of the corporation directly conducting the trades or businesses. Section 4.07 of this revenue procedure modifies Rev. Proc. 2003-3 by deleting section 4.01(30).

SECTION 3. REQUEST FOR COMMENTS

The Service requests comments regarding issues under § 355 that should be addressed in published guidance. Moreover, the Service continues to study language for, and requests comments regarding, § 355(e) representations. Comments should refer to Rev. Proc. 2003-48, and should be submitted to:

Internal Revenue Service
P.O. Box 7604
Ben Franklin Station
Washington, DC 20044
Attn: CC:PA:RU
Room 5226

or electronically via the Service internet site at: *Notice.Comments@irs.counsel.treas.gov* (the Service comments e-mail address). All comments will be available for public inspection and copying.

SECTION 4. PROCEDURE

.01 Rev. Proc. 96-30 is modified by deleting section 4.04(1) through 4.04(7) and Appendices A and C, and amplified by adding new section 4.04(1) as follows:

(1) Detailed Description. Describe in narrative form each corporate business purpose for the distribution of the stock of Controlled. Do not provide any documentation or substantiation in support thereof. Submit the following **REPRESENTATION**: *The distribution of the stock, or stock and securities, of the controlled corporation is carried out for the following corporate business purposes: [list these corporate business purposes]. The distribution of the stock, or stock and securities, of the controlled corporation is motivated, in whole or substantial part, by one or more of these corporate business purposes.* The Service will decline to issue a letter ruling in all cases in which the taxpayer fails to submit the required representation. The National Office will not determine whether the distribution is being carried out for one or more corporate business purposes. This determination may be made upon an examination of the taxpayer's return.

.02 Rev. Proc. 96-30 is modified by deleting section 4.05(1) through 4.05(5) and amplified by adding new section 4.05(1) as follows:

(1) Dispositions of stock or securities. Submit the following **REPRESENTATION**: *The transaction is not used principally as a device for the distribution of the earnings and profits of the distributing corporation or the controlled corporation or both. See § 355(a)(1)(B).* The Service will decline to issue a letter ruling in all cases in which the taxpayer fails to submit the required representation. The National Office will not determine whether the transaction is used principally as a device for the distribution of the earnings and profits of the distributing corporation, the controlled corporation, or both. This determination may be made upon an examination of the taxpayer's return.

.03 Rev. Proc. 96-30 is amplified by adding new section 4.08(12) as follows:

(12) Distributions in Connection with Acquisitions. Regarding whether there is a plan (or series of related transactions) under § 355(e)(2)(A)(ii), submit one of the following **REPRESENTATIONS**: (i) *There is no acquisition of stock of the distributing corporation or any controlled corporation (including any predecessor or successor of any such corporation) that is part of a plan or series of related transactions (within the meaning of § 1.355-7T) that includes the distribution of the controlled corporation stock;* (ii) *Each of the following acquisitions of stock of the distributing corporation or any controlled corporation (including any predecessor or successor of any such corporation) is or may be part of a plan or series of related transactions (within the meaning of § 1.355-7T) that includes the distribution of controlled corporation stock: [DESCRIBE ACQUISITIONS HERE]. Taking all of these acquisitions into account, stock representing a 50-percent or greater interest (within the meaning of § 355(d)(4)) in the distributing or controlled corporation (including any predecessor or successor of any such corporation) will not be acquired by any person or persons; or* (iii) *The distribution is not part of a plan or series of related transactions (within the meaning of § 1.355-7T) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50-percent or greater interest (within the meaning of § 355(d)(4)) in Distributing or Controlled (including any predecessor or successor of any such corporation).* If a representation cannot be submitted exactly as requested, an explanation must be given. The taxpayer must submit one of the three representations set forth above (as set forth above or in appropriately modified form to the satisfaction of the Service) before the Service will issue a letter ruling. While the National Office will not determine whether a distribution and an acquisition are part of a plan (or series of related transactions) under § 355(e)(2)(A)(ii), the Service may rule on related significant issues (as defined in section 3.01(29) of Rev. Proc. 2003-3, 2003-1 I.R.B. 113 at 115). The determination of whether a distribution and an acquisition are part of a plan (or series of

related transactions) may be made upon an examination of the taxpayer's return.

.04 Rev. Proc. 96-30 is amplified by adding new section 4.08(13) as follows:

(13) Regulatory filings. Provide copies of any proxy statements, information statements, or prospectuses filed or prepared in connection with the distribution or any related transaction.

.05 Rev. Proc. 96-30 is amplified by adding new section 4.08(14) as follows:

(14) Previously Declined Request for Ruling. The Service will not entertain any ruling request regarding a proposed or completed transaction if the Service has previously declined to rule on that transaction (or a similar transaction) because the Service was not satisfied that the distribution met the corporate business purpose requirement, was not a device for the distribution of earnings and profits, or was not part of a plan (or series of related transactions) under § 355(e).

.06 Rev. Proc. 96-30 is amplified by adding new section 4.08(15) as follows:

(15) Request for Supplemental Ruling. The Service will decline a request for a supplemental letter ruling, unless the request presents a significant issue (as defined in section 3.01(29) of Rev. Proc. 2003-3). A change in circumstances arising after the transaction ordinarily does not present a significant issue.

.07 Rev. Proc. 2003-3, 2003-1 I.R.B. 113, is modified by deleting section 4.01(30).

SECTION 5. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 96-30, 1996-1 C.B. 696, is modified and amplified and Rev. Proc. 2003-3, 2003-1 I.R.B. 113, is modified.

SECTION 6. EFFECTIVE DATE

This revenue procedure applies to all ruling requests postmarked or, if not mailed, received after August 8, 2003. Ruling requests postmarked or received after June 24, 2003, and on or before August 8, 2003, that are not in compliance with Rev. Proc. 2003-1 and Rev. Proc. 96-30 will be, in the sole discretion of the Service, either returned to the taxpayer or treated as being subject to this revenue procedure. Taxpayers, however, may use the guidelines of this revenue procedure in

ruling requests filed after June 24, 2003, and on or before August 8, 2003.

SECTION 7. PAPERWORK REDUCTION ACT

The collections of information in this revenue procedure have been reviewed and approved by the Office of Management and Budget (OMB) in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1846.

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

The collections of information in this revenue procedure are in section 4. This information is required to determine whether a taxpayer would qualify for non-recognition treatment under this revenue procedure. The collections of information are required to obtain a benefit. The likely respondents are corporations that control another corporation, as well as the management of the corporation the stock of which is being distributed or that controls the corporation the stock of which is being distributed.

The estimated total annual reporting burden is 36,000 hours.

The estimated annual burden per respondent varies from 150 hours to 250 hours, depending on individual circumstances, with an estimated average of 200 hours. The estimated number of respondents is 180.

The estimated annual frequency of responses is on occasion.

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

SECTION 8. DRAFTING INFORMATION

The principal author of this revenue procedure is Richard M. Heinecke of the Office of Associate Chief Counsel (Corporate). For further information regarding this revenue procedure, contact

Mr. Heinecke at (202) 622-7930 (not a toll-free call).

26 CFR 601.201: Rulings and determination letters. (Also Part I, sections 25, 103, 143, 1.25-4T, 1.103-1, 6A.103A-2.)

Rev. Proc. 2003-49

SECTION 1. PURPOSE

This revenue procedure provides issuers of qualified mortgage bonds, as defined in section 143(a) of the Internal Revenue Code, and issuers of mortgage credit certificates, as defined in section 25(c), with a list of qualified census tracts for each state and the District of Columbia. It modifies and supersedes Rev. Proc. 2003-15, 2003-4 I.R.B. 321.

SECTION 2. CHANGES

This revenue procedure corrects errors found in Rev. Proc. 2003-15, 2003-4 I.R.B. 321. On page 341 of the Internal Revenue Bulletin 2003-4 ("IRB"), census tract 000300 is now under Yellowstone County, Montana. On page 342 of the IRB, census tract 010302 is now under Sarpy County, Nebraska. On page 352 of the IRB, census tracts 000300, 001200, 001500, 001600, 001900, and 002000 are now under Hamilton County, Tennessee.

SECTION 3. BACKGROUND

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

.02 Section 143(a)(1) of the Code provides that the term "qualified mortgage bond" means a bond which is issued as part of a "qualified mortgage issue". Section 143(a)(2)(A) provides that the term "qualified mortgage issue" means an issue by

a state or political subdivision thereof of one or more bonds but only if: (i) all proceeds of the issue (exclusive of issuance costs and a reasonably required reserve) are to be used to finance owner occupied residences; (ii) the issue meets the requirements of subsections (c), (d), (e), (f), (g), (h), (i), and (m)(7); (iii) the issue does not meet the private business tests of paragraphs (1) and (2) of section 141(b); and (iv) with respect to amounts received more than 10 years after the date of issuance, repayments of \$250,000 or more of principal on financing provided by the issue are used not later than the close of the first semi-annual period beginning after the date the prepayment (or complete repayment) is received to redeem bonds that are part of the issue.

.03 An issue of bonds meets the requirements of subsection (h) of section 143 of the Code only if at least 20 percent of the proceeds of the issue is made available for owner financing of "targeted area residences" for at least 1 year after the date on which owner financing is first made available with respect to targeted area residences. Subsection (h)(2) provides, however, that the amount made available need not exceed 40 percent of the average annual aggregate principal amount of mortgages executed during the immediately preceding 3 calendar years for single-family, owner-occupied residences located in targeted areas within the jurisdiction of the issuing authority.

.04 Targeted area residences are defined in section 143(j)(1)(A) to include residences in a qualified census tract. A "qualified census tract", according to section 143(j)(2)(A), is a census tract in which 70 percent or more of the families have income that is 80 percent or less of the statewide median family income. Section 143(j)(2)(B) of the Code provides that the determination that a census tract is a "qualified census tract" must be based on the most recent decennial census for which data are available. The last list of qualified census tracts, published in Rev. Proc. 2003-15, 2003-4 I.R.B. 321, was based on the 2000 Census.

.05 Section 6a.103A-2(b)(4)(ii) of the Temporary Income Tax Regulations provides that, with respect to any particular bond issue, the determination that a census tract is a "qualified census tract" may be based upon the decennial census data

available 3 months prior to the date of issuance and shall not be affected by official changes to the data during or after that 3-month period.

.06 Section 143(k)(2)(A) of the Code provides that the term “statistical area” means (i) a metropolitan statistical area (“MSA”), and (ii) any county (or the portion thereof) that is not within an MSA.

.07 An MSA is currently defined as an area containing at least one urbanized area with a population of at least 50,000, plus adjacent territory having a high degree of social and economic integration with the core as measured through commuting ties. See Office of Management and Budget (“OMB”), Standards for Defining Metropolitan and Micropolitan Statistical Areas; Notice, 65 FR 249 (December 27,

2000); OMB Bulletin No. 03–04 (June 6, 2003).

.08 A state or local government may elect to exchange all or part of its qualified mortgage bond authority for authority to issue mortgage credit certificates. In general, the recipient of a mortgage credit certificate may claim a federal income tax credit equal to the product of the certificate credit rate and the interest paid or accrued during the tax year on the remaining principal of the certified indebtedness amount. Section 25(c)(2)(A)(iii)(V) of the Code provides that the indebtedness certified by mortgage credit certificates must meet the requirements of section 143(h) concerning the portion of loans to be placed in targeted areas.

.09 The list of qualified census tracts is developed by HUD for publication by the service. HUD's determination is based upon decennial census data received by HUD from the Bureau of the Census.

SECTION 4. APPLICATION

The qualified census tracts for each state and the District of Columbia as listed below are based on the 2000 census. In 2000, the Bureau of the Census has provided data for all areas, not only the metropolitan statistical areas. Thus, the list of qualified census tracts includes tracts in Block Numbering Areas (BNA) in nonmetropolitan counties as well as tracts in Metropolitan Statistical Areas (MSA).

State and County or County Equivalent	Qualified Census Tracts			
ALABAMA				
Butler County	953100			
Calhoun County	000500	000600		
Dallas County	996400	996500		
Etowah County	000700	001400		
Houston County	040600			
Jefferson County	000300	000500	000700	001500
	002700	002900	003200	003400
	003900	004500	005101	010100
	010302			
Lauderdale County	010300	010700		
Lee County	040700	040800	041600	
Madison County	000201	001100	001200	001600
	002100	002501		
Mobile County	000401	000402	000600	001200
	001400	001501	001502	002700
	004000	004100	004200	004300
	004600	004800		
Montgomery County	000100	000200	000300	000600
	001000	001100	001200	003000
Perry County	987200			
Russell County	030200	030800		
Tuscaloosa County	011200	011701	011800	
Wilcox County	994700			
ALASKA				
Anchorage Municipality	000600	001000		
Bethel Census Area	000100	000300		
Fairbanks North Star Borough	001100	001800		
Kenai Peninsula Borough	000100			
Skagway-Hoonah-Angoon Census Area	000200			
Wade Hampton Census Area	000100			
Yukon-Koyukuk Census Area	000100	000400		
ARIZONA				
Apache County	940100	942600	942700	944100
	944200	944300		
Cochise County	000600	000900		

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts				
ARIZONA (cont.)					
Coconino County	000800	001000	941100	944500	
Gila County	940200	940400			
Graham County	940500				
La Paz County	020100	020500			
Maricopa County	061400	092900	103306	107201	
	108601	108602	109000	110200	
	110701	111202	111203	111602	
	112507	112602	112800	113201	
	113202	113203	113300	113500	
	113601	113700	113800	113900	
	114200	114302	114401	114402	
	114500	114701	114702	114703	
	114800	114900	115200	115300	
	115801	115900	116100	116602	
	941000	941100			
	Mohave County	940400	951700	951800	
	Navajo County	940300	941000	942400	944400
		944500	944700	944800	
Pima County	000100	001000	001301	001302	
	002100	002300	002400	002601	
	002801	002802	003702	003801	
	004104	004111	004900	005100	
	940600	940700	940800		
Pinal County	941100	941200			
Santa Cruz County	996402				
Yuma County	000301	000302	000401	000402	
	000700	001300	011401	011600	
ARKANSAS					
Craighead County	000602				
Crittenden County	030501	030502			
Jefferson County	001300				
Miller County	020400	020600			
Phillips County	980500				
Pulaski County	000900	001700	002800		
Washington County	010900				
CALIFORNIA					
Alameda County	401300	401400	401600	401700	
	401800	402100	402200	402500	
	402600	402700	402800	402900	
	403000	403300	405400	407500	
	420400	422800			
Butte County	000604	001000	002800	002900	
	003000	003200			
Contra Costa County	328000	365002	379000		
Fresno County	000100	000200	000300	000400	
	000500	000600	000700	000800	
	000900	001000	001100	001201	
	001202	001301	001302	001405	
	001500	002000	002100	002300	
	002400	002501	002502	002601	
	002701	002702	002800	002902	
	003001	003102	003300	003400	
	004404	004704	004800	005202	
	005403	005602	005604	006200	
	006500	006801	006802	007100	
	007800	008200	008301	008302	
	008402				
	Humboldt County	000100	000200		

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
CALIFORNIA (cont.)				
Imperial County	010400	011400	011500	012100
	012302	012400	012500	
Kern County	000200	000300	000400	000600
	001101	001102	001103	001201
	001202	001300	001400	001500
	001600	002000	002100	002200
	002301	002302	002500	002600
	002812	003000	003400	004000
	004102	004402	004500	004700
	004800	004901	005202	005300
	005900	006202	006301	006302
	006401	006402		
Kings County	000300	000900	001002	001100
	001300	001400	001701	
Lake County	000500	000700	000800	
Los Angeles County	104701	106404	117405	117406
	117510	117530	119340	120030
	120101	120102	122410	123203
	123204	123205	123206	123410
	124202	127220	127520	128210
	128302	128303	134305	183520
	183810	183820	186401	190200
	190400	190510	190520	190700
	190800	190901	190902	191000
	191110	191120	191201	191203
	191204	191300	191410	191420
	191500	191610	191620	191710
	191720	191810	191820	192520
	192610	192620	192700	195600
	195710	195720	195802	197300
	197420	197600	197700	199000
	199120	199201	199400	199700
	199800	199900	203100	203200
	203300	203500	203600	203710
	203720	204120	204200	204300
	204410	204420	204600	204700
	204810	204910	205110	205120
	206010	206020	206030	206200
	206300	207100	207300	207710
	208000	208300	208400	208500
	208620	208710	208720	208800
	208902	208903	208904	209101
	209102	209200	209300	209401
	209402	209403	209510	209520
	209810	209820	210010	211110
	211200	211310	211320	211410
	211801	211802	211910	211920
	212100	212202	212203	212204
	212303	212304	212305	212306
	212410	212420	212500	212610
	212620	212900	213201	213202
	213310	213320	213401	213402
	218120	218210	218800	218900
	221110	221120	221220	221301
	221302	221400	221500	221600
	221710	221810	221820	222200
	222500	222600	222700	224010
	224020	224200	224310	224320
	224410	224420	224600	224700
	226000	226410	226420	226700

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
CALIFORNIA (cont.)				
Los Angeles County (cont.)	227010	227020	228100	228210
	228220	228310	228320	228410
	228420	228500	228600	228710
	228720	228800	228900	229200
	229300	229410	229420	231100
	231210	231220	231300	231600
	231710	231720	231800	231900
	232110	232120	232400	232500
	232600	232700	232800	234900
	235202	236100	236201	236202
	237100	237200	237500	237600
	237710	237720	238310	238320
	239200	239310	239330	239500
	239600	239700	239800	240010
	240020	240200	240300	240400
	240500	240600	240700	240800
	240900	241000	241120	241400
	242100	242200	242300	242600
	242700	243000	243100	265301
	269600	275520	291120	293202
	294700	294810	294820	294830
	294900	296210	296220	297110
	302201	302501	402302	402501
	402702	402801	402802	408800
	432801	432802	433301	433402
	433403	433502	433901	462000
	481714	482303	482304	504102
	530901	531101	531201	531202
	531301	531602	531702	531800
	532605	532606	532700	532800
	532900	533000	533103	533104
	533105	533107	533201	533300
	533401	533403	533501	533503
	533601	533702	533801	533901
	533902	534001	534102	534201
	534301	534404	534405	534406
	535000	535101	535200	535300
	535501	535503	535605	535606
	540000	540202	540400	540502
	540600	540700	541400	541500
	541603	541604	541605	541606
	542601	542602	570203	570304
	570603	571600	572500	572800
	572900	573001	573002	573201
	573202	573300	575101	575102
	575103	575201	575202	575300
	575401	575402	575500	575801
	575802	575803	575901	575902
	576000	576200	576300	576401
	576402	576403	576501	576502
	576503	576901	576902	600100
	600201	600202	600301	600602
	601100	601211	601501	601600
	601700	601802	601900	602105
	602501	602502	602503	900602
	900704	900806	910402	910403
	910501	910502		
Madera County	000601	000602	000800	000900
Mendocino County	011600			
Merced County	000504	001003	001005	001301

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
CALIFORNIA (cont.)				
Merced County (cont.)	001302	001502	001503	001601
	001602	001901	002201	
Monterey County	001000	001300		
Orange County	074403	074405	074406	074902
	075002	075003	075004	089104
Riverside County	030300	030400	030502	030503
	040203	040204	041500	041600
	041703	041704	042202	042209
	042211	042504	042505	042515
	042710	042723	042800	043006
	043308	043401	043403	043405
	043503	043507	043600	044000
	044101	044503	044506	044507
	044509	044510	044915	045207
	045301	045400	045502	045604
	045605	045705	045706	940100
Sacramento County	000500	000700	000900	001000
	001100	001300	001800	002100
	002700	002800	003700	004203
	004402	004500	004602	004903
	005002	005201	005300	005506
	006202	006400	006600	006702
	006800	007300	007413	007503
	008800	009110		
San Bernardino County	001400	001500	001600	003402
	003700	004201	004202	004700
	004800	004900	005000	005400
	005500	005600	005800	005900
	006202	006302	006401	006402
	006500	006800	006900	007000
	007107	007407	007408	007601
	009400	009800	010014	010402
	010414	940100	940500	
San Diego County	000900	001200	001600	001700
	001800	002201	002202	002301
	002302	002401	002402	002501
	002601	002602	002707	002708
	002709	002710	003302	003303
	003404	003501	003601	003602
	003603	003901	003902	004000
	004100	004501	004502	004600
	004700	004800	004900	005000
	005100	005600	005700	005800
	006200	006600	010012	010013
	010015	010112	010401	010502
	011400	011500	011601	011602
	011802	012500	013103	013206
	014400	015701	015703	015801
	015802	015901	018200	018400
	019501	020009	020207	020212
San Francisco County	010700	011300	011400	011500
	011700	011800	012400	012500
	016100	023103	060300	060502
	060700			
San Joaquin County	000100	000300	000402	000500
	000600	000700	000800	001700
	001900	002200	002300	003308
	003309	003406	003407	004401
San Luis Obispo County	010901			

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
CALIFORNIA (cont.)				
Santa Barbara County	002304	002403	002404	002702
	002911	002912		
Santa Clara County	500902			
Shasta County	011200	012000		
Siskiyou County	000200			
Stanislaus County	000803	001604	001700	001800
	002100	002200	003802	003906
	003908			
Sutter County	050102	050202		
Trinity County	000300			
Tulare County	000302	000501	000600	000702
	001004	001100	001200	001601
	002008	002202	002601	002800
	002901	003001	003100	003200
	003802	003901	003902	004101
	004102	004200	004300	004400
Ventura County	002300	004301	004706	005002
Yolo County	010101	010203	010501	
Yuba County	040100	040300	040400	
COLORADO				
Adams County	007800	007900	008952	009320
	009606			
Arapahoe County	004950	006501	007040	007202
	007300			
Baca County	984600			
Boulder County	012300			
Chaffee County	000100			
Conejos County	974800			
Costilla County	982600	982700		
Crowley County	989600			
Denver County	000600	000702	000800	001101
	001600	001900	002403	002701
	003602	004101	004404	004502
	005103	008313		
El Paso County	002200	002300	002800	002900
	004009	004400	005201	006100
Huerfano County	980600			
Lake County	961600			
Larimer County	000600			
Las Animas County	000100			
Mesa County	000300	000602	000700	
Montezuma County	941000			
Otero County	987700	988000		
Prowers County	000200	000500		
Pueblo County	000200	000600	000700	000800
	001000	001100	001200	001300
	001400	001800	001900	002000
	002100	002200	002300	002400
	002600	002901		
Rio Grande County	976800			
Saguache County	977700			
Weld County	000100	000200	000500	000600
	000701	000800	001002	
CONNECTICUT				
Fairfield County	022200	044100	070300	070500
	070600	070900	071000	071100
	071200	071300	071400	071600
	071700	071900	073200	073500

State and County or County
Equivalent

Qualified Census Tracts

CONNECTICUT (cont.)				
Fairfield County (cont.)	073600	073700	073800	073900
	074000	074300	074400	
Hartford County	415900	416100	416200	416600
	417100	417300	480600	490200
	500100	500200	500300	500400
	500500	500900	501000	501100
	501200	501300	501400	501500
	501700	501800	502400	502500
	502600	502700	502800	502900
	503000	503100	503200	503300
	503400	503500	503700	503800
	504100	504300	504700	504900
Litchfield County	310300			
Middlesex County	541100	541600	541800	
New Haven County	140200	140300	140400	140500
	140600	140700	140800	141300
	141500	141600	142100	142300
	142400	142500	170100	170200
	170300	171000	171500	350100
	350200	350300	350400	350500
	350800	351200	351400	351700
	352200			
New London County	690100	690300	690400	690500
	696800	702202	702500	
Windham County	800600			
DELAWARE				
New Castle County	000100	000700	000800	000900
	001700	001900	002000	002200
	002300	014501		
DISTRICT OF COLUMBIA				
District of Columbia	004700	004901	006002	006400
	007200	007401	007404	007406
	007408	007504	008803	008804
	008904	009602	009801	009802
	009806	009808	009904	
FLORIDA				
Alachua County	000200	000600	000901	000902
	001502	001902		
Bay County	001800			
Brevard County	060700	062600		
Broward County	030301	030402	041400	041500
	041600	041700	060303	080500
	100500			
Collier County	011204	011205		
Duval County	000400	001000	001300	001500
	001600	001700	001800	002600
	002901	011500		
Escambia County	000400	001500	001700	001800
	002000			
Hillsborough County	000700	001800	003000	003200
	003400	003600	003900	004000
	004300	010807	010808	012900
Lee County	000302	000502	000600	
Leon County	000500	000600	001001	001101
	001200	001400	002001	002002
Marion County	001700	001800		
Miami-Dade County	000408	000503	000703	000803

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
FLORIDA (cont.)				
Miami-Dade County (cont.).....	000903	001004	001401	001402
	001501	001502	001702	001801
	001803	001901	001903	001904
	002001	002003	002004	002401
	002402	002500	002600	002800
	003001	003003	003004	003100
	003400	003601	003602	003701
	003702	003907	004402	004901
	005201	005202	005301	005302
	005402	005703	006602	009310
	010206	010602	010800	010900
	011001	011300		
Orange County.....	010400	010500	010600	011400
	011702	011901	014502	
Palm Beach County.....	001404	001909	002200	002400
	002600	006801	008201	008202
	008301			
Pinellas County.....	020500	020700	020900	021000
	021200	021300	021600	
Polk County.....	010100	010200	011000	011201
	012004	013300	013701	
St. Lucie County.....	000100	000200	000300	
Seminole County.....	020500			
Volusia County.....	081500	081900	082000	082100
GEORGIA				
Ben Hill County.....	960400			
Bibb County.....	010100	010400	010500	010600
	010700	011100	011200	011300
	011400	011500	012700	012900
	013000			
Burke County.....	950400	950800		
Carroll County.....	990502			
Chatham County.....	000100	000601	001100	001200
	001800	001900	002000	002300
	002400	002800	003200	004400
	010101			
Clarke County.....	000100	000400	000900	001900
	030200			
Clay County.....	960100			
Cobb County.....	030800			
Colquitt County.....	970300			
Decatur County.....	970400			
DeKalb County.....	020600	022100	023802	
Dougherty County.....	000100	000200	000300	000800
	001200	001300	001401	001402
	001500	010302	010601	010700
Evans County.....	970300			
Floyd County.....	001500			
Fulton County.....	000800	001000	001700	001900
	002100	002200	002300	002400
	002500	002600	002800	003300
	003500	003700	003800	003900
	004100	004300	004400	004600
	004800	005501	005502	005600
	005700	006200	006300	006400
	006602	006700	006802	006900
	007002	007100	007200	007300
	007400	007601	007808	008202
	008301	008302	008400	008500

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
GEORGIA (cont.)				
Fulton County (cont.)	008601	008602	008701	008702
	010900	011000	011201	
Glynn County	000700	000800		
Hall County	000800			
Hancock County	980100	980200		
Houston County	020400			
Laurens County	950300	950900		
Liberty County	010100			
Lowndes County	010500	010800	010900	011000
	011302			
Mitchell County	980300			
Muscogee County	000300	000500	001300	001400
	001500	001600	001800	002200
	002400	002500	002700	002800
	003000	003200	003400	010800
	011000			
Richmond County	000200	000300	000600	000700
	000900	001300	001400	001500
	010300	010400	010504	010600
Screven County	970200			
Spalding County	160400			
Stewart County	950200			
Terrell County	980300			
Thomas County	960100			
Tift County	990600			
Ware County	950400	950700	950800	
HAWAII				
Honolulu County	003900	005200	005400	005700
	005800	006202	006302	008610
	009501	009502	009503	009505
	010801			
Kalawao County	031900			
Kauai County	041000			
Maui County	031300			
IDAHO				
Canyon County	020200			
Owyhee County	940300			
ILLINOIS				
Adams County	000400	000700	000800	
Alexander County	957900			
Champaign County	000100	000300	000700	005200
	005300	006000		
Cook County	031200	031500	031600	050400
	080500	080800	081900	222300
	222600	222800	222900	230100
	230200	230300	230900	231100
	231500	231600	231700	240100
	240600	240700	241000	241100
	242700	251700	251900	260100
	260300	260400	260500	260600
	260700	260800	270200	270300
	270500	270600	270700	271100
	271200	271300	271400	280400
	280500	280600	280800	280900
	281000	281300	281400	281500
	282700	283500	283600	283800
	283900	284000	284100	284200

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
ILLINOIS (cont.)				
Cook County (cont.)	290200	290300	290400	290500
	290600	290700	290900	291000
	291100	291200	291300	291400
	291500	291600	291700	291800
	291900	292000	292200	300100
	300200	300400	300700	300800
	300900	301000	301200	301300
	301400	301500	310100	310500
	310600	310800	310900	311000
	311200	320400	330300	340400
	340600	350200	350400	350600
	351100	351400	351500	360100
	360200	360300	360400	370100
	370200	370400	380100	380200
	380500	380600	380700	380800
	381300	381400	381500	381600
	381700	381800	382000	390300
	390400	400100	400200	400300
	400500	400600	400700	400800
	410400	420400	420500	420600
	420700	420800	420900	421100
	430300	430500	430700	431300
	440100	440800	460100	460200
	460600	460700	460800	460900
	461000	490200	491400	500200
	540100	560200	610200	610300
	610400	610500	610600	611100
	611200	611300	611400	611700
	611800	611900	612000	612100
	630100	670200	670300	670600
	670800	670900	671000	671100
	671200	671500	671700	680100
	680200	680300	680400	680500
	680600	680700	680900	681000
	681100	681200	681300	690100
	690200	690300	690700	710100
	710200	710900	821500	826800
	826901	826902	829000	829100
Crawford County	980400			
DeKalb County	001000	001100	001200	
Franklin County	041000			
Greene County	973900			
Jackson County	011100	011200	011300	011400
Jefferson County	050900	051000		
Kane County	853700			
Kankakee County	011000	011600	012300	
Lake County	862300	862605	862700	862902
McDonough County	010500			
McLean County	000200			
Macon County	000100	000300	000600	000700
	000800	000900	001000	
Madison County	400300	400700	400901	
Marion County	952500			
Peoria County	000100	000200	000300	000500
	000600	000700	000800	000900
	001200	001300	001500	
Rock Island County	020600	022300	022600	023600
St. Clair County	500400	500500	500600	500900
	502200	502401	502500	502700
	502800	504201	504500	

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
ILLINOIS (cont.)				
Saline County	955500			
Sangamon County	000800	000900	001400	001500
	001600	001700	002400	002802
Stephenson County	000700			
Vermilion County	000100	000200	000300	
White County	958000			
Will County	881900	882000		
Winnebago County	001000	001100	001300	002100
	002400	002500	002600	002800
INDIANA				
Allen County	001600	001700	002100	002700
Delaware County	000100	000200	000300	000400
	000600	000902	001901	
Elkhart County	002600	002800		
Floyd County	070200			
Henry County	976300			
Lake County	010202	011400	011900	012100
	012200	020600	030100	030300
	031000			
LaPorte County	040200			
Madison County	000500			
Marion County	330801	350300	350700	350800
	350900	351100	351600	351700
	352800	353100	353500	353600
	354400	354700	355000	355600
	355700	356900	357200	
Monroe County	000201	000600		
St. Joseph County	002800			
Tippecanoe County	005500	010300	010500	
Vanderburgh County	001900	002500	002600	
Vigo County	000100	000300	000500	000800
	010500			
Wayne County	000200			
IOWA				
Black Hawk County	000100	000900		
Dubuque County	000100			
Johnson County	002100			
Polk County	004900	005000	005200	
Scott County	010800	010900		
Story County	000500			
Webster County	000700			
Woodbury County	001500	001600		
KANSAS				
Douglas County	000400			
Geary County	000100	000200		
Montgomery County	950500	950900	951200	
Reno County	000600	000800		
Riley County	000802	001000		
Saline County	000200			
Sedgwick County	000600	000800	000900	001800
	002600	003700	006800	
Shawnee County	000400	000500	001100	001200
	004000			
Wyandotte County	040300	040800	041000	041100
	041200	043000		

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
KENTUCKY				
Bell County	960100	960900	961000	
Breathitt County	980400	980700		
Campbell County	050100			
Clay County	950100	950400	950500	950600
Fayette County	000400	000801	000900	001800
Floyd County	980800			
Harlan County	970300	970600	971000	971100
	971200			
Jefferson County	000600	001800	002300	002400
	002700	003000	003500	003700
	004301	004302	005900	006200
Knox County	990100			
Lawrence County	990300			
Letcher County	950300			
Lewis County	990400			
McCracken County	030100	030200	030300	030400
McCreary County	960100	960200	960400	
Madison County	010500			
Martin County	950100	950300		
Owsley County	990200			
Perry County	970700			
Warren County	010200			
Whitley County	980800			
LOUISIANA				
Bossier Parish	010400	011300		
Caddo Parish	020400	020600	020800	020900
	021300	021700	023300	023700
	024601			
Calcasieu Parish	000400			
East Baton Rouge Parish	000200	001000	001104	001300
	001500	002100	002200	002800
	003102			
East Carroll Parish	990300			
Evangeline Parish	950500	950600		
Iberia Parish	030800			
Jefferson Parish	020600	026200	027602	
Lafayette Parish	000800	000900		
Lincoln Parish	960900			
Madison Parish	960300	960400		
Natchitoches Parish	990700			
Orleans Parish	000200	000300	000601	000603
	000901	000902	000903	001301
	001304	001500	001600	001714
	001733	001900	002000	002700
	002800	002900	003000	003305
	003306	003500	004401	004402
	004500	004800	004900	006000
	006700	006800	006900	007100
	007200	008101	008500	008600
	008700	009200	009301	009302
	009400	013100		
Ouachita Parish	000600	000700	000900	001100
	001500	010700		
Rapides Parish	011000	011100	011400	011900
	012000	012700		
St. Landry Parish	961300	961600		
St. Mary Parish	041600			
Vermilion Parish	950800			
Webster Parish	031700			

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
MAINE				
Androscoggin County	010100	020100	020400	
Cumberland County	000500			
MARYLAND				
Allegany County	000300	000500	000700	000800
	001000	001503	002100	002200
Anne Arundel County	740105			
Baltimore County	401602	421300	450504	450800
	490605	491401		
Dorchester County	970500			
Frederick County	750100	750300		
Garrett County	000700			
Harford County	302901			
Prince George's County	803200	803401	803509	804300
	804800	805601	805602	
Somerset County	980101	980200	980600	
Washington County	000302	000400	000700	000900
Wicomico County	000100	000300	000500	010200
Worcester County	990300			
Baltimore City	030100	050100	060100	060200
	060300	060500	070100	070200
	070300	070400	080102	080200
	080301	080302	080400	080500
	080600	080700	080800	090400
	090500	090600	090700	090800
	090900	100100	100200	100400
	120400	120500	120700	130100
	130200	130300	130400	130804
	140200	140300	150100	150200
	150300	150400	150500	150600
	150800	151200	151300	160100
	160200	160300	160400	160500
	160600	160700	160802	170100
	170200	170300	180100	180300
	190100	190300	200100	200200
	200300	200400	200500	200600
	200701	200702	200800	210100
	210200	230300	250203	250204
	250207	250301	250302	250402
	250500	260202	260303	260401
	260402	260404	260501	260604
	260700	260800	261000	270701
	271700	271801	271802	280301
	280404			
MASSACHUSETTS				
Barnstable County	012300	012400	014100	
Berkshire County	900100	900200	900600	901200
	921100	921400		
Bristol County	640200	640300	640600	640900
	641000	641100	641200	641300
	641400	641900	642000	650600
	650700	650800	650900	651100
	651200	651300	651400	651500
	651700	651800	651900	652400
	652500	652600	652700	
Essex County	204300	206000	206800	206900
	207000	207200	250100	250300
	250400	250500	250600	250700

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
MASSACHUSETTS (cont.)				
Essex County (cont.)	250900	251000	251100	251200
	251300	251500	251600	
Hampden County	800100	800600	800700	800800
	800900	801101	801102	801200
	801300	801401	801700	801800
	801900	802000	802200	802300
	810800	810901	811400	811500
	811600	811700	811800	812300
Hampshire County	820102	820400		
Middlesex County	302200	310100	310400	310800
	311000	311100	311900	312400
	352400	383100		
Norfolk County	417802			
Plymouth County	510900	511000		
Suffolk County	000602	010300	050200	050300
	050400	050700	060700	061000
	061100	070200	070400	071200
	080100	080300	080400	080500
	080600	080800	081000	081200
	081300	081700	082100	090300
	090400	091300	091700	091800
	092400	100100	101102	160200
	160400			
Worcester County	710500	710700	731201	731202
	731300	731400	731500	731600
	731700	731800	731900	732001
	732400	732500	732600	732700
	757200	757300		
MICHIGAN				
Bay County	280100	280200		
Berrien County	000300	000400	000500	000600
	002100	002200	002300	
Calhoun County	000400	000600	000700	
Clare County	980100			
Genesee County	000200	000400	000700	000800
	001000	001100	001400	001500
	001700	001800	001900	002000
	002200	002300	002500	002600
	002800	003200	003400	003800
	010304	012202		
Gladwin County	990800			
Houghton County	990300			
Ingham County	000700	001300	001500	002000
	004200	004302	004402	
Jackson County	000200	000600	001100	
Kalamazoo County	000202	001504	001507	
Kent County	001400	002000	002600	002800
	003100	003600	003800	
Lake County	960600			
Marquette County	000500	002400		
Muskegon County	000200	000300	000500	000602
	001200	001300	001402	
Oakland County	141200	141700	142300	142500
	172400			
Ogemaw County	950700	950800		
Oscoda County	970300			
Roscommon County	970200	970800		
Saginaw County	000100	000200	000400	000600
	000700	000800	000900	001000

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
MICHIGAN (cont.)				
Saginaw County (cont.)	001100	001300	001800	
St. Clair County	624000	625000		
St. Joseph County	040200			
Shiawassee County	030600			
Washtenaw County	400200	402200	410600	411000
	411100	411200		
Wayne County	500400	501700	503400	503600
	503700	503900	504100	504500
	504600	504700	504800	507400
	507600	507700	507800	508000
	510400	510500	510700	510800
	510900	511200	511600	512100
	512200	512300	512400	512600
	512900	513600	513900	514000
	514100	514300	514500	514600
	514700	514800	514900	515100
	515200	516100	516300	516600
	516800	517200	517600	517800
	518400	518500	518600	518800
	520100	520300	520400	520500
	520600	521300	521800	522100
	522200	522300	522400	523100
	523200	523500	523600	523700
	524000	524300	525100	525200
	525300	525400	525500	525700
	526000	526400	526500	530700
	530800	531100	531500	531600
	531700	531800	531900	532400
	532500	532700	533000	533100
	533300	533500	533600	533700
	534100	534500	537200	537800
	543500	543600	543700	543800
	543900	544200	545100	545200
	545300	545400	552100	552300
	553200	553300	553400	553800
	573500	584800	586000	
MINNESOTA				
Beltrami County	950800			
Hennepin County	002200	003300	003501	005901
	005902	006800	007301	007700
	007801	007802	007900	008300
	008400	101400	101500	101600
	102100	102800	102900	103400
	104100	104800	105400	105700
	106000	106900	107000	107100
	107200			
Itasca County	980200			
Mower County	000410			
Polk County	020200			
Ramsey County	030500	032700	032900	033100
	033700	040802		
St. Louis County	001300	001400	001600	001700
	001800	001900	002500	002800
	003200	012200		
Stearns County	000100			
MISSISSIPPI				
Adams County	000400			
Coahoma County	950600			

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
MISSISSIPPI (cont.)				
Forrest County	000100	000500		
Hinds County	001100	001800	002000	002700
	010801			
Jackson County	041200			
Lauderdale County	000100	000400	000600	
Leflore County	950200	950800	950900	
Pike County	950300			
Washington County	000400	001100		
Yazoo County	950500			
MISSOURI				
Adair County	951000			
Boone County	000100	000401	000402	000500
	000800	000900		
Buchanan County	001000			
Butler County	950500	950700		
Cape Girardeau County	981400			
Clay County	020000			
Cole County	010100			
Dunklin County	960100			
Greene County	000100	000200	000500	000800
	001900	005500		
Hickory County	970300			
Howell County	990200	990700		
Jackson County	001400	001500	001600	001700
	002100	002200	002400	002900
	003200	003502	003602	005500
	005801	005901	006300	
Marion County	960800			
Oregon County	980100			
Pemiscot County	970200	970400		
St. Louis County	213900	214100		
Shannon County	970200			
St. Louis City	105400	106100	106200	106300
	106600	109700	110200	110500
	111200	111400	111500	112300
	116400	118100	119300	120100
	120300	121100	121200	121300
	122400	124100	124200	124600
	125700	126600	126700	
MONTANA				
Blaine County	940200			
Cascade County	000600			
Chouteau County	940100			
Daniels County	940200			
Sheridan County	940200			
Yellowstone County	000300			
NEBRASKA				
Blaine County	972400			
Douglas County	000500	000700	000800	001100
	001200	001600	001900	005200
	005300			
Lancaster County	000700			
Sarpy County	010302			
NEVADA				
Clark County	000400	000503	000504	000700
	000800	000900	001100	002204

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
NEVADA (cont.)				
Clark County (cont.)	002404	002405	002406	002506
	002706	002955	004300	004400
	004707	004710	004713	
Elko County	940300			
Washoe County	000100	000900	001004	
NEW HAMPSHIRE				
Hillsborough County.....	001400	001500	001600	001900
	010700			
NEW JERSEY				
Atlantic County	000100	000400	001100	001400
	001500	001900	002300	002400
	002500			
Burlington County.....	701204	702101	702109	
Camden County	600100	600200	600300	600400
	600500	600700	600800	600900
	601000	601101	601102	601200
	601300	601400	601500	601600
	601700	601800	601900	602000
	605000	607701	608204	
Cape May County	020500	021400	021500	
Cumberland County	010200	020100	020200	020300
	020501	040100	040200	040500
Essex County	000200	000300	000700	000900
	001000	001300	001400	001500
	001600	001700	001800	001900
	002600	002700	002800	002900
	003000	003100	003400	003500
	003800	003900	004000	004100
	004200	004300	004600	004801
	004802	004900	005000	005300
	005400	005700	005800	006200
	006600	006700	006800	006900
	007501	007502	008000	008100
	008200	008600	008700	008800
	008900	009000	009100	009200
	009300	009600	009700	010600
	010900	011100	011300	013100
	013200	013300	018300	018400
	018600	022700	022800	
Gloucester County.....	501402			
Hudson County	000200	001202	001601	001700
	001800	003000	003100	003300
	004102	004200	004400	004600
	005100	005500	005801	015100
	015300	015500	015600	015900
	016000	016200	016300	016400
	016500	016600	016700	016800
	016900	017000	017200	017400
	017500	017600	017700	019000
	032400			
Mercer County	000800	000900	001000	001100
	001401	001402	001500	001600
	001700	001900	002000	
Middlesex County	004600	005300	005500	005600
	005800	005900		
Monmouth County.....	805600	805800	807003	807200
	807300	807600	809903	
Morris County	045601			

State and County or County
Equivalent

Qualified Census Tracts

NEW JERSEY (cont.)

Ocean County	715200	715302	715402	720101
	720102	720103	722200	731201
	731202	731203	731204	731205
	731206			
Passaic County	125100	175200	175300	175400
	175500	175800	175900	180400
	180500	180700	180800	180900
	181200	181300	181400	181500
	181702	181800	182000	182200
	182300	182800	182900	183000
	183200			
Salem County	020300	022000	022100	
Union County	030200	030300	030400	030600
	030801	031000	031100	031200
	031901	039300		

NEW MEXICO

Bernalillo County	000901	940300		
Cibola County	945900			
Curry County	000100			
Dona Ana County	001000	001704		
Lea County	000300			
Luna County	000600			
McKinley County	940200	943400		
Rio Arriba County	000600	943300		
Sandoval County	940900	943300		
San Juan County	942900			
Socorro County	946100			

NEW YORK

Albany County	000200	000600	000800	002100
	002500	002600		
Bronx County	001500	001700	002000	002300
	002500	002701	002702	003100
	003300	003500	003700	003900
	004100	004300	004400	004600
	004700	004800	004900	005000
	005200	005302	005400	005600
	005800	005901	006000	006200
	006500	006600	006700	006900
	007300	007500	007700	007900
	008300	008500	008600	008700
	008900	009100	009900	010500
	011000	011501	011502	011900
	012101	012102	012300	012701
	012901	012902	013100	013300
	013500	013700	013900	014100
	014300	014500	014700	014900
	015100	015300	015500	015700
	016100	016500	016700	016900
	017300	017500	017700	017900
	018100	018900	019300	019500
	019600	019700	019900	020100
	020500	021100	021301	021302
	021501	021502	021701	021702
	021900	022000	022100	022300
	022500	022701	022702	022901
	022902	023100	023301	023302
	023501	023502	023701	023702
	023900	024100	024200	024300

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
NEW YORK (cont.)				
Bronx County (cont.)	024500	025300	025500	026300
	026500	026700	027101	027700
	032400	033400	035900	036100
	036300	036501	036502	036700
	036901	036902	037100	037300
	037400	037501	037502	037503
	037700	037900	038100	038300
	038500	038700	038900	039100
	039300	039700	039901	039902
	040100	040302	040500	040701
	041900	042500	045800	
Broome County	000300	000500	000600	001100
	001200	001300	013500	013900
Cattaraugus County	940000	940200	961700	
Chautauqua County	030300	030500	940000	
Chemung County	000100	000700	000800	001000
Clinton County	101600			
Columbia County	991200			
Dutchess County	220300	220400	220700	
Erie County	000300	000400	000500	001302
	001402	001500	001600	001800
	002000	002502	002600	002701
	002702	002800	002900	003100
	003201	003202	003301	003302
	003400	003500	003600	003700
	003901	004002	004402	005600
	006000	006100	006900	007000
	007101	007102	008300	012100
	016100	940000		
Fulton County	990800			
Genesee County	940100			
Herkimer County	010600			
Jefferson County	062100			
Kings County	001100	001800	002000	002300
	002500	002901	003700	005900
	008500	009000	010400	011200
	012700	018501	022500	022600
	022800	023500	023900	024100
	025500	025901	025902	026100
	027700	028100	028300	028502
	028700	030300	030700	031100
	031300	032600	033000	033100
	034000	034200	034300	034700
	034802	035200	035300	035700
	035900	036002	036100	036200
	036300	036900	038100	038200
	038900	039100	039500	039700
	039900	040100	040900	041100
	041300	041500	041700	041900
	042100	042300	042500	042700
	042900	043100	043300	043900
	044100	044300	044700	045300
	046500	048900	049300	050800
	050900	051600	052300	052500
	052700	052900	053100	053300
	053500	053700	053900	054500
	054700	057200	057900	089000
	089200	090000	090200	090600
	090800	091000	091200	091400
	091600	094402	098200	103400

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
NEW YORK (cont.)				
Kings County (cont.)	110600	111000	111400	112000
	112600	113000	113200	113400
	113600	113800	114000	114800
	115000	115200	115400	115600
	118800	119000	119400	121000
	121400			
Monroe County	000200	000700	001300	001500
	002200	002300	002400	002700
	003200	003900	004000	004100
	004602	004800	004900	005000
	005100	005200	005300	005500
	005600	005700	005900	006400
	006500	006600	006900	007900
	008000	008900	009200	009301
	009302	009400	009601	009602
	009603	009604		
Montgomery County	070900			
New York County	000201	000600	000800	001002
	001600	001800	002000	002400
	002500	002900	004100	011700
	015602	016200	016400	016600
	017201	017202	017401	017800
	018000	018200	018400	018600
	018800	019000	019200	019400
	019600	020200	020400	020901
	020902	021301	021302	021702
	021900	022200	022301	022400
	022600	022702	022900	023000
	023102	023200	023300	023400
	023501	023502	023900	024301
	024302	024500	024900	025100
	026100	026700	026900	027700
	028300	028500	028900	029100
	029300			
Niagara County	020200	020600	020900	021100
	021200	021300		
Oneida County	020100	020300	020701	020802
	020803	020900	021000	021101
	021201	021404	021500	021800
	022000	022600		
Onondaga County	000500	001300	001400	001600
	002000	002100	002200	002300
	002400	003000	003200	003400
	003500	003900	004000	004200
	004300	005200	005300	005400
	005500	005602	005800	006101
Ontario County	051800			
Orange County	000400	000500	001700	015001
	015002			
Queens County	002500	002900	003700	004300
	008700	010700	024800	025000
	026000	054500	054900	086500
	087100	095200	097201	097202
	122702	156700		
Rensselaer County	040400			
Richmond County	002900	013301	018500	
Rockland County	011503			
St. Lawrence County	991100			
Schenectady County	020800	020900	021001	021002
	021400	021500	021700	

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
NEW YORK (cont.)				
Warren County	070200			
Westchester County	000103	000500	001000	001101
	003100			
NORTH CAROLINA				
Buncombe County	000100	000200	000900	
Cumberland County	000200	001000	001300	
Davidson County	061400			
Durham County	000500	000900	001100	001201
	001202	001400	001501	
Edgecombe County	020100			
Forsyth County	000400	000500	000700	000801
	000802	001602		
Gaston County	031900			
Guilford County	011000	011101	011400	013900
	014408			
Lee County	030300			
Lenoir County	010300	010400	010500	
Mecklenburg County	000600	000700	002300	003700
	003901	004500	004700	005000
	005100	005200		
Nash County	010100			
New Hanover County	011000	011100	011400	
Onslow County	000800	000900	001900	002000
Orange County	011600			
Pasquotank County	960300			
Pitt County	000701	000702		
Robeson County	960800			
Surry County	990400			
Vance County	960600	960700		
Wake County	050800	050900	051100	052405
Wayne County	001600	001700	001800	
Wilson County	000200	000801		
NORTH DAKOTA				
Grand Forks County	010300			
Mercer County	940300			
Sioux County	940100	940200		
Ward County	940300			
OHIO				
Allen County	012500	012800	012900	013400
	013600	013700	013800	
Athens County	973101	973102		
Belmont County	011500	011600	012100	
Butler County	000300	000400	000702	010104
	012900			
Clark County	000100	000200	000901	
Columbiana County	952100			
Cuyahoga County	101200	101800	102600	102700
	102800	103100	103300	103400
	103500	103800	103900	104100
	104200	104400	104500	104600
	104701	104800	104900	105100
	106400	107200	107500	107700
	107900	108200	108300	108400
	108600	108700	108800	108900
	109300	109600	109700	109800
	110500	110800	111100	111200
	111300	111401	111402	111500

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
OHIO (cont.)				
Cuyahoga County (cont.)	111600	111700	111800	111901
	111902	112100	112200	112400
	112600	112700	112900	113100
	113200	113300	113500	113600
	113700	113800	113900	114100
	114200	114300	114400	114500
	114600	114700	114800	114900
	115200	115300	115500	116100
	116500	116600	116700	116800
	116900	117300	118601	118602
	118700	119202	119300	119402
	119502	119600	119702	119800
	119900	120100	120200	120802
	121300	121401	121600	150300
	150400	151400	151500	151800
Fairfield County	031700			
Franklin County	000720	000730	000910	000920
	001110	001200	001300	001400
	001500	001600	001700	001810
	002300	002600	002710	002800
	002900	003000	003600	004200
	005000	005100	005300	005410
	005610	006000	006100	007410
	009326	009331		
Guernsey County	977600			
Hamilton County	000200	000301	000302	000900
	001000	001100	001500	001600
	001700	002100	002300	002800
	003200	003400	003500	003600
	003700	003800	004702	006700
	007400	007700	008000	008502
	008601	008700	008900	009100
	010002			
Jefferson County	000200	000800	000900	
Lawrence County	050600			
Licking County	750100			
Lorain County	070800			
Lucas County	000800	001202	001700	001800
	002200	002300	002500	002700
	002900	003000	003300	003400
	003500	003600	003700	003800
	004100	004200	004301	005100
	005400			
Mahoning County	800200	800500	800600	800700
	800900	801000	801600	801700
	801900	802000	802100	802200
	802300	802400	803100	803400
	803500	803700	804400	810300
Montgomery County	000300	001200	001700	002200
	002300	003500	003600	003700
	004000	004100	004300	060200
	070201			
Muskingum County	981900			
Portage County	601502			
Richland County	000100	000200	000300	000600
	000700			
Ross County	956500			
Scioto County	993500	993600		
Stark County	700100	700500	701800	702300
	710400	713800		

State and County or County
Equivalent

Qualified Census Tracts

OHIO (cont.)				
Summit County	501100	501200	501301	501302
	501700	501800	502500	503400
	504200	504400	505300	505600
	506700	506800	506900	507400
	510100			
Trumbull County	920100	920500	920600	920800
	932400			
Washington County	020500			
Wood County	021800			
OKLAHOMA				
Bryan County	996400			
Canadian County	300400			
Cleveland County	201201			
Comanche County	001200	001300	001700	
Grady County	000100			
Jackson County	968700			
Muskogee County	000600			
Oklahoma County	102500	102600	102800	102900
	103000	103500	103602	103700
	103800	103900	104100	104200
	104700	105400	105600	105800
Payne County	010400	010500		
Pittsburg County	986300			
Pontotoc County	989100			
Pottawatomie County	500200			
Tulsa County	000500	000600	001300	002100
	004600	008001		
OREGON				
Jackson County	000100	000202		
Josephine County	360701			
Klamath County	971600			
Lane County	003800			
Malheur County	970400			
Multnomah County	003301	003402		
PENNSYLVANIA				
Allegheny County	010300	020300	040600	050100
	050700	050900	051000	051100
	101600	101700	111500	120300
	120400	120800	130100	130300
	130400	150400	160400	160600
	192100	220400	250300	250700
	250900	260900	280800	464400
	486700	486900	505000	512900
	513800	514000	551900	552100
	560400	561000	561100	
Beaver County	604500			
Berks County	000100	000200	001200	002200
	002300	002500	002600	
Blair County	100700	101900		
Cambria County	000100	000200	000300	000800
	000900	001000	001100	001300
	001400			
Centre County	012100	012500		
Clinton County	970600			
Dauphin County	020600	020700	021300	021400
Delaware County	405200	405800		

State and County or County Equivalent	Qualified Census Tracts			
PENNSYLVANIA (cont.)				
Erie County	000100	000700	000800	001200
	001300	001400	001500	001800
Fayette County	262300			
Lackawanna County	100200			
Lancaster County	000100	000800	000900	001400
	001500	001600		
Lawrence County	000400	000600	000900	
Lebanon County	000300			
Lehigh County	000800	000900	001000	001100
	001200	001300		
Luzerne County	201000	214100	217400	
Lycoming County	000400	000800		
Mercer County	030200	030600	030700	030800
Northampton County	010500			
Northumberland County	961700			
Philadelphia County	000200	001900	002000	002100
	002800	003000	003100	003200
	003400	003500	003600	004600
	005100	005600	006600	006700
	006900	007400	007700	008900
	009200	009300	009500	010200
	010500	010600	010700	010800
	010900	012700	013100	013800
	013900	014000	014100	014500
	014700	014800	015100	015200
	015300	015500	015700	016100
	016200	016300	016400	016500
	016600	016700	016800	016901
	017100	017200	017400	017500
	017601	017602	017700	017800
	018200	018900	019000	019200
	019300	019400	019500	019600
	019700	019800	019900	020300
	020500	024100	024500	024600
	028700	028800	029300	032200
Venango County	200700			
Washington County	704100			
Westmoreland County	800100	800700		
York County	000200	000300	000700	001000
	001100	001500	001600	
RHODE ISLAND				
Newport County	041200			
Providence County	000200	000300	000500	000600
	000700	000900	001000	001200
	001300	001400	001700	001900
	002000	002200	002500	002600
	002700	010800	011100	015100
	015200	015300	015400	016600
	018000	018100		
SOUTH CAROLINA				
Charleston County	000900	001000	001100	001300
	001400	003300	003400	003600
	003700	004300	004500	
Darlington County	010700			
Florence County	000700			
Greenville County	000800	000900	002108	002303
	002304			

State and County or County
Equivalent

Qualified Census Tracts

SOUTH CAROLINA (cont.)

Lancaster County	010700			
Orangeburg County	011200	011300		
Richland County	000500	000900	001000	001300
	001400	002002	002800	010900
Spartanburg County	020301	020400	020500	020800
	021001			
Sumter County	000897	000898	001500	

SOUTH DAKOTA

Bennett County	940600	940800		
Buffalo County	940100			
Corson County	940500	940700	940800	940900
Dewey County	941600			
Jackson County	940100	940200		
Lyman County	940100			
Shannon County	940300	940400	940600	940700
Todd County	940100	940200		
Ziebach County	941200	941400	941500	

TENNESSEE

Anderson County	020700			
Bradley County	010400	010700		
Campbell County	950300			
Claiborne County	970400			
Coffee County	970900			
Davidson County	011800	012400	012500	013600
	013900	014000	014200	014300
	014400	014800	016200	
Hamblen County	100300			
Hamilton County	000300	001200	001500	001600
	001900	002000		
Hancock County	960100	960300		
Knox County	000200	000400	000600	000700
	001200	001300	001400	002400
	002800			
Madison County	000500	000800	001000	001100
Montgomery County	100400	100900		
Scott County	975300			
Shelby County	000200	000300	000400	000500
	000800	000900	001800	001900
	002000	002100	002200	002300
	002400	002800	003700	003800
	004000	004100	004400	004500
	004600	004700	004800	004900
	005000	005100	005400	005700
	005800	005900	006000	006700
	007810	008110	008400	010300
	010420	022022		
	060700	060900		
	Washington County			

TEXAS

Bee County	950500			
Bell County	020702	020900	022600	022801
	022900	023500		
Bexar County	110200	110500	110600	110700
	110800	110900	111000	130100
	130300	130500	130600	130700
	141000	150300	150800	160100
	160900	170101	170102	170200
	170300	170401	170900	171000

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
TEXAS (cont.)				
Bexar County (cont.)	171200	181003	191004	
Bowie County	010500	010600		
Brazos County	001400			
Brewster County	950400			
Brooks County	950200			
Brown County	950600	950700		
Cameron County	010500	010900	011000	011100
	011600	011700	011903	012200
	012303	012304	012507	012604
	012609	012610	012700	013203
	013207	013208	013305	013306
	013307	013308	013309	013401
	013402	013700	013801	013802
	013901	013902	013903	014001
	014002			
Cherokee County	950400	950500	950700	
Dallas County	000405	001503	002000	002701
	002702	002900	003400	003500
	003800	003901	003902	004000
	004100	004800	007201	007202
	008603	008604	008703	008704
	008900	009304	009804	010200
	010400	011401	011500	012208
	019013	019209		
Dimmit County	950100			
Ector County	001100	001200	001500	001800
	001900	002000		
El Paso County	000301	000302	000404	000800
	000900	001203	001400	001600
	001700	001800	001900	002000
	002100	002201	002202	002600
	002800	002900	003000	003200
	003602	003701	003702	003901
	003903	004105	010102	010208
	010309	010319	010403	010404
	010501	010502	010503	010504
Falls County	990400			
Frio County	950300			
Galveston County	724000	724600		
Gray County	950600	950800		
Gregg County	001400			
Grimes County	180104			
Hale County	950200			
Harris County	210400	210800	210900	211000
	211100	211200	211300	211400
	211700	220500	220800	220900
	222600	222700	230300	230400
	230700	230900	231000	233600
	240500	310200	310500	310900
	311600	312200	312300	312400
	312800	313500	313600	321500
	322000	331200	331400	332100
	420100	420500	421200	421400
	421500	421600	422200	423100
	433100	433500	453100	533300
Hidalgo County	020100	020202	020501	020503
	020600	020723	021100	021301
	021302	021303	021500	021600
	021801	021802	021901	021902
	022002	022101	022102	022202

State and County or County
Equivalent

Qualified Census Tracts

State and County or County Equivalent	Qualified Census Tracts			
TEXAS (cont.)				
Hidalgo County (cont.)	022501	022502	022600	022702
	022800	023000	023101	023102
	023503	023506	023508	023700
	024101	024102	024103	024104
	024105	024201	024202	024301
	024302	024401	024402	024500
	024600			
Hill County	960900	961000		
Hockley County	950400			
Howard County	950300			
Hudspeth County	950100			
Jefferson County	000600	000700	000900	005300
	005900	006100	006300	
Jim Wells County	950500			
Kleberg County	020200			
Lamar County	000600			
Lamb County	950500			
La Salle County	950100	950200		
Limestone County	970400			
Lubbock County	000202	000301	000500	000603
	000605	000607	001000	001200
	002400			
McLennan County	000400	000598	001100	001200
	001400	001500	001900	003300
Maverick County	950100	950201	950202	950203
	950500	950601	950602	
Midland County	000900	001400	001600	001700
Montgomery County	693400			
Nacogdoches County	950700	950900		
Nolan County	950300			
Nueces County	000400	000500	000900	001000
	001100	001200	001300	001500
	001601	005602		
Potter County	010600	012000	012200	012800
	013000	014600	014800	
Presidio County	950200			
Reeves County	950100	950200	950300	950500
Smith County	000202	000300	000400	000700
Starr County	950102	950103	950201	950202
	950400	950500	950600	950701
	950702			
Tarrant County	100300	101000	101100	101600
	101700	102500	103100	103500
	103601	103701	103800	103900
	104000	104604	106516	122200
Taylor County	010700	010800	011700	011900
Terry County	950300			
Titus County	950600	950700		
Tom Green County	000500	000700	000900	
Travis County	000604	000802	000804	001000
	002311	002316		
Val Verde County	950601	950602		
Walker County	790600			
Webb County	000103	000104	000300	000400
	000500	000600	000700	000902
	001002	001200	001300	001801
	001804	001805		
Wharton County	740300			
Wichita County	010100	010400	011100	011300
Willacy County	950300	950700		

State and County or County Equivalent	Qualified Census Tracts			
TEXAS (cont.)				
Zapata County	950200			
Zavala County	950100	950200	950301	950302
UTAH				
Cache County	000702	000800		
Davis County	125600			
Salt Lake County	100302	101400	102100	102400
	111500			
San Juan County	942000	942100		
Utah County	001601	001602	001603	001801
	001802	001803	001900	002300
	002400	002500	002800	
Wasatch County	940300			
Weber County.....	200900	201200	201800	201900
VERMONT				
Chittenden County.....	000400			
VIRGINIA				
Albemarle County	010902			
Amherst County	010502			
Buchanan County.....	990100	990200	990300	990700
Chesterfield County.....	100406			
Dickenson County.....	990100	990200	990300	990400
Halifax County.....	990100			
Henrico County	200805			
James City County.....	080102			
Lee County	990100	990500	990600	
Prince William County	900903			
Russell County.....	990100	990600		
Scott County	030200	030300		
Smyth County.....	990600			
Tazewell County	990500	991000		
Wise County	991100	991500		
York County	050500			
Bristol City	020100	020300		
Chesapeake City.....	020100	020502		
Danville City.....	000300	000400	000500	000600
	001000	001300		
Franklin City.....	090200			
Hampton City	010502	010602	011400	
Hopewell City.....	820300	820700		
Lynchburg City.....	000203	000400	000600	000700
	001200	001300	001400	
Martinsville City	000200	000400		
Newport News City.....	030100	030400	030600	030800
	030900	032300		
Norfolk City	000900	001100	001300	001600
	002500	002600	002700	002900
	003501	003502	004100	004200
	004300	004400	004600	004700
	004800	005000	005200	005300
	005901	006501	006502	007001
Petersburg City.....	810100	810200	810600	810700
	810800			
Portsmouth City.....	210500	211400	211800	211900
	212000	212100	212400	212600
	213101			
Richmond City.....	010300	010900	011000	020100
	020200	020400	020700	021000

State and County or County
Equivalent

Qualified Census Tracts

VIRGINIA (cont.)				
Richmond City (cont.)	030100	030200	030500	060100
	060200	060300	060400	060700
	060800	060900	070600	
Roanoke City	000200	000700	000800	000900
	001000	001300	001400	
Suffolk City	065100	065400	065500	
Virginia Beach City	040600	043200	045810	
Waynesboro City	003100	003300		
WASHINGTON				
Adams County	950400			
Asotin County	980400			
Benton County	011200	012000		
Clark County	041005	041600	041700	042400
	042700			
Cowlitz County	000300	000502	001000	
Franklin County	020100	020200		
Grays Harbor County	000100			
Island County	970200	970900		
King County	005301	007300	008500	009100
	009200	026500	029004	030501
Kitsap County	080500	080800	090300	
Okanogan County	970200			
Pierce County	061400	061602	062200	062801
	071703	071704	071805	071806
	072000	072904		
Snohomish County	040200	040700	041904	
Spokane County	000200	000400	001400	001600
	002300	002400	002600	003000
	003300	003500	003600	011101
	013800			
Stevens County	951000			
Walla Walla County	920500			
Whitman County	000500	000600		
Yakima County	000100	000200	000600	001500
	002001	002300	002500	002701
WEST VIRGINIA				
Cabell County	000500	000600		
Kanawha County	000900			
McDowell County	953600	953900		
Ohio County	000100	000700	000800	
WISCONSIN				
Dane County	001100	001601	001602	003200
Douglas County	020100	020200		
La Crosse County	000200	000400		
Milwaukee County	001100	001200	002000	002100
	002500	002800	004000	004400
	004600	004700	006300	006400
	006500	006600	006700	006800
	006900	007000	007900	008000
	008100	008200	008300	008400
	008500	008600	008700	008800
	008900	009000	009100	009600
	009700	009800	009900	010000
	010100	010200	010300	010400
	010500	010600	010700	011500
	011600	011700	011800	012000
	012200	012300	013400	013500

State and County or County Equivalent	Qualified Census Tracts			
WISCONSIN (cont.)				
Milwaukee County (cont.)	013600	013700	013800	014000
	014100	014600	014700	014800
	014900	015000	015400	015600
	015700	015800	016300	016400
	016500	016600	016700	016800
	016900	017400	017500	017600
	017700	017800	018800	
Racine County	000400	000500		
WYOMING				
Albany County	963500			
Natrona County	000200			
PUERTO RICO				
Cataño Municipio	020404			
Lofza Municipio	110101	110400		
Mayaguez Municipio	081200			
Orocovis Municipio	954902			
Ponce Municipio	070400	070800	071300	
San Juan Municipio	001300	003501	004400	004800
	005402	008201		
Yauco Municipio	750101			

SECTION 5. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2003-15 is modified and superseded by this revenue procedure. Issuers can continue to rely on Rev. Proc. 2003-15 until the effective date of this revenue procedure, which is the date of publication of this revenue procedure in the Internal Revenue Bulletin.

SECTION 6. EFFECTIVE DATE

This revenue procedure is effective on July 21, 2003.

SECTION 7. DRAFTING INFORMATION

The principal authors of this revenue procedure are Laura Lederman and Timothy Jones of the Office of Chief Counsel. For further information regarding this revenue procedure contact Laura Lederman at (202) 622-3980 (not a toll-free call).

26 CFR 601.105: Examination of returns and claims for refund, credit or abatement; determination of correct tax liability.
(Also Part I, §§ 168, 179, 1400L; 1.179-5.)

Rev. Proc. 2003-50

SECTION 1. PURPOSE

This revenue procedure amplifies and modifies Rev. Proc. 2002-33, 2002-1 C.B. 963, by extending the relief provided in Rev. Proc. 2002-33 to any taxpayer that timely filed its 2000 or 2001 federal tax return for the taxable year that included September 11, 2001. This revenue procedure also permits an automatic extension of time to allow certain taxpayers to change their selection of § 179 property for the taxable year that included September 11, 2001.

SECTION 2. BACKGROUND

.01 Rev. Proc. 2002-33 provided additional time for certain taxpayers that filed their 2000 or 2001 federal tax return before June 1, 2002, to (1) claim the 30-percent additional first year depreciation provided by §§ 168(k)(1) and 1400L(b) of the Internal Revenue Code for a class of property that is qualified property or qualified New York Liberty Zone (Liberty Zone) property placed in service after September 10, 2001, during the 2000 or 2001 taxable

year, (2) elect the increased § 179 amount provided by § 1400L(f) for § 179 property that is Liberty Zone property placed in service by the taxpayer after September 10, 2001, during the 2000 or 2001 taxable year, and (3) depreciate under § 168 Liberty Zone leasehold improvement property (as defined in § 1400L(c)(2)) placed in service by the taxpayer after September 10, 2001, during the 2000 or 2001 taxable year, as 5-year property using the straight-line method of depreciation. See sections 4.01, 4.03, and 4.04 of Rev. Proc. 2002-33.

.02 Rev. Proc. 2002-33 also explained how taxpayers may make the election provided by § 168(k)(2)(C)(iii) and § 1400L(b)(2)(C)(iv) not to deduct the 30-percent additional first year depreciation for any class of property that is qualified property or Liberty Zone property placed in service after September 10, 2001. Special provisions, including a deemed election, were provided for taxpayers that filed their 2000 or 2001 federal tax return before June 1, 2002. See sections 3 and 4.02 of Rev. Proc. 2002-33.

.03 The Treasury Department and the Internal Revenue Service have learned that some taxpayers were unaware of the relief

provided by Rev. Proc. 2002-33 or were precluded from the relief because their federal tax returns for the taxable year that included September 11, 2001, were filed on or after June 1, 2002. As a result, Treasury and the Service have determined that it is appropriate to extend the relief provided in section 4 of Rev. Proc. 2002-33 to any taxpayer that timely filed its federal tax return for the taxable year that included September 11, 2001. Treasury and the Service also have determined that it is appropriate to allow certain taxpayers additional time to change their selection of § 179 property. Accordingly, section 3 of this revenue procedure amplifies and modifies section 4 of Rev. Proc. 2002-33.

SECTION 3. PROCEDURES FOR RETURNS TIMELY FILED FOR A TAXABLE YEAR THAT INCLUDED SEPTEMBER 11, 2001

.01 30-Percent Additional First Year Depreciation.

(1) *In general.* If a taxpayer timely filed its federal tax return for a taxable year that included September 11, 2001, and did not claim on that return the 30-percent additional first year depreciation for a class of property that is qualified property or Liberty Zone property placed in service by the taxpayer after September 10, 2001, during the taxable year that included September 11, 2001, but wants to do so, the taxpayer may claim the 30-percent additional first year depreciation for that class of property under this section 3.01, provided the taxpayer did not make an election in the manner described in section 3.02(1) or (2) of this revenue procedure not to deduct the 30-percent additional first year depreciation for the class of property. The taxpayer has the option of claiming the 30-percent additional first year depreciation for the taxable year that included September 11, 2001:

(a) by filing an amended federal tax return (or a qualified amended return under Rev. Proc. 94-69, 1994-2 C.B. 804, if applicable; hereinafter, referred to in this document as a “qualified amended return”) on or before December 31, 2003, for the taxable year that included September 11, 2001, and any affected subsequent taxable year, and including the statement “Filed Pursuant to Rev. Proc. 2003-50” at the

top of any amended federal tax return (or qualified amended return);

(b) by filing a Form 3115, *Application for Change in Accounting Method*, with the taxpayer’s timely filed federal tax return for the first taxable year succeeding the taxable year that included September 11, 2001, if this return has not been filed on or before July 21, 2003, and the taxpayer owns the property as of the first day of this taxable year; or

(c) if the taxpayer’s federal tax return for the first taxable year succeeding the taxable year that included September 11, 2001, was filed on or before July 21, 2003, by

(i) filing an amended federal tax return (or a qualified amended return) on or before December 31, 2003, for the first taxable year succeeding the taxable year that included September 11, 2001, attaching a Form 3115 to the amended federal tax return, and including the statement “Filed Pursuant to Rev. Proc. 2003-50” at the top of the amended federal tax return (or qualified amended return); or

(ii) filing a Form 3115 with the taxpayer’s timely filed federal tax return for the second taxable year succeeding the taxable year that included September 11, 2001, and ending on or before July 31, 2004, if the taxpayer owns the property as of the first day of this taxable year.

(2) *Automatic change in method of accounting.* The Form 3115 is to be completed and filed in accordance with the automatic change in method of accounting provisions in Rev. Proc. 2002-9, 2002-1 C.B. 327 (as modified and amplified by Rev. Proc. 2002-19, 2002-1 C.B. 696, as amplified, clarified, and modified by Rev. Proc. 2002-54, 2002-35 I.R.B. 432, and as modified and clarified by Announcement 2002-17, 2002-1 C.B. 561) or any successor, with the following modifications:

(a) The scope limitations in section 4.02 of Rev. Proc. 2002-9 do not apply; and

(b) To assist the Service in processing changes in method of accounting under this section of the revenue procedure, and to ensure proper handling, section 6.02(4)(a) of Rev. Proc. 2002-9 is modified to require that a Form 3115 filed under this revenue procedure include the statement: “Automatic Change Filed Under Rev. Proc. 2003-50.” This statement should be legibly printed or typed on the

appropriate line on any Form 3115 filed under this revenue procedure.

.02 Election Not to Deduct 30-Percent Additional First Year Depreciation.

(1) *In general.* A taxpayer that timely filed its federal tax return for the taxable year that included September 11, 2001, has made the election not to deduct the 30-percent additional first year depreciation for a class of property that is qualified property or Liberty Zone property during the taxable year that included September 11, 2001, if:

(a) the taxpayer made the election within the time prescribed in section 3.03(1) or 3.03(2)(a) of Rev. Proc. 2002-33, and in the manner prescribed in the instructions for the 2001 Form 4562, *Depreciation and Amortization* (Rev. March 2002); or

(b) the taxpayer made the election within the time prescribed in section 3.03(1) or 3.03(2)(a) of Rev. Proc. 2002-33 and included with the taxpayer’s federal tax return for the taxable year that included September 11, 2001, an affirmative statement to the effect that the taxpayer is not deducting the 30-percent additional first year depreciation for the class of property. The affirmative statement may be a statement attached to, or written on, the return (for example, writing on the Form 4562 “not deducting 30 percent”).

(2) *Deemed election.* If section 3.02(1) of this revenue procedure does not apply, a taxpayer that timely filed its federal tax return for the taxable year that included September 11, 2001, also will be treated as making the election not to deduct the 30-percent additional first year depreciation for a class of property that is qualified property or Liberty Zone property placed in service by the taxpayer after September 10, 2001, during the taxable year that included September 11, 2001, if the taxpayer:

(a) on that return, did not claim the 30-percent additional first year depreciation for that class of property but did claim depreciation; and

(b) does not file an amended federal tax return (or a qualified amended return) or a Form 3115 within the time and in the manner prescribed in section 3.01 of this revenue procedure to claim the 30-percent additional first year depreciation for the

class of property for the taxable year that included September 11, 2001.

.03 *Increased Section 179 Expensing for Liberty Zone Property.* If a taxpayer timely filed its federal tax return for the taxable year that included September 11, 2001, and did not elect on that return to expense the increased § 179 amount provided by § 1400L(f) for § 179 property that is Liberty Zone property placed in service by the taxpayer after September 10, 2001, during the taxable year that included September 11, 2001, but wants to do so, the taxpayer must file an amended federal tax return (or a qualified amended return) on or before December 31, 2003, for the taxable year that included September 11, 2001, and any affected subsequent taxable year, and attach to the amended federal tax return for the taxable year that included September 11, 2001, the election and any necessary information required by § 1.179-5 of the Income Tax Regulations. The taxpayer must also include the statement “Filed Pursuant to Rev. Proc. 2003-50” at the top of any amended federal tax return (or qualified amended return).

.04 *Changing Selection of Section 179 Property.*

(1) *Application.* If a taxpayer timely filed its federal tax return for the taxable year that included September 11, 2001, and, on that return, made a § 179 election for property, the taxpayer may change the selection of the § 179 property on that return if:

(a) on that return, the taxpayer did not deduct the 30-percent additional first year depreciation for any property or did not elect out of the 30-percent additional first year depreciation;

(b) the taxpayer made the § 179 election for property placed in service after September 10, 2001; and

(c) the taxpayer now wants to claim the 30-percent additional first year depreciation for that same property and apply the § 179 election to other property placed in service by the taxpayer in the taxable year that included September 11, 2001.

(2) *Time and manner of changing selection.* A taxpayer described in section 3.04(1) of this revenue procedure changes the selection of the § 179 property by filing

an amended federal tax return (or a qualified amended return) on or before December 31, 2003, for the taxable year that included September 11, 2001, and any affected subsequent taxable year, and attaching to the amended federal tax return for the taxable year that included September 11, 2001, the election and any necessary information required by § 1.179-5. The taxpayer must also include the statement “Filed Pursuant to Rev. Proc. 2003-50” at the top of any amended federal tax return (or qualified amended return).

.05 *Liberty Zone Leasehold Improvement Property.* If a taxpayer timely filed its federal tax return for the taxable year that included September 11, 2001, and did not depreciate on that return Liberty Zone leasehold improvement property placed in service by the taxpayer after September 10, 2001, during the taxable year that included September 11, 2001, as 5-year property for purposes of § 168 using the straight-line method of depreciation, the taxpayer must depreciate the Liberty Zone leasehold improvement property as 5-year property by either filing an amended federal tax return (or qualified amended return) or a Form 3115 within the time and in the manner prescribed in section 3.01 of this revenue procedure for claiming the 30-percent additional first year depreciation for a class of property for the taxable year that included September 11, 2001.

SECTION 4. EFFECT ON OTHER DOCUMENTS

.01 Rev. Proc. 2002-33 is amplified and modified.

.02 Rev. Proc. 2002-9 is amplified and modified to include the accounting method change provided in section 3.01 of this revenue procedure in section 2 of the APPENDIX.

SECTION 5. EFFECTIVE DATE

This revenue procedure is effective June 26, 2003.

DRAFTING INFORMATION

The principal author of this revenue procedure is Douglas Kim of the Office of Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding this revenue procedure,

contact Mr. Kim at (202) 622-3110 (not a toll-free call).

26 CFR 601.105: Examination of returns and claims for refund, credit or abatement; determination of correct tax liability.

(Also Part I, § 338; 1.338-1.)

Rev. Proc. 2003-51

SECTION 1. PURPOSE

This revenue procedure sets forth guidelines for use by taxpayers and Internal Revenue Service personnel in making fair market value determinations for inventory items acquired when a taxpayer purchases the assets of a business for a lump sum or a corporation acquires the stock of another corporation and makes an election pursuant to § 338 of the Internal Revenue Code with respect to the acquisition. The Service invites public comment on issues relating to the inventory valuation methods discussed herein and to whether additional valuation methods are appropriate. This revenue procedure modifies, amplifies, and supersedes Rev. Proc. 77-12, 1977-1 C.B. 569.

SECTION 2. BACKGROUND

If the assets of a business are purchased for a lump sum or if a corporation acquires the stock of another corporation and makes an election pursuant to § 338 with respect to the acquisition, the purchase price (actual or deemed) must be allocated among the assets acquired to determine the basis of each of the assets. In making the allocation, a taxpayer must determine the fair market value of any inventory items acquired. This revenue procedure describes methods that may be used to determine the fair market value of inventory items for purposes of the purchase price allocation.

In the situations set forth in this revenue procedure, the quantity of inventory to be valued generally would be different from the quantity usually purchased. In addition, the fair market value of the goods in process and finished goods on hand must be determined in light of what a willing purchaser would pay and a willing seller would accept for the inventory at the various stages of completion, when the former is not under any compulsion to buy and the

latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. In making the inventory valuation determination, it is necessary to allow for a fair division between the buyer and the seller of the profit on the inventory, taking into account that the quantity of inventory purchased may be greater than the quantity of inventory usually purchased. See *Knapp King-Size Corp. v. United States*, 527 F.2d 1392 (Ct. Cl. 1975).

SECTION 3. PROCEDURES FOR DETERMINATION OF FAIR MARKET VALUE.

Three basic methods a taxpayer may use to determine the fair market value of inventory are the replacement cost method, the comparative sales method, and the income method.

.01 Replacement Cost Method. The replacement cost method generally provides a good indication of fair market value if inventory is readily replaceable in a wholesale or retail business, but generally should not be used in establishing the fair market value of the work in process or finished goods of a manufacturing concern. In valuing a bulk inventory of raw materials or goods purchased for resale under this method, the determination of the replacement cost of the individual items should be only a base or starting point. This base amount must be adjusted for factors that are generally relevant. For example, a willing purchaser might be expected to pay (and a willing seller might be expected to demand) a price for inventory that would compensate the seller not only for the current replacement cost, but also for a fair return on expenditures in accumulating and preparing the inventory for distribution. Thus, an amount equal to the fair value of the related costs that the taxpayer would have incurred in acquiring and accumulating the same quantity of goods had the goods been purchased separately (e.g., purchasing, handling, transportation, and off-site storage costs) should be added to the base amount. Additionally, in valuing a particular inventory under this method, other factors may be relevant. For example, a well balanced inventory available to fill customers' orders in the ordinary course of business may have a fair market value in excess of its cost of replacement because it provides a continuity of

business, whereas an inventory containing obsolete merchandise unsuitable for customers may have a fair market value of less than the cost of replacement.

.02 Comparative Sales Method. The comparative sales method utilizes the actual or expected selling prices of finished goods to customers in the ordinary course of business as the base amount that must be adjusted for factors that are generally relevant in determining the fair market value of the inventory. The inventory to be valued may represent a larger quantity than the normal trading volume. The expected selling price is a valid starting point only if the inventory is expected to be used to fill customers' orders in the ordinary course of business. If the expected selling price is used as a basis for valuing finished goods inventory, the base amount must be adjusted for relevant factors, including:

(1) the time that would be required to dispose of this inventory;

(2) the expenses that would be expected to be incurred in the disposition, for example, all costs of disposition, applicable discounts (including those for quantity), sales commissions, and freight and shipping charges; and

(3) a profit commensurate with the amount of investment in the assets and the degree of risk. (This analysis should include (but is not limited to) an evaluation of risks of possible changes in style/design, changes in price levels, increased competition, possible adverse economic conditions, the fact that the inventory to be valued may represent a larger quantity than the normal trading volume, etc.).

.03 Income Method. The income method, when applied to fair market value determinations for finished goods, recognizes that finished goods must generally be valued in a profit motivated business. As the amount of inventory may be large in relation to normal trading volume, the highest and best use of the inventory will be to provide for a continuity of the marketing operation of the going business. Additionally, the finished goods inventory will usually provide the only source of revenue of an acquired business during the period it is being used to fill customers' orders. The historical financial data of an acquired company can be used to determine the amount that could be attributed to finished goods in order to pay all costs of disposition and provide a return on the

investment during the period of disposition.

.04 Work in Process. The fair market value of work in process should be based on the same factors used to determine the fair market value of finished goods reduced by the expected costs of completion, including a reasonable profit allowance for the completion and selling effort of the acquiring corporation.

SECTION 4. EXAMPLE OF REPLACEMENT COST AND COMPARATIVE SALES COST METHODS

On Date 1, Manufacturer A purchased all the assets of Manufacturer B for a lump-sum payment of \$31,000,000. The assets of Manufacturer B included quantities of finished goods and raw material inventory that were larger than the normal trading volume. The inventories are in good condition and the raw materials include minimal obsolete or subnormal goods. On the date of sale, Manufacturer B's books reflected finished goods inventory having a book value of \$4,000,000 and raw materials having a book value of \$300,000.

Manufacturer A expects to sell the acquired finished goods inventory to customers in the ordinary course of business. An appraiser hired by Manufacturer A determined that under the circumstances the expected retail selling price of the acquired finished goods inventory to customers was \$6,000,000. It was also determined that the cost of disposing of the finished goods inventory, including sales commissions, freight and shipping charges, was \$1,000,000. Manufacturer A calculated that it would incur a holding cost of \$50,000 based on the average amount invested in holding the inventory, the period of time that would reasonably be expected to be necessary to dispose of the inventory, and the available established finance rate for the period. After taking into consideration Manufacturer A's investment in the assets of Manufacturer B, the risks Manufacturer A would incur during the time it took to dispose, in the ordinary course of its business, of the quantity of acquired inventory, and a fair division of the profit on the finished goods inventory between Manufacturer A and Manufacturer B, it was determined that the allocation of profit to Manufacturer A should be \$450,000.

The appraiser determined that the replacement cost of the raw materials was \$310,000. The appraiser computed a fair value of approximately \$4,100 for purchasing, handling, and storage costs to acquire and accumulate the raw materials. Finally, the appraiser determined that there were minimal obsolete and subnormal goods, which would decrease the value of the inventories by approximately \$100. In the ordinary course of business, Manufacturer B did not resell the raw materials without further processing. Manufacturer A also does not expect to resell in the ordinary course of business the raw materials without further processing.

Using the comparative sales method for finished goods and replacement cost method for raw materials, the fair market value of inventory for purposes of

allocating the lump sum payment is computed as follows:

Gross expected selling price	\$6,000,000
Disposition costs	(1,000,000)
Holding costs	(50,000)
Corporation A's profit	(450,000)
Fair Market Value of finished goods inventory	4,500,000
Current replacement cost of raw materials	310,000
Purchasing, storage, and handling costs	4,100
Obsolete and subnormal goods	(100)
Fair Market Value of raw materials inventory	314,000
Fair Market Value of acquired inventories	\$4,814,000

SECTION 5. CONCLUSION

Valuing inventory is an inherently factual determination. No rigid formulas should be applied. Consequently, the three valuation methods outlined above serve only as guidelines for determining the fair market value of inventories. Similarly, the example serves only as a guideline for applying the methods.

SECTION 6. REQUEST FOR COMMENTS

The Service invites comments from the public on issues relating to this revenue procedure, including the current valuation methods provided herein and whether the Service should consider any additional valuation methods (for example, whether manufacturers should be permitted to apply a replacement cost method to value work in process and finished goods). Comments should be submitted by September 23, 2003, either to:

Internal Revenue Service
P.O. Box 7604
Ben Franklin Station
Washington, DC 20044
Attn: CC:PA:RU (CC:ITA:6)
Room 5525

or electronically via: *notice.comments@irs.counsel.treas.gov* (the Service comments e-mail address). All comments will be available for public inspection and copying.

SECTION 7. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 77-12 is amplified, modified, and superseded.

SECTION 8. EFFECTIVE DATE

Generally, this revenue procedure is effective for taxable years ending on or after April 25, 1977. However, references in

this revenue procedure to § 338 are effective for:

(1) certain acquisitions occurring before September 1, 1982, if: (a) the acquisition date with regard to an acquired corporation was after August 31, 1980, and before September 1, 1982; (b) the acquired corporation was not liquidated before September 1, 1982; and (c) the acquiring corporation made an election pursuant to § 338; and (2) acquisitions occurring after August 31, 1982.

DRAFTING INFORMATION

The principal author of this revenue procedure is Willie E. Armstrong, Jr., of the Office of Associate Chief Counsel (Income Tax and Accounting). For further information regarding this Revenue Procedure, contact Mr. Armstrong at (202) 622-4970 (not a toll-free call).

Part IV. Items of General Interest

Changes to Form 8873 ("Extraterritorial Income Exclusion") and its Instructions

Announcement 2003-47

This announcement alerts taxpayers to recent changes to Form 8873 ("*Extraterritorial Income Exclusion*") and its Instructions. The 2000 and 2001 Forms 8873 contained an error in the computation of the extraterritorial income exclusion (net of disallowed deductions) shown on line 55 of the form in certain instances in which a taxpayer used the foreign sale and leasing income method. This error may have led

some taxpayers that used the foreign sale and leasing income method to claim excessive extraterritorial income exclusions for tax years 2000 and 2001.

The Service has revised the 2002 Form 8873 and its Instructions to correct this error and to make other clarifications. Compared to the 2000 and 2001 Forms 8873, the 2002 Form 8873 has been revised as follows: line 46 has been modified, lines 52 through 54 have been deleted, and line 55 has been redesignated as line 52 and modified to reflect the deletion of lines 52 through 54. As a result, the 2002 Form 8873 reflects the correct calculation of the extraterritorial income exclusion (net of

disallowed deductions) on line 52 regardless of whether the taxpayer uses the foreign trade income, foreign trading gross receipts, or foreign sale and leasing income method to calculate the amount entered on line 45.

On June 27, 2003, the Director, International (LMSB) issued a compliance directive to LMSB executives, managers, and agents regarding these corrections to Form 8873 that instructed examiners in the identification and resolution of this issue on 2000 and 2001 Forms 8873.

For further information regarding this announcement, call (202) 435-5264 (not a toll-free call).

Definition of Terms

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

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

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

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

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

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

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

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

Superseded describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the new ruling does more than restate the 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 Contributions Act.
FISC—Foreign International Sales Company.
FPH—Foreign Personal Holding Company.
F.R.—Federal Register.
FUTA—Federal Unemployment Tax Act.
FX—Foreign corporation.
G.C.M.—Chief Counsel's Memorandum.
GE—Grantee.
GP—General Partner.
GR—Grantor.
IC—Insurance Company.
I.R.B.—Internal Revenue Bulletin.
LE—Lessee.
LP—Limited Partner.
LR—Lessor.
M—Minor.
Nonacq.—Nonacquiescence.
O—Organization.
P—Parent Corporation.
PHC—Personal Holding Company.
PO—Possession of the U.S.

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

Numerical Finding List¹

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¹ A cumulative list of all revenue rulings, revenue procedures, Treasury decisions, etc., published in Internal Revenue Bulletins 2003-1 through 2003-26 is in Internal Revenue Bulletin 2003-27, dated July 7, 2003.

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¹ A cumulative list of current actions on previously published items in Internal Revenue Bulletins 2003-1 through 2003-26 is in Internal Revenue Bulletin 2003-27, dated July 7, 2003.