

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. 2006-24, page 875.

Federal rates; adjusted federal rates; adjusted federal long-term rate and the long-term exempt rate. For purposes of sections 382, 642, 1274, 1288, and other sections of the Code, tables set forth the rates for May 2006.

T.D. 9259, page 874.

Final regulations under section 368 of the Code amend final regulations (T.D. 9242, 2006-7 I.R.B. 422) concerning statutory mergers and consolidations under section 368(a)(1)(A). This amendment provides transitional relief for certain transactions initiated before January 23, 2006. Taxpayers can elect to apply the earlier temporary regulations (T.D. 9038, 2003-1 C.B. 524).

Announcement 2006-30, page 879.

This document withdraws proposed regulations (REG-150313-01, 2002-2 C.B. 777) relating to redemptions taxable as dividend distributions.

EXEMPT ORGANIZATIONS

Notice 2006-42, page 878.

This notice provides guidance as to the meaning of "gross receipts" for purposes of determining whether small insurance companies qualify as tax exempt under section 501(c)(15) of the Code.

ADMINISTRATIVE

Announcement 2006-29, page 879.

This announcement advises taxpayers affected by Hurricane Katrina, Rita, or Wilma that the Treasury Department and the IRS have extended through December 31, 2006, the required placed-in-service date for certain property that is eligible for the additional first year depreciation deduction provided in section 168(k) of the Code and that is placed in service or manufactured in certain areas affected by Hurricane Katrina, Rita, or Wilma.

Finding Lists begin on page ii.



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

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

Section 42.—Low-Income Housing Credit

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

Section 280G.—Golden Parachute Payments

Federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

Section 368.—Definitions Relating to Corporate Reorganizations

26 CFR 1.368-2: Definition of terms.

T.D. 9259

DEPARTMENT OF THE TREASURY Internal Revenue Service 26 CFR Part 1

Statutory Mergers and Consolidations

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document amends final regulations concerning statutory mergers and consolidations under section 368(a)(1)(A) of the Internal Revenue Code. These regulations affect corporations engaging in statutory mergers and consolidations, and their shareholders. This amendment provides transitional relief for certain transactions initiated before January 23, 2006.

DATES: Effective Date: These regulations are effective January 23, 2006.

Applicability Date: For dates of applicability, see §1.368-2(b)(1)(v).

FOR FURTHER INFORMATION CONTACT: Richard M. Heinecke, (202) 622-7930 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

The IRS and Treasury Department published final regulations (T.D. 9242, 2006-7 I.R.B. 422) in the **Federal Register** on January 26, 2006 (71 FR 4259) concerning statutory mergers and consolidations under section 368(a)(1)(A) of the Internal Revenue Code. These regulations, §1.368-2(b), generally apply to transactions occurring on or after January 23, 2006. Temporary regulations, §1.368-2T(b), generally applied to transactions occurring in the three years preceding that date (see §1.368-2T as contained in 26 CFR part 1, revised April 1, 2005).

This amendment provides transitional relief for certain transactions initiated before January 23, 2006. Parties to transactions within the scope of the relief may elect to apply the prior temporary regulations (T.D. 9038, 2003-1 C.B. 524) instead of the new final regulations. Certain parties must adopt consistent treatment to obtain this relief. This election requirement will be satisfied if none of the specified parties adopts inconsistent treatment.

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. This Treasury decision provides certain taxpayers with an alternative means of compliance with respect to section 368(a)(1)(A). Accordingly, it has been determined, pursuant to 5 U.S.C. 553(b)(B), that prior notice and public procedure is unnecessary and contrary to the public interest. For this reason, it has also been determined, pursuant to 5 U.S.C. 553(d)(1) and (3), that a delayed effective date is not required. Because no notice of proposed rulemaking is required, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Internal Revenue Code, these regulations were submitted to the Chief Counsel for Advocacy of the Small Business Administration for

comment on their impact on small business.

Drafting Information

The principal author of these final regulations is Richard M. Heinecke of the Office of the Associate Chief Counsel (Corporate). However, other personnel from the IRS and Treasury Department participated in their development.

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Adoption of Amendments to the Regulations

Accordingly, 26 CFR part 1 is amended as follows:

PART 1—INCOME TAXES

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

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

Par. 2. Section 1.368-2 is amended by revising paragraph (b)(1)(v) to read as follows:

§1.368-2 Definition of terms.

* * * * *

(b)(1) * * *

(v) *Effective date*—(A) *In general.* This paragraph (b)(1) applies to transactions occurring on or after January 23, 2006. For rules regarding statutory mergers or consolidation occurring before January 23, 2006, see §1.368-2T as contained in 26 CFR part 1, revised April 1, 2005, and §1.368-2(b)(1) as in effect before January 24, 2003 (see 26 CFR part 1, revised April 1, 2002).

(B) *Transitional rule.* A taxpayer may elect to apply the provisions of §1.368-2T(b) as contained in 26 CFR part 1, revised April 1, 2005 (the temporary regulations), instead of the provisions of this paragraph (b), to a transaction that occurs on or after January 23, 2006, pursuant to a written agreement which is (subject to customary conditions) binding on January 22, 2006, and at all times thereafter, or pursuant to a tender offer announced prior to January 23, 2006. However, the combining entity of the transferor unit, the combining entity of the transferee unit,

any controlling corporation of the combining entity of the transferee unit if stock thereof is provided as consideration in the transaction, and any direct or indirect transferee of transferred basis property from any of the foregoing, may not elect to apply the provisions of the temporary regulations unless all such taxpayers elect to apply the provisions of the temporary regulations.

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Cono R. Namorato,
*Acting Deputy Commissioner for
Services and Enforcement.*

Approved April 17, 2006.

Eric Solomon,
*Acting Deputy Assistant
Secretary of the Treasury (Tax Policy).*

(Filed by the Office of the Federal Register on April 24, 2006, 8:45 a.m., and published in the issue of the Federal Register for April 25, 2006, 71 F.R. 23855)

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

The adjusted applicable federal long-term rate is set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

Section 412.—Minimum Funding Standards

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

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

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

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

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

Section 482.—Allocation of Income and Deductions Among Taxpayers

Federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

Section 483.—Interest on Certain Deferred Payments

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

Section 501.—Exemption From Tax on Corporations, Certain Trusts, etc.

A notice provides guidance as to the meaning of “gross receipts” for purposes of section 501(c)(15)(A) of the Internal Revenue Code. See Notice 2006-42, page 878.

Section 642.—Special Rules for Credits and Deductions

Federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

Section 807.—Rules for Certain Reserves

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

Section 846.—Discounted Unpaid Losses Defined

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

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

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

Federal rates; adjusted federal rates; adjusted federal long-term rate and the long-term exempt rate. For purposes of sections 382, 642, 1274, 1288, and other sections of the Code, tables set forth the rates for May 2006.

Rev. Rul. 2006-24

This revenue ruling provides various prescribed rates for federal income tax purposes for May 2006 (the current month). Table 1 contains the short-term, mid-term, and long-term applicable federal rates (AFR) for the current month for purposes of section 1274(d) of the Internal Revenue Code. Table 2 contains the short-term, mid-term, and long-term adjusted applicable federal rates (adjusted AFR) for the current month for purposes of section 1288(b). Table 3 sets forth the adjusted federal long-term rate and the long-term tax-exempt rate described in section 382(f). Table 4 contains the appropriate percentages for determining the low-income housing credit described in section 42(b)(2) for buildings placed in service during the current month. Finally, Table 5 contains the federal rate for determining the present value of an annuity, an interest for life or for a term of years, or a remainder or a reversionary interest for purposes of section 7520.

REV. RUL. 2006-24 TABLE 1
Applicable Federal Rates (AFR) for May 2006

	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
<i>Short-term</i>				
AFR	4.85%	4.79%	4.76%	4.74%
110% AFR	5.34%	5.27%	5.24%	5.21%
120% AFR	5.83%	5.75%	5.71%	5.68%
130% AFR	6.33%	6.23%	6.18%	6.15%
<i>Mid-term</i>				
AFR	4.84%	4.78%	4.75%	4.73%
110% AFR	5.33%	5.26%	5.23%	5.20%
120% AFR	5.82%	5.74%	5.70%	5.67%
130% AFR	6.31%	6.21%	6.16%	6.13%
150% AFR	7.30%	7.17%	7.11%	7.07%
175% AFR	8.55%	8.37%	8.28%	8.23%
<i>Long-term</i>				
AFR	5.00%	4.94%	4.91%	4.89%
110% AFR	5.50%	5.43%	5.39%	5.37%
120% AFR	6.02%	5.93%	5.89%	5.86%
130% AFR	6.52%	6.42%	6.37%	6.34%

REV. RUL. 2006-24 TABLE 2
Adjusted AFR for May 2006

	<i>Period for Compounding</i>			
	<i>Annual</i>	<i>Semiannual</i>	<i>Quarterly</i>	<i>Monthly</i>
Short-term adjusted AFR	3.46%	3.43%	3.42%	3.41%
Mid-term adjusted AFR	3.66%	3.63%	3.61%	3.60%
Long-term adjusted AFR	4.30%	4.25%	4.23%	4.21%

REV. RUL. 2006-24 TABLE 3
Rates Under Section 382 for May 2006

Adjusted federal long-term rate for the current month	4.30%
Long-term tax-exempt rate for ownership changes during the current month (the highest of the adjusted federal long-term rates for the current month and the prior two months.)	4.30%

REV. RUL. 2006-24 TABLE 4
Appropriate Percentages Under Section 42(b)(2) for May 2006

Appropriate percentage for the 70% present value low-income housing credit	8.15%
Appropriate percentage for the 30% present value low-income housing credit	3.49%

REV. RUL. 2006-24 TABLE 5

Rate Under Section 7520 for May 2006

Applicable federal rate for determining the present value of an annuity, an interest for life or a term of years,
or a remainder or reversionary interest

5.8%

**Section 1288.—Treatment
of Original Issue Discount
on Tax-Exempt Obligations**

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

**Section 7520.—Valuation
Tables**

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

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

The adjusted applicable federal short-term, mid-term, and long-term rates are set forth for the month of May 2006. See Rev. Rul. 2006-24, page 875.

Part III. Administrative, Procedural, and Miscellaneous

Determination of Gross Receipts for Purposes of Section 501(c)(15)

Notice 2006-42

SECTION 1. PURPOSE

This notice provides guidance as to the meaning of “gross receipts” for purposes of § 501(c)(15)(A) of the Internal Revenue Code.

SECTION 2. BACKGROUND

Section 501(a) of the Code provides generally that an organization described in § 501(c) shall be exempt from federal income taxation. An insurance company (as defined in § 816(a)), other than a life insurance company, is described in § 501(c)(15), and is therefore exempt from income tax under § 501(a), if its gross receipts for the taxable year do not exceed \$600,000 and more than 50 percent of those gross receipts consist of premiums. Section 501(c)(15)(A)(i). A non-life mutual insurance company not meeting the requirements of the previous sentence is nonetheless described in § 501(c)(15) if its gross receipts for the taxable year

do not exceed \$150,000 and more than 35 percent of those gross receipts consist of premiums. Section 501(c)(15)(A)(ii). Amounts received by all members of the insurance company’s controlled group (as defined in section 501(c)(15)(C)) are taken into account for purposes of these tests. Section 501(c)(15)(B).

The gross receipts and percentage of income from premium requirements described above were added to the Code in 2004 by § 206 of the Pension Funding Equity Act, Pub. L. No. 108-218 (the “Act”). The legislative history of the Act states that “it is intended that the provision not permit the use of small companies . . . to shelter investment income”. H.R. Conf. Rep. 108-457, at 48 (2004).

SECTION 3. DETERMINATION OF GROSS RECEIPTS

This notice advises taxpayers that the Service will include amounts received from the following sources during the taxable year in “gross receipts” for purposes of § 501(c)(15)(A):

- A. Premiums (including deposits and assessments), without reduction for return premiums or premiums paid for reinsurance;
 - B. Items described in § 834(b) (gross investment income of a non-life insurance company); and
 - C. Other items that are properly included in the taxpayer’s gross income under subchapter B of chapter 1, subtitle A, of the Code.
- Thus, gross receipts include both tax-free interest and the gain (but not the entire amount realized) from the sale or exchange of capital assets, because those items are described in § 834(b). Gross receipts do not, however, include amounts other than premium income or gross investment income unless those amounts are otherwise included in gross income. Accordingly, the term gross receipts does not include contributions to capital excluded from gross income under § 118, or salvage or reinsurance recovered accounted for as offsets to losses incurred under § 832(b)(5)(A)(i).

SECTION 4. DRAFTING INFORMATION

The principal author of this notice is Sarah R. Katz of TE/GE Division, Exempt Organizations. For further information regarding this notice, contact Ms. Katz at (202) 283-8934 (not a toll-free call).

Part IV. Items of General Interest

Bonus Depreciation Extension in Areas Affected by Hurricanes Katrina, Rita, and Wilma

Announcement 2006–29

I. PURPOSE

This announcement advises taxpayers affected by Hurricane Katrina, Rita, or Wilma that the Treasury Department and the Internal Revenue Service have extended thru December 31, 2006, the required placed-in-service date for certain property that is eligible for the additional first year depreciation deduction provided in § 168(k) of the Internal Revenue Code and that is placed in service or manufactured in certain areas affected by Hurricane Katrina, Rita, or Wilma.

II. ADDITIONAL FIRST YEAR DEPRECIATION

Section 167 allows as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in a trade or business or held for the production of income. The depreciation allowable for tangible, depreciable property placed in service after 1986 generally is determined under § 168.

Section 168(k) allows an additional first year depreciation deduction for qualified property (as defined in § 168(k)(2)) and for 50-percent bonus depreciation property (as defined in § 168(k)(4)(B)). To be eligible for the additional first year depreciation deduction, § 168(k)(2)(A)(iv) (for qualified property) and § 168(k)(4)(B)(iii) (for 50-percent bonus depreciation property) provide that the property must be placed in service by the taxpayer before January 1, 2005, or, for property described in § 168(k)(2)(B) or § 168(k)(2)(C), before January 1, 2006.

In general, § 168(k)(2)(B) applies to certain property having longer production periods and § 168(k)(2)(C) applies to certain aircraft that is not transportation property (as defined in § 168(k)(2)(B)(iii)) other than for agricultural or firefighting purposes. These types of property are

eligible for the extended placed-in-service date of December 31, 2005, provided the property, among other things, is acquired by the taxpayer pursuant to a written binding contract that was entered into before January 1, 2005.

Section 105 of the Gulf Opportunity Zone Act of 2005, Pub. L. 109–135, 119 Stat. 2577 (December 21, 2005) (GO Zone Act), provides that, for property described in § 168(k)(2)(B) or § 168(k)(2)(C) that is either placed in service or manufactured in the GO Zone (as defined in § 1400M(1)), the Rita GO Zone (as defined in § 1400M(3)), or the Wilma GO Zone (as defined in § 1400M(5)) by a taxpayer or person affected by Hurricane Katrina, Rita, or Wilma, the Secretary may, on a taxpayer by taxpayer basis, extend the required placed in service date under § 168(k) as necessary for a period not to exceed one year. See pages 2 and 3 of the *IRS Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma*, for the counties and parishes that comprise the GO Zone (Core Disaster Area), the Rita GO Zone, and the Wilma GO Zone.

Section 7508A provides the Secretary with authority to postpone the time for performing certain acts under the internal revenue laws for taxpayers affected by a Presidentially declared disaster as defined in section 1033(h)(3).

III. APPLICATION OF § 105 OF GO ZONE ACT

After considering the effect of Hurricanes Katrina, Rita, and Wilma on the ability of taxpayers to manufacture, or place in service, property described in § 168(k)(2)(B) or § 168(k)(2)(C) in the GO Zone, the Rita GO Zone, or the Wilma GO Zone before January 1, 2006, Treasury and the Service have determined that it is necessary to extend the required placed-in-service date in § 168(k)(2)(A)(iv) and § 168(k)(4)(B)(iii) to before January 1, 2007, for property that is described in § 168(k)(2)(B) or § 168(k)(2)(C) and that is either placed in service by the taxpayer or manufactured by a person in the GO Zone, the Rita GO

Zone, or the Wilma GO Zone, provided the taxpayer was unable to meet the December 31, 2005, placed-in-service date deadline for such property as a result of Hurricane Katrina, Rita, or Wilma.

If a taxpayer applies this announcement to property described in the preceding paragraph, the taxpayer must write “Extension under Announcement 2006–29” across the top of its Form 4562, *Depreciation and Amortization*, for the placed-in-service year of the property. The taxpayer is not required to attach to the return information supporting the determination that the property satisfies the requirements described in the preceding paragraph. However, § 1.6001–1(a) of the Income Tax Regulations requires that taxpayers maintain such books and records as are sufficient to establish the entitlement to, and amount of, any deduction claimed by the taxpayer. Accordingly, a taxpayer claiming the additional first year depreciation deduction for property described in this announcement should retain information supporting that deduction as part of the taxpayer’s records for purposes of § 1.6001–1(a).

IV. DRAFTING INFORMATION

The principal author of this announcement is Patrick S. Kirwan of the Office of Associate Chief Counsel (Passthroughs & Special Industries). For further information regarding this announcement, contact Patrick S. Kirwan at (202) 622–3110 (not a toll-free call).

Withdrawal of Proposed Regulations Relating to Redemptions Taxable as Dividends

Announcement 2006–30

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Withdrawal of notice of proposed rulemaking.

SUMMARY: This document withdraws a notice of proposed rulemaking relating to redemptions of stock in which the redemption proceeds are treated as a dividend distribution. The proposed regulations were published on October 18, 2002 (67 FR 64331). After consideration of the comments received, the IRS and Treasury Department have decided to withdraw the proposed regulations.

DATES: These proposed regulations are withdrawn on April 19, 2006.

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

SUPPLEMENTARY INFORMATION:

Background

On October 18, 2002, the IRS and Treasury Department issued proposed regulations (REG-150313-01, 2002-2 C.B. 777) providing guidance under sections 302 and 304 of the Internal Revenue Code regarding the treatment of the basis of stock redeemed or treated as redeemed. Section 302 provides that a corporation's redemption of its stock is treated as a distribution in part or full payment in exchange for the stock if the redemption satisfies certain criteria. If the redemption does not satisfy any of these criteria, the redemption is treated as a distribution to which section 301 applies. Under section 301(c)(1), a distribution is first treated as a dividend to the extent of earnings and profits. The remaining portion of a distribution, if any, is applied against and reduces basis of stock, and finally is treated as gain from the sale or exchange of property pursuant to section 301(c)(2) and (3).

Section 304(a)(1) treats the acquisition of stock by a corporation from one or more persons that are in control of both the acquiring and issuing corporation as if the property received for the acquired stock was received in a distribution in redemption of the stock of the acquiring corporation. Accordingly, the proposed section 302 regulations also would apply to these transactions.

Section 302 does not prescribe the treatment of the basis of the redeemed stock if the redemption is treated as a distribution to which section 301 applies. In 1955,

the IRS and Treasury Department promulgated §1.302-2(c), which states that "[i]n any case in which an amount received in redemption of stock is treated as a distribution of a dividend, proper adjustment of the basis of the remaining stock will be made with respect to the stock redeemed." The regulation contains three examples illustrating a proper adjustment. In two examples, the redeemed shareholder continues to own stock of the redeeming corporation immediately after the redemption. In those cases, the basis of the redeemed shares shifts to, and increases the basis of the shares still owned by, the redeemed shareholder. In the third example, the redeemed shareholder does not directly own any stock of the redeeming corporation immediately after the redemption. He does, however, constructively own stock of the redeeming corporation immediately after the redemption because of his wife's ownership of stock in the redeeming corporation. The example concludes that the redeemed shareholder's basis in the shares surrendered in the redemption shifts to increase his wife's basis in her shares of stock of the redeeming corporation.

The proposed regulations provide that the basis of redeemed stock will not shift to other shares directly owned by the redeemed shareholder or to shares owned by any other person whose ownership is attributed to the redeemed shareholder. Instead, the proposed regulations provide that when section 302(d) applies to a redemption of stock, to the extent the distribution is a dividend under section 301(c)(1), an amount equal to the adjusted basis of the redeemed stock is treated as a loss recognized on the date of the redemption. The loss, generally, would be taken into account either when the facts and circumstances that caused the redemption to be treated as a section 301 distribution no longer exist, or when the redeemed shareholder recognizes a gain on the stock of the redeeming corporation (to the extent of such gain).

The IRS and Treasury Department received many comments regarding the proposed regulations, several of which were critical of the approach of the proposed regulations. Generally, these comments expressed two predominant concerns. First, commentators stated that the approach of the proposed regulations was an unwarranted departure from current law.

Second, commentators were concerned that the interaction of the proposed regulations with the consolidated return rules could create the potential for two levels of tax instead of one in certain transactions. After considering all the comments, the IRS and Treasury Department have decided to withdraw the proposed regulations.

The IRS and Treasury Department are continuing to study the approach of the proposed regulations and other approaches on the treatment of the basis of redeemed stock and request further comments. In particular, the IRS and Treasury Department are interested in comments on whether a difference should be drawn between a redemption in which the redeemed shareholder continues to have direct ownership of stock in the redeemed corporation (whether the same class of stock as that redeemed or a different class) and a redemption in which the redeemed shareholder only constructively owns stock in the redeemed corporation. The IRS and Treasury Department are also interested in comments in the following two areas: (i) whether a different approach is warranted for corporations filing consolidated income tax returns; and (ii) whether a different approach is warranted for section 304(a)(1) transactions.

Additionally, the IRS and Treasury Department are studying other basis issues that arise in redemptions that are treated as section 301 distributions. Specifically, the IRS and Treasury Department are studying whether, under section 301(c)(2), basis reduction should be limited to the basis of the shares redeemed or whether it is appropriate to reduce the basis of both the retained and redeemed shares before applying section 301(c)(3). The preamble to T.D. 9250, 2006-11 I.R.B. 588 [71FR 8802], indicated that the IRS and Treasury Department believe that the better view of current law is that only the basis of the shares redeemed may be recovered under section 301(c)(2). However, the IRS and Treasury Department are considering other approaches. For example, another approach would be to allocate the section 301(c)(2) portion of the distribution *pro rata* among the redeemed shares and the retained shares. A third approach would be to shift the basis of the shares redeemed to the remaining shares and then reduce the basis of those shares pursuant

to section 301(c)(2). The IRS and Treasury Department request comments about these approaches or other approaches regarding circumstances in which section 301(c)(2) applies.

Drafting Information

The principal author of this withdrawal notice is Theresa M. Kolish of the Office of the Associate Chief Counsel (Corporate).

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Withdrawal of Notice of Proposed Rulemaking

Accordingly, under the authority of 26 U.S.C. 7805, the notice of proposed rulemaking (REG-150313-01) published in the **Federal Register** on October 18, 2002 (67 FR 64331) is hereby withdrawn.

Mark E. Matthews,
*Deputy Commissioner for
Services and Enforcement.*

(Filed by the Office of the Federal Register on April 18, 2006, 8:45 a.m., and published in the issue of the Federal Register for April 19, 2006, 71 F.R. 20044)

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.

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