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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.

SPECIAL ANNOUNCEMENT

Announcement 2007–100, page 922.

The Twentieth Annual Institute on Current Issues in International Taxation, jointly sponsored by the Internal Revenue Service and the George Washington University Law School, will be held on December 13 and 14, 2007, at the Grand Hyatt Washington Hotel in Washington, DC.

INCOME TAX

REG–107592–00, page 908.

Proposed regulations under section 1502 of the Code provide guidance regarding the treatment of transactions involving debt obligations and securities between members of a consolidated group, and involving the provision of insurance between members of a consolidated group. REG–105964–98 withdrawn.

EMPLOYEE PLANS

Notice 2007–81, page 899.

Interest rate modifications; Pension Protection Act of 2006; targeted segments. As required by section 430(h)(2) of the Code, as added by the Pension Protection Act of 2006, the corporate bond yield curve; the corporate bond yield curve with modifications; and the methodology used to determine these yield curves are set forth. In addition, this notice provides guidance in determining minimum present values under section 417(e)(3).

Notice 2007–82, page 904.

Weighted average interest rate update; corporate bond indices; 30-year Treasury securities; segment rates. This notice contains updates for the corporate bond weighted average interest rate for plan years beginning in October 2007; the 24-month average segment rates; the funding transitional segment rates applicable for October 2007; and the minimum present value transitional rates for September 2007.

ADMINISTRATIVE

Announcement 2007–102, page 922.

This document contains corrections to final regulations (T.D. 9340, 2007–36 I.R.B. 487) that provide updated guidance on section 403(b) contracts of public schools and tax-exempt organizations described in section 501(c)(3). These regulations will affect sponsors of section 403(b) contracts, administrators, participants, and beneficiaries.

Announcement 2007–103, page 923.

This document contains corrections to final regulations (T.D. 9353, 2007–40 I.R.B. 721) relating to the application of section 1045 of the Code to partnerships and their partners.

Actions Relating to Court Decisions is on the page following the Introduction.
Announcements of Disbarments and Suspensions begin on page 924.
Finding Lists begin on page ii.
Index for July through October begins on page vi.

Department of the Treasury
Internal Revenue Service

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

Actions Relating to Decisions of the Tax Court

It is the policy of the Internal Revenue Service to announce at an early date whether it will follow the holdings in certain cases. An Action on Decision is the document making such an announcement. An Action on Decision will be issued at the discretion of the Service only on unappealed issues decided adverse to the government. Generally, an Action on Decision is issued where its guidance would be helpful to Service personnel working with the same or similar issues. Unlike a Treasury Regulation or a Revenue Ruling, an Action on Decision is not an affirmative statement of Service position. It is not intended to serve as public guidance and may not be cited as precedent.

Actions on Decisions shall be relied upon within the Service only as conclusions applying the law to the facts in the particular case at the time the Action on Decision was issued. Caution should be exercised in extending the recommendation of the Action on Decision to similar cases where the facts are different. Moreover, the recommendation in the Action on Decision may be superseded by new legislation, regulations, rulings, cases, or Actions on Decisions.

Prior to 1991, the Service published acquiescence or nonacquiescence only in certain regular Tax Court opinions. The Service has expanded its acquiescence program to include other civil tax cases where guidance is determined to be helpful. Accordingly, the Service now may acquiesce or nonacquiesce in the holdings of memorandum Tax Court opinions, as well as those of the United States District Courts, Claims Court, and Circuit Courts of Appeal. Regardless of the court deciding the case, the recommendation of any Action on Decision will be published in the Internal Revenue Bulletin.

The recommendation in every Action on Decision will be summarized as acquiescence, acquiescence in result only, or nonacquiescence. Both "acquiescence" and "acquiescence in result only" mean that the Service accepts the holding of the court in a case and that the Service will follow it in disposing of cases with the same controlling facts. However, "acquiescence" indicates neither approval nor disapproval of the reasons assigned by the court for its conclusions; whereas, "acquiescence in result only" indicates disagreement or concern with some or all of those reasons. "Nonacquiescence" signifies that, although no further review was sought, the Service does not agree with the holding of the court and, generally, will not follow the decision in disposing of cases involving other taxpayers. In reference to an opinion of a circuit court of appeals, a "nonacquiescence" indicates that the Service will not follow the holding on a nationwide basis. However, the Service will recognize the precedential impact of the opinion on cases arising within the venue of the deciding circuit.

The Actions on Decisions published in the weekly Internal Revenue Bulletin are consolidated semiannually and appear in the first Bulletin for July and the Cumulative Bulletin for the first half of the year. A semiannual consolidation also appears in the first Bulletin for the following January and in the Cumulative Bulletin for the last half of the year.

The Commissioner ACQUIESCES in the following decision:

Roosevelt Wallace v. Commissioner[1]
Docket Number: 4637–03
128 T.C. No. 11 (April 16, 2007).

[1] Acquiescence relating to whether certain payments made by the Department of Veterans Affairs under the compensated work therapy program described in 38 U.S.C. section 1718 are exempt from federal income tax as veterans' benefits.

Part III. Administrative, Procedural, and Miscellaneous

Interest Rate Modification

Notice 2007–81

This notice provides guidance on the corporate bond yield curve and the segment rates required to compute the funding target and other items under § 430 of the Internal Revenue Code of 1986 (Code) and § 303 of the Employee Retirement Income Security Act of 1974 (ERISA). In addition, this notice provides guidance on the interest rates for determining minimum present values as required under § 417(e)(3) of the Code and § 205(g)(3) of ERISA. This notice implements changes to the funding rules and minimum present value requirements made by sections 101, 102, 111, 112, and 302 of the Pension Protection Act of 2006, P.L. No. 109–280 (PPA).

BACKGROUND AND PRIOR LAW

Section 412 of the Code provides minimum funding requirements that generally apply for defined benefit plans. Under § 412(b)(5)(A) prior to amendment by PPA, the funding standard account (and items therein) must be charged or credited with interest at the appropriate rate consistent with the rate or rates of interest used under the plan to determine costs.

Section 412(b)(5)(B) prior to amendment by PPA provides rules for specifying the interest rate that is used to determine a plan's current liability for purposes of § 412(l) and for purposes of the minimum full funding limitation under § 412(c)(7)(E). Section 412(b)(5)(B)(ii)(III) prior to amendment provides that, for plan years beginning in 2004, 2005, 2006, and 2007, the interest rate used to determine current liability must not be above and must not be more than 10 percent below the weighted average of the rates of interest on amounts invested conservatively in long-term investment-grade corporate bonds during the 4-year period ending on the last day before the beginning of the plan year. Notice 2004–34, 2004–1 C.B. 848, specified the corporate bond indices and the methodology for determining these corporate bond rates.

Section 417(e)(3) provides assumptions for determining minimum present values for certain purposes. For plan years beginning before 2008, the applicable interest rate for these purposes is the annual rate of interest on 30-year Treasury securities as prescribed by the Commissioner.

PENSION PROTECTION ACT OF 2006

PPA makes extensive changes to the minimum funding requirements that generally apply for plan years beginning on or after January 1, 2008. However, certain plans have delayed effective dates for these amendments provided under sections 104, 105, and 106 of PPA.

Section 430 of the Code, added by section 112 of PPA, specifies the minimum funding requirements that apply to single employer plans pursuant to § 412 of the Code. Section 430(a) defines the minimum required contribution for a single employer plan as the sum of the plan's target normal cost and the shortfall and waiver amortization charges for the year. Under § 430(b), a plan's target normal cost is generally equal to the present value of all benefits expected to accrue or be earned under the plan during the plan year. Under § 430(d)(1), a plan's funding target for a plan year is generally equal to the present value of all benefits accrued or earned under the plan as of the beginning of the plan year.

Section 430(h)(2) specifies the interest rates that must be used to determine a plan's target normal cost and funding target. Under this provision, present value is generally determined using three interest rates ("segment rates"), each of which applies to cash flows during specified periods.

Each segment rate is, for any month, the single rate of interest determined by the Secretary for such month on the basis of the applicable corporate bond yield curve for that month, taking into account only that portion of such yield curve applicable to that segment. Section 430(h)(2)(D)(i) provides that the Secretary shall prescribe a corporate bond yield curve applicable for each month. The applicable corporate bond yield curve is, with respect to any month, a yield curve which reflects a 24-month average (the average of the yield curve values for the preceding month and the prior 23 months) of the yields on investment grade corporate bonds with varying maturities and that are in the top 3 quality levels available. Under § 430(h)(2)(D)(ii), an election may be made to use the corporate bond yield curve determined without regard to the 24-month averaging in lieu of the segment rates.

A transitional rule under § 430(h)(2)(G) applies for plan years starting in 2008 and 2009 (if the plan had its first plan year before 2008). Under this rule, the 24-month average segment rates as computed above are blended with the corporate bond weighted average rates determined under § 412(b)(5)(B)(ii)(II) (prior to amendment). However, § 430(h)(2)(G)(iv) provides that an election may be made to apply the 24-month average segment rates without applying the blended rates under the transitional rule of § 430(h)(2)(G).

Generally, section 302(b) of PPA amends § 417(e)(3) of the Code to provide that the interest rates used for the determination of minimum present values are segment rates as computed under § 430(h)(2), but determined without regard to yield curve rates from the preceding 23 months. However, for plan years beginning in 2008, 2009, 2010, and 2011 these segment rates are blended with the applicable rate of § 417(e)(3)(A)(ii)(II) as in effect for plan years beginning in 2007. This amendment is effective for plan years beginning after December 31, 2007. PPA provides conforming amendments to ERISA for the amendments to §§ 412, 417, and 430 of the Code.

Section 430(h)(2)(F) provides that the Secretary shall publish each month the corporate bond yield curve and the rates described above. In addition, the Secretary shall publish a description of the methodology used to determine such yield curve and such rates in sufficient detail to enable plans to make reasonable predictions regarding the yield curve and rates for future months.

DETERMINATION OF THE SEGMENT RATES

The following methodology is established to determine the corporate bond yield curve and the segment rates. A yield curve is calculated for each business day

of the month based on investment grade corporate bonds in the top three quality levels. The construction of the yield curve for a given day is explained in Appendix A to this notice. This daily yield curve is expressed as the yield for a zero coupon bond at each maturity point from 1/2 year to 100 years, in 1/2 year intervals. The value at any maturity point of the monthly yield curve is set equal to the arithmetic average for all of the business days in a month of the values for that maturity point from the daily yield curves. The monthly yield curve then is the set of values for each of the 200 maturity points. The monthly corporate bond yield curve derived from August 2007 data is shown in Table I of Appendix B. The monthly corporate bond yield curve is the table which would be used if an election is made under § 430(h)(2)(D)(ii).

The first segment rate applicable for a given month is the arithmetic average over the 10 maturity points from 1/2 year to 5 years of the applicable corporate bond yield curve. This is mathematically the same as the arithmetic average for the preceding 24 months of the "spot" first segment rates that can be developed from each of the monthly yield curves (as the arithmetic average over the 10 maturity points from 1/2 year to 5 years of those monthly yield curves) and this second approach has been used in order to facilitate presentation of the segment rates. Similarly, the second segment rate applicable for the given month is the arithmetic average for the preceding 24 months of the spot second segment rates for those months (where the spot second segment rate for a month is the arithmetic average over the 30 maturity points from 5 1/2 years to 20 years of the monthly yield curve). The third segment rate applicable for the given month is the arithmetic average for the preceding 24 months of the spot third segment rates for those months (where the spot third segment rate for a month is the arithmetic average over the 80 maturity points from 20 1/2 years to 60 years of the monthly yield curve). These 24-month average segment rates are the rates that would be applicable if an election was made under § 430(h)(2)(G)(iv) not to use the transitional rule of § 430(h)(2)(G), or if a plan's first plan year begins after 2007. The three 24-month average corporate bond segment rates applicable for September 2007 are as follows:

24-Month Average Segment Rates
Applicable For September 2007

First Segment	Second Segment	Third Segment
5.26	5.82	6.38

The funding transitional segment rates determined under § 430(h)(2)(G) applicable for September 2007, taking into account the corporate bond weighted average of 5.86 for September 2007 published in Notice 2007–68, 2007–35 I.R.B. 468, are as follows:

Funding Transitional Segment Rates
Applicable For September 2007

For Plan Years Beginning in	First Segment	Second Segment	Third Segment
2008	5.66	5.85	6.03

INTEREST RATE FOR MINIMUM PRESENT VALUE

Generally for plan years beginning after December 31, 2007, the applicable interest rates under § 417(e)(3) are segment rates computed without regard to a 24-month average. These are the monthly spot segment rates. For plan years beginning in years 2008, 2009, 2010, and 2011, the applicable interest rate is the monthly spot segment rate blended with the applicable rate under § 417(e)(3)(A)(ii)(II) as in effect for plan years beginning in 2007, where the blending ratio depends on the plan year. The minimum present value transitional segment rates determined under § 417(e)(3)(D) for August 2007, taking into account the August 2007 30-year Treasury rate of 4.93 published in Notice 2007–68, are as follows:

Minimum Present Value Transitional Segment Rates
For August 2007

For Plan Years Beginning in	First Segment	Second Segment	Third Segment
2008	5.02	5.18	5.28

SUPPLEMENTAL INFORMATION

The spot first, second, and third segment rates for August 2007 are, respectively, 5.40, 6.20, and 6.66. The spot segment rates for each of the months from September 2005 through August 2007 are shown in Table II of Appendix B. These rates are preliminary values from which the 24-month average segment rates and the minimum present value transitional segment rates provided above can be derived.

MONTHLY PUBLICATION OF RATES

Each month, the Service publishes by notice the corporate bond weighted average applicable for the current month as provided under § 412(b)(5)(B) prior to amendment by PPA and the 30-year Treasury rate as provided under § 417(e)(3). In the same notice, the Service will publish the monthly corporate bond yield curve of § 430(h)(2) derived from the preceding month (and the corresponding spot segment rates), the 24-month average funding segment rates applicable for the current month, and the funding transitional segment rates under the transition rule of § 430(h)(2)(G) applicable for the current month. In the same notice, the Service will also publish the minimum present value segment rates as required under the transitional rule provided in § 417(e)(3)(D).

DRAFTING INFORMATION

The principal author of this notice is Tony Montanaro of the Employee Plans, Tax Exempt and Government Entities Division. However, other personnel from the Service and the Treasury Department participated in preparing this notice. Mr. Montanaro may be e-mailed at *RetirementPlanQuestions@irs.gov*.

APPENDIX A

The daily yield curve for a given day is constructed under methods and assumptions as described in this section. The description applies to the methodology in use at the present time. Any significant changes in this methodology will be announced by notice.

Data Set

The following criteria are provided for identifying those bonds to be included in the database used to construct the yield curve. The universe of possible bonds consists of a set of bonds which are designated as corporate, have high quality ratings (AAA, AA, or A) from nationally recognized statistical rating organizations, and have at least $250 million in par amount outstanding on at least one day during the reporting period. The database is extended for maturities below 1 year by using AA financial and AA non-financial commercial paper rates, as reported by the Federal Reserve Board. The bonds chosen for the bond set pay fixed nominal semiannual coupons and the principal amount at maturity. Bonds with different or additional characteristics are generally excluded. The main exclusions are:

(1) bonds not denominated in U.S. dollars;

(2) bonds not issued by U.S. corporations;

(3) bonds which are capital securities (hybrid preferred stock);

(4) bonds having variable coupon rates;

(5) convertible bonds;

(6) "Agency" bonds, such as FNMA bonds;

(7) asset-backed bonds;

(8) callable bonds unless the call feature is make-whole;

(9) putable bonds; and

(10) bonds with sinking funds.

In addition, a bond is excluded from use with respect to a given day if the bond has for that day:

(1) a par amount outstanding below $250 million;

(2) a maturity greater than 30 years; or

(3) a rating below A.

These criteria leave about 1,400 bonds in each daily set of bonds. For each day, the database information for each bond includes the bid price (for commercial paper, it is the ask price), coupon rate, maturity, par amount outstanding, and ratings.

Derivation of the Yield Curve

The daily yield curve is derived from a pricing model that gives the price of a bond as the discounted present value of its cash flows plus adjustment factors for credit quality. The results of the model generate a discount function, and the rates for the daily yield curve are calculated from the discount function. The discount function is derived from the daily determination of the instantaneous forward interest rates for each point in the future.

Derivation of Forward Interest Rates

The forward interest rates are assumed to be described as a series of cubic polynomials that are smoothly joined at specified knot points. The specified knot points are maturities of 0, 1.5, 3, 7, 15, and 30 years, and having a smooth junction at a knot means that the two polynomials that are meeting at the knot have the same value, the same derivative, and the same second derivative at that knot point. Such a series of cubic polynomials is called a cubic spline.

Three constraints are placed on the forward interest rate function. First, the second derivative of the function is set to zero at maturity zero. Second, the value of the forward rate function at and after 30 years is constrained to equal its average value from 15 to 30 years. Third, the derivative of the forward rate function is set to zero at maturity 30 years.

Using these constraints, the assumed cubic spline for the forward interest rate function can be described as a linear combination of B-splines, with five parameters. Thus, the daily forward rate function can be defined by determining the five daily parameters for the B-splines. These parameters, together with two adjustment factors described below, are estimated from the bond data.

Adjustment Factors for Credit Quality

In the pricing model, the adjustment factors for credit quality are added to the present value of the bond's cash flows as given by the forward rate and the discount function. Specifically, the adjustment factors are made up of two linear regression variables added to the present value with two respective regression coefficients that need to be estimated. These variables adjust the bond prices so that the discount function and the spot rates represent market-weighted average credit quality of the top three quality levels (AAA, AA, and A).

Specifically, some of the deviation between the predicted price for the bond (based on the cash flows and the discount function) and the actual price for the bond can be attributed to differences in credit quality and some of the deviation is an error factor. The model determines the portion of the deviation that is attributable to credit quality by determining the two adjustment factors that reflect the relative proportion of A-rated bonds within the data set and the relative proportion of AA-rated bonds within the subset of AA- and AAA-rated bonds. A high proportion of A-rated bonds results in a larger deviation in price for the higher quality bonds, which means that the discount function used to develop the yield curve is more closely aligned with a discount function for A-rated bonds than for the higher rated bonds. Similarly, a higher proportion of AA-rated bonds within the subset of AA- and AAA-rated bonds means that the discount function is more representative of the AA-rated universe than the AAA-rated bonds.

These adjustment factors allow the yield curve to be based on the proportion of bonds at the three quality levels in the market determined over the entire maturity spectrum (rather than on the proportion at each specific maturity point). This avoids potential distortions which could arise because of different proportions of bonds at the three quality levels at various maturity points.

Estimates for the parameters

These seven parameters, comprising five parameters in the cubic spline and the two adjustment coefficients on the bond-quality adjustment variables, are estimated from the bond price data. The estimation is done by nonlinear least squares, that is, the seven parameter estimates are chosen to minimize the sum of the squared differences between the actual bond prices and the prices given by the bond price model.

Before the estimation is carried out, the bond data are weighted. The weighting consists of two stages. In the first stage, equal weights are assigned to the commercial paper rates at the short end of the curve, and the par amounts outstanding of all the bonds are rescaled so that their sum equals the sum of the weights for commercial paper. Then, the squared price difference for each bond is multiplied by the bond's rescaled par amount outstanding, and the squared difference for each commercial paper rate is multiplied by the commercial paper weight. In the second stage, for bonds with duration greater than 1, the weighted squared price difference for each bond from the first stage is divided by duration.

Additional Information

Additional background information regarding the daily corporate bond yield curve can be found at the following URL:

http://www.ustreas.gov/offices/economic-policy/reports/corporate_yield_curve_2007.pdf

Other developmental papers on the corporate bond yield curve can be found at the following URL:

http://www.ustreas.gov/offices/economic-policy/speeches_testimony_refund.shtml

APPENDIX B

Table I

Monthly Yield Curve Derived From August 2007 Data

Maturity	*Yield*	*Maturity*	*Yield*	*Maturity*	*Yield*	*Maturity*	*Yield*	*Maturity*	*Yield*
0.5	5.47	20.5	6.49	40.5	6.68	60.5	6.75	80.5	6.78
1.0	5.37	21.0	6.50	41.0	6.69	61.0	6.75	81.0	6.78
1.5	5.29	21.5	6.51	41.5	6.69	61.5	6.75	81.5	6.78
2.0	5.26	22.0	6.51	42.0	6.69	62.0	6.75	82.0	6.78
2.5	5.28	22.5	6.52	42.5	6.69	62.5	6.75	82.5	6.79
3.0	5.33	23.0	6.53	43.0	6.70	63.0	6.75	83.0	6.79
3.5	5.40	23.5	6.54	43.5	6.70	63.5	6.76	83.5	6.79
4.0	5.47	24.0	6.55	44.0	6.70	64.0	6.76	84.0	6.79
4.5	5.54	24.5	6.55	44.5	6.70	64.5	6.76	84.5	6.79
5.0	5.62	25.0	6.56	45.0	6.70	65.0	6.76	85.0	6.79
5.5	5.69	25.5	6.57	45.5	6.71	65.5	6.76	85.5	6.79
6.0	5.75	26.0	6.57	46.0	6.71	66.0	6.76	86.0	6.79
6.5	5.81	26.5	6.58	46.5	6.71	66.5	6.76	86.5	6.79
7.0	5.86	27.0	6.58	47.0	6.71	67.0	6.76	87.0	6.79
7.5	5.91	27.5	6.59	47.5	6.71	67.5	6.76	87.5	6.79
8.0	5.95	28.0	6.59	48.0	6.71	68.0	6.76	88.0	6.79
8.5	6.00	28.5	6.60	48.5	6.72	68.5	6.77	88.5	6.79
9.0	6.04	29.0	6.60	49.0	6.72	69.0	6.77	89.0	6.79
9.5	6.07	29.5	6.61	49.5	6.72	69.5	6.77	89.5	6.79
10.0	6.11	30.0	6.61	50.0	6.72	70.0	6.77	90.0	6.79
10.5	6.14	30.5	6.62	50.5	6.72	70.5	6.77	90.5	6.79
11.0	6.17	31.0	6.62	51.0	6.72	71.0	6.77	91.0	6.79
11.5	6.19	31.5	6.63	51.5	6.73	71.5	6.77	91.5	6.79
12.0	6.22	32.0	6.63	52.0	6.73	72.0	6.77	92.0	6.80
12.5	6.24	32.5	6.63	52.5	6.73	72.5	6.77	92.5	6.80
13.0	6.27	33.0	6.64	53.0	6.73	73.0	6.77	93.0	6.80
13.5	6.29	33.5	6.64	53.5	6.73	73.5	6.77	93.5	6.80
14.0	6.31	34.0	6.65	54.0	6.73	74.0	6.77	94.0	6.80
14.5	6.33	34.5	6.65	54.5	6.73	74.5	6.77	94.5	6.80
15.0	6.34	35.0	6.65	55.0	6.74	75.0	6.78	95.0	6.80
15.5	6.36	35.5	6.66	55.5	6.74	75.5	6.78	95.5	6.80
16.0	6.38	36.0	6.66	56.0	6.74	76.0	6.78	96.0	6.80
16.5	6.39	36.5	6.66	56.5	6.74	76.5	6.78	96.5	6.80
17.0	6.41	37.0	6.66	57.0	6.74	77.0	6.78	97.0	6.80
17.5	6.42	37.5	6.67	57.5	6.74	77.5	6.78	97.5	6.80
18.0	6.43	38.0	6.67	58.0	6.74	78.0	6.78	98.0	6.80
18.5	6.44	38.5	6.67	58.5	6.75	78.5	6.78	98.5	6.80
19.0	6.46	39.0	6.68	59.0	6.75	79.0	6.78	99.0	6.80
19.5	6.47	39.5	6.68	59.5	6.75	79.5	6.78	99.5	6.80
20.0	6.48	40.0	6.68	60.0	6.75	80.0	6.78	100.0	6.80

Table II

Historical Spot Segment Rates

Month	Year	First Segment	Second Segment	Third Segment
September	2005	4.44	5.23	6.05
October	2005	4.78	5.50	6.27
November	2005	4.95	5.60	6.34
December	2005	4.96	5.54	6.24
January	2006	4.96	5.49	6.14
February	2006	5.19	5.61	6.09
March	2006	5.27	5.77	6.31
April	2006	5.43	6.06	6.67
May	2006	5.52	6.19	6.79
June	2006	5.67	6.21	6.78
July	2006	5.67	6.19	6.75
August	2006	5.46	5.98	6.59
September	2006	5.32	5.81	6.42
October	2006	5.33	5.81	6.36
November	2006	5.25	5.64	6.07
December	2006	5.16	5.60	6.09
January	2007	5.35	5.78	6.22
February	2007	5.31	5.76	6.13
March	2007	5.13	5.68	6.19
April	2007	5.23	5.81	6.34
May	2007	5.32	5.85	6.32
June	2007	5.58	6.21	6.61
July	2007	5.53	6.22	6.60
August	2007	5.40	6.20	6.66

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

Notice 2007–82

This notice provides guidance as to the corporate bond weighted average interest rate and the permissible range of interest rates specified under § 412(b)(5)(B)(ii)(II) of the Internal Revenue Code. It also provides guidance on the corporate bond monthly yield curve (and the corresponding spot segment rates), the 24-month average segment rates, and the funding transitional segment rates under § 430(h)(2). In addition, this notice provides guidance as to the interest rate on 30-year Treasury securities under § 417(e)(3)(A)(ii)(II) as in effect for plan years beginning before 2008, and the minimum present value segment rates under § 417(e)(3)(D) as in effect for plan years beginning after 2007.

CORPORATE BOND WEIGHTED AVERAGE INTEREST RATE

Sections 412(b)(5)(B)(ii) and 412(l)(7)(C)(i), as amended by the Pension Funding Equity Act of 2004 and by the Pension Protection Act of 2006 (PPA), provide that the interest rates used to calculate current liability and to determine the required contribution under § 412(l) for plan years beginning in 2004 through 2007 must be within a permissible range based on the weighted average of the rates of interest on amounts invested conservatively in long term investment grade corporate bonds during the 4-year period

ending on the last day before the beginning of the plan year.

Notice 2004–34, 2004–1 C.B. 848, provides guidelines for determining the corporate bond weighted average interest rate and the resulting permissible range of interest rates used to calculate current liability. That notice establishes that the corporate bond weighted average is based on the monthly composite corporate bond rate derived from designated corporate bond indices. The methodology for determining the monthly composite corporate bond rate as set forth in Notice 2004–34 continues to apply in determining that rate. See Notice 2006–75, 2006–36 I.R.B. 366.

The composite corporate bond rate for September 2007 is 6.23 percent. Pursuant to Notice 2004–34, the Service has determined this rate as the average of the monthly yields for the included corporate bond indices for that month.

The following corporate bond weighted average interest rate was determined for plan years beginning in the month shown below.

For Plan Years Beginning in		Corporate Bond Weighted	Permissible Range		
Month	*Year*	Average	90%	to	100%
October	2007	5.88	5.29		5.88

YIELD CURVE AND SEGMENT RATES

Generally for plan years beginning after 2007 (except for delayed effective dates for certain plans under sections 104, 105, and 106 of PPA), § 430 of the Code specifies the minimum funding requirements that apply to single employer plans pursuant to § 412. Section 430(h)(2) specifies the interest rates that must be used to determine a plan's target normal cost and funding target. Under this provision, present value is generally determined using three 24-month average interest rates ("segment rates"), each of which applies to cash flows during specified periods. However, an election may be made under § 430(h)(2)(D)(ii) to use the monthly yield curve in place of the segment rates. For plan years beginning in 2008 and 2009, a transitional rule under § 430(h)(2)(G) provides that the segment rates are blended with the corporate bond weighted average as specified above. An election may be made under § 430(h)(2)(G)(iv) to use the segment rates without applying the transitional rule.

Notice 2007–81, this Bulletin, provides guidelines for determining the monthly corporate bond yield curve, the 24-month average corporate bond segment rates, and the funding transitional segment rates used to compute the target normal cost and the funding target. Pursuant to Notice 2007–81, the monthly corporate bond yield curve derived from September 2007 data is in Table I at the end of this notice. The spot first, second, and third segment rates for the month of September 2007 are, respectively, 5.28, 6.12, and 6.55. The three 24-month average corporate bond segment rates applicable for October 2007 under the election of § 430(h)(2)(G)(iv) are as follows:

First Segment	Second Segment	Third Segment
5.29	5.86	6.40

The transitional segment rates under § 430(h)(2)(G) applicable for October 2007, taking into account the corporate bond weighted average of 5.88 stated above, are as follows:

For Plan Years Beginning in	First Segment	Second Segment	Third Segment
2008	5.68	5.87	6.05

30-YEAR TREASURY SECURITIES INTEREST RATE

Section 417(e)(3)(A)(ii)(II) (prior to amendment by PPA) defines the applicable interest rate, which must be used for purposes of determining the minimum present value of a participant's benefit under § 417(e)(1) and (2), as the annual rate of interest on 30-year Treasury securities for the month before the date of distribution or such other time as the Secretary may by regulations prescribe. Section 1.417(e)–1(d)(3) of the Income Tax Regulations provides that the applicable interest rate for a month is the annual rate of interest on 30-year Treasury securities as specified by the Commissioner for that month in revenue rulings, notices or other guidance published in the Internal Revenue Bulletin.

The rate of interest on 30-year Treasury securities for September 2007 is 4.79 percent. The Service has determined this rate as the monthly average of the daily determination of yield on the 30-year Treasury bond maturing in May 2037.

MINIMUM PRESENT VALUE SEGMENT RATES

Generally for plan years beginning after December 31, 2007, the applicable interest rates under § 417(e)(3)(D) are segment rates computed without regard to a 24 month average. For plan years beginning in 2008 through 2011, the applicable interest rate is the monthly spot segment rate blended with the applicable rate under § 417(e)(3)(A)(ii)(II) as in effect for plan years beginning in 2007. Notice 2007–81 provides guidelines for determining the minimum present value segment rates. Pursuant to that notice, the minimum present value transitional segment rates determined for September 2007, taking into account the September 2007 30-year Treasury rate of 4.79 stated above, are as follows:

For Plan Years Beginning in	First Segment	Second Segment	Third Segment
2008	4.89	5.06	5.14

DRAFTING INFORMATION

The principal author of this notice is Tony Montanaro of the Employee Plans, Tax Exempt and Government Entities Division. Mr. Montanaro may be e-mailed at *RetirementPlanQuestions@irs.gov*.

Table I

Monthly Yield Curve for September 2007

Maturity	*Yield*	*Maturity*	*Yield*	*Maturity*	*Yield*	*Maturity*	*Yield*	*Maturity*	*Yield*
0.5	5.30	20.5	6.40	40.5	6.57	60.5	6.63	80.5	6.66
1.0	5.21	21.0	6.41	41.0	6.57	61.0	6.63	81.0	6.66
1.5	5.16	21.5	6.42	41.5	6.58	61.5	6.63	81.5	6.66
2.0	5.14	22.0	6.42	42.0	6.58	62.0	6.63	82.0	6.66
2.5	5.16	22.5	6.43	42.5	6.58	62.5	6.63	82.5	6.66
3.0	5.22	23.0	6.44	43.0	6.58	63.0	6.63	83.0	6.66
3.5	5.29	23.5	6.44	43.5	6.58	63.5	6.64	83.5	6.66
4.0	5.37	24.0	6.45	44.0	6.59	64.0	6.64	84.0	6.66
4.5	5.45	24.5	6.46	44.5	6.59	64.5	6.64	84.5	6.66
5.0	5.53	25.0	6.46	45.0	6.59	65.0	6.64	85.0	6.66
5.5	5.60	25.5	6.47	45.5	6.59	65.5	6.64	85.5	6.66
6.0	5.66	26.0	6.47	46.0	6.59	66.0	6.64	86.0	6.66
6.5	5.72	26.5	6.48	46.5	6.59	66.5	6.64	86.5	6.67
7.0	5.78	27.0	6.48	47.0	6.60	67.0	6.64	87.0	6.67
7.5	5.83	27.5	6.49	47.5	6.60	67.5	6.64	87.5	6.67
8.0	5.88	28.0	6.49	48.0	6.60	68.0	6.64	88.0	6.67
8.5	5.92	28.5	6.50	48.5	6.60	68.5	6.64	88.5	6.67
9.0	5.96	29.0	6.50	49.0	6.60	69.0	6.64	89.0	6.67
9.5	6.00	29.5	6.51	49.5	6.60	69.5	6.64	89.5	6.67
10.0	6.04	30.0	6.51	50.0	6.60	70.0	6.65	90.0	6.67
10.5	6.07	30.5	6.51	50.5	6.61	70.5	6.65	90.5	6.67
11.0	6.10	31.0	6.52	51.0	6.61	71.0	6.65	91.0	6.67
11.5	6.13	31.5	6.52	51.5	6.61	71.5	6.65	91.5	6.67
12.0	6.15	32.0	6.52	52.0	6.61	72.0	6.65	92.0	6.67
12.5	6.18	32.5	6.53	52.5	6.61	72.5	6.65	92.5	6.67
13.0	6.20	33.0	6.53	53.0	6.61	73.0	6.65	93.0	6.67
13.5	6.22	33.5	6.53	53.5	6.61	73.5	6.65	93.5	6.67
14.0	6.24	34.0	6.54	54.0	6.62	74.0	6.65	94.0	6.67
14.5	6.26	34.5	6.54	54.5	6.62	74.5	6.65	94.5	6.67
15.0	6.27	35.0	6.54	55.0	6.62	75.0	6.65	95.0	6.67
15.5	6.29	35.5	6.55	55.5	6.62	75.5	6.65	95.5	6.67
16.0	6.30	36.0	6.55	56.0	6.62	76.0	6.65	96.0	6.67
16.5	6.32	36.5	6.55	56.5	6.62	76.5	6.65	96.5	6.67
17.0	6.33	37.0	6.55	57.0	6.62	77.0	6.65	97.0	6.67
17.5	6.34	37.5	6.56	57.5	6.62	77.5	6.66	97.5	6.67
18.0	6.35	38.0	6.56	58.0	6.62	78.0	6.66	98.0	6.67
18.5	6.36	38.5	6.56	58.5	6.63	78.5	6.66	98.5	6.68
19.0	6.37	39.0	6.56	59.0	6.63	79.0	6.66	99.0	6.68
19.5	6.38	39.5	6.57	59.5	6.63	79.5	6.66	99.5	6.68
20.0	6.39	40.0	6.57	60.0	6.63	80.0	6.66	100.0	6.68

Part IV. Items of General Interest

Notice of Proposed Rulemaking and Withdrawal of Proposed Regulations

Consolidated Returns; Intercompany Obligations

REG–107592–00; REG–105964–98

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking and withdrawal of proposed regulations.

SUMMARY: This document contains proposed regulations that provide guidance regarding the treatment of transactions involving obligations between members of a consolidated group and the treatment of transactions involving the provision of insurance between members of a consolidated group. The regulations will affect corporations filing consolidated returns.

DATES: Written or electronic comments and requests for a public hearing must be received by December 27, 2007.

ADDRESSES: Send submissions to: CC:PA:LPD:PR (REG–107592–00), room 5203, Internal Revenue Service, PO Box 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand-delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to CC:PA:LPD:PR (REG–107592–00), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC, or sent electronically via the Federal eRulemaking Portal at *http://www.regulations.gov* (IRS REG–107592–00).

FOR FURTHER INFORMATION CONTACT: Concerning submissions of comments and/or requests for a public hearing, Kelly Banks (202) 622–7180; concerning the proposed regulations, Frances L. Kelly (202) 622–7770 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Background

On July 18, 1995, final regulations (T.D. 8597, 1995–2 C.B. 147) under §1.1502–13 were published in the **Federal Register** [60 FR 36671], amending the intercompany transaction system of the consolidated return regulations. These final regulations included rules under §1.1502–13(e) governing the treatment of insurance transactions between members of a consolidated group and rules under §1.1502–13(g) governing the treatment of obligations between members of a consolidated group (the Current Regulations).

On December 21, 1998, a notice of proposed rulemaking (REG–105964–98, 1999–1 C.B. 810) was published in the **Federal Register** [63 FR 70354], which proposed amendments to the intercompany obligation rules of §1.1502–13(g) (the 1998 Proposed Regulations). After consideration of comments received regarding the Current Regulations and the 1998 Proposed Regulations, the IRS and the Treasury Department believe that the rules governing the treatment of intercompany obligations need to be revised. Accordingly, the IRS and the Treasury Department are withdrawing the 1998 Proposed Regulations and issuing these new proposed regulations in their place. However, for purposes of determining the tax treatment of transactions undertaken prior to the finalization of these proposed regulations, taxpayers may continue to rely upon the form and timing of the recast transaction, as clarified by the 1998 Proposed Regulations.

In addition, the IRS and the Treasury Department propose to revise certain of the rules under §1.1502–13(e) that apply to intercompany transactions involving the provision of insurance between group members.

Explanation of Provisions

I. *Intercompany Obligation Regulations*

A. *General application*

Section 1.1502–13(g) prescribes rules relating to the treatment of transactions involving intercompany obligations. An intercompany obligation is generally defined as an obligation between members of a consolidated group, but only for the period during which both the creditor and debtor are members of the group.

Section 1.1502–13(g) can apply to three types of transactions: (1) transactions in which an obligation between a group member and a nonmember becomes an intercompany obligation, such as the purchase by a consolidated group member of another member's debt from a nonmember creditor or the acquisition by a consolidated group member of stock of a nonmember creditor or debtor (inbound transactions); (2) transactions in which an intercompany obligation ceases to be an intercompany obligation, such as the sale by a creditor member of another member's debt to a nonmember or the deconsolidation of either the debtor or creditor member (outbound transactions); and (3) transactions in which an intercompany obligation is assigned or extinguished within the consolidated group (intragroup transactions).

B. *The deemed satisfaction-reissuance model — Current Regulations and 1998 Proposed Regulations*

For all three types of transactions — inbound, outbound, and intragroup — the Current Regulations and the 1998 Proposed Regulations generally provide that an obligation is treated as satisfied and, if the obligation remains outstanding, reissued as a new obligation (the deemed satisfaction-reissuance model). These regulations are intended to minimize the effects of intercompany obligations on a consolidated group's taxable income.

For inbound transactions, the deemed satisfaction-reissuance model mirrors the mechanics and single-entity policies underlying the section 108(e)(4) regulations. However, in contrast to those regulations,

the deemed satisfaction-reissuance model also applies to obligations acquired for a premium and governs the treatment of the creditor as well as the debtor.

For outbound transactions, the deemed satisfaction-reissuance model furthers single-entity treatment by treating a consolidated group as a single issuer, and an intercompany obligation acquired or assumed by a nonmember as newly-issued debt. Thus, if a nonmember purchases an intercompany obligation at a discount, the nonmember will be treated as having acquired a new instrument with original issue discount to which section 1272 applies rather than market discount to which sections 1276 through 1278 apply.

For all three types of transactions, the deemed satisfaction-reissuance model preserves the location of a creditor and debtor member's items from an intercompany obligation, matches the timing of such items, and ensures that future items of original issue discount or premium between the creditor and debtor will similarly correspond in amount and timing.

Since the issuance of the 1998 Proposed Regulations, the IRS and the Treasury Department have considered whether, with respect to intragroup transactions, the objectives of §1.1502–13(g) could be better accomplished without a deemed satisfaction-reissuance model, and could instead be achieved solely through the matching and acceleration principles of §1.1502–13. After considering this approach, it was determined that special rules (in addition to the matching rule of §1.1502–13(c) and the acceleration rule of §1.1502–13(d)) would be necessary to ensure that transactions involving intercompany obligations clearly reflect consolidated taxable income. For example, if an intercompany obligation is sold to another member, the special rules and elections of the various debt regimes (that is, the rules for original issue discount, market discount, and acquisition premium) would have to be reconciled with the intercompany transaction rules through coordinating adjustments among the selling creditor, debtor, buying creditor, and any subsequent member creditors. The IRS and the Treasury Department have concluded that the deemed satisfaction-reissuance model is preferable to the complexity inherent in any such special rules.

Nonetheless, the IRS and the Treasury Department also have concluded that the deemed satisfaction-reissuance model can be improved in several respects. First, with respect to intragroup and outbound transactions, the mechanics of the model can be simplified and the amount for which an intercompany obligation is satisfied and reissued can be clarified. Second, the application of the model can be limited to those transactions for which its purposes are essential. Accordingly, these proposed regulations provide several exceptions to the application of the deemed satisfaction-reissuance model.

With respect to inbound transactions, the IRS and the Treasury Department have concluded that the mechanics of the deemed satisfaction-reissuance model and its application produce appropriate results and, therefore, no change has been proposed (except for the addition of a subgroup exception described in part I.H. of this preamble).

C. *Revised deemed satisfaction-reissuance model for intragroup and outbound transactions*

1. *Simplified mechanics*

Under the Current Regulations, and as revised under the 1998 Proposed Regulations, the mechanics of the deemed satisfaction and reissuance model are the same for both intragroup and outbound transactions. These mechanics generally treat an intercompany obligation as satisfied before an intragroup or outbound transaction and, if the obligation remains outstanding, reissued immediately after the transaction. Because these mechanics may affect the treatment of the actual transaction, they create uncertainties that have raised concerns among taxpayers.

To address these concerns, these proposed regulations adopt new and more precise mechanics for the application of the deemed satisfaction-reissuance model to certain intragroup and outbound transactions (or "triggering transactions" as described in part I.D. of this preamble). In general, the new model deems the following sequence of events to occur immediately before, and independently of, the actual transaction: (1) the debtor is deemed to satisfy the obligation for a cash amount equal to the obligation's fair market value; and (2) the debtor is deemed to immediately reissue the obligation to the original creditor for that same cash amount. The parties are then treated as engaging in the actual transaction but with the new obligation. For example, assume that S holds a B note with an adjusted issue price and basis of $100 and a fair market value of $70, and that S sells the B note to nonmember X for $70. Under the new deemed satisfaction-reissuance model, B is deemed, immediately before the sale to X, to satisfy the note for its fair market value of $70, resulting in $30 of cancellation of indebtedness income for B and $30 of loss for S (which is treated as ordinary loss under the attribute redetermination rule of §1.1502–13(c)(4)(i)). B is then treated as reissuing to S a new note with identical terms for $70 and S is treated as selling this new note to X.

By separating the deemed satisfaction and reissuance from the actual transaction in which the obligation is transferred, the new model avoids confusion regarding whether or how the deemed satisfaction proceeds are integrated with the actual transaction. The new model operates to trigger all built-in items arising from the obligation, and then reissue the obligation with an issue price equal to its basis (and generally, its fair market value) before the actual transaction. Thus, no further gain, loss, income, or deduction with respect to the obligation will result from the actual transaction. In the example above, because S has a basis in the new B note of $70, S recognizes no gain or loss in the actual sale of the note to X, and X acquires the new B note with original issue discount of $30. See section 1278(a)(2)(B) (coordination where bond has original issue discount). After the obligation is deemed satisfied and reissued, the occurrence of the actual transaction does not result in an additional deemed satisfaction and reissuance.

2. *The deemed satisfaction-reissuance amount*

The Current Regulations and the 1998 Proposed Regulations provide that the deemed satisfaction and reissuance amount generally should be determined using the original issue discount principles of sections 1273 and 1274. The IRS and the Treasury Department have

concluded, however, that for transactions where it is appropriate to require a deemed satisfaction and reissuance, the deemed satisfaction and reissuance amount generally should be equal to the obligation's fair market value.

The IRS and the Treasury Department acknowledge the inherent difficulty in valuing intercompany obligations. Nonetheless, the use of fair market value pricing more accurately preserves the location of a creditor and debtor member's items from an intercompany obligation and results in less distortion of the members' income, particularly where the issue price and value of the obligation differ significantly. Furthermore, in many transactions to which the deemed satisfaction-reissuance model applies under these proposed regulations, the group will often be required to determine the fair market value of the intercompany obligation because there is a taxable exchange of property for which the appropriate amount of gain or loss must be determined under general Internal Revenue Code (Code) principles. Accordingly, the IRS and the Treasury Department generally believe that requiring a deemed satisfaction and reissuance at fair market value will not be overly burdensome.

However, these proposed regulations also provide that where the creditor's amount realized with respect to the intercompany obligation in the transaction differs from the fair market value of the obligation, and the transaction is not an intragroup exchange of an intercompany obligation for a newly issued intercompany obligation, the deemed satisfaction and reissuance amount is the amount realized. For example, the amount realized with respect to an intercompany obligation may differ from fair market value if the creditor sells the obligation in a transaction to which section 1060 applies. In such cases, the use of amount realized rather than fair market value as the satisfaction amount for the deemed satisfaction and reissuance ensures that no additional items with respect to the obligation will result from the actual transaction.

If the transaction is an intragroup exchange of an intercompany obligation for a newly issued intercompany obligation, these proposed regulations provide that the obligation is deemed satisfied and reissued for its fair market value. In addition, for all such intragroup debt exchanges (other than routine intragroup debt modifications as discussed in part I.D.4 of this preamble), the newly issued obligation will be treated as having an issue price equal to its fair market value.

In addition, if a member's amount realized with respect to an intercompany obligation results from a mark to fair market value under section 475, then the obligation will be treated as satisfied and reissued under these regulations but will not otherwise be marked to fair market value under section 475 immediately thereafter. Because the deemed satisfaction and reissuance causes all built-in items from the obligation to be recognized, there is no need for an additional mark to fair market value under section 475. However, the rules of section 475 will continue to apply to the newly-reissued obligation with respect to future events.

These proposed regulations do not provide specific rules for intercompany obligations that are not debt instruments. The regulations generally provide that the principles applied to debt instruments will similarly apply (with appropriate adjustments) to such non-debt instruments. The IRS and the Treasury Department request comments on whether additional rules are needed for such instruments.

D. *Limitations on the application of the deemed satisfaction-reissuance model to intragroup transactions*

The Current Regulations and the 1998 Proposed Regulations apply the deemed satisfaction-reissuance model to intragroup transactions in which a member realizes an amount (under the Current Regulations, an amount of income, gain, deduction, or loss, other than zero) with respect to an intercompany obligation from the assignment or extinguishment of all or part of its remaining rights or obligations under the intercompany obligation (or from a comparable transaction).

These proposed regulations generally retain the deemed satisfaction-reissuance model for such intragroup transactions. Specifically, these proposed regulations apply the model upon a "triggering transaction," which is defined as any intercompany transaction in which a member realizes an amount, directly or indirectly, from the assignment or extinguishment of all or part of its remaining rights or obligations under an intercompany obligation (or from a comparable transaction). However, in recognition of the administrative burden involved in valuing intercompany obligations in certain transactions and in order to limit the effects of §1.1502–13(g) on certain routine intragroup transactions involving intercompany obligations (such as an intragroup merger of one member into another), these proposed regulations provide a number of exceptions from the application of the deemed satisfaction and reissuance model (subject to the material tax benefit rule described in part I.E. of this preamble).

In general, and as further described in this preamble, the IRS and the Treasury Department have sought to apply the deemed satisfaction-reissuance model only to those intragroup transactions that have the greatest potential to create distortions of consolidated taxable income and to exclude those transactions where the administrative burdens of either requiring precise valuation of intercompany obligations or requiring the additional mechanics of the deemed satisfaction-reissuance model outweigh the benefits of increased precision. The IRS and the Treasury Department request comments as to whether some or all of these exceptions are appropriate, as well as suggestions for other exceptions.

1. *Intragroup sections 332, 351, and 361 exchanges*

Under these proposed regulations, and subject to the material tax benefit rule as described in part I.E. of this preamble, assignments of intercompany obligations in certain intragroup nonrecognition transactions are excepted from the application of the deemed satisfaction-reissuance model. These transactions include transfers and assumptions of intercompany obligations in intragroup exchanges to which section 332 or section 361 apply if neither the creditor nor the debtor recognizes an amount of income, gain, deduction, or loss in the transaction, or in intragroup exchanges to which section 351 applies if no such amount is recognized by the creditor.

2. *Intragroup taxable assumption transactions*

These proposed regulations also provide an exception to the application of the deemed satisfaction-reissuance model for taxable intragroup sales of assets where intercompany obligations are assumed as part of the transaction. Where indebtedness is assumed incident to a sale of assets, in most cases, the location of gain or loss from an intercompany obligation is appropriately reflected in increased or reduced sales proceeds for the assets. Such transactions generally present less potential for distortion of consolidated taxable income. Accordingly, subject to the material tax benefit rule as described in part I.E. of this preamble, the regulations do not require a deemed satisfaction and reissuance where an intercompany obligation is assumed in a taxable intragroup sale of assets.

3. *Intragroup extinguishments — in general*

These proposed regulations except from the application of the deemed-satisfaction reissuance model many intragroup transactions in which an intercompany obligation is extinguished. In general, where an intercompany obligation is extinguished, the Code and regulations will cause the creditor and debtor to recognize their respective items from the obligation, and thus, preserve the location of such items. In such cases, a deemed satisfaction-reissuance model is not necessary. Thus, under these proposed regulations and subject to the material tax benefit rule as described in part I.E. of this preamble, the deemed satisfaction-reissuance model does not apply where the adjusted issue price of the obligation is equal to the creditor's basis in the obligation and the creditor's and debtor's items from the extinguishment transaction offset in amount.

These proposed regulations provide that certain Code provisions, such as section 108(a) and section 354 are inapplicable to gains and losses from intercompany obligations (and clarify that section 355(a)(1) is also inapplicable to such gains and losses). Turning off these provisions ensures single entity treatment by correcting mismatches that occur under the Code (where, for instance, a debtor has discharge of indebtedness income from the retirement of a security but the creditor's corresponding loss is not recognized) and requiring immediate recognition of both the debtor's and the creditor's items. The Current Regulations and the 1998 Proposed Regulations also provide that these Code provisions are inapplicable in many circumstances.

In the context of extinguishment transactions, the "turn-off" rule in these proposed regulations is applied first to determine whether the transaction is a triggering transaction. Because the rule imposes symmetrical treatment of the debtor and the creditor and requires that each member recognize their respective items, in many cases, the debtor's and creditor's items will offset in amount and the exception described above will apply. For example, assume a note with an adjusted issue price and basis of $100 is extinguished in a fully taxable transaction for $20 and that the debtor's cancellation of indebtedness income would otherwise be excluded under section 108(a). Because the turn-off rule makes section 108(a) inapplicable, the creditor's $80 loss and the debtor's $80 of cancellation of indebtedness income will offset in amount and the extinguishment transaction will not be subject to the deemed satisfaction and reissuance model.

However, the deemed satisfaction-reissuance model will continue to apply in those cases where, after taking into account the above-described "turn-off" rule, the creditor's and debtor's items from the transaction do not offset in amount. In these cases, depending upon the circumstances, the net amount of income, gain, loss, or deduction from the intercompany obligation may or may not be redetermined, under the principles of §1.1502–13(c)(1), to be excluded from gross income or treated as a noncapital, nondeductible amount.

4. *Routine intragroup modifications of intercompany obligations*

In general, the exchange of intercompany debt for newly issued intercompany debt presents a high potential for distortion of consolidated taxable income. Accordingly, these proposed regulations apply the deemed satisfaction-reissuance model at fair market value to such intragroup exchanges and generally provide that the newly issued obligation will be treated as issued for its fair market value. However, in order to avoid requiring valuation of intercompany obligations in routine debt modifications, the proposed regulations provide an exception for certain debt-for-debt exchanges involving a single issuer, subject to the material tax benefit rule as described in part I.E. of this preamble. Thus, if a member's intercompany debt is extinguished in exchange (or deemed exchange) for the member's newly issued intercompany debt, and the issue price of the new debt is equal to both the adjusted issue price and basis of the extinguished debt, the deemed satisfaction-reissuance model does not apply (and the newly issued debt is not treated as issued for its fair market value).

5. *Other exceptions for intragroup transactions*

These proposed regulations retain the exceptions in the Current Regulations for transactions involving an obligation that became an intercompany obligation by reason of an event described in §1.108–2(e), and for amounts realized from reserve accounting under section 585. However, consistent with the 1998 Proposed Regulations, these proposed regulations do not include the exception in the Current Regulations for transactions in which the deemed satisfaction and reissuance will not have a significant effect on any person's Federal income tax liability for any year.

E. *Material tax benefit rule*

Although these proposed regulations provide exceptions to the deemed satisfaction-reissuance model, the IRS and the Treasury Department remain concerned that the shifting of built-in items from intercompany obligations can give rise to significant potential for distortion. Intercompany obligations present special concerns because debt between members never increases or diminishes the wealth of the group (one member's economic gain is matched by the other's economic loss) and because, in comparison to other types of property, they can be easily created, transferred, modified, and extinguished within the group at little or no economic cost.

Therefore, in order to prevent distortions that may result from the shifting of built-in items from intercompany obligations, these proposed regulations include a special rule (the material tax benefit rule) that applies to intragroup transactions otherwise excepted from the deemed satisfaction-reissuance model under the exceptions for certain intragroup nonrecognition exchanges, taxable assumption transactions, extinguishment transactions, and routine debt modifications as described in parts I.D.1, 2, 3 and 4 of this preamble. The rule is directed at intragroup transactions that would have a distortive effect on members' attributes or the basis of member stock using built-in items from intercompany obligations.

The material tax benefit rule generally applies to an intragroup assignment or extinguishment that would otherwise be excepted from the deemed satisfaction-reissuance model if, at the time of the transaction, it is reasonably foreseeable (regardless of intent) that the shifting of items of built-in gain, loss, income, or deduction from an intercompany obligation between members will secure a material tax benefit that would not otherwise be enjoyed. In such cases, the intercompany transaction will be treated as a "triggering transaction" and will be subject to the deemed satisfaction-reissuance model as described in part I.C. of this preamble.

F. *Off-market issuance rule*

The IRS and the Treasury Department also believe that inappropriate distortions of consolidated taxable income could result from intercompany obligations that are issued at a materially off-market rate of interest. Such lending transactions may create built-in gain or loss in a newly issued obligation that could facilitate the manipulation of a member's attributes or the basis of member stock. Although off-market lending transactions are subject to various limitations under the Code and regulations (for example, sections 482, 1274, and 7872), the IRS and the Treasury Department believe that an additional rule is necessary to properly reflect consolidated taxable income.

Accordingly, these proposed regulations include a special rule (the off-market issuance rule) that generally applies if an intercompany obligation is issued at a rate of interest that is materially off-market, and at the time of issuance, it is reasonably foreseeable that the shifting of built-in items from the obligation from one member to another member will secure a material tax benefit. In such cases, the intercompany obligation will be treated as originally issued for its fair market value, and any difference between the amount loaned and the fair market value of the obligation will be treated as transferred between the creditor member and the debtor member at the time of issuance (for example, as a distribution or a contribution to capital). This rule is not intended to apply to intragroup lending at interest rates that approximate those that would have been charged in an arm's length transaction.

The IRS and the Treasury Department are continuing to explore the relationship between the intragroup off-market issuance rule and the other limitations imposed by the Code and regulations on such lending transactions, and request comments in this regard.

G. *Outbound transactions*

These proposed regulations have retained the deemed satisfaction-reissuance model (with the aforementioned new mechanics) for outbound transactions, as well as the exception in the Current Regulations for outbound transactions involving an obligation that became intercompany obligation in an event described in §1.108–2(e). These proposed regulations also include two additional exceptions applicable to outbound transactions.

The first, the subgroup exception, provides that the deemed satisfaction and reissuance model will not apply if the creditor and debtor to an intercompany obligation cease to be members of a consolidated group in a transaction in which neither member otherwise recognize an item with respect to the intercompany obligation, and immediately after the transaction, such creditor and debtor are members of another consolidated group. In such cases, a deemed satisfaction and reissuance is unnecessary because any built-in items with respect to the obligation will be appropriately preserved and offset in the new consolidated group. However, to minimize distortions in the new group that may result from these built-in items (for example, if S and B are acquired in different chains), the exception requires that the creditor and the debtor bear a relationship described in section 1504(a)(1) to each other through an intercompany obligation subgroup parent (which may be the debtor or the creditor).

These proposed regulations provide a second exception for an intercompany obligation that is newly issued in an intragroup reorganization and pursuant to the plan of reorganization, is distributed to a nonmember shareholder or creditor in a transaction to which section 361(c) applies. Because the obligation is newly issued in the reorganization and is distributed outside of the group as part of the same plan, the IRS and the Treasury Department believe that a deemed satisfaction and reissuance of the obligation is not necessary to carry out the purposes of §1.1502–13.

These proposed regulations also provide a rule that prevents indirect acceleration of a loss from an intercompany obligation through the sale of the obligation to a nonmember in exchange for a newly-issued obligation (the issue price of which is determined under section 1273(b)(4) or section 1274(a)) followed by a sale of the nonmember obligation at a loss. The regulations under section 108(e)(4) contain a similar rule.

H. *Inbound transactions*

Both the Current Regulations and the 1998 Proposed Regulations apply a deemed satisfaction-reissuance model for transactions in which a nonintercompany obligation becomes an intercompany obligation. For such transactions, the obligation is treated as satisfied and reissued immediately after it becomes an intercompany obligation.

These proposed regulations retain the deemed satisfaction-reissuance model for inbound transactions, but also include a "subgroup" exception for certain of these transactions. The subgroup exception for inbound transactions is similar to the subgroup exception for outbound transactions as described in part I.G. of this preamble.

In addition, these proposed regulations provide a special rule to prevent inappropriate acceleration of a deduction for repurchase premium in certain inbound transactions. A single corporation that repurchases its own debt in exchange for

a newly-issued debt, the issue price of which is determined under either section 1273(b)(4) or section 1274, must amortize any repurchase premium over the term of the newly-issued debt instrument. See §1.163–7(c). Because the IRS and the Treasury Department believe that it would be inconsistent with single-entity principles to permit consolidated groups an immediate deduction in similar circumstances, these proposed regulations provide that if indebtedness of a member is acquired in exchange for the issuance of indebtedness to a nonmember and the issue price of the newly-issued indebtedness is not determined by reference to its fair market value (for example, the issue price is determined under section 1273(b)(4) or section 1274(a)), then the repurchase premium from the deemed satisfaction will be amortized over the term of the obligation issued to the nonmember.

I. *Other request for comments*

In general, these proposed regulations retain the definition of intercompany obligation found in the Current Regulations and the 1998 Proposed Regulations. This definition excludes executory obligations to purchase or provide goods or services. The IRS and the Treasury Department are considering whether this exclusion is appropriate in all instances, and request comments in this regard.

As described in part I.G. of this preamble, these proposed regulations except from the deemed satisfaction-reissuance model outbound transfers of intercompany obligations where the obligation is newly issued in an intragroup reorganization and is then distributed to a nonmember shareholder or creditor in a transaction to which section 361(c) applies. These proposed regulations do not provide an exception for such transactions where the newly issued obligation is distributed within the group to a member shareholder or creditor. The IRS and the Treasury Department are studying the effects of the deemed satisfaction-reissuance model on such intragroup distributions and are considering various approaches to ensure the appropriate single-entity treatment of such transactions. Comments are requested in this regard.

These proposed regulations do not provide special rules for the treatment of intercompany obligations transferred or assumed in transactions under section 338. The IRS and the Treasury Department request comments in this regard.

The application of the deemed satisfaction-reissuance model and the matching principles of §1.1502–13(c) generally align the basis and issue price (or adjusted issue price) of an intercompany obligation and, thus, reduce potential distortions. For newly issued obligations, however, in certain circumstances the Code and regulations produce disparities between issue price and basis (such as the issuance of note by a subsidiary to its parent in a distribution to which section 301 applies). The IRS and the Treasury Department are considering whether it would be beneficial to eliminate any such disparity created upon the issuance of an obligation (for example, by treating such obligations as issued for fair market value) and request comments in this regard.

II. *Intercompany Insurance Regulations*

A. *Current regulations*

Under the Current Regulations, a member's special status as an insurance company is respected and, in some circumstances, results in an exception to the general single entity treatment for intercompany transactions. Under §1.1502–13(e)(2)(ii)(A), if a member provides insurance to another member in an intercompany transaction, the transaction is taken into account on a separate entity basis. Thus, premiums, reserve increases and decreases, and other similar items are determined and taken into account under the members' separate entity method of accounting rather than under the matching rule of §1.1502–13(c) and the acceleration rule of §1.1502–13(d). It was believed that such transactions would not have a substantial effect on consolidated taxable income, and therefore, it was appropriate to except these transactions from single entity treatment. This exception was intended to avoid the complexity that would result from adjustments needed to produce single entity results, and, thus, simplify intercompany accounting. See CO–11–91, 1994–1 C.B. 724 [59 FR 18011]. However, except with respect to the amount of any reserve item listed in section 807(c) or section 832(b)(5) resulting from an intercompany reinsurance transaction, this departure from single entity treatment does not extend to intercompany reinsurance transactions. See §1.1502–13(e)(2)(ii)(B).

Subsequent to the issuance of the Current Regulations, the IRS determined that it would no longer invoke the "economic family theory" in addressing whether captive insurance transactions constituted insurance for federal income tax purposes. Rev. Rul. 2001–31, 2001–1 C.B. 1348, (See §601.601(d)(2)(ii)(*b*).) In addition, the IRS and the Treasury Department have become aware of the increasing prevalence of captive insurance arrangements within consolidated groups. Thus, the separate entity treatment of insurance payments from one member of a group to a captive insurance member may now have a greater effect on consolidated taxable income than was anticipated when the Current Regulations were issued.

B. *Single entity treatment for significant insurance members*

The IRS and the Treasury Department believe that separate entity treatment for direct insurance transactions is inappropriate where a significant amount of the insuring member's business arises from transactions with other group members. Accordingly, these proposed regulations provide that, where a significant portion (5 percent or more) of the business of the insuring member (in such case, a "significant insurance member") arises from insuring the risks of other members (either by issuing insurance contracts directly to members or by reinsuring risks on contracts issued to members), it is appropriate to take into account the items from the intercompany transactions on a single entity basis. In such cases, the treatment of the members' items from the insurance transactions are subject to the matching and acceleration rules of §1.1502–13.

Under these rules, the insured member's deduction and the significant insurance member's income from the transaction will generally be taken into account currently. However, the effects of the intercompany transaction will otherwise be treated in a manner comparable to "self-insurance" by a single corporation. For example, the significant insurance member's discounted unpaid losses under section 832(b)(5) will be determined with-

out regard to the intercompany insurance transaction, and such member will instead take deductions with respect to losses incurred on intercompany insurance under the principles of sections 162 and 461. On the other hand, if a significant insurance member assumes all or a portion of the risk on an insurance contract written by another member with respect to risks of a nonmember, then under single entity principles, these proposed regulations generally permit the significant insurance member to increase its reserve item under section 807(c) or 832(b)(5) with respect to the premium payment.

These proposed regulations continue to except intercompany insurance transactions from single entity treatment where intercompany insurance represents less than 5 percent of the insuring member's business.

Reinsurance transactions engaged in by group members that attempt to circumvent the single entity rules of §1.1502–13(e) may be subject to the anti-avoidance rules of §1.1502–13(h). Thus, for example, if a member enters into an insurance contract with a third-party insurer and the contract is then reinsured with a member of the group in order to avoid treatment as an intercompany transaction, appropriate adjustments will be made to carry out the purposes of the intercompany transaction regulations. See also section 845, which allows the Secretary to allocate, recharacterize, or make other adjustments with respect to two or more related persons who are parties to a reinsurance agreement in order to reflect the proper amount, source, or character of taxable income related to such an agreement, or to make proper adjustments with respect to a party to a reinsurance contract if the contract has a significant tax avoidance effect.

C. *Request for comments*

The determination of whether an insuring member is a "significant insurance member" and, therefore, is subject to the special rules described above, is made on an annual basis by comparing the amount of the insuring member's business that arises from insuring the risks of other members with its total insurance business. In making this determination, these proposed regulations use an amount determined under section 832(b)(4)(A) (gross premiums written during the taxable year less return premiums and premiums paid for reinsurance) to measure the insuring member's annual insurance business. The IRS and the Treasury Department request comments as to whether this is an appropriate measure of an insuring member's business, as well as suggestions for alternatives. The IRS and the Treasury Department are also considering whether the status of an insuring member as a "significant insurance member" should be an annual determination and whether additional rules are needed when an insuring member's status changes. The IRS and the Treasury Department request comments in this regard, in addition to whether any additional special rules are needed to accomplish single entity treatment for intercompany insurance transactions.

Proposed Effective/Applicability Date and Reliance

These proposed regulations under §1.1502–13(g) apply to transactions involving intercompany obligations occurring in consolidated return years beginning on or after the date these regulations are published as final regulations in the **Federal Register**. However, for purposes of determining the tax treatment of transactions undertaken prior to the finalization of these proposed regulations, taxpayers may continue to rely upon the form and timing of the recast transaction, as clarified by the 1998 Proposed Regulations (REG–105964–98) [63 FR 70354].

These proposed regulations under §1.1502–13(e) apply to intercompany transactions involving the provision of insurance occurring in consolidated return years beginning on or after the date these regulations are published as final regulations in the **Federal Register**.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It is hereby certified that these regulations do not have a significant economic impact on a substantial number of small entities. This certification is based on the fact that these regulations will affect affiliated groups of corporations that have elected to file consolidated returns, which tend to be larger businesses, and, moreover, that any burden on taxpayers is minimal. Therefore, a Regulatory Flexibility Analysis under the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required. Pursuant to section 7805(f) of the Internal Revenue Code, these regulations have been submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

Comments and Requests for a Public Hearing

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

Drafting Information

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

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Withdrawal of Proposed Regulations

Accordingly, under the authority of 26 U.S.C. 7805, the notice of proposed rulemaking (REG–105964–98) that was published in the **Federal Register** on Monday, December 21, 1998, [63 FR 70354] is withdrawn.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1—INCOME TAXES

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

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

Section 1.1502–13 also issued under 26 U.S.C. 1502. * * *

Par. 2. Section 1.1502–13 is amended by:

1. Revising the fifth paragraph heading, each entry for Examples 1 through 5, and adding new Examples 6 through 11 in the table of examples in paragraph (a)(6)(ii).

2. Revising the first sentence of paragraph (e)(2)(i).

3. Adding new paragraph (e)(2)(ii)(C).

4. Revising paragraph (g).

5. Removing paragraph (j)(9) *Example 5(c)*.

The addition and revisions read as follows:

§1.1502–13 Intercompany transactions.

(a) * * *

(6) * * *

(ii) * * *

* * * * *

Obligations of members. (§1.1502–13(g)(7)(ii))

Example 1. Interest on intercompany obligation.

Example 2. Intercompany obligation becomes nonintercompany obligation.

Example 3. Loss or bad debt deduction with respect to intercompany obligation.

Example 4. Intercompany nonrecognition transactions.

Example 5. Assumption of intercompany obligation.

Example 6. Extinguishment of intercompany obligation.

Example 7. Exchange of intercompany obligations.

Example 8. Material tax benefit rule.

Example 9. Issuance at off-market rate of interest.

Example 10. Nonintercompany obligation becomes intercompany obligation.

Example 11. Notional principal contracts.

* * * * *

(e) * * *

(2) * * * (i) * * * Except as provided in paragraph (g)(4)(v) of this section (deferral of items from an intercompany obligation), a member's addition to, or reduction of, a reserve for bad debts that is maintained under section 585 is taken into account on a separate entity basis. * * *

(ii) * * *

(C) *Significant insurance member*—(*1*) *Single entity treatment for direct insurance and reinsurance*. If a significant insurance member (as defined in paragraph (e)(2)(ii)(C)(*2*)(*i*) of this section) insures the risk of another member (the insured member) in an intercompany transaction, paragraphs (e)(2)(ii)(A) and (B) of this section do not apply and the intercompany transaction is taken into account by both members on a single entity basis. For example, the timing and attributes of items from a premium payment from an insured member to a significant insurance member will be taken into account under the matching and acceleration rules, and the premiums earned with respect to the intercompany payment will not be accounted for by the significant insurance member under the rules of section 832(b)(4). The significant insurance member's deduction for losses incurred with respect to the intercompany insurance will be taken into account under the rules of sections 162 and 461 (including §1.461–2), rather than section 832(b)(5). However, under single-entity principles, if a significant insurance member assumes all or a portion of the risk on an insurance contract written by another member with respect to risks of a nonmember, then the matching and acceleration rules will generally permit the significant insurance member to increase its reserve item under section 807(c) or 832(b)(5) with respect to the premium payment.

(*2*) *Definitions*. For purposes of this paragraph (e)(2)(ii)(C), the following definitions apply:

(*i*) *Significant insurance member*. A member is a significant insurance member if it is an insurance company subject to tax under subchapter L and five percent or more of the member's insurance premiums written during the taxable year arise from insuring risks of other members of the group.

(*ii*) *Insurance premiums written during the taxable year* means gross premiums written (as defined in §1.832–4(a)(4) and as reported by the insuring member under the method prescribed by §1.832–4(a)(5)) on insurance contracts during the taxable year, less return premiums (as defined in §1.832–4(a)(6)) and premiums paid for reinsurance.

(*3*) *Effective/applicability date*. The rules of this paragraph (e)(2)(ii)(C) apply to intercompany transactions involving the provision of insurance occurring in consolidated return years beginning on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**.

* * * * *

(g) *Obligations of members*—(1) *In general*. In addition to the general rules of this section, the rules of this paragraph (g) apply to intercompany obligations.

(2) *Definitions.* For purposes of this section, the following definitions apply:

(i) *Obligation of a member* is a debt or security of a member.

(A) *Debt of a member* is any obligation of the member constituting indebtedness under general principles of Federal income tax law (for example, under nonstatutory authorities, or under section 108, section 163, or §1.1275–1(d)), but not an executory obligation to purchase or provide goods or services.

(B) *Security of a member* is any security of the member described in section 475(c)(2)(D) or (E), and any commodity of the member described in section 475(e)(2)(A), (B), or (C), but not if the security or commodity is a position with respect to the member's stock. See paragraphs (f)(4) and (f)(6) of this section for special rules applicable to positions with respect to a member's stock.

(ii) *Intercompany obligation* is an obligation between members, but only for the period during which both parties are members.

(iii) *Intercompany obligation subgroup* is comprised of two or more members that include the creditor and debtor on an intercompany obligation if the creditor and debtor bear the relationship described in section 1504(a)(1) to each other through an intercompany obligation subgroup parent.

(iv) *Intercompany obligation subgroup parent* is the corporation (including either the creditor or debtor) that bears the same relationship to the other members of the intercompany obligation subgroup as a common parent bears to the members of a consolidated group. Any reference to an intercompany obligation subgroup parent includes, as the context may require, a ref-

erence to a predecessor or successor. For this purpose, a predecessor is a transferor of assets to a transferee (the successor) in a transaction to which section 381(a) applies.

(v) *Material tax benefit* is the benefit of a material net reduction in income or gain, or a material net increase in loss, deduction, credit, or allowance. A material tax benefit includes, but is not limited to, the use of a built-in item or items from an intercompany obligation to materially reduce gain or increase loss on the sale of member stock, or to create or absorb a material tax attribute of a member or subgroup.

(3) *Deemed satisfaction and reissuance of intercompany obligations in triggering transactions*—(i) *Scope*—(A) *Triggering transactions*. For purposes of this paragraph (g)(3), a triggering transaction includes the following:

(*1*) *Assignment and extinguishment transactions*. Any intercompany transaction in which a member realizes an amount, directly or indirectly, from the assignment or extinguishment of all or part of its remaining rights or obligations under an intercompany obligation or any comparable transaction in which a member realizes any such amount, directly or indirectly, from an intercompany obligation (for example, a mark to fair market value of an obligation or a bad debt deduction). However, a reduction of the basis of an intercompany obligation pursuant to sections 108 and 1017 and §1.1502–28 (basis reductions upon the exclusion from gross income of discharge of indebtedness) or any other provision that adjusts the basis of an intercompany obligation as a substitute for income, gain, deduction, or loss, is not a comparable transaction.

(*2*) *Outbound transactions*. Any transaction in which an intercompany obligation becomes an obligation that is not an intercompany obligation.

(B) *Exceptions*. Except as provided in paragraph (g)(3)(i)(C) of this section, a transaction is not a triggering transaction as described in paragraph (g)(3)(i)(A) of this section if any of the exceptions in this paragraph (g)(3)(i)(B) apply. In making this determination, if a creditor or debtor realizes an amount in a transaction in which a creditor assigns all or part of its rights under an intercompany obligation to the debtor, or a debtor assigns all of or part of its obligations under an intercompany obligation to the creditor, the transaction will be treated as an extinguishment and will be excepted from the definition of "triggering transaction" only if either of the exceptions in paragraphs (g)(3)(i)(B)(*5*) or (*6*) of this section apply.

(*1*) *Intragroup section 332, 351, or 361 exchange*. The transaction is an intercompany exchange to which section 332 or section 361 applies in which no amount of income, gain, deduction or loss is recognized by the creditor or debtor, or an intercompany exchange to which section 351 applies in which no such amount is recognized by the creditor (unless section 362(e)(2) applies to the exchange).

(*2*) *Intragroup assumption transaction*. All of the debtor's obligations under an intercompany obligation are assumed in connection with the debtor's sale or other disposition of property (other than money) in an intercompany transaction to which section 1001 applies.

(*3*) *Exceptions to the application of section 108(e)(4)*. The obligation became an intercompany obligation by reason of an event described in §1.108–2(e) (exceptions to the application of section 108(e)(4)).

(*4*) *Reserve accounting*. The amount realized is from reserve accounting under section 585 (see paragraph (g)(4)(v) of this section for special rules).

(*5*) *Intragroup extinguishment transaction*. All or part of the rights and obligations under the intercompany obligation are extinguished in an intercompany transaction (other than an exchange or deemed exchange of an intercompany obligation for a newly issued intercompany obligation), the adjusted issue price of the obligation is equal to the creditor's basis in the obligation, and the debtor's corresponding item and the creditor's intercompany item (after taking into account the special rules of paragraph (g)(4)(i)(C) of this section) with respect to the obligation offset in amount.

(*6*) *Routine modification of intercompany obligation*. All of the rights and obligations under the intercompany obligation are extinguished in an intercompany transaction that is an exchange (or deemed exchange) for a newly issued intercompany obligation, and the issue price of the newly issued obligation equals both the adjusted issue price of the extinguished obligation and the creditor's basis in the extinguished obligation.

(*7*) *Outbound distribution of newly issued intercompany obligation*. The intercompany obligation becomes an obligation that is not an intercompany obligation in a transaction in which a member that is a party to the reorganization exchanges property in pursuance of the plan of reorganization for a newly issued intercompany obligation of another member that is a party to the reorganization and distributes such intercompany obligation to a nonmember shareholder or nonmember creditor in a transaction to which section 361(c) applies.

(*8*) *Outbound subgroup exception*. The intercompany obligation becomes an obligation that is not an intercompany obligation in a transaction in which the members of an intercompany obligation subgroup cease to be members of a consolidated group, neither the creditor nor the debtor recognize any income, gain, deduction, or loss with respect to the intercompany obligation, and such members constitute an intercompany obligation subgroup of another consolidated group immediately after the transaction.

(C) *Material tax benefit rule*. If an assignment or extinguishment of an intercompany obligation in an intercompany transaction would otherwise be excepted from the definition of triggering transaction under paragraph (g)(3)(i)(B)(*1*), (*2*), (*5*), or (*6*) of this section, but at the time of the assignment or extinguishment, it is reasonably foreseeable that the shifting of items of built-in gain, loss, income, or deduction from the obligation from one member to another member will secure a material tax benefit (as defined in paragraph (g)(2)(v) of this section) that the group or its members would not otherwise enjoy in a consolidated or separate return year, then the assignment or extinguishment will be a triggering transaction to which paragraph (g)(3)(ii) of this section applies.

(ii) *Application of deemed satisfaction and reissuance*. This paragraph (g)(3)(ii) applies if a triggering transaction occurs.

(A) *General rule*. If the intercompany obligation is debt of a member, then (except as provided in the following sentence) the debt is treated for all Federal income tax purposes as having been satisfied by the debtor for cash in an amount equal to

its fair market value, and then as having been reissued as a new obligation (with a new holding period but otherwise identical terms) for the same amount of cash, immediately before the triggering transaction. However, if the creditor realizes an amount with respect to the debt in the triggering transaction that differs from the debt's fair market value, and the triggering transaction is not an exchange (or deemed exchange) of debt of a member for newly issued debt of a member, then the debt is treated for all Federal income tax purposes as having been satisfied by the debtor for cash in an amount equal to such amount realized, and reissued as a new obligation (with a new holding period but otherwise identical terms) for the same amount of cash, immediately before the triggering transaction. If the triggering transaction is a mark to fair market value under section 475, then the intercompany obligation will be deemed satisfied and reissued for its fair market value (as determined under section 475 and applicable regulations) and section 475 will not otherwise apply with respect to that triggering transaction. If the intercompany obligation is a security of a member, similar principles apply (with appropriate adjustments) to treat the security as having been satisfied and reissued immediately before the triggering transaction.

(B) *Treatment as separate transaction*. The deemed satisfaction and reissuance is treated as a separate transaction from the triggering transaction. The deemed satisfaction and reissuance of a member's debt will not cause the debt to be recharacterized as other than debt for Federal income tax purposes immediately before the triggering transaction.

(4) *Special rules*—(i) *Timing and attributes*. For purposes of applying the matching rule and the acceleration rule to a transaction involving an intercompany obligation (other than a transaction to which paragraph (g)(5) of this section applies)—

(A) Paragraph (c)(6)(i) of this section (treatment of intercompany items if corresponding items are excluded or nondeductible) will not apply to exclude any amount of income or gain attributable to a reduction of the basis of the intercompany obligation pursuant to sections 108 and 1017 and §1.1502–28, or any other provision that adjusts the basis of an intercompany obligation as a substitute for income or gain;

(B) Paragraph (c)(6)(ii) of this section (limitation on treatment of intercompany income or gain as excluded from gross income) does not apply to prevent any intercompany income or gain from the intercompany obligation from being excluded from gross income;

(C) Any income, gain, deduction, or loss from the intercompany obligation is not subject to section 108(a), section 354, section 355(a)(1), section 1091, or, in the case of an extinguishment of an intercompany obligation in a transaction in which the creditor transfers the obligation to the debtor in exchange for stock in such debtor, section 351(a); and

(D) Section 108(e)(7) does not apply upon the extinguishment of an intercompany obligation.

(ii) *Newly issued obligation in intragroup exchanges*. If an intercompany obligation is exchanged (or is deemed exchanged) for a newly issued intercompany obligation and the exchange (or deemed exchange) is not a routine modification of an intercompany obligation (as described in paragraph (g)(3)(i)(B)(*6*) of this section), then the newly issued obligation will be treated for all Federal income tax purposes as having an issue price equal to its fair market value.

(iii) *Off-market issuance*. If an intercompany obligation is issued at a rate of interest that is materially off-market (off-market obligation) and at the time of issuance, it is reasonably foreseeable that the shifting of items of built-in gain, loss, income, or deduction from the obligation from one member to another member will secure a material tax benefit (as defined in paragraph (g)(2)(v) of this section), then the intercompany obligation will be treated, for all Federal income tax purposes, as originally issued for its fair market value, and any difference between the amount loaned and the fair market value of the obligation will be treated as transferred between the creditor and the debtor at the time the obligation is issued. For example, if S lends $100 to B in return for an off-market B note with a value of $130, and at that time, it is reasonably foreseeable that a material tax benefit will be secured by the shifting of items from the note, then the B note will be treated as issued for $130. The $30 difference will be treated as a distribution or capital contribution between S and B (as appropriate) at the time of issuance, and this amount will be reflected in future payments on the note as bond issuance premium. An adjustment to an off-market obligation under this paragraph (g)(4)(iii) will be made without regard to the application of, and in lieu of any adjustment under, section 467 (certain payments for the use of property or services), 482 (allocations among commonly controlled taxpayers), 483 (interest on certain deferred payments), 1274 (determination of issue price for certain debt instruments issued for property), or 7872 (treatment of loans with below-market interest rates.

(iv) *Deferral of loss or deduction with respect to nonmember indebtedness acquired in certain debt exchanges*. If a creditor transfers an intercompany obligation to a nonmember (former intercompany obligation) in exchange for newly issued debt of a nonmember (nonmember debt), and the issue price of the nonmember debt is not determined by reference to its fair market value (for example, the issue price is determined under section 1273(b)(4) or 1274(a) or any other provision of applicable law), then any loss of the creditor otherwise allowable on the subsequent disposition of the nonmember debt, or any comparable tax benefit that would otherwise be available in any other transaction that directly or indirectly results from the disposition of the nonmember debt, is deferred until the date the debtor retires the former intercompany obligation.

(v) *Bad debt reserve*. A member's deduction under section 585 for an addition to its reserve for bad debts with respect to an intercompany obligation is not taken into account, and is not treated as realized for purposes of paragraph (g)(3)(i)(A)(*1*) of this section, until the intercompany obligation is extinguished or becomes an obligation that is not an intercompany obligation.

(5) *Deemed satisfaction and reissuance of obligations becoming intercompany obligations*—(i) *Application of deemed satisfaction and reissuance*—(A) *In general*. This paragraph (g)(5) applies if an obligation that is not an intercompany obligation becomes an intercompany obligation.

(B) *Exceptions*. This paragraph (g)(5) does not apply to an intercompany obliga-

tion if either of the following exceptions apply.

(*1*) *Exceptions to the application of section 108(e)(4).* The obligation becomes an intercompany obligation by reason of an event described in §1.108–2(e) (exceptions to the application of section 108(e)(4)); or

(*2*) *Inbound subgroup exception.* The obligation becomes an intercompany obligation in a transaction in which the members of an intercompany obligation subgroup cease to be members of a consolidated group, neither the creditor nor the debtor recognize any income, gain, deduction, or loss with respect to the intercompany obligation, and such members constitute an intercompany obligation subgroup of another consolidated group immediately after the transaction.

(ii) *Deemed satisfaction and reissuance*—(A) *General rule.* If the intercompany obligation is debt of a member, then the debt is treated for all Federal income tax purposes, immediately after it becomes an intercompany obligation, as having been satisfied by the debtor for cash in an amount determined under the principles of §1.108–2(f), and then as having been reissued as a new obligation (with a new holding period but otherwise identical terms) for the same amount of cash. If the intercompany obligation is a security of a member, similar principles apply (with appropriate adjustments) to treat the security, immediately after it becomes an intercompany obligation, as satisfied and reissued by the debtor for cash in an amount equal to its fair market value.

(B) *Treatment as separate transaction.* The deemed satisfaction and reissuance is treated as a separate transaction from the transaction in which the debt becomes an intercompany obligation, and the tax consequences of the transaction in which the debt becomes an intercompany obligation must be determined before the deemed satisfaction and reissuance occurs. (For example, if the debt becomes an intercompany obligation in a transaction to which section 351 applies, any limitation imposed by section 362(e) on the basis of the intercompany obligation in the hands of the transferee member is determined before the deemed satisfaction and reissuance.) The deemed satisfaction and reissuance of a member's debt will not cause the debt to be recharacterized as other than debt for Federal income tax purposes.

(6) *Special rules*—(i) *Timing and attributes.* If paragraph (g)(5) of this section applies to an intercompany obligation—

(A) Section 108(e)(4) does not apply;

(B) The attributes of all items taken into account from the satisfaction of the intercompany obligation are determined on a separate entity basis, rather than by treating S and B as divisions of a single corporation; and

(C) Any intercompany gain or loss realized by the creditor is not subject to section 354 or section 1091.

(ii) *Waiver of loss carryovers from separate return limitation years.* Solely for purposes of §1.1502–32(b)(4) and the effect of any election under that provision, any loss taken into account under paragraph (g)(5) of this section by a corporation that becomes a member as a result of the transaction in which the obligation becomes an intercompany obligation is treated as a loss carryover from a separate return limitation year.

(iii) *Deduction of repurchase premium in certain debt exchanges.* If an obligation to which paragraph (g)(5) of this section applies is acquired in exchange for the issuance of an obligation to a nonmember and the issue price of this newly issued obligation is not determined by reference to its fair market value (for example, the issue price is determined under section 1273(b)(4) or 1274(a) or any other provision of applicable law), then, under the principles of §1.163–7(c), any repurchase premium from the deemed satisfaction of the intercompany obligation under paragraph (g)(5)(ii) of this section will be amortized by the debtor over the term of the obligation issued to the nonmember in the same manner as if it were original issue discount and the obligation to the nonmember had been issued directly by the debtor.

(7) *Examples*—(i) *In general.* For purposes of the examples in this paragraph (g), unless otherwise stated, interest is qualified stated interest under §1.1273–1(c), and the intercompany obligations are capital assets and are not subject to section 475.

(ii) The application of this section to obligations of members is illustrated by the following examples:

Example 1. Interest on intercompany obligation. (i) *Facts.* On January 1 of year 1, B borrows $100 from S in return for B's note providing for $10 of interest annually at the end of each year, and repayment of $100 at the end of year 5. B fully performs its obligations. Under their separate entity methods of accounting, B accrues a $10 interest deduction annually under section 163, and S accrues $10 of interest income annually under section 61(a)(4) and §1.446–2.

(ii) *Matching rule.* Under paragraph (b)(1) of this section, the accrual of interest on B's note is an intercompany transaction. Under the matching rule, S takes its $10 of income into account in each of years 1 through 5 to reflect the $10 difference between B's $10 of interest expense taken into account and the $0 recomputed expense. S's income and B's deduction are ordinary items. (Because S's intercompany item and B's corresponding item would both be ordinary on a separate entity basis, the attributes are not redetermined under paragraph (c)(1)(i) of this section.)

(iii) *Original issue discount.* The facts are the same as in paragraph (i) of this *Example 1*, except that B borrows $90 (rather than $100) from S in return for B's note providing for $10 of interest annually and repayment of $100 at the end of year 5. The principles described in paragraph (ii) of this *Example 1* for stated interest also apply to the $10 of original issue discount. Thus, as B takes into account its corresponding expense under section 163(e), S takes into account its intercompany income under section 1272. S's income and B's deduction are ordinary items.

(iv) *Tax-exempt income.* The facts are the same as in paragraph (i) of this *Example 1*, except that B's borrowing from S is allocable under section 265 to B's purchase of state and local bonds to which section 103 applies. The timing of S's income is the same as in paragraph (ii) of this *Example 1*. Under paragraph (c)(4)(i) of this section, the attributes of B's corresponding item of disallowed interest expense control the attributes of S's offsetting intercompany interest income. Paragraph (c)(6) of this section does not prevent the redetermination of S's intercompany item as excluded from gross income because section 265(a)(2) permanently and explicitly disallows B's corresponding deduction and because, under paragraph (g)(4)(i)(B) of this section, paragraph (c)(6)(ii) of this section does not apply to prevent any intercompany income from the B note from being excluded from gross income. Accordingly, S's intercompany income is treated as excluded from gross income.

Example 2. Intercompany obligation becomes nonintercompany obligation. (i) *Facts.* On January 1 of year 1, B borrows $100 from S in return for B's note providing for $10 of interest annually at the end of each year, and repayment of $100 at the end of year 5. As of January 1 of year 3, B has paid the interest accruing under the note and S sells B's note to X for $70, reflecting an increase in prevailing market interest rates. B is never insolvent within the meaning of section 108(d)(3).

(ii) *Deemed satisfaction and reissuance.* Because the B note becomes an obligation that is not an intercompany obligation, the transaction is a triggering transaction under paragraph (g)(3)(i)(A)(*2*) of this section. Under paragraph (g)(3)(ii) of this section, B's note is treated as satisfied and reissued for its fair market value of $70 immediately before S's sale to X. As a result of the deemed satisfaction of the note

for less than its adjusted issue price, B takes into account $30 of discharge of indebtedness income under §1.61–12. On a separate entity basis, S's $30 loss would be a capital loss under section 1271(a)(1). Under the matching rule, however, the attributes of S's intercompany item and B's corresponding item must be redetermined to produce the same effect as if the transaction had occurred between divisions of a single corporation. Under paragraph (c)(4)(i) of this section, the attributes of B's $30 of discharge of indebtedness income control the attributes of S's loss. Thus, S's loss is treated as ordinary loss. B is also treated as reissuing, immediately after the satisfaction, a new note to S with a $70 issue price, a $100 stated redemption price at maturity, and a $70 basis in the hands of S. S is then treated as selling the new note to X for the $70 received by S in the actual transaction. Because S has a basis of $70 in the new note, S recognizes no gain or loss from the sale to X. After the sale, the new note held by X is not an intercompany obligation, it has a $70 issue price, a $100 stated redemption price at maturity, and a $70 basis. The $30 of original issue discount will be taken into account by B and X under sections 163(e) and 1272.

(iii) *Creditor deconsolidation*. The facts are the same as in paragraph (i) of this *Example 2*, except that P sells S's stock to X (rather than S selling B's note to X). Because the B note becomes an obligation that is not an intercompany obligation, the transaction is a triggering transaction under paragraph (g)(3)(i)(A)(*2*) of this section. Under paragraph (g)(3)(ii) of this section, B's note is treated as satisfied and reissued for its $70 fair market value immediately before S becomes a nonmember. The treatment of S's $30 of loss and B's $30 of discharge of indebtedness income is the same as in paragraph (ii) of this *Example 2*. The new note held by S upon deconsolidation is not an intercompany obligation, it has a $70 issue price, a $100 stated redemption price at maturity, and a $70 basis. The $30 of original issue discount will be taken into account by B and S under sections 163(e) and 1272.

(iv) *Debtor deconsolidation*. The facts are the same as in paragraph (i) of this *Example 2*, except that P sells B's stock to X (rather than S selling B's note to X). The results to S and B are the same as in paragraph (iii) of this *Example 2*.

(v) *Subgroup exception*. The facts are the same as in paragraph (i) of this *Example 2*, except that P owns all of the stock of S, S owns all of the stock of B, and P sells all of the S stock to X, the parent of another consolidated group. Because B and S, members of an intercompany obligation subgroup, cease to be members of the P group in a transaction that does not cause either member to recognize an item with respect to the B note, and such members constitute an intercompany obligation subgroup in the X group, P's sale of S stock is not a triggering transaction under paragraph (g)(3)(i)(B)(*8*) of this section, and the note is not treated as satisfied and reissued under paragraph (g)(3)(ii) of this section. After the sale, the note held by S has a $100 issue price, a $100 stated redemption price at maturity, and a $100 basis. The results are the same if the S stock is sold to an individual and the S-B affiliated group elects to file a consolidated return for the period beginning on the day after S and B cease to be members of the P group.

(vi) *Section 338 election*. The facts are the same as paragraph (i) of this *Example 2*, except that P sells S's stock to X and a section 338 election is made with respect to the stock sale. Under section 338, S is treated as selling all of its assets to X, including the B note, at the close of the acquisition date. The aggregate deemed sales price (within the meaning of §1.338–4) allocated to the B note is $70. Because the B note becomes an obligation that is not an intercompany obligation, the transaction is a triggering transaction under paragraph (g)(3)(i)(A)(*2*) of this section. Under paragraph (g)(3)(ii) of this section, B's note is treated as satisfied and reissued immediately before S's deemed sale to X for $70, the amount realized with respect to the note (the aggregate deemed sales price allocated to the note under §1.338–6). The results to S and B are the same as in paragraph (ii) of this *Example 2*.

(vii) *Appreciated note*. The facts are the same as in paragraph (i) of this *Example 2*, except that S sells B's note to X for $130 (rather than $70), reflecting a decline in prevailing market interest rates. Because the B note becomes an obligation that is not an intercompany obligation, the transaction is a triggering transaction under paragraph (g)(3)(i)(A)(*2*) of this section. Under paragraph (g)(3)(ii) of this section, B's note is treated as satisfied and reissued for its fair market value of $130 immediately before S's sale to X. As a result of the deemed satisfaction of the note for more than its adjusted issue price, B takes into account $30 of repurchase premium under §1.163–7(c). On a separate entity basis, S's $30 gain would be a capital gain under section 1271(a)(1). Under the matching rule, however, the attributes of S's intercompany item and B's corresponding item must be redetermined to produce the same effect as if the transaction had occurred between divisions of a single corporation. Under paragraph (c)(4)(i) of this section, the attributes of B's premium deduction control the attributes of S's gain. Accordingly, S's gain is treated as ordinary income. B is also treated as reissuing, immediately after the satisfaction, a new note to S with a $130 issue price, $100 stated redemption price at maturity, and $130 basis in the hands of S. S is then treated as selling the new note to X for the $130 received by S in the actual transaction. Because S has a basis of $130 in the new note, S recognizes no gain or loss from the sale to X. After the sale, the new note held by X is not an intercompany obligation, it has a $130 issue price, a $100 stated redemption price at maturity, and a $130 basis. The treatment of B's $30 of bond issuance premium under the new note is determined under §1.163–13.

Example 3. *Loss or bad debt deduction with respect to intercompany obligation*. (i) *Facts*. On January 1 of year 1, B borrows $100 from S in return for B's note providing for $10 of interest annually at the end of each year, and repayment of $100 at the end of year 5. On January 1 of year 3, the fair market value of the B note has declined to $60 and S sells the B note to P for property with a fair market value of $60. B is never insolvent within the meaning of section 108(d)(3). The B note is not a security within the meaning of section 165(g)(2).

(ii) *Deemed satisfaction and reissuance*. Because S realizes an amount of loss from the assignment of the B note, the transaction is a triggering transaction under paragraph (g)(3)(i)(A)(*1*) of this section. Under paragraph (g)(3)(ii) of this section, B's note is treated as satisfied and reissued for its fair market value of $60 immediately before S's sale to P. As a result of the deemed satisfaction of the note for less than its adjusted issue price ($100), B takes into account $40 of discharge of indebtedness income under §1.61–12. On a separate entity basis, S's $40 loss would be a capital loss under section 1271(a)(1). Under the matching rule, however, the attributes of S's intercompany item and B's corresponding item must be redetermined to produce the same effect as if the transaction had occurred between divisions of a single corporation. Under paragraph (c)(4)(i) of this section, the attributes of B's $40 of discharge of indebtedness income control the attributes of S's loss. Thus, S's loss is treated as ordinary loss. B is also treated as reissuing, immediately after the satisfaction, a new note to S with a $60 issue price, $100 stated redemption price at maturity, and $60 basis in the hands of S. S is then treated as selling the new note to P for the $60 of property received by S in the actual transaction. Because S has a basis of $60 in the new note, S recognizes no gain or loss from the sale to P. After the sale, the note is an intercompany obligation, it has a $60 issue price and a $100 stated redemption price at maturity, and the $40 of original issue discount will be taken into account by B and P under sections 163(e) and 1272.

(iii) *Partial bad debt deduction*. The facts are the same as in paragraph (i) of this *Example 3*, except that S claims a $40 partial bad debt deduction under section 166(a)(2) (rather than selling the note to P). Because S realizes a deduction from a transaction comparable to an assignment of the B note, the transaction is a triggering transaction under paragraph (g)(3)(i)(A)(*1*) of this section. Under paragraph (g)(3)(ii) of this section, B's note is treated as satisfied and reissued for its fair market value of $60 immediately before section 166(a)(2) applies. The treatment of S's $40 loss and B's $40 of discharge of indebtedness income are the same as in paragraph (ii) of this *Example 3*. After the reissuance, S has a basis of $60 in the new note. Accordingly, the application of section 166(a)(2) does not result in any additional deduction for S. The $40 of original issue discount on the new note will be taken into account by B and S under sections 163(e) and 1272.

(iv) *Insolvent debtor*. The facts are the same as in paragraph (i) of this *Example 3*, except that B is insolvent within the meaning of section 108(d)(3) at the time that S sells the note to P. As explained in paragraph (ii) of this *Example 3*, the transaction is a triggering transaction and the B note is treated as satisfied and reissued for its fair market value of $60 immediately before S's sale to P. On a separate entity basis, S's $40 loss would be capital, B's $40 income would be excluded from gross income under section 108(a), and B would reduce attributes under section 108(b) or section 1017 (see also §1.1502–28). However, under paragraph (g)(4)(i)(C) of this section, section 108(a) does not apply to characterize B's income as excluded from gross income. Accordingly, the attributes of S's loss and B's income are redetermined in the same manner as in paragraph (ii) of this *Example 3*.

Example 4. *Intercompany nonrecognition transactions*. (i) *Facts*. On January 1 of year 1, B borrows $100 from S in return for B's note providing for $10 of interest annually at the end of each year, and repayment of $100 at the end of year 5. As of January 1 of year 3, B has fully performed its obligations, but the note's fair market value is $130, reflecting a de-

cline in prevailing market interest rates. On January 1 of year 3, S transfers the note and other assets to a newly formed corporation, Newco, for all of Newco's stock in an exchange to which section 351 applies. The aggregate adjusted bases of property transferred does not exceed the fair market value of such property immediately after the transfer.

(ii) *No deemed satisfaction and reissuance*. Because the assignment of the B note is an exchange to which section 351 applies and S recognizes no gain or loss, the transaction is not a triggering transaction under paragraph (g)(3)(i)(B)(*1*) of this section, and the note is not treated as satisfied and reissued under paragraph (g)(3)(ii) of this section.

(iii) *Receipt of other property*. The facts are the same as in paragraph (i) of this *Example 4*, except that the other assets transferred to Newco have a basis of $100 and a fair market value of $260, and S receives, in addition to Newco stock, $15 of cash. Because S would recognize $15 of gain under section 351(b), the assignment of the B note is a triggering transaction under paragraph (g)(3)(i)(A)(*1*) of this section. Under paragraph (g)(3)(ii) of this section, B's note is treated as satisfied and reissued for its fair market value of $130 immediately before the transfer to Newco. As a result of the deemed satisfaction of the note for more than its adjusted issue price, B takes into account $30 of repurchase premium under §1.163–7(c). On a separate entity basis, S's $30 gain would be a capital gain under section 1271(a)(1). Under the matching rule, however, the attributes of S's intercompany item and B's corresponding item must be redetermined to produce the same effect as if the transaction had occurred between divisions of a single corporation. Under paragraph (c)(4)(i) of this section, the attributes of B's premium deduction control the attributes of S's gain. Accordingly, S's gain is treated as ordinary income. B is also treated as reissuing, immediately after the satisfaction, a new note to S with a $130 issue price, $100 stated redemption price at maturity, and $130 basis in the hands of S. S is then treated as transferring the new note to Newco for the Newco stock and cash received by S in the actual transaction. Because S has a basis of $130 in the new B note, S recognizes no gain or loss with respect to the transfer of the note in the section 351 exchange, and S recognizes $10 of gain with respect to the transfer of the other assets under section 351(b). After the transfer, the note has a $130 issue price and a $100 stated redemption price at maturity. The treatment of B's $30 of bond issuance premium under the new note is determined under §1.163–13.

(iv) *Intercompany obligation transferred in section 332 transaction*. The facts are the same as in paragraph (i) of this *Example 4*, except that S transfers the B note to P in complete liquidation under section 332. Because the transaction is an exchange to which section 332 applies, and neither S nor B recognize gain or loss, the transaction is not a triggering transaction under paragraph (g)(3)(i)(B)(*1*) of this section, and the note is not treated as satisfied and reissued under paragraph (g)(3)(ii) of this section.

Example 5. *Assumption of intercompany obligation*. (i) *Facts*. On January 1 of year 1, B borrows $100 from S in return for B's note providing for $10 of interest annually at the end of each year, and repayment of $100 at the end of year 5. The note is fully recourse and is incurred for use in Business Z. As of January 1 of year 3, B has fully performed its obligations, but the note's fair market value is $110 reflecting a decline in prevailing market interest rates. Business Z has a fair market value of $95. On January 1 of year 3, B transfers all of the assets of Business Z and $15 of cash to M in exchange for the assumption by M of all of B's obligations under the note. The terms and conditions of the note are not modified in connection with the sales transaction, and no amount of income, gain, loss, or deduction is recognized by S, B, or M with respect to the note.

(ii) *No deemed satisfaction and reissuance*. Because all of B's obligations under the B note are assumed by M in connection with the sale of the Business Z assets, the assignment of B's obligations under the note is not a triggering transaction under paragraph (g)(3)(i)(B)(*2*) of this section, and the note is not treated as satisfied and reissued under paragraph (g)(3)(ii) of this section.

Example 6. *Extinguishment of intercompany obligation*. (i) *Facts*. On January 1 of year 1, B borrows $100 from S in return for B's note providing for $10 of interest annually at the end of each year, and repayment of $100 at the end of year 5. The note is a security within the meaning of section 351(d)(2). As of January 1 of year 3, B has fully performed its obligations, but the fair market value of the B note is $130, reflecting a decline in prevailing market interest rates, and S transfers the note to B in exchange for $130 of B stock in a transaction to which section 351 applies.

(ii) *No deemed satisfaction and reissuance*. As a result of the satisfaction of the note for more than its adjusted issue price, B takes into account $30 of repurchase premium under §1.163–7(c). Although the transfer of the B note is a transaction to which section 351 applies, under paragraph (g)(4)(i)(C) of this section, any gain or loss from the intercompany obligation is not subject to section 351(a), and therefore, S has a $30 gain under section 1001. Because the note is extinguished in a transaction in which the adjusted issue price of the note is equal to the creditor's basis in the note, and the debtor's and creditor's items offset in amount, the transaction is not a triggering transaction under paragraph (g)(3)(i)(B)(*5*) of this section, and the note is not treated as satisfied and reissued under paragraph (g)(3)(ii) of this section. On a separate entity basis, S's $30 gain would be a capital gain under section 1271(a)(1). Under the matching rule, however, the attributes of S's intercompany item and B's corresponding item must be redetermined to produce the same effect as if the transaction had occurred between divisions of a single corporation. Under paragraph (c)(4)(i) of this section, the attributes of B's premium deduction control the attributes of S's gain. Accordingly, S's gain is treated as ordinary income. Under paragraph (g)(4)(i)(D) of this section, section 108(e)(7) does not apply upon the extinguishment of the B note, and therefore, the B stock received by S in the exchange will not be treated as section 1245 property.

Example 7. *Exchange of intercompany obligations*. (i) *Facts*. On January 1 of year 1, B borrows $100 from S in return for B's note providing for $10 of interest annually at the end of each year, and repayment of $100 at the end of year 20. As of January 1 of year 3, B has fully performed its obligations and, pursuant to a recapitalization to which section 368(a)(1)(E) applies, B issues a new note to S in exchange for the original B note. The new B note has an issue price, stated redemption price at maturity, and stated principal amount of $100, but contains terms that differ sufficiently from the terms of the original B note to cause a realization event under §1.1001–3. The original B note and the new B note are both securities (within the meaning of section 354(a)(1)).

(ii) *No deemed satisfaction and reissuance*. Because the original B note is extinguished in exchange for a newly issued B note and the issue price of the new B note is equal to both the adjusted issue price of the original B note and S's basis in the original B note, the transaction is not a triggering transaction under paragraph (g)(3)(i)(B)(*6*) of this section, and the note is not treated as satisfied and reissued under paragraph (g)(3)(ii) of this section. B has neither income from discharge of indebtedness under section 108(e)(10) nor a deduction for repurchase premium under §1.163–7(c). Although the exchange of the original B note for the new B note is a transaction to which section 354 applies, under paragraph (g)(4)(i)(C) of this section, any gain or loss from the intercompany obligation is not subject to section 354. Under section 1001, S has no gain or loss from the exchange of notes.

Example 8. *Material tax benefit rule*. (i) *Facts*. T is a member with a material loss from a separate return limitation year (SRLY). S holds a materially appreciated B note which it transfers to T as part of an exchange which otherwise qualifies for nonrecognition treatment under section 351.

(ii) *Deemed satisfaction and reissuance*. Under paragraph (g)(3)(i)(B)(*1*) of this section, absent the application of the material tax benefit rule of paragraph (g)(3)(i)(C) of this section, the assignment of the B note would not be a triggering transaction. However, because at the time of the assignment, it is reasonably foreseeable that the shifting of the built-in income or gain from the obligation will secure a material tax benefit that the group or its members would not otherwise enjoy, under paragraph (g)(3)(i)(C) of this section, the assignment of the B note is a triggering transaction to which paragraph (g)(3)(ii) of this section applies. Under paragraph (g)(3)(ii) of this section, B's note is treated as satisfied and reissued for its fair market value, immediately before S's transfer to T. As a result of the deemed satisfaction of the note for more than its adjusted issue price, S takes into account gain and B has a corresponding repurchase premium deduction. B is also treated as reissuing, immediately after the deemed satisfaction, a new note to S with an issue price and basis equal to its fair market value. S is then treated as transferring the new note to T as part of the section 351 exchange. Because T will have a fair market value basis in the reissued B note immediately after the exchange, T's intercompany item from the subsequent retirement of the B note will not reflect any of S's built-in gain (and the amount of SRLY loss that may be absorbed by such item will be limited to any appreciation in the B note accruing after the exchange).

(iii) *No material tax benefit*. The facts are the same as in paragraph (i) of this *Example 8*, except that S has a SRLY loss that exceeds, and will expire prior to, that of T. Further, it is anticipated that S and T will each generate similar amounts of income for the foreseeable future, and there is no plan or intention to sell the stock of either member. Because the built-in income or gain from the B note could have been used to facilitate the absorption of S's SRLY loss (rather than

an equal amount of T's SRLY loss), the group and its members have not secured a material tax benefit from the assignment that it would not have otherwise enjoyed. Accordingly, the assignment is not subject to the material tax benefit rule of paragraph (g)(3)(i)(C) of this section, and the B note is not deemed satisfied and reissued under paragraph (g)(3)(ii) of this section.

Example 9. *Issuance at off-market rate of interest*. (i) *Facts*. T is a member with a material loss from a separate return limitation year (SRLY). T's sole shareholder, P, borrows an amount from T in return for a P note that provides for a materially above market rate of interest. As a result, the P note will generate additional interest income to T over the term of the note which will facilitate the absorption of T's SRLY loss each year and will result in a material tax benefit.

(ii) *Reasonably foreseeable*. Because at the time of the issuance, it is reasonably foreseeable that the shifting of interest income from the off-market obligation will secure a material tax benefit that the group or its members would not otherwise enjoy, under paragraph (g)(4)(iii) of this section, the intercompany obligation is treated, for all Federal income tax purposes, as originally issued for its fair market value so T is treated as purchasing the note at a premium. The difference between the amount loaned and the fair market value of the obligation is treated as transferred from P to T as a capital contribution at the time the note is issued. Throughout the term of the note, T takes into account interest income and bond premium and P takes into account interest deduction and bond issuance premium under generally applicable Internal Revenue Code sections. Because paragraph (g)(4)(iii) of this section applies, no adjustment is made under section 482.

Example 10. *Nonintercompany obligation becomes intercompany obligation*. (i) *Facts*. On January 1 of year 1, B borrows $100 from X in return for B's note providing for $10 of interest annually at the end of each year, and repayment of $100 at the end of year 5. As of January 1 of year 3, B has fully performed its obligations, but the note's fair market value is $70, reflecting an increase in prevailing market interest rates. On January 1 of year 3, P buys all of X's stock. B is solvent within the meaning of section 108(d)(3).

(ii) *Deemed satisfaction and reissuance*. Under paragraph (g)(5)(ii) of this section, B's note is treated as satisfied for $70 (determined under the principles of §1.108–2(f)(2)) immediately after it becomes an intercompany obligation. Both X's $30 capital loss (under section 1271(a)(1)) and B's $30 of discharge of indebtedness income (under §1.61–12) are taken into account in determining consolidated taxable income for year 3. Under paragraph (g)(6)(i)(B) of this section, the attributes of items resulting from the satisfaction are determined on a separate entity basis. But see section 382 and §1.1502–15 (as appropriate). B is also treated as reissuing a new note to X. The new note is an intercompany obligation, it has a $70 issue price and $100 stated redemption price at maturity, and the $30 of original issue discount will be taken into account by B and X in the same manner as provided in paragraph (iii) of *Example 1* of this paragraph (g)(7).

(iii) *Amortization of repurchase premium*. The facts are the same as in paragraph (i) of this *Example 10*, except that on January 1 of year 3, the B note has a fair market value of $130 and rather than purchasing the X stock, S purchases the B note from X by issuing its own note. The S note has an issue price, stated redemption price at maturity, stated principal amount, and a fair market value of $130. Under paragraph (g)(5)(ii) of this section, B's note is treated as satisfied for $130 (determined under the principles of §1.108–2(f)(1)) immediately after it becomes an intercompany obligation. As a result of the deemed satisfaction of the note, S has no gain or loss and B has $30 of repurchase premium. Under paragraph (g)(6)(iii) of this section, B's $30 of repurchase premium from the deemed satisfaction is amortized by B over the term of the newly issued S note in the same manner as if it were original issue discount and the newly issued S note had been issued directly by B. B is also treated as reissuing a new note to S. The new note is an intercompany obligation, it has a $130 issue price and $100 stated redemption price at maturity, and the treatment of B's $30 of bond issuance premium under the new B note is determined under §1.163–13.

(iv) *Election to file consolidated returns*. Assume instead that B borrows $100 from S during year 1, but the P group does not file consolidated returns until year 3. Under paragraph (g)(5)(ii) of this section, B's note is treated as satisfied and reissued as a new note immediately after the note becomes an intercompany obligation. The satisfaction and reissuance are deemed to occur on January 1 of year 3, for the fair market value of the obligation (determined under the principles of §1.108–2(f)(2)) at that time.

Example 11. *Notional principal contracts*. (i) *Facts*. On April 1 of year 1, M1 enters into a contract with counterparty M2 under which, for a term of five years, M1 is obligated to make a payment to M2 each April 1, beginning in year 2, in an amount equal to the London Interbank Offered Rate (LIBOR), as determined by reference to LIBOR on the day each payment is due, multiplied by a $1,000 notional principal amount. M2 is obligated to make a payment to M1 each April 1, beginning in year 2, in an amount equal to 8 percent multiplied by the same notional principal amount. LIBOR is 7.80 percent on April 1 of year 2, and therefore, M2 owes $2 to M1.

(ii) *Matching rule*. Under §1.446–3(d), the net income (or net deduction) from a notional principal contract for a taxable year is included in (or deducted from) gross income. Under §1.446–3(e), the ratable daily portion of M2's obligation to M1 as of December 31 of year 1 is $1.50 ($2 multiplied by 275/365). Under the matching rule, M1's net income for year 1 of $1.50 is taken into account to reflect the difference between M2's net deduction of $1.50 taken into account and the $0 recomputed net deduction. Similarly, the $.50 balance of the $2 of net periodic payments made on April 1 of year 2 is taken into account for year 2 in M1's and M2's net income and net deduction from the contract. In addition, the attributes of M1's intercompany income and M2's corresponding deduction are redetermined to produce the same effect as if the transaction had occurred between divisions of a single corporation. Under paragraph (c)(4)(i) of this section, the attributes of M2's corresponding deduction control the attributes of M1's intercompany income. (Although M1 is the selling member with respect to the payment on April 1 of year 2, it might be the buying member in a subsequent period if it owes the net payment.)

(iii) *Dealer*. The facts are the same as in paragraph (i) of this *Example 11*, except that M2 is a dealer in securities, and the contract with M1 is not inventory in the hands of M2. Under section 475, M2 must mark its securities to fair market value at year-end. Assume that under section 475, M2's loss from marking to fair market value the contract with M1 is $10. Because M2 realizes an amount of loss from the mark to fair market value of the contract, the transaction is a triggering transaction under paragraph (g)(3)(i)(A)(*1*) of this section. Under paragraph (g)(3)(ii) of this section, M2 is treated as making a $10 payment to M1 to terminate the contract immediately before a new contract is treated as reissued with an up-front payment by M1 to M2 of $10. M1's $10 of income from the termination payment is taken into account under the matching rule to reflect M2's deduction under §1.446–3(h). The attributes of M1's intercompany income and M2's corresponding deduction are redetermined to produce the same effect as if the transaction had occurred between divisions of a single corporation. Under paragraph (c)(4)(i) of this section, the attributes of M2's corresponding deduction control the attributes of M1's intercompany income. Accordingly, M1's income is treated as ordinary income. Under §1.446–3(f), the deemed $10 up-front payment by M1 to M2 in connection with the issuance of a new contract is taken into account over the term of the new contract in a manner reflecting the economic substance of the contract (for example, allocating the payment in accordance with the forward rates of a series of cash-settled forward contracts that reflect the specified index and the $1,000 notional principal amount). (The timing of taking items into account is the same if M1, rather than M2, is the dealer subject to the mark-to-market requirement of section 475 at year-end. However in this case, because the attributes of the corresponding deduction control the attributes of the intercompany income, M1's income from the deemed termination payment from M2 might be ordinary or capital). Under paragraph (g)(3)(ii)(A) of this section, section 475 does not apply to mark the notional principal contract to fair market value after its deemed satisfaction and reissuance.

(8) *Effective/applicability date*. The rules of this paragraph (g) apply to transactions involving intercompany obligations occurring in consolidated return years beginning on or after the date of publication of the Treasury decision adopting these rules as final regulations in the **Federal Register**.

* * * * *

Kevin M. Brown,
Deputy Commissioner for Services and Enforcement.

(Filed by the Office of the Federal Register on September 24, 2007, 8:45 a.m., and published in the issue of the Federal Register for September 28, 2007, 72 F.R. 55139)

IRS and the George Washington University Law School to Sponsor Institute on International Tax Issues

Announcement 2007–100

The Internal Revenue Service announces the Twentieth Annual Institute on Current Issues in International Taxation, jointly sponsored by the Internal Revenue Service and The George Washington University Law School, to be held on December 13 and 14, 2007, at the Grand Hyatt Washington Hotel in Washington, DC. Registration is currently underway for the Institute, which is intended for international tax professionals.

The program will present a unique opportunity for top IRS and Treasury officials and tax experts, OECD officials and other government tax authorities, and leading private sector specialists, to address breaking issues and present key perspectives on new developments. The first day will feature a discussion by U.S. and foreign tax authorities of current international tax controversies.

The first day will also feature sessions on the following:

- The OECD: From the Outside, Looking In
- Current Inbound and Outbound Developments
- Transfer Pricing Challenges
- International Tax Challenges: Real Cases, Real Advice
- Hot Issues in Cross-Border Mergers & Acquisitions

The second day will focus on the following topics:

- Trends in Interpreting Key Judicial Doctrines
- International Tax Controversies
- Impact of Major OECD Initiatives
- Foreign Tax Credit Planning — The Good, The Bad, and The Ugly.

On the second day, The Honorable Eric Solomon, Assistant Secretary (Tax Policy), U.S. Department of the Treasury, will deliver the luncheon address. The second day will also include an "Ask the IRS" panel featuring senior officials from the Service.

Those interested in attending or obtaining more information should contact The George Washington University Law School, at *http://www.law.gwu.edu/ciit*.

Revised Regulations Concerning Section 403(b) Tax-Sheltered Annuity Contracts; Correction

Announcement 2007–102

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Correcting amendments.

SUMMARY: This document contains corrections to final regulations (T.D. 9340, 2007–36 I.R.B. 487) that were published in the **Federal Register** on Thursday, July 26, 2007 (72 FR 41128) providing updated guidance on section 403(b) contracts of public schools and tax-exempt organizations described in section 501(c)(3). These regulations will affect sponsors of section 403(b) contracts, administrators, participants, and beneficiaries.

DATES: The correction is effective September 25, 2007.

FOR FURTHER INFORMATION CONTACT: Concerning the regulations, John Tolleris at (202) 622–6060; concerning the regulations as applied to church-related entities, Robert Architect at (202) 283–9634 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Background

The final regulations that are the subject of this correction are under section 403(b) of the Internal Revenue Code.

Need for Correction

As published, final regulations (T.D. 9340) contain errors that may prove to be misleading and are in need of clarification.

Correction of Publication

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

PART 1—INCOME TAXES

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

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

Par. 2. Section 1.403(b)–2 is amended by revising paragraph (b)(8)(i)(A), paragraph (b)(9), second sentence, and paragraph (b)(11), fourth sentence, to read as follows:

§ 1.403(b)–2 Definitions.

* * * * *

(b) * * *

(8) * * *

(i) * * *

(A) A State, but only with respect to an employee of the State performing services for a public school;

* * * * *

(9) * * * Subject to any rules in § 1.403(b)–1, this section, and §§ 1.403(b)–3 through 1.403(b)–11 that are specifically applicable to ministers, an employee also includes a minister described in section 414(e)(5)(A) when performing services in the exercise of his or her ministry.

* * * * *

(11) * * * Includible compensation also includes any elective deferral or other amount contributed or deferred by the eligible employer at the election of the employee that would be includible in the gross income of the employee but for the rules of sections 125, 132(f)(4), 402(e)(2), 402(h)(1)(B), 402(k), or 457(b). * * *

* * * * *

Par. 3. Section 1.403(b)–3 is amended by revising paragraph (b)(3)(i), last sentence, paragraph (c)(2), last sentence, and paragraph (d)(1)(ii), last sentence, to read as follows:

§ 1.403–3 Exclusion for contributions to purchase section 403(b) contracts.

* * * * *

(b) * * *

(3) * * *

(i) * * * However, if a plan contains any optional provisions, the optional provisions must meet, in both form and operation, the relevant requirements under section 403(b), this section, and §§ 1.403(b)–4 through 1.403(b)–11.

* * * * *

(c) * * *

(2) * * * Similarly, a designated Roth account under a section 403(b) plan is subject to the rules of sections 401(a)(9)(A) and (B) and § 1.403(b)–6(e).

* * * * *

(d) * * *

(1) * * *

(ii) * * * However, any failure that is not a operational failure adversely affects all contracts issued under the plan, including: a failure to have contracts issued pursuant to a written defined contribution plan which, in form, satisfies the requirements of § 1.403(b)–1, § 1.403(b)–2, this section, and §§ 1.403(b)–4 through 1.403(b)–11 (a written plan failure); a nondiscrimination failure; or an employer eligibility failure.

* * * * *

Par. 4. Section 1.403(b)–4 is amended by revising paragraph (b)(1), third sentence, paragraph (c)(3)(i)(B)(*2*), and paragraph (e)(7), second sentence, to read as follows:

§ 1.403(b)–4 Contribution limitations.

* * * * *

(b) * * *

(1) * * * For purposes of section 415, contributions made for a participant are aggregated to the extent applicable under sections 414(b), (c), (m), (n), and (o). * * *

* * * * *

(c) * * *

(3) * * *

(i) * * *

(B) * * *

(*2*) The total elective deferrals described in section 402(g)(7)(A)(ii) made for the qualified employee by the qualified organization for prior years; or

* * * * *

(e) * * *

(7) * * * In such a case, there is first taken into account his or her service during the annual work period for which the last year of service's includible compensation is being determined; then there is taken into account his or her service during his or her next preceding annual work period based on whole months; and so forth until the employee's service equals, in the aggregate, one year of service.

* * * * *

Par. 5. Section 1.403(b)–6 is amended by revising paragraph (e)(3) and paragraph (e)(5), last sentence, to read as follows:

§ 1.403(b)–6 Timing of distributions and benefits.

* * * * *

(e) * * *

(3) * * * The required beginning date for purposes of section 403(b)(10) is April 1 of the calendar year following the later of the calendar year in which the employee attains age 70$^{1}/_{2}$ or the calendar year in which the employee retires from employment with the employer maintaining the plan. However, for any section 403(b) contract that is not part of a governmental plan or church plan, the required beginning date for a 5-percent owner is April 1 of the calendar year following the calendar year in which the employee attains age 70$^{1}/_{2}$.

* * * * *

(5) * * * See also § 1.403(b)–9(a)(5) for additional rules relating to annuities payable from a retirement income account).

* * * * *

Par. 6. Section 1.403(b)–11 is amended by revising paragraph (c)(2) to read as follows:

§ 1.403(b)–11 Applicable dates.

* * * * *

(c) * * *

(2) In the case of a loan or other extension of credit to the employer that was entered into under a retirement income account before July 26, 2007, the plan does not fail to satisfy § 1.403(b)–9(a)(2)(i)(C) on account of the loan or other extension of credit if the plan takes reasonable steps to eliminate the loan or other extension of credit to the employer before the applicable date for § 1.403(b)–9(a)(2) or as promptly as practical thereafter (including taking steps after July 26, 2007 and before the applicable date).

* * * * *

Par. 7. Section 1.414(c)–5 is amended by revising paragraph (g) *Example 3.(i)*, first sentence, to read as follows:

§ 1.414(c)–5 Certain tax-exempt organizations.

* * * * *

(g) * * *

Example 3. * * *

(*i*) * * * Organizations O and P are each tax-exempt organizations under section 501(c)(3). * * *

* * * * *

LaNita Van Dyke,
Chief, Publications and Regulations Branch,
Legal Processing Division,
Associate Chief Counsel
(Procedure and Administration).

(Filed by the Office of the Federal Register on September 24, 2007, 8:45 a.m., and published in the issue of the Federal Register for September 25, 2007, 72 F.R. 54351)

Section 1045 Application to Partnerships; Correction

Announcement 2007–103

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Correcting amendments.

SUMMARY: This document contains corrections to final regulations (T.D. 9353, 2007–40 I.R.B. 721) that were published in the **Federal Register** on Tuesday, August 14, 2007 (72 FR 45346) relating to the application of section 1045 of the Internal Revenue Code to partnerships and their partners.

DATES: This correction is effective October 10, 2007.

FOR FURTHER INFORMATION CONTACT: Jian H. Grant at (202) 622–3050 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

The final regulations that are the subject of this correction are under section 1045 of the Internal Revenue Code.

Need for Correction

As published, final regulations (T.D. 9353) contain errors that may prove to be misleading and are in need of clarification.

* * * * *

Correction of Publication

Accordingly, 26 CFR part 1 is corrected by making the following amendments:

PART 1—INCOME TAXES

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

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

Par. 2. Section 1.1045–1 is amended by revising the last sentence of paragraph (c)(1)(i), the subtitle of paragraph (c)(2)(i), the first five sentences of paragraph (h)(3)(i) *Example 3*.(i), the fourth sentence of (h)(3)(i) *Example 5*.(v), and the first sentence of (h)(3)(i) *Example 12*.(ii) to read as follows:

§ 1.1045–1 Application to partnerships.

* * * * *

(c) * * *

(1) * * *

(i) * * * A taxpayer other than a C corporation that sells QSB stock held for more than 6 months at the time of the sale may elect in accordance with paragraph (h) of this section to apply section 1045 if replacement QSB stock is purchased by a purchasing partnership (including a selling partnership).

* * * * *

(2) * * *

(i) *General rule*.

* * * * *

(h) * * *

(3) * * *

(i) * * *

Example 3. * * *

(i) On January 1, 2008, A, an individual, and B, an individual, each contribute $500 to UTP (upper-tier partnership) for equal partnership interests. On February 1, 2008, UTP and C, an individual, each contribute $1,000 to LTP (lower-tier partnership) for equal partnership interests. On March 1, 2008, LTP purchases QSB stock for $500. On April 1, 2008, D, an individual, joins UTP by contributing $500 to UTP for a 1/3 interest in UTP. On December 1, 2008, LTP sells the QSB stock for $2,000. * * *

* * * * *

Example 5. * * *

(v) * * * In accordance with the principles of § 1.743–1(j)(3), the amount of A's gain from the March 30, 2009, sale of replacement QSB1 stock in which A has a $200 negative basis adjustment equals $300 (A's share of PRS' gain from the sale of replacement QSB1 stock ($100), increased by the amount of A's negative basis adjustment for replacement QSB1 stock ($200)). * * *

* * * * *

Example 12. * * *

(ii) Because A purchased within 60 days of PRS' sale of the QSB stock, replacement QSB stock for a cost equal to A's share of the partnership's amount realized on the sale of the QSB stock, and because A made a valid election to apply section 1045 with respect to A's share of the gain from PRS' sale of the QSB stock, A does not recognize A's $100 distributive share of the gain from PRS' sale of the QSB stock. * * *

* * * * *

LaNita Van Dyke,
Chief, Publications and Regulations Branch, Legal Processing Division, Associate Chief Counsel (Procedure and Administration).

(Filed by the Office of the Federal Register on October 9, 2007, 8:45 a.m., and published in the issue of the Federal Register for October 10, 2007, 72 F.R. 57487)

Announcement of Disciplinary Actions Involving Attorneys, Certified Public Accountants, Enrolled Agents, and Enrolled Actuaries — Reinstatements, Suspensions, Censures, Disbarments, and Resignations

Announcement 2007-104

Under Title 31, Code of Federal Regulations, Part 10, attorneys, certified public accountants, enrolled agents, and enrolled actuaries may not accept assistance from, or assist, any person who is under disbarment or suspension from practice before the Internal Revenue Service if the assistance relates to a matter constituting practice before the Internal Revenue Service and may not knowingly aid or abet another person to practice before the Internal Revenue Service during a period of suspension, disbarment, or ineligibility of such other person.

To enable attorneys, certified public accountants, enrolled agents, and enrolled actuaries to identify persons to whom these restrictions apply, the Director, Office of Professional Responsibility, will announce in the Internal Revenue Bulletin their names, their city and state, their professional designation, the effective date of disciplinary action, and the period of suspension. This announcement will appear in the weekly Bulletin at the earliest practicable date after such action and will continue to appear in the weekly Bulletins for five successive weeks.

Reinstatement To Practice Before the Internal Revenue Service

Under Title 31, Code of Federal Regulations, Part 10, The Director, Office of Professional Responsibility, may entertain a petition for reinstatement for any attorney, certified public accountant, enrolled agent, or enrolled actuary censured, suspended, or disbarred, from practice before the Internal Revenue Service.

The following individuals' eligibility to practice before the Internal Revenue Service has been restored:

Name	Address	Designation	Date of Reinstatement
Dotson, Lewis S.	Mattoon, IL	Attorney	April 8, 2007
Adams, Jr., Joseph T.	Philadelphia, PA	Enrolled Agent	July 30, 2007
Cramer, George C.	Chicago, IL	CPA	July 30, 2007
Garlikov, Mark B.	Dayton, OH	Attorney	July 30, 2007
Grant, Elaine C.	Woodway, WA	Enrolled Agent	July 30, 2007
Rubesh, Leland	Gillette, WY	CPA	July 30, 2007
Schawe, Rudolph B.	Brenham, TX	Enrolled Agent	July 30, 2007
Sobel, Herbert L.	Elkins Park, PA	CPA	July 30, 2007
Welch, Frank G.	Stamford, CT	CPA	July 30, 2007
Ferguson, Charles E.	Naples, FL	CPA	July 31, 2007
Lim, Edgar E.	St. Louis, MO	Attorney	July 31, 2007
Sneathen, Lowell D.	Orange, CA	CPA	August 30, 2007
Smith, David B.	Kettering, OH	Enrolled Agent	September 9, 2007
Young, Ronald B.	Fairfield, CT	CPA	September 9, 2007
Sheiman, Alan P.	Sherman Oaks, CA	Enrolled Agent	September 14, 2007
DiSiena, Frank E.	Somers, NY	CPA	September 19, 2007
Leggio, Joseph J.	Katonah, NY	CPA	September 24, 2007

Consent Suspensions From Practice Before the Internal Revenue Service

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

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

Name	Address	Designation	Date of Suspension
Hunter, Richard	Moweaqua, IL	Enrolled Agent	Indefinite from July 16, 2007

Name	Address	Designation	Date of Suspension
Sheehy, William J.	Northville, MI	Attorney	Indefinite from July 16, 2007
Szwyd, Edward R.	Housatonic, MA	CPA	Indefinite from July 16, 2007
Lettieri, Louis E.	Red Bank, NJ	CPA	Indefinite from August 1, 2007
Stein, Jerold A.	Alpharetta, GA	CPA	Indefinite from August 1, 2007
Tutino, Philip R.	East Hampton, NY	CPA	Indefinite from August 1, 2007
Dorr, Mark A.	Gillette, WY	CPA	Indefinite from August 7, 2007
Nelson, Carole S.	Riverside, CA	Enrolled Agent	Indefinite from August 8, 2007
Siegel, Herbert	New City, NY	CPA	Indefinite from August 10, 2007
Taylor, Linda W.	Las Vegas, NV	CPA	Indefinite from August 15, 2007
Finkelstein, Meyer	Staten Island, NY	CPA	Indefinite from August 15, 2007
Schenck, Thomas M.	Tampa, FL	CPA	Indefinite from August 20, 2007
Shah, Sudhir P.	Richardson, TX	CPA	Indefinite from August 20, 2007
Bender, Elmer P.	Missoula, MT	CPA	Indefinite from August 31, 2007
Tselepis, John	Jarrettsville, MD	CPA	Indefinite from September 5, 2007
Perez, Ricardo L.	Cedar Lake, IN	CPA	Indefinite from September 10, 2007

Name	Address	Designation	Date of Suspension
Golden, Roberta A.	Framington, MA	Attorney	Indefinite from September 13, 2007
Ward, Thomas R.	St. Louis Park, MN	Attorney	Indefinite from September 13, 2007

Expedited Suspensions From Practice Before the Internal Revenue Service

Under Title 31, Code of Federal Regulations, Part 10, the Director, Office of Professional Responsibility, is authorized to immediately suspend from practice before the Internal Revenue Service any practitioner who, within five years from the date the expedited proceeding is instituted (1) has had a license to practice as an attorney, certified public accountant, or actuary suspended or revoked for cause or (2) has been convicted of certain crimes.

The following individuals have been placed under suspension from practice before the Internal Revenue Service by virtue of the expedited proceeding provisions:

Name	Address	Designation	Date of Suspension
Murphy, John F.	Wellsboro, PA	Attorney	Indefinite from June 28, 2007
Aakre, Steven K.	Hawley, MN	Attorney	Indefinite from July 11, 2007
Brogan, Jane K.	York, NE	Attorney	Indefinite from July 11, 2007
Clark, Clifford A.	Raleigh, NC	CPA	Indefinite from July 11, 2007
Downing, Jr., Eugene W.	Arlington, MA	Attorney	Indefinite from July 11, 2007
Kahn, Arthur M.	Woodstock, NY	Attorney	Indefinite from July 11, 2007
Kossmeyer, Carl F.	Town and Country, MO	CPA	Indefinite from July 11, 2007
Lee, John C.	Charlotte, NC	Attorney	Indefinite from July 11, 2007
McAvoy, Donald L.	Windermere, FL	CPA	Indefinite from July 11, 2007

Name	Address	Designation	Date of Suspension
McCabe, Edwin A.	Gloucester, MA	Attorney	Indefinite from July 11, 2007
O'Donnell, Judith R.	Westborough, MA	Attorney	Indefinite from July 11, 2007
Taylor, John G.	Lincoln, NE	Attorney	Indefinite from July 11, 2007
Turner, D. Scott	Mooresville, NC	Attorney	Indefinite from July 11, 2007
Csaszar, James J.	Columbus, OH	CPA	Indefinite from July 13, 2007
Fischer, Mark W.	Boulder, CO	Attorney	Indefinite from July 16, 2007
Behunin, Michael N.	Sandy, UT	Attorney	Indefinite from August 8, 2007
Carpenter, Jr., Darwin R.	Melbourne, FL	CPA	Indefinite from August 23, 2007
Gresham, James L.	Broken Arrow, OK	CPA	Indefinite from August 23, 2007
Krezminski, Allen D.	Milwaukee, WI	Attorney	Indefinite from August 23, 2007
Neary, Hugh M.	Ottumwa, IA	Attorney	Indefinite from August 23, 2007
Weiss, Randy A.	Potomac, MD	Attorney	Indefinite from August 23, 2007
Whiddon, Edward L.	Houston, TX	CPA	Indefinite from August 23, 2007
Hazen, Robert D.	Lindon, UT	CPA	Indefinite from August 29, 2007
Schafer, III, Harry J.	Edmond, OK	CPA	Indefinite from September 6, 2007

Name	Address	Designation	Date of Suspension
Pullin, Wendy F.	San Antonio, TX	CPA	Indefinite from September 24, 2007

Suspensions From Practice Before the Internal Revenue Service After Notice and an Opportunity for a Proceeding

Under Title 31, Code of Federal Regulations, Part 10, after notice and an opportunity for a proceeding before an administrative law judge, the following individuals have been placed under suspension from practice before the Internal Revenue Service:

Name	Address	Designation	Effective Date
Newton, Douglas M.	Fernandina Beach, FL	CPA	Indefinite from June 4, 2007
Snell, Barry A.	Santa Monica, CA	CPA	Indefinite from June 6, 2007
Khoury, Naif S.	Fort Smith, AR	Attorney	Indefinite from June 14, 2007
Bukovac, Jane	Alexandria, VA	Enrolled Agent	Indefinite from June 29, 2007
Kreke, David J.	Bartelso, IL	Enrolled Agent	Indefinite from July 12, 2007
Dunkley, John D.	San Antonio, TX	Enrolled Agent	Indefinite from July 27, 2007

Disbarments From Practice Before the Internal Revenue Service After Notice and an Opportunity for a Proceeding

Under Title 31, Code of Federal Regulations, Part 10, after notice and an opportunity for a proceeding before an administrative law judge, the following individuals have been disbarred from practice before the Internal Revenue Service:

Name	Address	Designation	Effective Date
Ruocchio, Robert	Havertown, PA	CPA	June 11, 2007
Turner, John S.	Paradise, CA	Enrolled Agent	June 15, 2007
Johnson, Ted R.	Frankfort, IN	Attorney	July 30, 2007
Ayers, Dani D.	Kelseyville, CA	Enrolled Agent	August 6, 2007

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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Ann	Announcement
CD	Court Decision
DO	Delegation Order
EO	Executive Order
PL	Public Law
PTE	Prohibited Transaction Exemption
RP	Revenue Procedure
RR	Revenue Ruling
SPR	Statement of Procedural Rules
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26 CFR 1.72–15, amended; 1.105–4, –6, removed; 1.106–1, amended; 1.401–1, amended; 1.402(a)–1, amended; 1.402(c)–2, amended; 1.403(a)–1, amended; 1.403(b)–6, amended; medical and accident insurance benefits under qualified plans (REG–148393–06) 39, *714*; correction (Ann 98) 43, *896*

26 CFR 1.125–0, –1, –2, –5, –6, –7, added; employee benefits – cafeteria plans (REG–142695–05) 39, *681*; change in hearing location (Ann 91) 42, *857*

26 CFR 1.430(f)–1, added; 1.436–1, added; benefit restrictions for underfunded pension plans (REG–113891–07) 42, *821*

26 CFR 1.430(h)(3)–2, amended; mortality tables for determining present value, correction to REG–143601–06 (Ann 71) 33, *372*

26 CFR 1.6033–5, added; 53.4965–1 thru –9, added; 53.6071–1, amended; 54.6011–1, amended; 301.6011(g)–1, added; 301.6033–5, added; excise taxes on prohibited tax shelter transactions and related disclosure requirements, disclosure requirements with respect to prohibited tax shelter transactions, requirement of return and time for filing (REG–142039–06; REG–139268–06) 34, *415*

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26 CFR 1.402(b)–1, amended; 1.402(g)(3)–1, added; 1.402A–1, revised; 1.403(b)–0, added; 1.403(b)–1, –2, –3, revised; 1.403(b)–4 thru –11, added; 1.403(d)–1, removed; 1.414(c)–5 redesignated as 1.414(c)–6; new 1.414(c)–5, added; 602.101, amended; revised regulations concerning section 403(b) tax-sheltered annuity contracts (TD 9340) 36, *487*

26 CFR 1.408–2(e)(8), revised; 1.408–2T, removed; deemed IRAs in governmental plans/qualified nonbank trustee rules (TD 9331) 32, *298*

26 CFR 1.409A–1, –2, –3, –6, amended; application of section 409A to nonqualified deferred compensation plans; correction to TD 9321 (Ann 78) 38, *663*

26 CFR 1.6033–5T, added; 301.6033–5T, added; disclosure requirements with respect to prohibited tax shelter transactions (TD 9335) 34, *380*

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26 CFR 301.6343–2, amended; 301.7425–3, amended; changes to office to which notices of nonjudicial sale and requests for return of wrongfully levied property must be sent (REG–148951–05) 36, *550*; correction (Ann 94) 42, *858*

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26 CFR 1.34–1, revised; 1.34–2 thru –6, removed; 1.1361–4, –6, amended; 301.7701–2, amended; disregarded entities, employment and excise taxes (TD 9356) 39, *675*

26 CFR 1.6011–4, revised; 1.6011–4T, removed; 20.6011–4, revised; 25.6011–4, revised; 31.6011–4, revised; 53.6011–4, revised; 54.6011–4, revised; 56.6011–4, revised; AJCA modifications to the section 6011 regulations (TD 9350) 38, *607*

26 CFR 31.3402(f)(2)–1, (f)(5)–1, amended; 31.3402(f)(2)–1T, (f)(5)–1T, removed; withholding exemptions (TD 9337) 35, *455*

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26 CFR 301.6343–2, amended; 301.6343–2T, added; 301.7425–3, amended; 301.7425–3T, added; changes to office to which notices of nonjudicial sale and requests for return of wrongfully levied property must be sent (TD 9344) 36, *535*; correction (Ann 93) 42, *858*

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26 CFR 20.2036–1, amended; 20.2039–1, amended; grantor retained interest trusts-application of sections 2036 and 2039 (REG–119097–05) 28, *74*; hearing location change (Ann 81) 38, *667*

26 CFR 26.2600–1, amended; 26.2642–6, amended; 26.2654–1, amended; severance of a trust for generation-skipping transfer (GST) tax purposes II (REG–128843–05) 37, *587*

26 CFR 301.6343–2, amended; 301.7425–3, amended; changes to office to which notices of nonjudicial sale and requests for return of wrongfully levied property must be sent (REG–148951–05) 36, *550*; correction (Ann 94) 42, *858*

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26 CFR 1.1001–1, amended; 26.2600–1, amended; 26.2642–6, added; 26.2654–1, amended; 602.101, amended; qualified severance of a trust for generation-skipping transfer (GST) tax purposes (TD 9348) 37, *563*

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26 CFR 1.6011–4, revised; 1.6011–4T, removed; 20.6011–4, revised; 25.6011–4, revised; 31.6011–4, revised; 53.6011–4, revised; 54.6011–4, revised; 56.6011–4, revised; AJCA modifications to the section 6011 regulations (TD 9350) 38, *607*
26 CFR 301.6343–2, amended; 301.6343–2T, added; 301.7425–3, amended; 301.7425–3T, added; changes to office to which notices of nonjudicial sale and requests for return of wrongfully levied property must be sent (TD 9344) 36, *535*; correction (Ann 93) 42, *858*

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26 CFR 1.6033–5, added; 53.4965–1 thru –9, added; 53.6071–1, amended; 54.6011–1, amended; 301.6011(g)–1, added; 301.6033–5, added; excise taxes on prohibited tax shelter transactions and related disclosure requirements, disclosure requirements with respect to prohibited tax shelter transactions, requirement of return and time for filing (REG–142039–06; REG–139268–06) 34, *415*
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26 CFR 1.34–1, revised; 1.34–2 thru –6, removed; 1.1361–4, –6, amended; 301.7701–2, amended; disregarded entities, employment and excise taxes (TD 9356) 39, *675*
26 CFR 1.6011–4, revised; 1.6011–4T, removed; 20.6011–4, revised; 25.6011–4, revised; 31.6011–4, revised; 53.6011–4, revised; 54.6011–4, revised; 56.6011–4, revised; AJCA modifications to the section 6011 regulations (TD 9350) 38, *607*
26 CFR 1.6033–5T, added; 301.6033–5T, added; disclosure requirements with respect to prohibited tax shelter transactions (TD 9335) 34, *380*
26 CFR 48.4081–1, –3, –5, amended; 48.4081–1T, –3T, removed; 602.101, amended; entry of taxable fuel (TD 9346) 37, *570*

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26 CFR 53.6011–1, amended; 53.6071–1, amended; 53.6071–1T, added; 54.6011–1, –1T, amended; requirement of return and time for filing (TD 9334) 34, *382*
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26 CFR 1.402(b)–1, amended; 1.402(g)(3)–1, added; 1.402A–1, revised; 1.403(b)–0, added; 1.403(b)–1, –2, –3, revised; 1.403(b)–4 thru –11, added; 1.403(d)–1, removed; 1.414(c)–5 redesignated as 1.414(c)–6; new 1.414(c)–5, added; 602.101, amended; revised regulations concerning section 403(b) tax-sheltered annuity contracts (TD 9340) 36, *487*

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26 CFR 1.6011–4, revised; 1.6011–4T, removed; 20.6011–4, revised; 25.6011–4, revised; 31.6011–4, revised; 53.6011–4, revised; 54.6011–4, revised; 56.6011–4, revised; AJCA modifications to the section 6011 regulations (TD 9350) 38, *607*
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26 CFR 1.6011–4, revised; 1.6011–4T, removed; 20.6011–4, revised; 25.6011–4, revised; 31.6011–4, revised; 53.6011–4, revised; 54.6011–4, revised; 56.6011–4, revised; AJCA modifications to the section 6011 regulations (TD 9350) 38, *607*
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