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Published May 30, 2006

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

REG-134317-05

RIN 1545-BF16

Guidance Necessary to Facilitate Business Electronic Filing and Burden Reduction

AGENCY: Internal Revenue Service (IRS), Treasury.

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

SUMMARY: In the Rules and Regulations section of this issue of the **Federal Register**, the IRS is issuing temporary regulations that simplify, clarify, or eliminate reporting burdens. Those regulations also eliminate regulatory impediments to the electronic filing of certain statements that taxpayers are required to include on or with their Federal income tax returns. The text of those regulations also serves as the text of these proposed regulations.

DATES: Written or electronic comments, and a request for a public hearing, must be received by August 28, 2006.

ADDRESSES: Send submissions to: CC:PA:LPD:PR (REG-134317-05), Room 5203, Internal Revenue Service, P.O. 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-134317-05), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW, Washington, DC, or sent

electronically, via the IRS internet site at www.irs.gov/regs or via the Federal eRulemaking Portal at www.regulations.gov (indicate IRS and REG-134317-05).

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, Grid Glycer, (202) 622-7930, concerning submissions of comments, Kelly Banks (202) 622-7180 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collection of information contained in this notice of proposed rulemaking has been submitted to the Office of Management and Budget for review in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3507(d)). Comments on the collection of information should be sent to the **Office of Management and Budget**, Attn: Desk Officer for the Department of the Treasury, Office of Information and Regulatory Affairs, Washington, D.C. 20503, with copies to the **Internal Revenue Service**, Attn: IRS Reports Clearance Officer, SE:W:CAR:MP:T:T:SP, Washington, D.C. 20224.

Comments on the collection of information should be received by August 28, 2006.

Comments are specifically requested concerning:

Whether the proposed collection of information is necessary for the proper performance of the functions of the **Internal Revenue Service**, including whether the information will have practical utility;

The accuracy of the estimated burden associated with the proposed collection of information (see below);

How the quality, utility and clarity of the information to be collected may be enhanced;

How the burden of complying with the proposed collection of information may be minimized, including through the application of automated collection techniques or other forms of information technology; and

Estimates of capital or start-up costs and costs of operation, maintenance and purchase of service to provide information.

The collection of information in these proposed regulations is in each of the corresponding temporary regulations.

The proposed regulations simplify, clarify, or eliminate reporting burdens. These regulations also eliminate regulatory impediments to the electronic filing of certain statements that taxpayers are required to include on or with their Federal income tax returns.

The collection of information is mandatory. The likely respondents are large corporations, many of which will be members of a consolidated group and/or component members of a controlled group.

Estimated total annual reporting burden: 262,500 hours.

Estimated average annual burden hours per respondent: 0.75 hours.

Estimated number of respondents: 350,000

Estimated frequency of responses: annually

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid control number assigned by the Office of Management and Budget.

Books or records relating to a collection of information must be retained as long as their contents may become material in the administration of any internal revenue law.

Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.

Background and Explanation of Provisions

Temporary Regulations in the Rules and Regulations section of this issue of the **Federal Register** amend 26 CFR Part 1 to add §§1.302-2T, 1.302-4T, 1.331-1T, 1.332-6T, 1.338-10T, 1.351-3T, 1.355-5T, 1.368-3T, 1.381(b)-1T, 1.382-8T, 1.382-11T, 1.1081-11T, 1.1221-2T, 1.1502-13T, 1.1502-31T, 1.1502-32T, 1.1502-33T, 1.1502-35T, 1.1502-76T, 1.1502-95T, 1.1563-1T, 1.1563-3T, and amend Part 602 to add §1.6012-2T. The text of those temporary regulations also serves as the text of these proposed regulations. The preamble to the temporary regulations explains the amendments.

Special Analysis

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 has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to the following proposed regulations: §§1.302-2, 1.302-4, 1.331-1, 1.332-6, 1.351-3, 1.355-5, 1.368-3, 1.381(b)-1, 1.1081-11, 1.1563-1, 1.1563-3, and 1.6012-2. With respect to the collections of information in such regulations, and with respect to the following proposed regulations, §§1.338-10, 1.382-8, 1.382-11, 1.1221-2, 1.1502-13, 1.1502-31, 1.1502-32, 1.1502-33, 1.1502-35, 1.1502-76 and 1.1502-95, it is hereby certified that these provisions will not have a significant economic impact on a substantial number of small entities. This certification is based on the fact that these regulations primarily affect large corporations (which are members of either controlled or consolidated

groups) and in the case of all corporations will substantially reduce or eliminate the existing reporting burden. Therefore, a regulatory flexibility analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, these proposed 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 comments (a signed original and eight (8) copies) or electronic comments that are submitted timely to the IRS. All comments will be available for public inspection and copying. A public hearing may be scheduled if requested in writing by 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 Grid Glycer of the Office of Associate Chief Counsel (Corporate). Other personnel from the Treasury Department and the IRS participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements

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 continues to read, in part, as follows:

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

Par. 2. Section 1.302-2 is amended by:

1. Redesignating paragraph (b) as paragraph (b)(1).
2. Revising newly designated paragraph (b)(1).
3. Adding paragraphs (b)(2) and (d).

The additions and revisions read as follows:

§1.302-2 Redemptions not taxable as dividends.

[The text of the proposed amendment to §1.302-2 is the same as the text for §1.302-2T published elsewhere in this issue of the **Federal Register**].

Par. 3. Section 1.302-4 is amended by revising paragraph (a) and adding paragraph (h) to read as follows:

§1.302-4 Termination of shareholder's interest.

[The text of the proposed amendment to §1.302-4 is the same as the text for §1.302-4T published elsewhere in this issue of the **Federal Register**].

Par. 4. Section 1.331-1 is amended by revising paragraph (d) and adding paragraph (f) to read as follows:

§1.331-1 Corporate liquidations.

[The text of the proposed amendment to §1.331-1 is the same as the text for §1.331-1T published elsewhere in this issue of the **Federal Register**].

Par. 5. Section 1.332-6 added to read as follows:

§1.332-6 Records to be kept and information to be filed with return.

[The text of the proposed §1.332-6 is the same as the text for §1.332-6T published elsewhere in this issue of the **Federal Register**].

Par. 6. Section 1.338-10 is amended by revising paragraph (a)(4)(iii) and adding paragraph (c) to read as follows:

§1.338-10 Filing of returns.

[The text of the proposed amendment to §1.338-10 is the same as the text for §1.338-10T published elsewhere in this issue of the **Federal Register**].

Par. 7. Section 1.351-3 is added to read as follows:

§1.351-3 Records to be kept and information to be filed.

[The text of the proposed §1.351-3 is the same as the text for §1.351-3T published elsewhere in this issue of the **Federal Register**].

Par. 8. Section 1.355-5 is added to read as follows:

§1.355-5 Records to be kept and information to be filed.

[The text of the proposed §1.355-5 is the same as the text for §1.355-5T published elsewhere in this issue of the **Federal Register**].

Par. 9. Section 1.368-3 is added to read as follows:

§1.368-3 Records to be kept and information to be filed with returns.

[The text of the proposed §1.368-3 is the same as the text for §1.368-3T published elsewhere in this issue of the **Federal Register**].

Par. 10. Section 1.381(b)-1 is amended by revising paragraph (b)(3) and adding paragraph (e) to read as follows:

§1.381(b)-1 Operating rules applicable to carryovers in certain corporate acquisitions.

[The text of the proposed amendment to §1.381(b)-1 is the same as the text for §1.381(b)-1T published elsewhere in this issue of the **Federal Register**].

Par. 11. Section 1.382-8 is amended by:

1. Revising paragraphs (c)(2) and (h).
2. Redesignating paragraph (e)(4) as paragraph (e)(5).
3. Adding new paragraphs (e)(4) and (j)(4).

The additions and revisions read as follows:

§1.382-8 Controlled groups.

[The text of the proposed amendment to §1.382-8 is the same as the text for §1.382-8T published elsewhere in this issue of the **Federal Register**].

Par. 12. Section 1.382-11 is added to read as follows:

§1.382-11 Reporting requirements.

[The text of the proposed §1.382-11 is the same as the text for §1.382-11T published elsewhere in this issue of the **Federal Register**].

Par. 13. Section 1.1081-11 is added to read as follows:

§1.1081-11 Records to be kept and information to be filed with returns.

[The text of the proposed §1.1081-11 is the same as the text for §1.1081-11T published elsewhere in this issue of the **Federal Register**].

Par. 14. Section 1.1221-2 is amended by revising paragraph (e)(2)(iv) and adding paragraphs (i) through (j) to read as follows:

§1.1221-2 Hedging transactions.

[The text of the proposed amendment to §1.1221-2 is the same as the text for §1.1221-2T published elsewhere in this issue of the **Federal Register**].

Par. 15. Section 1.1502-13 is amended by revising paragraphs (f)(5)(ii)(E) and (f)(6)(i)(C)(2) and adding paragraph (m) to read as follows:

§1.1502-13 Intercompany transactions.

[The text of the proposed amendment to §1.1502-13 is the same as the text for §1.1502-13T published elsewhere in this issue of the **Federal Register**].

Par. 16. Section 1.1502-31 is amended by revising paragraph (e)(2) and adding paragraphs (i) through (j) to read as follows:

§1.1502-31 Stock basis after a group structure change.

[The text of the proposed amendment to §1.1502-31 is the same as the text for §1.1502-31T published elsewhere in this issue of the **Federal Register**].

Par. 17. Section 1.1502-32 is amended by revising paragraph (b)(4)(iv) and adding paragraphs (i) through (j) to read as follows:

§1.1502-32 Investment adjustments.

[The text of the proposed amendment to §1.1502-32 is the same as the text for §1.1502-32T published elsewhere in this issue of the **Federal Register**].

Par. 18. Section 1.1502-33 is amended by revising paragraph (d)(5)(i)(D) and adding paragraph (k) to read as follows:

§1.1502-33 Earnings and profits.

[The text of the proposed amendment to §1.1502-33 is the same as the text for §1.1502-33T published elsewhere in this issue of the **Federal Register**].

Par. 19. Section 1.1502-35 is amended by revising paragraph (c)(4)(i) and adding paragraph (k) to read as follows:

§1.1502-35 Transfers of subsidiary stock and deconsolidations of subsidiaries.

[The text of the proposed amendment to § 1.1502-35 is the same as the text of §1.1502-35T published elsewhere in this issue of the **Federal Register**].

Par. 20. Section 1.1502-76 is amended by revising paragraph (b)(2)(ii)(D) and adding paragraph (d) to read as follows:

§1.1502-76 Taxable year of members of group.

[The text of the proposed amendment to §1.1502-76 is the same as the text for §1.1502-76T published elsewhere in this issue of the **Federal Register**].

Par. 21. Section 1.1502-95 is amended by revising paragraphs (e)(8) and (f) and adding paragraph (g) to read as follows:

§1.1502-95 Rules on ceasing to be a member of a consolidated group (or loss subgroup).

[The text of the proposed amendment to §1.1502-95 is the same as the text for §1.1502-95T published elsewhere in this issue of the **Federal Register**].

Par. 22. Section 1.1563-1 is amended by revising paragraph (c)(2) and adding paragraph (e) to read as follows:

§1.1563-1 Definition of controlled group of corporations and component members.

[The text of the proposed amendment to §1.1563-1 is the same as the text for §1.1563-1T published elsewhere in this issue of the **Federal Register**].

Par. 23. Section 1.1563-3 is amended by revising paragraph (d)(2)(iv) and adding paragraph (e) to read as follows:

§1.1563-3 Rules for determining stock ownership.

[The text of the proposed amendment to §1.1563-3 is the same as the text for §1.1563-3T published elsewhere in this issue of the **Federal Register**].

Par. 24. Section 1.6012-2 is amended by revising paragraph (c) and adding paragraph (k) to read as follows:

§1.6012-2 Corporations required to make returns of income.

[The text of the proposed amendment to §1.6012-2 is the same as the text for §1.6012-2T published elsewhere in this issue of the **Federal Register**].

Deputy Commissioner for Services and Enforcement.