support of the objection in the event that a hearing is held. Failure to include such a description and analysis for any particular objection shall constitute a waiver of the right to a hearing on the objection. Three copies of all documents are to be submitted and are to be identified with the docket number found in brackets in the heading of this document. Any objections received in response to the regulation may be seen in the Dockets Management Branch between 9 a.m. and 4 p.m., Monday through Friday.

List of Subjects in 21 CFR Part 178

Food additives, Food packaging.

Therefore, under the Federal Food, Drug, and Cosmetic Act and under authority delegated to the Commissioner of Food and Drugs and redelegated to the Director, Center for Food Safety and Applied Nutrition, 21 CFR part 178 is amended as follows:

PART 178—INDIRECT FOOD ADDITIVES: ADJUVANTS, PRODUCTION AIDS, AND SANITIZERS

1. The authority citation for 21 CFR part 178 continues to read as follows:

Authority: 21 U.S.C. 321, 342, 348, 379e.

2. Section 178.3725 is amended in the table by alphabetically adding an entry under the headings ''Substances'' and ''Limitations'' to read as follows:

§ 178.3725 Pigment dispersants.

* * * * *

Substances	Limitations
* * *	* * * *
Trimethylolethane (CAS Reg. No. 77–85–0).	For use only at levels not to exceed 0.45 percent by weight of inorganic pigment. The pigmented articles may contact all food under conditions of use A through H described in Table 2 of § 176.170(c) of this chapter.

Dated: August 21, 2000.

L. Robert Lake,

Director of Regulations and Policy, Center for Food Safety and Applied Nutrition.

[FR Doc. 00–22226 Filed 8–30–00; 8:45 am]

BILLING CODE 4160–01–F

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1 and 602

[TD 8898]

RIN 1545–AV81

Continuity of Interest

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations providing guidance regarding the continuity of interest requirement for corporate reorganizations. The final regulations affect corporations and their shareholders. The final regulations provide that distributions and redemptions by a target corporation prior to a potential reorganization are taken into account for continuity of interest purposes to the extent that the consideration received by the target shareholder in the redemption or distribution is treated as other property or money under section 356 of the Internal Revenue Code, or to the extent that the consideration would be treated as other property or money if the target shareholder also had received stock of the issuing corporation in exchange for stock owned by the shareholder in the target corporation.

DATES: *Effective Dates:* These regulations are effective August 30, 2000.

Applicability Dates: For dates of applicability of these regulations, see the ''Effective Dates'' portion of the Supplementary Information of the preamble.

FOR FURTHER INFORMATION CONTACT: Marie Byrne, (202) 622–7750 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collection of information in these final regulations has been reviewed and, pending receipt and evaluation of public comments, approved by the Office of Management and Budget (OMB) under 44 U.S.C. 3507 and assigned control number 1545–1691.

The collection of information in these regulations is in § 1.368–1(e)(7). The information is a private letter ruling request to apply the final regulations to a transaction in which a taxpayer has entered into a binding agreement on or after January 28, 1998 (the effective date of § 1.368–1T), and before the effective date of the final regulations. This information will be used to ensure that all parties to the transaction take consistent positions for Federal tax purposes. The collection of information is elective. If § 1.368–1T would apply to a transaction, but the taxpayer would prefer to apply the final regulations, the taxpayer may elect to submit the information. The likely respondents are businesses or other for-profit institutions.

Comments concerning the collection of information should be sent to the Office of Management and Budget, Attn: Desk Officer for the Department of Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503, with copies to the Internal Revenue Service, Attn: IRS Reports Clearance Officer, OP:FS:FP, Washington, DC 20224. Any such comments should be submitted not later than October 30, 2000.

Comments are specifically requested concerning:

(a) Whether the collection of information is necessary for the proper performance of the functioning of the Internal Revenue Service, including whether the information will have practical utility;

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

(c) How the quality, utility, and clarity of the information requested may be enhanced;

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

(e) Estimates of capital or start-up costs, and costs of operation, maintenance, and purchase of services to provide information. Estimated total annual reporting burden: 1,500 hours. The annual burden per respondent

varies from 50 to 200 hours, depending on individual circumstances, with an estimated average of 150 hours.
Estimated number of respondents: 10.
Estimated frequency of responses: Once.

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 OMB.

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

On January 28, 1998, the Treasury Department and IRS published final regulations on the continuity of interest (COI) requirement for potential corporate reorganizations, which permitted former target corporation (T) shareholders to sell stock in the issuing corporation (P) without causing the potential reorganization to fail to satisfy the COI requirement (63 FR 4174). Additionally, the IRS and Treasury Department published temporary and proposed regulations (the Temporary Regulations) in the **Federal Register** at 63 FR 4183 and 63 FR 4204, respectively, relating to redemptions of, and extraordinary distributions on, T stock prior to certain otherwise qualifying reorganizations.

The Treasury Department and IRS received written comments in response to the proposed regulations. A public hearing on the proposed regulations was held on May 26, 1998. After consideration of all comments, § 1.368–1T, published at 63 FR 4183, is removed. Section 1.368–1(e) is amended by this Treasury decision.

Explanation of Provisions

The Internal Revenue Code provides general nonrecognition treatment for reorganization transactions specifically described in section 368. In addition to complying with the statutory requirements and certain other requirements, a transaction generally must satisfy the COI requirement. The purpose of the COI requirement is to prevent transactions that resemble sales from qualifying for nonrecognition of gain or loss available to corporate reorganizations. COI requires that in substance a substantial part of the value of the proprietary interests in T be preserved in the reorganization. These final regulations address the effect on COI of prereorganization redemptions and distributions.

The Temporary Regulations

The Temporary Regulations provide that a proprietary interest in T is not preserved if, prior to and in connection with a potential reorganization, it is redeemed, or to the extent that, prior to and in connection with a potential reorganization, an extraordinary distribution is made with respect to it.

Several commentators argued that the Temporary Regulations are overly broad. Some suggested that the scope of the COI requirement should closely parallel the law regarding the ‘‘solely for voting stock’’ requirement for reorganizations under § 368(a)(1)(B) and (C), because both the solely for voting stock requirement and the COI requirement arose out of similar concerns, *i.e.,* to prevent transactions that resemble sales from qualifying for nonrecognition treatment available to corporate reorganizations. These commentators maintain that, similar to the solely for voting stock rule, prereorganization redemptions and extraordinary distributions by T should not be taken into account for COI purposes unless P directly or indirectly furnishes the consideration for the redemption or distribution. A rule that goes beyond this, they argue, converts the COI requirement into an asset continuity test, and thus overlaps with the continuity of business enterprise requirement (COBE) and the ‘‘substantially all the assets’’ requirement for certain reorganizations.

In addition, one commentator maintained that the Temporary Regulations provide inconsistent results by treating extraordinary distributions taxed as dividends under section 301 as the equivalent of sales proceeds for purposes of COI.

Other commentators expressed concern that certain types of taxpayers, such as S corporations, are inappropriately adversely affected by the approach of the Temporary Regulations. The commentators noted that when an S corporation merges into a C corporation, it is common for the S corporation, in advance of the reorganization, to make distributions in the amount of its accumulated adjustments account (AAA). If large enough, such distributions may cause the potential reorganization to fail to qualify for tax-free treatment because the COI requirement is not satisfied under the Temporary Regulations. These commentators believe that this application of the COI rules in the Temporary Regulations to S corporation reorganizations is inconsistent with section 1371, which generally provides that subchapter C applies to an S corporation, except to the extent inconsistent with subchapter S, because the practice of making prereorganization AAA distributions makes it more difficult for S corporations than for C corporations to qualify for reorganization treatment. Similar concerns arise when a controlled foreign corporation (CFC) distributes income from its previously taxed income account with respect to its subpart F income (see section 959). Another commentator suggested that distributions made by a C corporation immediately prior to a merger with a Regulated Investment Company (RIC) or Real Estate Investment Trust (REIT) should not be treated as extraordinary distributions. Under §§ 1.852–12 (for RICs) and 1.857–11 (for REITs), a C corporation that merges into a RIC or REIT must distribute all non-RIC or non-REIT earnings and profits before the end of the RIC's or REIT's first taxable year. Consequently, a C corporation typically will distribute such earnings and profits prior to a merger with a RIC or REIT.

After considering these comments, the purpose of the COI requirement, and the other existing protections that prevent transactions that resemble sales from qualifying for nonrecognition of gain or loss available to corporate reorganizations, the Treasury Department and IRS have concluded that the approach of the final regulations best reflects the purpose of the COI requirement. The regulations provide that a proprietary interest in T (other than one held by P) is not preserved to the extent that consideration received prior to a potential reorganization, either in a redemption of T stock or in a distribution with respect to T stock, is treated as other property or money received in the exchange for purposes of section 356 or would be so treated if the T shareholder also had received stock of P in exchange for stock owned by the shareholder in T. In determining whether consideration is treated as other property or money under section 356 received in an exchange for a proprietary interest in T, taxpayers should consider all facts, circumstances, and relevant legal authorities.

The regulations posit for COI purposes that each T shareholder receives some P stock in exchange for T stock. Section 356 generally does not apply to a T shareholder who does not receive any P stock in exchange for T stock in a reorganization. See Rev. Rul. 74–515 (1974–2 C.B. 118). Solely for purposes of determining whether the COI requirement is satisfied, however, the regulations deem each T shareholder to have received some P stock in exchange for T stock (without ascribing any value to that stock). The regulations thus use the same criterion for determining whether COI is satisfied, regardless of whether a T shareholder receives any P stock. These final regulations do not offer safe harbors or special rules for the transactions about which commentators expressed concern. Unlike the temporary regulations, however, the final regulations do not automatically take all prereorganization redemptions and extraordinary distributions in connection with the reorganization into account for COI purposes.

Stock Repurchase Programs

Example 8 of § 1.368–1(e)(6) illustrates the effect on COI of a general stock repurchase program. In the example, P repurchases a small percentage of its stock after a reorganization, as part of a preexisting stock repurchase program. COI is satisfied because the redemption of a small percentage of P stock was not in connection with the merger. In response to comments received, the IRS and Treasury Department issued further guidance on the effect of a stock repurchase program on COI in Rev. Rul. 99–58 (1999–52 I.R.B. 701). Because *Example 8* suggests a more restrictive approach to COI than was intended in this context, *Example 8* is removed by this Treasury decision.

Effect on Other Authorities

These COI regulations apply solely for purposes of determining whether the COI requirement is satisfied. No inference should be drawn from any provision of this regulation as to whether other reorganization requirements are satisfied, or as to the characterization of a related transaction.

Effect on Other Documents

The following publications do not apply to the extent they are inconsistent with these regulations:

Rev. Proc. 77–37 (1977–2 C.B. 568)
Rev. Proc. 86–42 (1986–2 C.B. 722)

Effective Dates

These regulations apply to transactions occurring after August 30, 2000, unless the transaction occurs pursuant to a written agreement that is (subject to customary conditions) binding on that date and at all times thereafter. Taxpayers who entered into a binding agreement on or after January 28, 1998 (the date that the temporary and proposed regulations were filed with the **Federal Register**), and before August 30, 2000, may request a private letter ruling permitting them to apply the final regulations to their transaction. A private letter ruling will not be issued unless the taxpayer establishes to the satisfaction of the IRS that there is not a significant risk of different parties to the transaction taking inconsistent positions, for U.S. tax purposes, with respect to the applicability of the final regulations to the transaction.

Special Analyses

It has been determined that these regulations are not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these final regulations. It is hereby certified that the collection of information in these regulations will not have a significant economic impact on a substantial number of small entities. This certification is based on the fact that while the burden of making this collection of information may be significant when applicable, taxpayers will have to make this collection of information only if they are corporations or shareholders of corporations who are parties to a purported reorganization in which COI would not be preserved under the Temporary regulations. The IRS estimates that the number of taxpayers who will need to make this collection of information will be 10 or fewer. 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 Code, these final regulations will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

Drafting Information

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

List of Subjects

26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

26 CFR Part 602

Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

Accordingly, 26 CFR parts 1 and 602 are amended as follows:

PART 1—INCOME TAXES

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

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

Par. 2. Section 1.368–1 is amended by:

1. Revising paragraph (e)(1)(ii).
2. Removing paragraph (e)(2)(ii).
3. Removing the paragraph designation (e)(2)(i).
4. Removing *Example* 8 of paragraph (e)(6).
5. Redesignating *Example* 9 of paragraph (e)(6) as *Example 8*.
6. Adding new *Example 9* to paragraph (e)(6).
7. Adding three sentences to the end of paragraph (e)(7).

The additions and revision read as follows:

§ 1.368–1 Purpose and scope of exception of reorganization exchanges.

* * * * *

(e) * * * (1) * * *

(ii) For purposes of paragraph (e)(1)(i) of this section, a proprietary interest in the target corporation (other than one held by the acquiring corporation) is not preserved to the extent that consideration received prior to a potential reorganization, either in a redemption of the target corporation stock or in a distribution with respect to the target corporation stock, is treated as other property or money received in the exchange for purposes of section 356, or would be so treated if the target shareholder also had received stock of the issuing corporation in exchange for stock owned by the shareholder in the target corporation.

* * * * *

(6) * * *

Example 9. Preacquisition redemption by target corporation. T has two shareholders, A and B. P expresses an interest in acquiring the stock of T. A does not wish to own P stock. T redeems A's shares in T in exchange for cash. No funds have been or will be provided by P for this purpose. P subsequently acquires all the outstanding stock of T from B solely in exchange for voting stock of P. The cash received by A in the prereorganization redemption is not treated as other property or money under section 356, and would not be so treated even if A had received some stock of P in exchange for his T stock. The prereorganization redemption by T does not affect continuity of interest, because B's proprietary interest in T is unaffected, and the value of the proprietary interest in T is preserved.

(7) * * * Paragraph (e)(1)(ii) of this section, however, applies to transactions occurring after August 30, 2000, unless the transaction occurs pursuant to a written agreement that is (subject to customary conditions) binding on that date and at all times thereafter. Taxpayers who entered into a binding agreement on or after January 28, 1998, and before August 30, 2000, may request a private letter ruling permitting them to apply the final regulation to their transaction. A private letter ruling will not be issued unless the taxpayer establishes to the satisfaction of the IRS that there is not a significant risk of different parties to the transaction taking inconsistent positions, for Federal tax purposes, with respect to the applicability of the final regulations to the transaction.

§ 1.368–1T [Removed]

Par. 3. Section 1.368–1T is removed.

PART 602—OMB CONTROL NUMBERS UNDER THE PAPERWORK REDUCTION ACT

Par. 4. Section § 602.101, paragraph (b) is amended by adding an entry to the table in numerical order to read as follows:

§ 602.101 OMB Control numbers.

* * * * *

(b) * * *

CFR part or section where identified or described	Current OMB control No.
* * * * *	
1.368–1	1545–1691
* * * * *	

Robert E. Wenzel,

Deputy Commissioner of Internal Revenue.

Approved: August 23, 2000.

Jonathan Talisman,

Acting Assistant Secretary of the Treasury.

[FR Doc. 00–22075 Filed 8–30–00; 8:45 am]

BILLING CODE 4830–01–P

DEPARTMENT OF TRANSPORTATION

Saint Lawrence Seaway Development Corporation

33 CFR Part 401

[Docket No. SLSDC 2000–7543]

RIN 2135–AA11

Seaway Regulations and Rules: Miscellaneous Amendments

AGENCY: Saint Lawrence Seaway Development Corporation, DOT.

ACTION: Final rule.

SUMMARY: The Saint Lawrence Seaway Development Corporation (SLSDC) and the St. Lawrence Seaway Management Corporation of Canada (SLSMC) publish joint Seaway Regulations. The SLSDC and the SLSMC have determined that a number of existing regulations need to be amended. Only four of the amendments are substantive and of applicability in both U.S. and Canadian waters. (See **SUPPLEMENTARY INFORMATION.**) The remaining amendments are merely editorial, ministerial, for clarification without substantive change in interpretation, or applicable only in Canada. The Canada Marine Act has abolished the Saint Lawrence Seaway Authority of Canada and replaced it with the SLSMC, made changes in the manner in which the SLSMC conducts or may conduct its operations as compared to the Authority, and made minor changes in some of the terminology used in the Canadian law applicable to the Seaway. Accordingly, most of the amendments are strictly editorial, reflect procedures undertaken unilaterally by the SLSMC, or otherwise are applicable only in Canada because of unilateral action by the SLSMC or Canadian law. Other changes are due strictly to Canadian circumstances or unilateral action, such as: removal of reference to bridges that no longer exist; removal of references to the Canadian entity in the rules on detention and sale; and adding provisions that are only applicable on Canadian property. Some minor changes in numbering and lettering also are being made.

DATES: This rule is effective on October 2, 2000.

FOR FURTHER INFORMATION CONTACT: Marc C. Owen, Chief Counsel, Saint Lawrence Seaway Development Corporation, 400 Seventh Street, S.W., Washington, D.C. 20590, (202) 366–6823.

SUPPLEMENTARY INFORMATION: As a result of discussions with the Saint Lawrence Seaway Management Corporation of Canada, the Saint Lawrence Seaway Development Corporation is amending the Seaway Regulations and Rules in 33 CFR part 401. A Notice of Proposed Rulemaking was published on June 29, 2000 (65 FR 40070). Interested parties have been afforded an opportunity to participate in the making of these amendments. No comments were received. The amendments are described in the following summary.

Only four of the amendments are substantive and of applicability in both U.S. and Canadian waters, which are as follows. Section 401.3, ''Maximum vessel dimensions'', is amended by revising paragraph (e) to allow a vessel with a beam in excess of 23.2 m, but not more than 23.8 m. and an overall length in excess of 222.5 m, but not more than 225.5 m, to be considered for transit upon application to the SLSMC and SLSDC. This amendment follows successful feasibility testing by both corporations. Section 410.10, ''Mooring lines'', is amended by adding a new paragraph (a)(2) requiring mooring lines to have a diameter not greater than 28 mm. This is in response to safety concerns for linehandling personnel of both corporations. The larger, heavier mooring lines that have been used by some vessels are difficult to handle and may cause back injuries. Section 401.13, ''Hand lines'', is amended by changing the minimum diameter from 12 mm to 15 mm, the maximum diameter from 20 mm to 17 mm, and the minimum length from 35 m to 30 m for similar safety of linehandling personnel reasons. Schedule III, ''Calling-In Table'', is amended by changing a number of reporting requirements at certain calling-in points. The SLSDC and the SLSMC now share the same computer database, which eliminates the need for vessels to report particulars more than once unless a change has occurred.

The remaining amendments, described in the rest of this preamble, are merely editorial, ministerial, for clarification without substantive change in interpretation, or applicable only in Canada. Some minor changes in numbering and lettering also are being made. The Canada Marine Act has abolished the Saint Lawrence Seaway Authority of Canada and replaced it with the SLSMC, made changes in the manner in which the SLSMC conducts or may conduct its operations as compared to the Authority, and made minor changes in some of the terminology used in the Canadian law applicable to the Seaway. Accordingly, most of the amendments in this proposal are strictly editorial, reflect procedures undertaken unilaterally by