

an equal partnership (UTP), with each partner contributing \$100,000. D, E, and F also form an equal partnership (LTP), with each partner contributing \$30,000. LTP purchases stock in corporation B for \$90,000, which appreciates in value to \$900,000. LTP has no liabilities. UTP purchases D's interest in LTP for \$300,000. LTP does not have an election under section 754 in effect for the taxable year of UTP's purchase. LTP later sells the B stock for \$900,000. UTP's share of the gain is \$270,000, and B's share of that gain is \$90,000. Under section 1032, B does not recognize its share of the gain.

(ii) With respect to the basis of UTP's interest in LTP, if all of the gain from the sale of the B stock (including B's share) were to increase the basis of UTP's interest in LTP, UTP's basis in the LTP interest would be \$570,000 (\$300,000 + \$270,000), and the fair market value of such interest would be \$300,000, so that B would be allocated a loss of \$90,000 $((\$570,000 - \$300,000) \times 1/3)$ if UTP sold its interest in LTP immediately after LTP's disposition of the B stock. It would be inappropriate for B to recognize a taxable loss of \$90,000 upon a disposition of UTP's interest in LTP. B would not incur an economic loss in the transaction, and B was not allocated a taxable gain upon LTP's disposition of the B stock that appropriately would be offset by a taxable loss on the disposition of UTP's interest in LTP. Accordingly, increasing UTP's basis in its LTP interest by the gain allocated to B from the sale of the B stock is not consistent with the purpose of this section. (Conversely, because E and F were allocated taxable gain on the disposition of the B stock, it would be appropriate to increase E's and F's bases in their respective interests in LTP by the full amount of such gain.)

(iii) The appropriate basis adjustment for UTP's interest in LTP upon the disposition of the B stock by LTP can be determined as the amount of gain that UTP would have recognized (in the absence of section 1032) upon the sale by LTP of the B stock if the portion of the gain allocated to UTP that subsequently is allocated to B were determined as if LTP had made an election under section 754 for the taxable year in which UTP acquired its interest in LTP. If a section 754 election had been in effect for LTP for the year in which UTP acquired its interest in LTP, then with respect to B, the following would occur. UTP would be entitled to a \$90,000 positive basis adjustment under section 743(b), allocable to B, in the property of LTP. The entire basis adjustment would be allocated to LTP's only asset, its B stock. The amount of LTP's gain from the sale of the B stock (before considering section 743(b)) would be \$810,000. UTP's share of this gain, \$270,000, would be offset, in part, by the basis adjustment under section 743(b), so that UTP would recognize gain equal to \$180,000.

(iv) If the basis of UTP's interest in LTP were increased by \$180,000, the total basis of UTP's partnership interest would equal \$480,000. This would conform to the sum of UTP's share of the cash held by LTP $((1/3 \times \$900,000 = \$300,000)$ and the taxable gain recognized by A and C on the disposition of the B stock that appropriately may be offset

on the disposition of their interests in UTP $(\$90,000 + \$90,000 = \$180,000)$. Such a basis adjustment does not inappropriately create the opportunity for the allocation of a loss to B on a subsequent disposition of UTP's interest in LTP and is consistent with the purpose of this section. Accordingly, of the \$270,000 gain allocated to UTP, only \$180,000 will apply to increase the adjusted basis of UTP in LTP under section 705(a)(1). Such \$180,000 basis increase must be segregated and allocated \$90,000 each to solely A and C. UTP's adjusted basis in its LTP interest following the sale of the B stock is \$480,000.

(v) With respect to B's interest in UTP, if B's share of the gain allocated to UTP and then to B were to increase the basis of B's interest in UTP, B would have a UTP partnership interest with an adjusted basis of \$190,000 $(\$100,000 + \$90,000)$ and a value of \$100,000, so that B would recognize a loss of \$90,000 if B sold its interest in UTP immediately after LTP's disposition of the B stock. It would be inappropriate for B to recognize a taxable loss of \$90,000 upon a disposition of its interest in UTP because B would not incur an economic loss in the transaction, and B did not recognize a taxable gain upon LTP's disposition of the B stock that appropriately would be offset by a taxable loss on the disposition of its interest in UTP. Accordingly, increasing B's basis in its UTP interest by the gain allocated to B from the sale of the B stock is not consistent with the purpose of this section. (Conversely, because A and C were allocated taxable gain on the disposition of the B stock that is a result of LTP not having a section 754 election in effect, it would be appropriate for A and C to recognize an offsetting taxable loss on the disposition of A's and C's interests in UTP. Accordingly, it would be appropriate to increase A's and C's bases in their respective interests in UTP by the amount of gain recognized by A and C.)

(vi) The appropriate basis adjustment for B's interest in UTP upon the disposition of the B stock by LTP can be determined as the amount of gain that B would have recognized (in the absence of section 1032) upon the sale by LTP of the B stock if the portion of the gain allocated to UTP that is subsequently allocated to B were determined as if LTP had made an election under section 754 for the taxable year in which UTP acquired its interest in LTP. If a section 754 election had been in effect for LTP for the year in which UTP acquired its interest in LTP, then with respect to B, the following would occur. UTP would be entitled to a basis adjustment under section 743(b) in the property of LTP of \$90,000 with respect to B. The entire basis adjustment would be allocated to LTP's only asset, its B stock. The amount of LTP's gain from the sale of the B stock (before considering section 743(b)) would be \$810,000. UTP's share of this gain, \$270,000, would be offset, in part, by the \$90,000 basis adjustment under section 743(b), so that UTP would recognize gain equal to \$180,000. The \$90,000 basis adjustment would completely offset the gain that otherwise would be allocated to B.

(vii) If no gain were allocated to B so that the basis of B's interest in UTP was not

increased, the total basis of B's interest would equal \$100,000. This would conform to B's share of UTP's basis in the LTP interest $((\$480,000 - \$180,000)$ (i.e., A's and C's share of the basis that should offset taxable gain recognized as a result of LTP's failure to have a section 754 election) $\times 1/3 = \$100,000)$ as well as B's indirect share of the cash held by LTP $((1/3 \times 1/3) \times \$900,000 = \$100,000)$. Such a basis adjustment does not create the opportunity for the recognition of an inappropriate loss by B on a subsequent disposition of B's interest in UTP and is consistent with the purpose of this section. Accordingly, under this paragraph (c), of the \$90,000 gain allocated to B, none will apply to increase the adjusted basis of B in UTP under section 705(a)(1). B's adjusted basis in its UTP interest following the sale of the B stock is \$100,000.

(viii) Immediately after LTP's disposition of the B stock, UTP sells its interest in LTP for \$300,000. UTP's adjusted basis in its LTP interest is \$480,000, \$180,000 of which must be allocated \$90,000 each to A and C. Accordingly, upon UTP's sale of its interest in LTP, UTP realizes \$180,000 of loss, and A and C in turn each realize \$90,000 of loss.

(d) [Reserved]

(e) *Effective date.* This section applies to gain or loss allocated with respect to sales or exchanges of stock occurring after December 6, 1999.

Robert E. Wenzel,

Deputy Commissioner of Internal Revenue.

Approved: March 14, 2002.

Mark Weinberger,

Assistant Secretary of the Treasury.

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DEPARTMENT OF TRANSPORTATION

Coast Guard

33 CFR Part 100

[CGD11-02-001]

RIN 2115-AE46

Special Local Regulations; San Diego Crew Classic

AGENCY: Coast Guard, DOT.

ACTION: Notice of implementation.

SUMMARY: This Notice announces the implementation of the regulations located at 33 CFR 100.1101 for the San Diego Crew Classic on April 6-7, 2002. These regulations will be effective on Mission Bay and are necessary to control vessel traffic in the regulated areas during the event to ensure the safety of participants and spectators. **EFFECTIVE DATES:** This section is effective from 6:00 a.m. on April 6, 2002 until 6:00 p.m. on April 7, 2002.

FOR FURTHER INFORMATION CONTACT: Petty Officer Austin Murai, U. S. Coast

Guard Marine Safety Office San Diego, San Diego, California; Telephone: (619) 683-6495.

SUPPLEMENTARY INFORMATION: *Discussion of Notice.* These Special Local Regulations permit Coast Guard control of vessel traffic in order to ensure the safety of spectator and participant vessels. In accordance with the regulations in 33 CFR 100.1101, no persons or vessels shall block, anchor, or loiter in the regulated area; nor shall any person or vessel transit through the regulated area, or otherwise impede the transit of participant or official patrol vessels in the regulated area, unless cleared for such entry by or through an official patrol vessel acting on behalf of the Patrol Commander. The regulated area is located on Mission Bay in that portion bounded by Enchanted Cove, Fiesta Island, Pacific Passage, and DeANza Point. Pursuant to 33 CFR 100.1101(b)(3), Commanding Officer, Coast Guard Activities San Diego is designated the Patrol Commander for this event. He has authority to delegate this responsibility to any commissioned, warrant, or petty officer of the Coast Guard.

Good Cause Statement. Good cause exists for publishing this Notice of Implementation less than 30 days before the event because there is an immediate need to protect the crew boat racers from any motorized boats in the vicinity. This need was balanced against the principle that all affected persons should be afforded a reasonable time to prepare for the effective date of the rule. Because general notice of this rule is published in the Code of Federal Regulations and the general notice is being followed by this Notice of Implementation, affected persons will have received adequate notice that this rule would come into effect.

Dated: March 19, 2002.

D.C. Folsom,

Captain, U.S. Coast Guard, Commander, Eleventh Coast Guard District, Acting.

[FR Doc. 02-7712 Filed 3-28-02; 8:45 am]

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DEPARTMENT OF TRANSPORTATION

Coast Guard

33 CFR Part 117

[CGD01-02-036]

Drawbridge Operation Regulations: New Rochelle Harbor, NY

AGENCY: Coast Guard, DOT.

ACTION: Notice of temporary deviation from regulations.

SUMMARY: The Commander, First Coast Guard District, has issued a temporary deviation from the drawbridge operation regulations for the Glen Island Bridge, mile 0.8, across New Rochelle Harbor at New Rochelle, New York. This temporary deviation will allow the bridge to remain closed to navigation from 11 p.m. to 7 a.m., Sunday through Friday, from April 29, 2002 through June 26, 2002. This temporary deviation is necessary to facilitate repairs at the bridge.

DATES: This deviation is effective from April 29, 2002 through June 26, 2002.

FOR FURTHER INFORMATION CONTACT: Joseph Schmied, Project Officer, First Coast Guard District, at (212) 668-7195.

SUPPLEMENTARY INFORMATION: The bridge owner, Westchester County Department of Public Works, requested a temporary deviation from the drawbridge operating regulations to facilitate necessary maintenance, replacement of deteriorated concrete and structural supports, at the bridge. The performance of these repairs require the bridge to remain in the closed position.

The Coast Guard and the owner of the bridge coordinated this closure with the mariners that normally use this waterway to help facilitate this necessary bridge repair and to minimize any disruption to the marine transportation system. Therefore, as a result of that coordination effort, a temporary deviation from the drawbridge operation regulations has been approved. Under this temporary deviation the Glen Island Bridge will not open for vessel traffic from 11 p.m. to 7 a.m., Sunday through Friday, from April 29, 2002 through June 26, 2002.

This deviation from the operating regulations is authorized under 33 CFR 117.35, and will be performed with all due speed in order to return the bridge to normal operation as soon as possible.

Dated: March 21, 2002.

G.N. Naccara,

Rear Admiral, Coast Guard, Commander, First Coast Guard District.

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DEPARTMENT OF TRANSPORTATION

Coast Guard

33 CFR Part 165

[COTP Los Angeles-Long Beach 02-006]

RIN 2115-AA97

Security Zone; Waters Adjacent to Diablo Canyon Nuclear Power Plant, Avila Beach, CA

AGENCY: Coast Guard, DOT.

ACTION: Interim rule with request for comments.

SUMMARY: The Coast Guard has established a security zone in the waters adjacent to Diablo Canyon Nuclear Power Plant near Avila Beach, California. This action is necessary to ensure public safety and prevent sabotage or terrorist acts against the power plant and individuals near or in the power plant facilities and the surrounding communities. Entry into this zone will be prohibited unless specifically authorized by the Captain of the Port Los Angeles-Long Beach.

DATES: This interim rule is effective at 3:59 p.m. (PDT) on March 29, 2002. Comments and related material must reach the Coast Guard on or before May 28, 2002.

ADDRESSES: You may mail comments and related material to U.S. Coast Guard Marine Safety Office/Group Los Angeles-Long Beach, Waterways Management Division, 1001 S. Seaside Avenue, Building 20, San Pedro, California, 90731. The Waterways Management Division maintains the public docket for this rulemaking. Comments and material received from the public, as well as documents indicated in this preamble as being available in the docket, will become part of this docket and will be available for inspection or copying at the Waterways Management Division between 8 a.m. and 4 p.m., Monday through Friday, except Federal holidays.

FOR FURTHER INFORMATION CONTACT: If you have questions on this rule, call Lieutenant Junior Grade Rob Griffiths, Assistant Chief, Waterways Management Division, (310) 732-2020.

SUPPLEMENTARY INFORMATION:

Request for Comments

We encourage you to participate in this rulemaking by submitting comments and related material. If you do so, please include your name and address, identify the docket number for this rulemaking (COTP Los Angeles-Long Beach 02-006), indicate the specific section of this document to