Accordingly, rule FR Doc. 02–24820 published on October 1, 2002 (67 FR 61752) is corrected as follows:

1. On page 61756, in the third column, § 92.254(a)(7) is corrected to read as follows:

§ 92.254 Qualification as affordable housing: Homeownership.

(7) Lease-purchase. HOME funds may be used to assist homebuyers through lease-purchase programs for existing housing and for housing to be constructed. The housing must be purchased by a homebuyer within 36 months of signing the lease-purchase agreement. The homebuyer must qualify as a low-income family at the time the lease-purchase agreement is signed. If HOME funds are used to acquire housing that will be resold to a homebuyer through a lease-purchase program, the HOME affordability requirements for rental housing in § 92.252 shall apply if the housing is not transferred to a homebuyer within forty-two months after project completion.


Roy A. Bernardi,
Assistant Secretary for Community Planning and Development.

[FR Doc. 03–4941 Filed 3–3–03; 8:45 am]

BILLING CODE 4210–29–P

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Parts 1, 20, 25, 31, 53, 54, 56, 301, and 602

[TD 9046]

RIN 1545–AX81; 1545–BB49; 1545–BB50; 1545–BB46; 1545–BB53; 1545–BB51; 1545–BB52; 1545–AW26; 1545–AX79

Tax Shelter Regulations

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: These regulations finalize the rules relating to the filing by certain taxpayers of a disclosure statement with their Federal tax returns under section 6011(a), the rules relating to the registration of confidential corporate tax shelters under section 6111(d), and the rules relating to the list maintenance requirements under section 6112. These regulations affect taxpayers participating in reportable transactions, persons responsible for registering confidential corporate tax shelters, and organizers and sellers of potentially abusive tax shelters.

DATES: Effective Date: These regulations are effective February 28, 2003. Applicability Date: For dates of applicability, see § 1.6011–4(h), § 20.6011–4(b), § 25.6011–4(b), § 31.6011–4(b), § 53.6011–4(b), § 54.6011–4(b), § 56.6011–4(b), § 301.6111–2(h), and § 301.6112–1(j).

FOR FURTHER INFORMATION CONTACT: Tara P. Volungis or Charlotte Chyr, 202–622–3070 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collections of information contained in these final regulations have been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control numbers 1545–6307, 1545–1685, 1545–1687, and 1545–1686. Responses to these collections of information are mandatory. Form 8886, “Reportable Transaction Disclosure Statement”, reflects the collection of information relating to the disclosure of reportable transactions for the regulations under § 1.6011–4, and was approved by OMB under control number 1545–1800. Form 8264, “Application for Registration of a Tax Shelter”, reflects the collection of information relating to the registration of tax shelters for the regulations under § 301.6111–2 and § 301.6111–1T, and was approved by OMB under control number 1545–0865.

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

The estimated annual burden per respondent/recordkeeper for the collection of information in § 1.6011–4 will be reflected on Form 8886. The estimated annual burden for the collection of information in Form 8886 is 3,770 hours and the estimated number of respondents/recordkeepers is 500. The estimated annual burden per respondent/recordkeeper for the collection of information in § 301.6111–2 is reflected on Form 8264. The estimated annual burden for the collection of information in Form 8264 is 14,382 hours and the estimated number of respondents/recordkeepers is 350. The estimated annual burden per recordkeeper for the collection of information in § 301.6111–1 is 100 hours and the estimated number of recordkeepers is 500.

Comments concerning the accuracy of these burden estimates and suggestions for reducing these burdens should be sent to the Internal Revenue Service, Attn: IRS Reports Clearance Officer, W:CAR:MP:T:T:SP, Washington, DC 20224, and to the Office of Management and Budget, Attn: Desk Officer for the Department of the Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503.

Books and records relating to these collections 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

This document amends 26 CFR part 1 to provide rules relating to the disclosure of reportable transactions by certain taxpayers on their Federal tax returns under section 6011, and also amends 26 CFR parts 20, 25, 31, 53, 54, and 56 to provide rules for purposes of estate, gift, employment, and pension and exempt organizations excise taxes requiring the disclosure of listed transactions by certain taxpayers on their Federal tax returns under section 6011. This document amends 26 CFR part 301 to provide rules regarding the registration of confidential corporate tax shelters under section 6111(d) and rules relating to the list maintenance requirements under section 6112.

On February 28, 2000, the IRS issued temporary and proposed regulations regarding sections 6011, 6111, and 6112 (TD 8877, REG–103735–00; TD 8876, REG–110331–98; TD 8875, REG–103736–00) (the February 2000 regulations). The February 2000 regulations were published in the

Federal Register (65 FR 11205, 65 FR 11269; 65 FR 11215, 65 FR 11272; 65 FR 11211, 65 FR 11271) on March 2, 2000. On August 11, 2000, the IRS issued temporary and proposed regulations modifying the rules under sections 6011, 6111, and 6112 (TD 8896, REG–103735–00, REG–110331–98, REG–103736–00) (the August 2000 regulations). The August 2000 regulations were published in the

Federal Register (65 FR 49909, 65 FR 49955) on August 16, 2000. On August 2, 2001, the IRS issued temporary and proposed regulations modifying the rules under sections 6011 and 6111 (TD 8961, REG–103735–00, REG–110331–98) (the August 2001 regulations). The August 2001 regulations were published in the

Federal Register (66 FR 41133, 66 FR 41169) on August 7, 2001. On June 14, 2002, the IRS issued temporary and
proposed regulations modifying the rules under sections 6011 and 6111 (TD 9000, REG—103735—00, REG—103736—00, and REG—110311—98) (the June 2002 regulations). The June 2002 regulations were published in the Federal Register (67 FR 41324, 67 FR 41362) on June 18, 2002. On October 17, 2002, the IRS issued temporary and proposed regulations modifying the rules under sections 6011, 6111, and 6112 (TD 9017, REG—103735—00, REG—103736—00, REG—110311—00) (the October 2002 regulations). The October 2002 regulations were published in the Federal Register (67 FR 64799, 67 FR 64840; 67 FR 64807, 67 FR 64842) on October 22, 2002. On December 11, 2002, and on January 7, 2003, the IRS and Treasury Department held a public hearing on these regulations. Written and electronic comments responding to the temporary regulations and the notices of proposed rulemaking were received. After consideration of all the statements and comments, the proposed regulations are adopted as amended by this Treasury decision, and the corresponding temporary regulations are removed. The revisions are discussed below.

Explanation and Summary of Comments

1. In General

These regulations finalize the rules for disclosure of reportable transactions, registration of confidential corporate tax shelters, and list maintenance of potentially abusive tax shelters. Sections 20.6011–4, 25.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, 56.6011–4, and 301.6111–2 finalize each corresponding proposed regulation with few, if any, changes. Sections 1.6011–4 and 301.6112–1 modify and finalize each corresponding proposed regulation.

The IRS and Treasury Department received numerous comments relating to the October 2002 temporary regulations regarding disclosure under § 1.6011–4T and list maintenance under § 301.6112–1T. All comments were reviewed thoroughly. In particular, the IRS and Treasury Department reviewed the commentators’ suggested clarifications to the rules pertaining to loss transactions and transactions with a significant book-tax difference, and to the rules pertaining to who must disclose transactions under section 6011. The IRS and Treasury Department also focused specifically on the comments relating to the rules pertaining to material advisors and the rules pertaining to the persons who must be included on lists under section 6112. In response to the commentators’ suggested clarifications, the final regulations have been revised to tailor more narrowly the scope of the transactions for which disclosure and maintenance of information under sections 6011 and 6112 is required. The major changes to the regulations are described below.

2. Section 6011—Participants

The definition of participation has been clarified in the final regulations. Reporting of transactions by RICs and reporting of certain leasing transactions have been excluded from the requirements under § 1.6011–4, provided that the transactions are not listed transactions.

3. Section 6011—Confidential Transactions

A confidential transaction is a transaction that is offered under conditions of confidentiality. The regulations generally provide a presumption of non-confidentiality if the taxpayer receives written authorization to disclose the tax treatment and tax structure of the transaction. Some commentators suggested the following changes to the regulations: (1) clarification regarding when the written authorization to disclose has to be effective, (2) clarification regarding whether proprietary transactions are confidential if there is a written authorization to disclose, and (3) an exception for certain merger and acquisition transactions. In response to those comments, the IRS and Treasury Department have made modifications to the factors for a confidential transaction in the final regulation.

The final regulations delete the clarification, under the definition of a confidential transaction for purposes of both section 6011 and section 6111, that a privilege held by the taxpayer does not cause a transaction to be confidential. The IRS and Treasury Department believe that this clarification is not necessary because the attorney-client privilege (or the confidentiality privilege of section 7525(a)) does not affect whether a transaction is confidential. A claim of privilege does not restrict the taxpayer’s ability to disclose the tax treatment or tax structure of a transaction.

4. Section 6011—Transactions with Contractual Protection

Commentators indicated that it is inappropriate to require the reporting of a transaction for which the taxpayer obtains tax insurance. Other commentators suggested that the contractual protection factor would require the reporting of numerous non-abusive types of transactions, such as legitimate business transactions with tax indemnities or rights to terminate the transaction in the event of a change in tax law. In response to these comments, the IRS and Treasury Department changed the focus of the contractual protection factor to whether fees are refundable or contingent. However, if it comes to the attention of the IRS and Treasury Department that other types of contractual protection, including tax insurance or tax indemnities, are being used to facilitate abusive transactions, changes to the regulations will be considered.

5. Section 6011—Loss Transactions

Many commentators suggested that the loss transaction factor was over broad and would require disclosure of a significant number of transactions occurring in the ordinary course of business. In response to these comments, exceptions to the loss transaction factor will be issued in separate published guidance.

6. Section 6011—Transactions with a Significant Book-Tax Difference

The IRS and Treasury Department received many comments on the use of U.S. GAAP, the manner in which gross assets are to be calculated, and the potential exclusion of items for purposes of the book-tax difference factor. In response, the final regulations revise the book-tax difference factor to provide that if a taxpayer in the ordinary course of its business keeps books on a basis other than U.S. GAAP and does not use U.S. GAAP for any purpose, then the taxpayer may determine the treatment of a book item by using the books maintained by the taxpayer, provided the books are kept on the same basis consistently from year to year. In addition, the final regulations increase the requisite gross asset amount to $250 million or more and specify that the amount of gross assets is determined by ascertaining whether the gross assets equaled or exceeded $250 million for book purposes at the end of any financial accounting period that ends with or within the entity’s taxable year in which the transaction occurs.

In response to comments that the scope of the book-tax difference factor was over broad, the IRS and Treasury Department have revised the exceptions to this factor. The exceptions to the book-tax difference factor have been removed from the regulations and will
be issued in separate published
guidance.

7. Section 6011—Form 8886

Taxpayers will disclose reportable transactions under the final regulations on Form 8886. Reportable transactions entered into on or after January 1, 2003, and prior to February 28, 2003, for which the taxpayer does not choose to apply the final regulations, may be disclosed on Form 8886 or as provided in §1.6011–4T(c) as published in the Federal Register (67 FR 41324) on June 18, 2002. Form 8886 will allow taxpayers to aggregate substantially similar transactions on one form for disclosure purposes.

8. Section 6112

Commentators requested clarification on the definition of a material advisor and the threshold fee requirement. In response to those comments, the final regulations provide that a person is a material advisor if the person is required to register a transaction under section 6111 or the person receives at least a minimum fee with respect to the transaction and makes a tax statement to certain taxpayers. In addition, the IRS and Treasury Department have clarified that fees are defined as all fees for services for advice (whether or not tax advice) or for the implementation of a transaction that is a potentially abusive tax shelter.

In the final regulations, the IRS and Treasury Department have clarified that the procedures for asserting a privilege claim apply to information required to be maintained in §301.6112–1(f)(3)(II) that might be privileged. This change reflects the IRS and Treasury Department’s belief that the other information covered by these regulations is not privileged. These procedures neither expand nor contract the scope of items that may be privileged.

Effective Date


Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. 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 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. With regard to disclosure and registration, this certification is based upon the fact that the time required to prepare or retain the disclosure or registration is not lengthy and will not have a significant impact on those small entities that are required to provide disclosure or to register. With regard to list maintenance, this certification is based upon the fact that the number of respondents is small, those persons responsible for maintaining the list described in the regulations are principally sophisticated businesses, including accounting firms and law firms, and very few respondents, if any, are likely to be small businesses.

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, the notice of proposed rulemaking preceding these regulations was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

Drafting Information

The principal authors of these regulations are Tara P. Volungis and Charlotte Chyr of the Office of the Associate Chief Counsel (Passthroughs and Special Industries). 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 20
Estate tax, Reporting and recordkeeping requirements.

26 CFR Part 25
Gift taxes, Reporting and recordkeeping requirements.

26 CFR Part 31
Employment taxes, Income taxes, Penalties, Pensions, Railroad retirement, Reporting and recordkeeping requirements, Social security, Unemployment compensation.

26 CFR Part 53
Excise taxes, Foundations, Investments, Lobbying, Reporting and recordkeeping requirements.

26 CFR Part 54
Excise taxes, Pensions, Reporting and recordkeeping requirements.

26 CFR Part 56
Excise taxes, Lobbying, Nonprofit organizations, Reporting and recordkeeping requirements.

26 CFR Part 301
Administrative practice and procedure, Employment taxes, Estate taxes, Excise taxes, Gift taxes, Income taxes, Penalties, Reporting and recordkeeping requirements.

26 CFR Part 602
Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

Accordingly, 26 CFR parts 1, 20, 25, 31, 53, 54, 56, 301, 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 1.6011–4 is added to read as follows:

§1.6011–4 Requirement of statement disclosing participation in certain transactions by taxpayers.

(a) In general. Every taxpayer that has participated, as described in paragraph (c)(3) of this section, in a reportable transaction within the meaning of paragraph (b) of this section and who is required to file a tax return must attach to its return for the taxable year described in paragraph (e) of this section a disclosure statement in the form prescribed by paragraph (d) of this section. The fact that a transaction is a reportable transaction shall not affect the legal determination of whether the taxpayer’s treatment of the transaction is proper.

(b) Reportable transactions—(1) In general. A reportable transaction is a transaction described in any of the paragraphs (b)(2) through (7) of this section. The term transaction includes all of the factual elements relevant to the expected tax treatment of any investment, entity, plan, or arrangement, and includes any series of steps carried out as part of a plan. There are six categories of reportable transactions: listed transactions, confidential transactions, transactions with contractual protection, loss transactions, transactions with a significant book-tax difference, and
transactions involving a brief asset holding period.

(2) **Listed transactions.** A listed transaction is a transaction that is the same as or substantially similar to one of the types of transactions that the Internal Revenue Service (IRS) has determined to be a tax avoidance transaction and identified by notice, regulation, or other form of published guidance as a listed transaction.

(3) **Confidential transactions**—

(a) **In general.** A confidential transaction is a transaction that is offered to a taxpayer under conditions of confidentiality. A transaction is considered offered to a taxpayer under conditions of confidentiality if the taxpayer’s disclosure of the tax treatment or the tax structure of the transaction is limited in any manner by an express or implied understanding or agreement with or for the benefit of any person who makes or provides a statement, oral or written, to the taxpayer (or for whose benefit a statement is made or provided to the taxpayer) as to the potential tax consequences that may result from the transaction, whether or not such understanding or agreement is legally binding. A transaction also will be considered offered to a taxpayer under conditions of confidentiality if the taxpayer knows or has reason to know that the taxpayer’s use or disclosure of information relating to the tax treatment or tax structure of the transaction is limited in any other manner (such as where the transaction is claimed to be proprietary or exclusive) for the benefit of any person other than the taxpayer, who makes or provides a statement, oral or written, to the taxpayer (or for whose benefit a statement is made or provided to the taxpayer) as to the potential tax consequences that may result from the transaction. All the facts and circumstances relating to the transaction will be considered when determining whether a transaction is offered to a taxpayer under conditions of confidentiality, including the prior conduct of the parties.

(b) **Exceptions**—

(A) **Securities law.** A transaction is not considered offered to a taxpayer under conditions of confidentiality if disclosure of the tax treatment or tax structure of the transaction is subject to restrictions reasonably necessary to comply with securities laws and such disclosure is not otherwise limited.

(B) **Mergers and acquisitions.** In the case of a proposed taxable or tax-free acquisition of historic assets of a corporation (other than an investment company, as defined in section 351(e), that is not publicly traded) that constitute an active trade or business the acquirer intends to continue, or a proposed taxable or tax-free acquisition of more than 50 percent of the stock of a corporation (other than an investment company, as defined in section 351(e), that is not publicly traded) that owns historic assets used in an active trade or business the acquirer intends to continue, the transaction is not considered a confidential transaction under this paragraph (b)(3) if written authorization to disclose is provided to the taxpayer in accordance with this paragraph (b)(3)(ii) and the transaction is not otherwise confidential.

(4) **Transactions with contractual protection**—

(A) **In general.** A transaction with contractual protection is a transaction for which the taxpayer or a related party (as described in paragraph (b)(4)(i) of this section) has the right to a full or partial refund of fees (as described in paragraph (b)(4)(ii) of this section) if all or part of the intended tax consequences from the transaction are not sustained. A transaction with contractual protection also is a transaction for which fees (as described in paragraph (b)(4)(i) of this section) are contingent on the taxpayer’s realization of tax benefits from the transaction. All the facts and circumstances relating to the transaction will be considered when determining whether a fee is refundable or contingent, including the right to reimbursement of amounts that the parties to the transaction have not designated as fees or any agreement to provide services without reasonable compensation.

(B) **Previously reported transaction.** If a person makes or provides a statement to a taxpayer as to the potential tax consequences that may result from a transaction only after the taxpayer has entered into the transaction and reported the consequences of the transaction on a filed tax return, and the person has not previously received fees from the taxpayer relating to the transaction, then any refundable or contingent fees are not taken into account in determining whether the transaction has contractual protection. This paragraph (b)(4)(ii)(B) does not provide any substantive rules regarding when a person may charge refundable or contingent fees with respect to a...
transaction. See Circular 230, 31 CFR Part 10, for the regulations governing practice before the IRS.

(5) Loss transactions—(i) In general. A loss transaction is any transaction resulting in the taxpayer claiming a loss under section 165 of at least—

(A) $10 million in any single taxable year or $20 million in any combination of taxable years for corporations;

(B) $10 million in any single taxable year or $20 million in any combination of taxable years for partnerships that have only corporations as partners (looking through any partners that are themselves partnerships), whether or not any losses flow through to one or more partners; or

(C) $2 million in any single taxable year or $4 million in any combination of taxable years for all other partnerships, whether or not any losses flow through to one or more partners;

(D) $50,000 in any single taxable year for individuals, S corporations, or trusts, whether or not any losses flow through to one or more shareholders or beneficiaries; or

(E) $250,000 in any single taxable year for partnerships, whether or not any losses flow through from an S corporation or partnership, if the loss arises with respect to a section 988 transaction (as defined in section 988(c)(1) relating to foreign currency transactions).

(ii) Cumulative losses. In determining whether a transaction results in a taxpayer claiming a loss that meets the threshold amounts over a combination of taxable years as described in paragraph (b)(5)(i) of this section, only losses claimed in the taxable year that the transaction is entered into and the five succeeding taxable years are combined.

(iii) Section 165 loss. (A) For purposes of this section, in determining the thresholds in paragraph (b)(5)(i) of this section, the amount of a section 165 loss is adjusted for any salvage value and for any insurance or other compensation received. See §1.165–1(c)(4). However, a section 165 loss does not take into account offsetting gains, or other income or limitations. For example, a section 165 loss does not take into account the limitation in section 165(d) (relating to wagering losses) or the limitations in sections 165(f), 1211, and 1212 (relating to capital losses). The full amount of a section 165 loss is taken into account for the year in which the loss is sustained, regardless of whether all or part of the loss enters into the computation of a net operating loss under section 172 or a net capital loss under section 1212 that is a carryback or carryover to another year.

A section 165 loss does not include any portion of a loss, attributable to a capital loss carryback or carryover from another year, that is treated as a deemed capital loss under section 1212.

(B) For purposes of this section, a section 165 loss includes an amount deductible pursuant to a provision that treats a transaction as a sale or other disposition, or otherwise results in a deduction under section 165. A section 165 loss includes, for example, a loss resulting from a sale or exchange of a partnership interest under section 741 and a loss resulting from a section 988 transaction.

(6) Transactions with a significant book-tax difference—(i) In general. A transaction with a significant book-tax difference is a transaction where the amount for tax purposes of any item or items of income, gain, expense, or loss from the transaction differs by more than $10 million on a gross basis from the amount of the item or items for book purposes in any taxable year. For purposes of this determination, offsetting items shall not be netted for either tax or book purposes. For purposes of this paragraph (b)(6), the amount of an item for book purposes is determined by applying U.S. generally accepted accounting principles (U.S. GAAP) for worldwide income. However, if a taxpayer, in the ordinary course of its business, keeps books for reporting financial results to shareholders, creditors, or regulators on a basis other than U.S. GAAP, and does not maintain U.S. GAAP books for any purpose, then the taxpayer may determine the amount of a book item for purposes of this paragraph (b)(6) by using the books maintained by the taxpayer, provided the books are kept on the same basis consistently from year to year.

Adjustments to any reserve for taxes are disregarded as an entity separate from the transaction is entered into and the five succeeding taxable years are combined.

(ii) Applicability—(A) In general. This paragraph (b)(6) applies only to—

(1) Taxpayers that are reporting companies under the Securities Exchange Act of 1934 (15 U.S.C. 78a) and related business entities (as described in section 267(b) or 707(b)); or

(2) Business entities that have $250 million or more in gross assets for book purposes at the end of any financial accounting period that ends with or within the entity’s taxable year in which the transaction occurs (for purposes of this determination, the assets of all related business entities (as defined in section 267(b) or 707(b)) must be aggregated).

(B) Consolidated returns. For purposes of this paragraph (b)(6), in the case of taxpayers that are members of a group of affiliated corporations filing a consolidated return, transactions solely between or among members of the group will be disregarded. Moreover, where two or more members of the group participate in a transaction that is not solely between or among members of the group, items shall be aggregated (as if such members were a single taxpayer), but any offsetting items shall not be netted.

(C) Foreign persons. In the case of a taxpayer that is a foreign person (other than a foreign corporation that is treated as a domestic corporation for Federal tax purposes under section 266B, 953(d), 1504(d) or any other provision of the Internal Revenue Code), only assets that are U.S. assets under §1.1884–1(d) shall be taken into account for purposes of paragraph (b)(6)(ii)(A)(2) of this section, and only transactions that give rise to income that is effectively connected with the conduct of a trade or business within the United States (or to losses, expenses, or deductions allocated or apportioned to such income) shall be taken into account for purposes of this paragraph (b)(6).

(D) Owners of disregarded entities. In the case of an eligible entity that is disregarded as an entity separate from its owner for Federal tax purposes, items of income, gain, loss, or expense that otherwise are considered items of the entity for book purposes shall be treated as items of its owner, and items arising from transactions between the entity and its owner shall be disregarded, for purposes of this paragraph (b)(6).

(E) Partners of partnerships. In the case of a taxpayer that is a member or a partner of an entity that is treated as a partnership for Federal tax purposes, items of income, gain, loss, or expense that are allocable to the taxpayer for Federal tax purposes, but otherwise are considered items of the entity for book purposes, shall be treated as items of the taxpayer for purposes of this paragraph (b)(6).

(7) Transactions involving a brief asset holding period. A transaction involving a brief asset holding period is any transaction resulting in the taxpayer claiming a tax credit exceeding $250,000 (including a foreign tax credit) if the underlying asset giving rise to the credit is held by the taxpayer for 45 days or less. For purposes of determining the holding period, the principles of section 246(c)(3) and (c)(4) apply. Transactions resulting in a foreign tax credit for withholding taxes or other taxes imposed in respect of a dividend that are not disallowed under section 901(k) (including transactions eligible for the exception for securities
dealers under section 901(k)(4)] are excluded from this paragraph (b)(7).

8. Exceptions—(i) In general. A transaction will not be considered a reportable transaction, or will be excluded from any individual category of reportable transaction under paragraphs (b)(3) through (7) of this section, if the Commissioner makes a determination by published guidance that the transaction is not subject to the reporting requirements of this section. The Commissioner may make a determination by individual letter ruling under paragraph (f) of this section that an individual letter ruling request on a specific transaction or type of transaction satisfies the reporting requirements of this section with regard to that transaction or type of transaction for the taxpayer who requests the individual letter ruling.

(ii) Special rule for RICs. For purposes of this section, a regulated investment company (RIC) as defined in section 851 or an investment vehicle that is owned 95 percent or more by one or more RICs at all times during the course of the transaction are not required to disclose a transaction that is described in any of paragraphs (b)(3) through (7) of this section unless the transaction is also a listed transaction.

(iii) Special rule for lease transactions. For purposes of this section, leasing transactions of the type excepted from the registration requirements under section 6111(d) of the Code and the list maintenance requirements under section 6112 as described in Notice 2001–18 (2001–1 C.B. 731) (see § 601.601(d)(2) of this chapter) are excluded from paragraphs (b)(3) through (7) of this section.

(c) Definitions. For purposes of this section, the following terms are defined as follows:

1. Taxpayer. The term taxpayer means any person described in section 7701(a)(1), including S corporations. Except as otherwise specifically provided in this section, the term taxpayer also includes an affiliated group of corporations that joins in the filing of a consolidated return under section 1501.

2. Corporation. When used specifically in this section, the term corporation means an entity that is required to file a return for a taxable year on any 1120 series form, or successor form, excluding S corporations.

3. Participation—(i) In general—(A) Listed transactions. A taxpayer has participated in a listed transaction if the taxpayer’s tax return reflects tax consequences or a tax strategy described in the published guidance that lists the transaction under paragraph (b)(2) of this section. A taxpayer also has participated in a listed transaction if the taxpayer knows or has reason to know that the taxpayer’s tax benefits are derived directly or indirectly from tax consequences or a tax strategy described in published guidance that lists a transaction under paragraph (b)(2) of this section. Published guidance may identify other types or classes of persons that will be treated as participants in a listed transaction.

(B) Confidential transactions. A taxpayer has participated in a confidential transaction if the taxpayer’s tax return reflects a tax benefit from the transaction and the taxpayer’s disclosure of the tax treatment or tax structure of the transaction is limited in the manner described in paragraph (b)(3) of this section. If a partnership’s, S corporation’s or trust’s disclosure is limited, and the partner, shareholder’s, or beneficiary’s disclosure is not limited, then the partnership, S corporation, or trust, and not the partner, shareholder, or beneficiary, has participated in the confidential transaction.

(C) Transactions with contractual protection. A taxpayer has participated in a transaction with contractual protection if the taxpayer’s tax return reflects a tax benefit from the transaction and, as described in paragraph (b)(4) of this section, the taxpayer has the right to the full or partial refund of fees or the fees are contingent. If a partnership, S corporation, or trust has the right to a full or partial refund of fees or has a contingent fee arrangement, and the partner, shareholder, or beneficiary does not individually have the right to the refund of fees or a contingent fee arrangement, then the partnership, S corporation, or trust, and not the partner, shareholder, or beneficiary, has participated in the transaction with contractual protection.

(D) Loss transactions. A taxpayer has participated in a loss transaction if the taxpayer’s tax return reflects a section 165 loss and the amount of the section 165 loss described in paragraphs (b)(5) if this section described in paragraphs (b)(2) through (5) and (b)(7) of this section if the foreign corporation would be considered to participate in the transaction under the rules of this paragraph (c)(3) if it were a domestic corporation filing a tax return that reflects the items from the transaction. A reporting shareholder participates in a transaction described in paragraph (b)(6) of this section only if the foreign corporation were to participate in the transaction under the rules of this paragraph (c)(3) if it were...
a domestic corporation and the transaction reduces or eliminates an income inclusion that otherwise would be required under section 551, 951, or 1293. A reporting shareholder (and any successor in interest) is considered to participate in a transaction under this paragraph (c)(3)(i)(G) only for its first taxable year with or within which ends the first taxable year of the foreign corporation in which the foreign corporation participates in the transaction, and for the reporting shareholder’s five succeeding taxable years.

(2) Reporting shareholder. The term reporting shareholder means a United States shareholder (as defined in section 551(a)) in a foreign personal holding company (as defined in section 552), a United States shareholder (as defined in section 951(b)) in a controlled foreign corporation (as defined in section 957), or a 10 percent shareholder (by vote or value) of a qualified electing fund (as defined in section 1295).

(ii) Examples. The following examples illustrate the provisions of paragraph (c)(3)(i) of this section:

Example 1. Notice 95–53 (1995–2 C.B. 334) (see §601.601(d)(2) of this chapter), describes a lease stripping transaction in which one party (the transferor) assigns the right to receive future payments under a lease of tangible property and receives consideration which the transferor treats as current income. The transferor later transfers the property subject to the lease in a transaction intended to qualify as a transferred basis transaction, for example, a transaction described in section 351. The transferee corporation claims the deductions associated with the high basis property subject to the lease. The transferor’s and transferee corporation’s tax returns reflect tax positions described in Notice 95–53. Therefore, the transferor and transferee corporation have participated in the listed transaction. In the section 351 transaction, Partner A is an SEC reporting company and partner B is an individual. AB enters into a transaction that results in a book-tax difference for AB of $25 million. The transaction is a reportable transaction for AB under paragraph (b)(6) of this section because the book-tax difference exceeds $10 million. As a result of A’s partnership interest in AB and the allocation of items relating to the transaction to A, A has a book-tax difference of $11 million. The transaction is a reportable transaction for A under paragraph (b)(6) of this section because the $11 million book-tax difference exceeds $10 million. However, even though $14 million of the book-tax difference would be allocated to B, the transaction is not a reportable transaction for B under paragraph (b)(6) of this section because B, an individual, is not subject to paragraph (b)(6) of this section.

Example 4. (i) P corporation, the parent corporation of a group of corporations that file a consolidated tax return, owns 60% of the stock of T corporation. T files its own tax return and is not included as a member of the P group on the P group consolidated tax return. For book purposes, some or all of T’s income is included by the group of corporations that includes P. T engages in a transaction that results in items of book income but does not result in items of income for tax purposes. P and T are SEC reporting companies.

(ii) T participated in the transaction. T has no items of taxable income but has items of book income. If items from the transaction result in a book-tax difference determined in accordance with paragraph (b)(6) of this section of $10 million in any single year, T will be required to file Form 8886. The P group did not participate in the transaction, and does not have a book-tax difference for purposes of paragraph (b)(6) of this section because, even if the P group included $10 million in book income, the book tax difference arises solely because T is not part of P’s consolidated group for tax purposes.

If, in any single year, the transaction produced items of income for book purposes of $10 million but no items of taxable income, P would be required to file Form 8886. This result would not change if T separately reported its items for book purposes, if P reported none of T’s items on its consolidated financial statements, or if the P consolidated financial statements included only part of a $10 million book-tax difference relating to items from T’s transaction.

Example 5. Domestic corporations X and Y each own 50 percent of the voting stock of CFC, a controlled foreign corporation. X, Y, and CFC each use the calendar year as their taxable year. CFC is not engaged in the conduct of a trade or business within the United States and has no U.S. source income. Accordingly, CFC is not required to file a U.S. Federal income tax return. See §1.6012–2(g). Under paragraph (c)(3)(i)(G)(2) of this section, X and Y are reporting shareholders with respect to CFC. CFC purchases a Euro-denominated bond on June 1, 2003, for 104,400,000 Euros. The bond matures on June 7, 2003, and CFC collects 104,500,000 Euros, equal to the bond’s 100,000,000 Euro face amount plus 5,000,000 Euros of accrued but unpaid interest, less a 10% foreign withholding tax of 500,000 Euros. The average dollar-Euro exchange rate for the year is $80 = 1 Euro, so CFC adds $400,000 to its post-1986 foreign income taxes pool as a result of the transaction. See sections 986(a)(1) and 902(c)(2). Under paragraph (c)(3)(i)(G)(1) of this section, X and Y have each participated in a transaction involving a brief asset holding period described in paragraph (b)(7) of this section for their taxable years 2003 through 2005 because both X and Y are reporting shareholders of CFC, and CFC would have been considered to have participated in a reportable transaction if it were a domestic corporation.

(4) Substantially similar. The term substantially similar includes any transaction that is expected to obtain the same or similar types of tax consequences and that is either factually similar or based on the same or similar tax strategy. Receipt of an opinion regarding the tax consequences of the transaction is not relevant to the determination of whether the transaction is the same as or substantially similar to the other transaction. Furthermore, the term substantially similar must be broadly construed in favor of disclosure. The following examples illustrate situations where a transaction is the same as or substantially similar to a listed transaction under paragraph (b)(2) of this section. (Such transactions may also be reportable transactions under paragraphs (b)(3) through (7) of this section.) The following examples
illustrate the provisions of this paragraph (c)(4):

Example 1. Notice 2000–44 (2000–2 C.B. 255) (see §601.601(d)(2) of this chapter), sets forth a listed transaction involving offsetting options transferred to a partnership where the taxpayer claims basis in the partnership for the cost of the purchased options but does not adjust basis under section 752 as a result of the partnership’s assumption of the taxpayer’s obligation with respect to the options. Transactions using short sales, futures, derivatives or any other type of offsetting obligations to isolate basis in a partnership would be the same as or substantially similar to the transaction described in Notice 2000–44. Moreover, use of the inflated basis in the partnership interest to diminish gain that would otherwise be recognized on the transfer of a partnership asset would also be the same as or substantially similar to the transaction described in Notice 2000–44.

Example 2. Notice 2001–16 (2001–1 C.B. 730) (see §601.601(d)(2) of this chapter), sets forth a listed transaction involving a seller (X) who desires to sell stock of a corporation (T), an intermediary corporation (M), and a buyer (Y) who desires to purchase the assets (and not the stock) of T. M agrees to facilitate the sale of T stock, liquidates T, sells assets of T to Y, and offsets the gain recognized on the sale of those assets with currently generated losses.

(5) Tax. For purposes of this section, the term tax means Federal income tax.

(6) Tax benefit. A tax benefit includes deductions, exclusions from gross income, nonrecognition of gain, tax credits, adjustments (or the absence of adjustments) to the basis of property, status as an entity exempt from Federal income taxation, and any other tax consequences that may reduce a taxpayer’s Federal income tax liability by affecting the amount, timing, character, or source of any item of income, gain, expense, loss, or credit.

(7) Tax return. For purposes of this section, the term tax return means a Federal income tax return and a Federal information return.

(8) Tax treatment. The tax treatment of a transaction is the purported or claimed Federal income tax treatment of the transaction.

(9) Tax structure. The tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed Federal income tax treatment of the transaction.

(d) Form and content of disclosure statement. The IRS will release Form 8886, “Reportable Transaction Disclosure Statement” (or a successor form), for use by taxpayers in accordance with this paragraph (d). A taxpayer required to file a disclosure statement under this section must file a completed Form 8886 in accordance with the instructions to the form. The Form 8886 is the disclosure statement required under this section. The form must be attached to the appropriate tax returns as provided in paragraph (e) of this section. If a copy of a disclosure statement is not sent to the Office of Tax Shelter Analysis (OTSA) under paragraph (e) of this section, it must be sent to: Internal Revenue Service LM:PFFT:OTSA, Large & Mid-Size Business Division, 1111 Constitution Ave., NW., Washington, DC 20224, or to such other address as provided by the Commissioner.

(e) Time of providing disclosure—(1) In general. A tax benefit for a reportable transaction must be attached to the taxpayer’s tax return for each taxable year for which a taxpayer participates in a reportable transaction. In addition, a copy of the disclosure statement must be sent to OTSA at the same time that any disclosure statement is first filed with the taxpayer’s tax return. If a reportable transaction results in a loss which is carried back to a prior year, the disclosure statement for the reportable transaction must be attached to the taxpayer’s application for tentative refund or amended tax return for that prior year. In the case of a taxpayer that is a partnership or S corporation, the disclosure statement for a reportable transaction must be attached to the partnership’s or S corporation’s tax return for each taxable year in which the partnership or S corporation participates in the transaction under the rules of paragraph (c)(3)(i) of this section.

(2) Special rules—(i) Listed transactions. If a transaction becomes a listed transaction after the filing of the taxpayer’s final tax return reflecting either tax consequences or a tax strategy described in the published guidance listing the transaction (or a tax benefit derived from tax consequences or a tax strategy described in the published guidance listing the transaction) and before the end of the statute of limitations period for that return, then a disclosure statement must be filed as an attachment to the taxpayer’s tax return next filed after the date the transaction is listed.

(ii) Loss transactions. If a transaction becomes a loss transaction because the losses equal or exceed the threshold amounts as described in paragraph (b)(3)(i) of this section, a disclosure statement must be filed as an attachment to the taxpayer’s tax return for the first taxable year in which the threshold amount is reached and to any subsequent tax return that reflects any amount of section 165 loss from the transaction.

(3) Multiple disclosures. The taxpayer must disclose the transaction in the time and manner provided for under the provisions of this section regardless of whether the taxpayer also plans to disclose the transaction under other published guidance, for example, Rev. Proc. 94–69 (1994–2 C.B. 804) (see §601.601(d)(2) of this chapter).

(4) Example. The following example illustrates the application of this paragraph (e):

Example. In January of 2004, F, a domestic calendar year corporation, enters into a transaction that is not a listed transaction then entered into and is not a transaction described in any of the paragraphs (b)(3) through (7) of this section. All the tax benefits from the transaction are reported on F’s 2004 tax return. On March 1, 2008, the IRS publishes a notice identifying the transaction as a listed transaction described in paragraph (b)(2) of this section. Thus, upon issuance of the notice, the transaction becomes a reportable transaction described in paragraph (b) of this section. The statute of limitations for F’s 2004 taxable year is still open. F is required to file Form 8886 for the transaction as an attachment to F’s next filed Federal income tax return and must send a copy of Form 8886 to OTSA. If F’s 2007 Federal income tax return has not been filed on or before the date the Service identifies the transaction as a listed transaction, Form 8886 must be attached to F’s 2007 return and at that time a copy of Form 8886 must be sent to OTSA.

(f) Rulings and protective disclosures—(1) Requests for ruling. A taxpayer may, on or before the date that disclosure would otherwise be required under this section, submit a request to the IRS for a ruling as to whether a transaction is subject to the disclosure requirements of this section. If the request fully discloses all relevant facts relating to the transaction, the potential obligation of that taxpayer to disclose the transaction will be suspended during the period that the ruling request is pending and, if the IRS subsequently concludes that the transaction is a reportable transaction subject to disclosure under this section, until the 60th day after the issuance of the ruling (or, if the request is withdrawn, 60 days after the date that the request is withdrawn). Furthermore, in that taxpayer’s individual ruling, the Commissioner in his discretion may determine that the submission satisfies the disclosure rules under this section for that particular transaction or type of transaction.
(2) Protective disclosures. If a taxpayer is uncertain whether a transaction must be disclosed under this section, the taxpayer may disclose the transaction in accordance with the requirements of this section, and indicate on the disclosure statement that the taxpayer is uncertain whether the transaction is required to be disclosed under this section and that the disclosure statement is being filed on a protective basis.

(3) Rulings on the merits of a transaction. If a taxpayer requests a ruling on the merits of a specific transaction on or before the date that disclosure would otherwise be required under this section, and receives a favorable ruling as to the transaction, the disclosure rules under this section will be deemed to have been satisfied by that taxpayer with regard to that transaction, so long as the request fully discloses all relevant facts relating to the transaction which would otherwise be required to be disclosed under this section.

(g) Retention of documents. In accordance with the instructions to Form 8886, the taxpayer must retain a copy of all documents and other records related to a transaction subject to disclosure under this section that are material to an understanding of the tax treatment or tax structure of the transaction. The documents must be retained until the expiration of the statute of limitations applicable to the final taxable year for which disclosure of the transaction was required under this section. (This document retention requirement is in addition to any document retention requirements that section 6001 generally imposes on the taxpayer.) The documents may include the following: marketing materials related to the transaction; written analyses used in decision-making related to the transaction; correspondence and agreements between the taxpayer and any advisor, lender, or other party to the reportable transaction that relate to the transaction; documents discussing, referring to, or demonstrating the purported or claimed tax benefits arising from the reportable transaction; and documents, if any, referring to the business purposes for the reportable transaction. A taxpayer is not required to retain earlier drafts of a document if the taxpayer retains a copy of the final document (or, if there is no final document, the most recent draft of the document) and the final document (or most recent draft) contains all the information in the earlier drafts of the document that is material to an understanding of the purported tax treatment or tax structure of the transaction.

(h) Effective dates. This section applies to Federal income tax returns filed after February 28, 2000. However, paragraphs (a) through (g) of this section apply to transactions entered into on or after February 28, 2003. All the rules in paragraphs (a) through (g) of this section may be relied upon for transactions entered into on or after January 1, 2003, and before February 28, 2003. Otherwise, the rules that apply with respect to transactions entered into before February 28, 2003 are contained in §1.6011–4T in effect prior to February 28, 2003 (see 26 CFR part 1 as of April 1, 2002, 2002–28 I.R.B. 90, and 2002–45 I.R.B. 818 (see §601.601(d)(2) of this chapter)).

§25.6011–4T [Removed]
Par. 3. Section 1.6011–4T is removed.

PART 20—ESTATE TAX; ESTATES OF DECEDENTS DYING AFTER AUGUST 16, 1954

Par. 4. The authority citation for part 20 continues to read in part as follows:

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

Par. 5. Section 20.6011–4 is added to read as follows:

§20.6011–4 Requirement of statement disclosing participation in certain transactions by taxpayers.

(a) In general. If a transaction is identified as a listed transaction as defined in §1.6011–4 of this chapter by the Commissioner in published guidance (see §601.601(d)(2) of this chapter), and the listed transaction involves a gift tax under chapter 12 of subtitle B of the Internal Revenue Code, the transaction must be disclosed in the manner stated in such published guidance.

(b) Effective date. This section applies to transactions entered into on or after January 1, 2003.

§25.6011–4T [Removed]
Par. 9. Section 25.6011–4T is removed.

PART 31—EMPLOYMENT TAXES AND COLLECTION OF INCOME TAX AT THE SOURCE

Par. 10. The authority citation for part 31 continues to read in part as follows:

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

Par. 11. Section 31.6011–4 is added to read as follows:

§31.6011–4 Requirement of statement disclosing participation in certain transactions by taxpayers.

(a) In general. If a transaction is identified as a listed transaction as defined in §1.6011–4 of this chapter by the Commissioner in published guidance (see §601.601(d)(2) of this chapter), and the listed transaction involves a gift tax under chapter 12 of subtitle B of the Internal Revenue Code, the transaction must be disclosed in the manner stated in such published guidance.

(b) Effective date. This section applies to transactions entered into on or after January 1, 2003.

§31.6011–4T [Removed]
Par. 12. Section 31.6011–4T is removed.

PART 53—FOUNDATION AND SIMILAR EXCISE TAXES

Par. 13. The authority citation for part 53 continues to read as follows:


Par. 14. Section 53.6011–4 is added to read as follows:

§53.6011–4 Requirement of statement disclosing participation in certain transactions by taxpayers.

(a) In general. If a transaction is identified as a listed transaction as defined in §1.6011–4 of this chapter by the Commissioner in published guidance (see §601.601(d)(2) of this chapter), and the listed transaction involves an excise tax under chapter 42 of subtitle D of the Internal Revenue
Code (relating to private foundations and certain other tax-exempt organizations), the transaction must be disclosed in the manner stated in such published guidance.

(b) Effective date. This section applies to transactions entered into on or after January 1, 2003.

§53.6011–4T [Removed]

Par. 15. Section 53.6011–4T is removed.

PART 54—PENSION EXCISE TAXES

Par. 16. The authority citation for part 54 continues to read in part as follows:

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

Par. 17. Section 54.6011–4 is added to read as follows:

§54.6011–4 Requirement of statement disclosing participation in certain transactions by taxpayers.

(a) In general. If a transaction is identified as a listed transaction as defined in §1.6011–4 of this chapter by the Commissioner in published guidance (see §601.601(d)(2) of this chapter), and the listed transaction involves an excise tax under chapter 43 of subtitle D of the Internal Revenue Code (relating to qualified pension, etc., plans), the transaction must be disclosed in the manner stated in such published guidance.

(b) Effective date. This section applies to transactions entered into on or after January 1, 2003.

§5.6011–4T [Removed]

Par. 18. Section 54.6011–4T is removed.

PART 56—PUBLIC CHARITY EXCISE TAXES

Par. 19. The authority citation for part 56 continues to read in part as follows:

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

Par. 20. Section 56.6011–4 is added to read as follows:

§56.6011–4 Requirement of statement disclosing participation in certain transactions by taxpayers.

(a) In general. If a transaction is identified as a listed transaction as defined in §1.6011–4 of this chapter by the Commissioner in published guidance (see §601.601(d)(2) of this chapter), and the listed transaction involves an excise tax under chapter 41 of subtitle D of the Internal Revenue Code (relating to public charities), the transaction must be disclosed in the manner stated in such published guidance.

(b) Effective date. This section applies to transactions entered into on or after January 1, 2003.

§56.6011–4T [Removed]

Par. 21. Section 56.6011–4T is removed.

PART 301—PROCEDURE AND ADMINISTRATION

Par. 22. The authority citation for part 301 continues to read in part as follows:

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

Par. 23. Section 301.6111–2 is added as follows:

§301.6111–2 Confidential corporate tax shelters.

(a) In general.—(1) Under section 6111(d) and this section, a confidential corporate tax shelter is treated as a tax shelter subject to the requirements of sections 6111 (a) and (b).

(2) A confidential corporate tax shelter is any transaction—

(i) A significant purpose of the structure of which is the avoidance or evasion of Federal income tax, as described in paragraph (b) of this section, for a direct or indirect corporate participant;

(ii) That is offered to any potential participant under conditions of confidentiality, as described in paragraph (c) of this section; and

(iii) For which the tax shelter promoters may receive fees in excess of $100,000 in the aggregate, as described in paragraph (d) of this section.

(3) For purposes of this section, references to the term transaction include all of the factual elements relevant to the expected tax treatment of any investment, entity, plan, or arrangement, and include any series of steps carried out as part of a plan. For purposes of this section, the term substantially similar includes any transaction that is expected to obtain the same or similar types of tax consequences and that is either factually similar or based on the same or similar tax strategy. Receipt of an opinion or other confidentiality and fee requirements of paragraphs (a)(2)(ii) and (iii) of this section, registration shall in all events be required with respect to any interests in the transaction that are offered for sale after the transaction becomes a listed transaction. However, because a transaction identified as a listed transaction is generally considered to have been structured for a significant tax avoidance purpose, such a transaction ordinarily will have been subject to registration under this section before becoming a listed transaction if the transaction previously satisfied the confidentiality and fee requirements of paragraphs (a)(2)(ii) and (iii) of this section.

(3) Other tax-structured transactions. A transaction is described in this paragraph (b)(3) if it has been structured to produce Federal income tax benefits that constitute an important part of the intended results of the transaction and the tax shelter promoter (or other person who would be responsible for registration under this section)
reasonably expects the transaction to be presented in the same or substantially similar form to more than one potential participant, unless the promoter reasonably determines that—

(i) The potential participant is expected to participate in the transaction in the ordinary course of its business in a form consistent with customary commercial practice (a transaction involving the acquisition, disposition, or restructuring of a business, including the acquisition, disposition, or other change in the ownership or control of an entity that is engaged in a business, or a transaction involving a recapitalization or an acquisition of capital for use in the taxpayer’s business, shall be considered a transaction carried out in the ordinary course of a taxpayer’s business); and

(ii) There is a generally accepted understanding that the expected Federal income tax benefits from the transaction (taking into account any combination of intended tax consequences) are properly allowable under the Internal Revenue Code for substantially similar transactions. There is no minimum period of time for which such a generally accepted understanding must exist. In general, however, a tax shelter promoter (or other person who would be responsible for registration under this section) cannot reasonably determine whether the intended tax treatment of a transaction has become generally accepted unless information relating to the tax treatment and tax structure of such transactions has been in the public domain (e.g., rulings, published articles, etc.) and widely known for a sufficient period of time (ordinarily a period of years) to provide knowledgeable tax practitioners and the IRS reasonable opportunity to evaluate the intended tax treatment. The mere fact that one or more knowledgeable tax practitioners have provided an opinion or advice to the effect that the intended tax treatment of the transaction should or will be sustained, if challenged by the IRS, is not sufficient to satisfy the requirements of this paragraph (b)(3)(ii).

(4) Excepted transactions. The avoidance or evasion of Federal income tax will not be considered a significant purpose of the structure of a transaction if the transaction is described in either paragraph (b)(4)(i), (ii), or (iii) of this section.

(i) In the case of a transaction other than a transaction described in paragraph (b)(2) of this section, the tax shelter promoter (or other person who would be responsible for registration under this section) reasonably determines that there is no reasonable basis under Federal tax law for denial of any significant portion of the expected Federal income tax benefits from the transaction. This paragraph (b)(4)(i) applies only if the tax shelter promoter (or other person who would be responsible for registration under this section) reasonably determines that there is no basis that would meet the standard applicable to taxpayers under §1.6662–3(b)(3) of this chapter under which the IRS could disallow any significant portion of the expected Federal income tax benefits of the transaction. Thus, the reasonable basis standard is not satisfied by an IRS position that would be merely arguable or that would constitute merely a colorable claim. However, the determination of whether the IRS would or would not have a reasonable basis for such a position must take into account the entirety of the transaction and any combination of tax consequences that are expected to result from any component steps of the transaction, must not be based on any unreasonable or unrealistic factual assumptions, and must take into account all relevant aspects of Federal tax law, including the statute and legislative history, treaties, administrative guidance, and judicial decisions that establish principles of general application in the tax law (e.g., Gregory v. Helvering, 293 U.S. 465 (1935)). The determination of whether the IRS would or would not have such a reasonable basis is qualitative in nature and does not depend on any percentage or other quantitative assessment of the likelihood that the taxpayer would ultimately prevail. A significant portion of the expected tax benefits were disallowed by the IRS.

(ii) The IRS makes a determination by published guidance that the transaction is not subject to the registration requirements of this section.

(iii) The IRS makes a determination by individual ruling under paragraph (b)(5) of this section that a specific transaction is not subject to the registration requirements of this section for the taxpayer requesting the ruling.

(5) Requests for ruling. If a tax shelter promoter (or other person who would be responsible for registration under this section) reasonably expects the transaction is properly classified as a confidential corporate tax shelter or is otherwise uncertain whether registration is required under this section, that person may, on or before the date that registration would otherwise be required under this section, submit a request to the IRS for a ruling as to whether the transaction is subject to the registration requirements of this section. If the request fully discloses all relevant facts relating to the transaction, that person’s potential obligation to register the transaction will be suspended during the period that the ruling request is pending and, if the IRS subsequently concludes that the transaction is a confidential corporate tax shelter subject to registration under this section, until the sixtieth day after the issuance of the ruling (or, if the request is withdrawn, sixty days from the date that the request is withdrawn).

In the alternative, that person may register the transaction in accordance with the requirements of this section and append a statement to the Form 8264, “Application for Registration of a Tax Shelter”, which states that the person is uncertain whether the transaction is required to be registered as a confidential corporate tax shelter, and that the Form 8264 is being filed on a protective basis.

(6) Example. The following example illustrates the application of paragraphs (b)(1) through (4) of this section.

Assume, for purposes of the example, that the transaction is not the same as or substantially similar to any of the types of transactions that the IRS has identified as listed transactions under section 6111 and, thus, is not described in paragraph (b)(3) of this section. The example is as follows:

Example. (i) Facts. Y has designed a combination of financial instruments to be issued as a package by corporations. The financial instruments are expected to be treated as equity for financial accounting purposes and as debt giving rise to allowable interest deductions for Federal income tax purposes. Y reasonably expects to present this method of raising capital to more than one potential corporate participant. Assume that, because of the unusual nature of the combination of financial instruments, Y cannot conclude either that the transaction represented by the financial instruments is in customary commercial form or that there is a generally accepted understanding that interest deductions are available to issuers of substantially similar combinations of financial instruments. Further, assume that Y cannot reasonably determine that the IRS would have no reasonable basis to deny the deductions.

(ii) Analysis. The transaction represented by this combination of financial instruments is a transaction described in paragraph (b)(3) of this section. However, if Y is uncertain whether this transaction is described in paragraph (b)(3) of this section, or is otherwise uncertain whether registration is required, Y may apply for a ruling under paragraph (b)(5) of this section, and Y will not be required to register the transaction while the ruling is pending or for sixty days thereafter.

(c) Conditions of confidentiality—(1) In general. All the facts and circumstances relating to the transaction will be considered when determining
whether an offer is made under conditions of confidentiality as described in section 6111(d)(2), including prior conduct of the parties. Pursuant to section 6111(d)(2)(A), if an offeree’s disclosure of the tax treatment or tax structure of the transaction is limited in any manner by an express or implied understanding or agreement with or for the benefit of any tax shelter promoter, an offer is considered made under conditions of confidentiality, whether or not such understanding or agreement is legally binding. The tax treatment of a transaction is the purported or claimed Federal income tax treatment of the transaction. The tax structure of a transaction is any fact that may be relevant to understanding the purported or claimed Federal income tax treatment of the transaction. Pursuant to section 6111(d)(2)(B), an offer will also be considered made under conditions of confidentiality in the absence of any such understanding or agreement if any tax shelter promoter knows or has reason to know that the offeree’s use or disclosure of information relating to the tax treatment or tax structure of the transaction is limited for the benefit of any person other than the offeree in any other manner, such as where the transaction is claimed to be proprietary or exclusive to the tax shelter promoter or any party other than the offeree.

(2) Exceptions—(i) Securities law. An offer is not considered made under conditions of confidentiality if disclosure of the tax treatment or tax structure of the transaction is subject to restrictions reasonably necessary to comply with securities laws and such disclosure is not otherwise limited.

(ii) Mergers and acquisitions. In the case of a proposed taxable or tax-free acquisition of historic assets of a corporation (other than an investment company, as defined in section 351(e), that is not publicly traded) that constitute an active trade or business the acquirer intends to continue, or a proposed taxable or tax-free acquisition of more than 50 percent of the stock of a corporation (other than an investment company, as defined in section 351(e), that is not publicly traded) that owns historic assets used in an active trade or business the acquirer intends to continue, the transaction is not considered offered under conditions of confidentiality under paragraph (c)(1) of this section if the offeree is permitted to disclose the tax treatment and tax structure of the transaction no later than the earlier of the date of the public announcement of the transaction, or the date of the execution of an agreement (with or without conditions) to enter into the transaction. However, this exception is not available where the offeree’s ability to consult any tax advisor (including a tax advisor independent from all other entities involved in the transaction) regarding the tax treatment or tax structure of the transaction is limited in any way.

(3) Presumption. Unless facts and circumstances indicate otherwise, an offer is not considered made under conditions of confidentiality if the tax shelter promoter provides express written authorization to each offeree permitting the offeree (and each employee, representative, or other agent of such offeree) to disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction, and all materials of any kind (including opinions or other tax analyses) that are provided to the offeree related to such tax treatment and tax structure. Except as provided in paragraph (c)(2) of this section, this presumption is available only in cases in which each written authorization permits the offeree to disclose the tax treatment and tax structure of the transaction immediately upon commencement of discussions with the tax shelter promoter providing the authorization and each written authorization is given no later than 30 days from the day the tax shelter promoter commenced discussions with the offeree. A transaction that is exclusive or proprietary to any party other than the offeree is not considered offered under conditions of confidentiality if written authorization to disclose is provided to the offeree in accordance with this paragraph (c)(3) and the transaction is not otherwise confidential.

(d) Determination of fees. All the facts and circumstances relating to the transaction will be considered when determining the amount of fees, in the aggregate, that the tax shelter promoters may receive. For purposes of this paragraph (d), all consideration that tax shelter promoters may receive is taken into account, including contingent fees, fees in the form of equity interests, and fees the promoters may receive for other transactions as consideration for promoting the tax shelter. For example, if a tax shelter promoter may receive a fee for arranging a transaction that is a confidential corporate tax shelter and a separate fee for another transaction that is not a confidential corporate tax shelter, part or all of the fee paid with respect to the other transaction may be treated as a fee paid with respect to the confidential corporate tax shelter if the facts and circumstances indicate that the fee paid for the other transaction is in consideration for the confidential corporate tax shelter. For purposes of determining whether the tax shelter promoters may receive fees in excess of $100,000, the fees from all substantially similar transactions are considered part of the same tax shelter and must be aggregated.

(e) Registration—(1) Time for registering—(i) In general. A tax shelter must be registered not later than the day on which the first offering for sale of interests in the shelter occurs. An offer to participate in a confidential corporate tax shelter shall be treated as an offer for sale. If interests in a confidential corporate tax shelter were first offered for sale on or before February 28, 2000, the first offer for sale of interests in the shelter that occurs after February 28, 2000 shall be considered the first offer for sale under this section.

(ii) Special rule. If a transaction becomes a confidential corporate tax shelter (e.g., because of changes in the law or factual circumstances, or because the transaction becomes a listed transaction) subsequent to the first offering for sale after February 28, 2000, and the transaction was not previously required to be registered as a confidential corporate tax shelter under this section, the transaction must be registered under this section if interests are offered for sale after the transaction becomes a confidential corporate tax shelter. The transaction must be registered by the next offering for sale of interests in the shelter. If, subsequent to the first offering for sale, a transaction becomes a confidential corporate tax shelter because the transaction becomes a listed transaction on or after February 28, 2003, and the transaction was not previously required to be registered as a confidential corporate tax shelter under this section, the transaction must be registered under this section within 60 days after the transaction becomes a listed transaction/confidential corporate tax shelter if any interests were offered for sale within the previous six years.

(2) Procedures for registering. To register a confidential corporate tax shelter, the person responsible for registering the tax shelter must file Form 8264, “Application for Registration of a Tax Shelter”. (Form 8264 is also used to register tax shelters defined in section 6111(c).) Similar to the treatment provided under Q&A–22 and Q&A–48 of § 301.6111–1T, transactions involving similar business assets and similar plans or arrangements that are offered to corporate taxpayers by the same person or related persons are aggregated and considered part of a single tax shelter.
However, in contrast with the requirement of Q&A—48 of § 301.6111–17, the tax shelter promoter may file a single Form 8264 with respect to any such aggregated tax shelter, provided an amended Form 8264 is filed to reflect any material changes and to include any additional or revised written materials presented in connection with an offer to participate in the shelter. Furthermore, all transactions that are part of the same tax shelter and that are to be carried out by the same corporate participant (or one or more other members of the same affiliated group within the meaning of section 1504) must be registered on the same Form 8264.

If a promoter discussed the transaction; all promoters are foreign persons—(I) In general. If all of the tax shelter promoters of a confidential corporate tax shelter are foreign persons, any person who discusses participation in the transaction must register the shelter under this section within 90 days after beginning such discussions. (II) Exceptions. Registration by a person discussing participation in a transaction is not required if either—

(A) The person does not participate, directly or indirectly, in the shelter and notifies the tax shelter promoter in writing, within 90 days of beginning such discussions, that the person will not participate; or

(B) Within 90 days after beginning such discussions, the person obtains and reasonably relies on a written statement from one of the promoters that at least one of the promoters is a United States person.

(iii) Determination of foreign status. For purposes of this paragraph (g)(2), a person must presume that all tax shelter promoters are foreign persons unless the person either—

(A) Discusses participation in the tax shelter with a promoter that is a United States person; or

(B) Obtains and reasonably relies on a written statement from one of the promoters of a tax shelter under this section within 90 days after beginning such discussions.

However, in contrast with the requirement of Q&A—48 of § 301.6111–17, the tax shelter promoter may file a single Form 8264 with respect to any such aggregated tax shelter, provided an amended Form 8264 is filed to reflect any material changes and to include any additional or revised written materials presented in connection with an offer to participate in the shelter. Furthermore, all transactions that are part of the same tax shelter and that are to be carried out by the same corporate participant (or one or more other members of the same affiliated group within the meaning of section 1504) must be registered on the same Form 8264.

(f) Definition of tax shelter promoter. For purposes of section 6111(d)(2) and this section, the term tax shelter promoter includes a tax shelter organizer and any other person who participates in the organization, management or sale of a tax shelter (as those persons are described in section 6111(e)(1) and § 301.6111–17T (Q&A–26 through Q&A–33) or any person related (within the meaning of section 267 or 707) to such tax shelter organizer or such other person.

(g) Person required to register—(I) Tax shelter promoters. The rules in section 6111(a) and (e) and § 301.6111–17T (Q&A–34 through Q&A–39) determine who is required to register a confidential corporate tax shelter. A promoter of a confidential corporate tax shelter must register the tax shelter only if it is a person required to register under the rules in section 6111(a) and (e) and § 301.6111–17T (Q&A–34 through Q&A–39).

(2) Persons who discuss the transaction; all promoters are foreign persons—(I) In general. If all of the tax shelter promoters of a confidential corporate tax shelter are foreign persons, any person who discusses participation in the transaction must register the shelter under this section within 90 days after beginning such discussions. (II) Exceptions. Registration by a person discussing participation in a transaction is not required if either—

(A) The person does not participate, directly or indirectly, in the shelter and notifies the tax shelter promoter in writing, within 90 days of beginning such discussions, that the person will not participate; or

(B) Within 90 days after beginning such discussions, the person obtains and reasonably relies on a written statement from one of the promoters that at least one of the promoters is a United States person.

(iii) Determination of foreign status. For purposes of this paragraph (g)(2), a person must presume that all tax shelter promoters are foreign persons unless the person either—

(A) Discusses participation in the tax shelter with a promoter that is a United States person; or

(B) Obtains and reasonably relies on a written statement from one of the promoters of a tax shelter under this section within 90 days after beginning such discussions.

However, in contrast with the requirement of Q&A—48 of § 301.6111–17, the tax shelter promoter may file a single Form 8264 with respect to any such aggregated tax shelter, provided an amended Form 8264 is filed to reflect any material changes and to include any additional or revised written materials presented in connection with an offer to participate in the shelter. Furthermore, all transactions that are part of the same tax shelter and that are to be carried out by the same corporate participant (or one or more other members of the same affiliated group within the meaning of section 1504) must be registered on the same Form 8264.

(f) Definition of tax shelter promoter. For purposes of section 6111(d)(2) and this section, the term tax shelter promoter includes a tax shelter organizer and any other person who participates in the organization, management or sale of a tax shelter (as those persons are described in section 6111(e)(1) and § 301.6111–17T (Q&A–26 through Q&A–33) or any person related (within the meaning of section 267 or 707) to such tax shelter organizer or such other person.

(g) Person required to register—(I) Tax shelter promoters. The rules in section 6111(a) and (e) and § 301.6111–17T (Q&A–34 through Q&A–39) determine who is required to register a confidential corporate tax shelter. A promoter of a confidential corporate tax shelter must register the tax shelter only if it is a person required to register under the rules in section 6111(a) and (e) and § 301.6111–17T (Q&A–34 through Q&A–39).

(2) Persons who discuss the transaction; all promoters are foreign persons—(I) In general. If all of the tax shelter promoters of a confidential corporate tax shelter are foreign persons, any person who discusses participation in the transaction must register the shelter under this section within 90 days after beginning such discussions. (II) Exceptions. Registration by a person discussing participation in a transaction is not required if either—

(A) The person does not participate, directly or indirectly, in the shelter and notifies the tax shelter promoter in writing, within 90 days of beginning such discussions, that the person will not participate; or

(B) Within 90 days after beginning such discussions, the person obtains and reasonably relies on a written statement from one of the promoters that at least one of the promoters is a United States person.

(iii) Determination of foreign status. For purposes of this paragraph (g)(2), a person must presume that all tax shelter promoters are foreign persons unless the person either—

(A) Discusses participation in the tax shelter with a promoter that is a United States person; or

(B) Obtains and reasonably relies on a written statement from one of the promoters of a tax shelter under this section within 90 days after beginning such discussions.
arrangement, and includes any series of steps carried out as part of a plan.

(1) Transaction that is a section 6111 tax shelter. A section 6111 tax shelter is any transaction that is required to be registered with the IRS under section 6111, regardless of whether that tax shelter is properly registered pursuant to section 6111.

(2) Transaction that has a potential for tax avoidance or evasion—(i) In general. A transaction that has a potential for tax avoidance or evasion includes—

(A) Any listed transaction as defined in §1.6011–4(b)(2) of this chapter that is subject to disclosure under §§1.6011–4, 20.6011–4, 25.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, or 56.6011–4 of this chapter;

(B) Any transaction that a potential material advisor (at the time the transaction is entered into or an interest is acquired) knows is or reasonably expects will become a reportable transaction under §1.6011–4(b)(3) through (7) of this chapter; and

(C) Any interest in a type of transaction that is transferred if the transferee knows or reasonably expects that the transferee will sell or transfer an interest in that type of transaction to another transferee (subsequent participant), and the type of transaction would be a listed transaction under §§1.6011–4, 20.6011–4, 25.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, or 56.6011–4 of this chapter, or a transaction described in §1.6011–4(b)(3) through (7) of this chapter assuming that the relevant thresholds are met.

(ii) The determination of whether a transaction has the potential for tax avoidance or evasion does not depend upon whether the transaction is properly disclosed pursuant to §§1.6011–4, 20.6011–4, 25.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, or 56.6011–4 of this chapter.

(iii) If a transaction becomes a potentially abusive tax shelter on or after February 28, 2003, because it is a listed transaction as defined in §1.6011–4 of this chapter and is subject to disclosure under §1.6011–4 of this chapter this section shall apply with respect to any such transaction entered into or any interest acquired therein after February 28, 2000 (including interests acquired before the transaction becomes a listed transaction). If a transaction becomes a listed transaction as defined in §1.6011–4 of this chapter and is subject to disclosure under §§20.6011–4, 25.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, or 56.6011–4 of this chapter, this section shall apply with respect to any such transaction entered into or any interest acquired thereafter on or after January 1, 2003 (including interests acquired before the transaction becomes a listed transaction).

(c) Organizer and seller—(1) In general. A person is an organizer of, or a seller of an interest in, a transaction that is a potentially abusive tax shelter if that person is a material advisor, as described in paragraph (c)(2) of this section, with respect to that transaction.

(2) Material advisor—(i) In general. A person is a material advisor with respect to a transaction that is a potentially abusive tax shelter if the person is required to register the transaction under section 6111; or the person receives or expects to receive at least a minimum fee (as defined in paragraph (c)(3) of this section) with respect to the transaction, and the person makes a tax statement (as defined in paragraph (c)(2)(iii) of this section) to or for the benefit of—

(A) A taxpayer who is required to disclose the transaction under §§1.6011–4, 20.6011–4, 25.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, or 56.6011–4 of this chapter because the transaction is a listed transaction or who would have been required to disclose a listed transaction under §§1.6011–4, 20.6011–4, 25.6011–4, 31.6011–4, 53.6011–4, 54.6011–4, or 56.6011–4 of this chapter if the transaction had become a listed transaction within the statute of limitations period in §1.6011–4(e)(2);

(B) A taxpayer who the potential material advisor (at the time the transaction is entered into) knows is or reasonably expects to be required to disclose the transaction under §1.6011–4 because the transaction is or is reasonably expected to become a transaction described in §1.6011–4(b)(3) through (7);

(C) A person who is required to register the transaction under section 6111;

(D) A person who purchases (or otherwise acquires) an interest in a section 6111 tax shelter; or

(E) A transferee of an interest if the interest is described in paragraph (b)(2)(i)(C) of this section.

(ii) Special rules. A material advisor generally does not include a person who makes a tax statement solely in the person’s capacity as an employee, shareholder, partner or agent of another person. Any tax statement made by that person will be attributed to that person’s employer, corporation, partnership or principal. However, a person shall be treated as a material advisor if that person forms or avails of an entity with the purpose of avoiding the rules of section 6111 or 6112 or the penalties under section 6707 or 6708.

(iii) Tax statement—(A) In general. A tax statement means any statement, oral or written, that relates to a tax aspect of a transaction that causes the transaction to be a reportable transaction as defined in §1.6011–4(b)(2) through (7) or a tax shelter as described in section 6111.

(B) Confidential transactions. A tax statement relates to an aspect of a transaction that causes it to be a confidential transaction if the statement concerns a tax benefit related to the transaction and either the taxpayer’s disclosure of the tax treatment or tax structure of the transaction is limited in the manner described in §1.6011–4(b)(3) of this chapter by or for the benefit of the person making the statement, or the person making the statement knows the taxpayer’s disclosure of the tax structure or tax aspects of the transaction is limited in the manner described in §1.6011–4(b)(3) of this chapter.

(C) Transactions with contractual protection. A tax statement relates to an aspect of a transaction that causes it to be a transaction with contractual protection if the statement concerns a tax benefit related to the transaction and either—

(1) The taxpayer has the right to a full or partial refund of fees paid to the person making the statement or if these fees are contingent in the manner described in §1.6011–4(b)(4) of this chapter; or

(2) The person making the statement knows that the taxpayer has the right to a full or partial refund of fees (as described in §1.6011–4(b)(4)(iii)) paid to another if all or part of the intended tax consequences from the transaction are not sustained or that fees (as described in §1.6011–4(b)(4)(iii)) paid by the person making the statement concerns an item that gives rise to a significant book-tax difference if the statement concerns a tax benefit related to the transaction and either—

(A) The taxpayer has the right to a full or partial refund of fees paid to the person making the statement or if these fees are contingent in the manner described in §1.6011–4(b)(4) of this chapter; or

(B) The person making the statement concerns an item that gives rise to a book-tax difference described in §1.6011–4(b)(6) of this chapter.

(D) Loss transactions. A tax statement relates to an aspect of a transaction that causes it to be a loss transaction if the statement concerns an item that gives rise to a loss described in §1.6011–4(b)(5) of this chapter.

(E) Transactions with a significant book-tax difference. A tax statement relates to an aspect of a transaction that causes it to be a transaction with a significant book-tax difference if the statement concerns an item that gives rise to a book-tax difference described in §1.6011–4(b)(6) of this chapter.

(F) Transactions involving a brief asset holding period. A tax statement relates to an aspect of a transaction
§

the statement concerns an item that

4(b)(2), 20.6011
corporation other than an S corporation. 

(c)(3)(i) a corporation means a 

(looking through any partners or 

owners or beneficiaries are corporations

statement with respect to the transaction

$50,000 for a transaction if any person 

is a corporation. The minimum fee is 

for whose benefit the potential material 

transaction if every person to whom or 

minimum fee is $250,000 for a 

through (E) of this section.

will not be considered a tax statement 

made or provide a tax statement 

regarding the transaction until after the 

first tax return reflecting tax benefit(s) of 

the transaction is filed with the IRS.

(B) Publicly-filed statements. A tax 

statement with respect to a transaction 

that includes only information about the 

transaction contained in publicly-

available documents filed with the 

Securities and Exchange Commission no 

later than the close of the transaction 

will not be considered a tax statement 

to or for the benefit of a person 

described in paragraph (c)(2)(i)(A) through (E) of this section.

(3) Minimum fee—(i) In general. The minimum fee is $250,000 for a 

transaction if any person to whom or for 

whose benefit the potential material 

advisor makes or provides a tax 

statement with respect to the transaction 

is a corporation. The minimum fee is 

$50,000 for a transaction if any person 

to whom or for whose benefit a potential 

material advisor makes or provides a tax 

statement with respect to the transaction 

is a partnership or trust, unless all 

owners or beneficiaries are corporations 

(looking through any partners or 

beneficiaries that are themselves 

partnerships or trusts), in which case the 

minimum fee is $50,000. For all 

other transactions, the minimum fee is 

$50,000. For purposes of this paragraph 

(c)(3)(i) a corporation means a 

corporation other than an S corporation.

(ii) Listed transactions. For listed 

transactions described in §§1.6011– 

4(b)(2), 20.6011–4(a), 25.6011–4(a), 

31.6011–4(a), 53.6011–4(a), 54.6011– 

4(a), or 56.6011–4(a) of this chapter, the 

minimum fees in paragraph (c)(3)(i) of 

this section are reduced from $250,000 

to $25,000 and from $50,000 to $10,000. 

(iii) Determination of fees. In 

determining whether the minimum fee 

threshold is satisfied, all fees for 

services for advice (whether or not tax 

advice) or for the implementation of a 

transaction that is a potentially abusive 
tax shelter are taken into account. For 
purposes of this section, the minimum 

fee threshold must be met 

independently for each transaction 

that is a potentially abusive tax shelter 

and aggregation of fees among transactions is 

not required. Fees for advice or 

implementation include consideration 

in whatever form paid, whether in cash 

or in kind, for services to analyze the 

transaction (whether or not related to 

tax consequences of the transaction), 

for services to implement the 

transaction, for services to document the 

transaction, and for services to prepare 
tax returns to the extent return 

preparation fees are unreasonable in 

light of all of the facts and 
circumstances. The IRS will scrutinize 
carefully all of the facts and 
circumstances in determining whether 

consideration received in connection 

with a transaction that is a potentially 

abusive tax shelter constitutes fees for 
purposes of this section.

(d) Definitions. For purposes of this 

section, the following terms are defined as follows:

(1) Interest. The term interest 

includes, but is not limited to, any right 
to participate in a transaction by reason 
of a partnership interest, a shareholder 

interest, or a beneficial interest in a 

trust; any interest in property (including 
a leasehold interest); the entry into a 

leasing arrangement or a consulting, 

management or other agreement for 

the performance of services; or any interest 
in any other investment, entity, plan, 
or arrangement. The term interest 

includes any interest that purportedly entitles the 
direct or indirect holder of the interest 
to any tax consequence (including, but 

not limited to, a deduction, loss, or 

adjustment to tax basis in an asset) 

arising from the transaction. An interest 

also includes information or services 

regarding the organization or structure of 

the transaction if the information or 

services are relevant to the potential tax 

consequences of the transaction.

(2) Substantially similar. The term 

substantially similar includes any 

transaction that is expected to obtain the 

same or similar types of tax 

consequences and that is either factually 

similar or based on the same or similar 
tax strategy. Receipt of an opinion 

regarding the tax consequences of the 

transaction is not relevant to the 
determination of whether the 

transaction is the same as or 

substantially similar to another 

transaction. Further, the term 

substantially similar must be broadly 

constructed in favor of list maintenance.

(3) Person. The term person means 

any person described in section 

7701(a)(1), including an affiliated group 
of corporations that join in the filing of 
a consolidated return under section 

1501.

(4) Related party. A person is a related 

party with respect to another person if 

such person bears a relationship to such 

other person described in section 267 or 

707.

(5) Tvx. For purposes of this section, the term tax means Federal tax.

(6) Tax benefit. A tax benefit includes 
deductions, exclusions from gross 

income, nonrecognition of gain, tax 

credits, adjustments (or the absence of 

adjustments) to the basis of property, 

status as an entity exempt from Federal 

income taxation, and any other tax 

consequences that may reduce a 
taxpayer’s Federal tax liability by 

affecting the amount, timing, character, 
or source of any item of income, gain, 

expense, loss, or credit.

(7) Tax return. For purposes of this 

section, the term tax return means a 

Federal tax return and a Federal 

information return.

(8) Tax treatment. The tax treatment 
of a transaction is the purported or 

claimed Federal tax treatment of the 

transaction.

(9) Tax structure. The tax structure of 
a transaction is any fact that may be 

relevant to understanding the purported 
or claimed Federal tax treatment of the 

transaction.

e) Prepartion and maintenance of 

lists—(1) In general. A separate list of persons must be prepared and 
maintained for each transaction that is 
a potentially abusive tax shelter. 

However, one list must be maintained 

for substantially similar transactions that 

are potentially abusive tax shelters. 

A list may be maintained on paper, card 

file, magnetic media, or in any other 

form, provided the method of 
maintaining the list enables the IRS to 
determine without undue delay or 
difficulty the information required in 

paragraph (e)(3) of this section.

(2) Persons required to be included on 

lists—(i) In general. A material advisor is 

required to list each person described in 

paragraphs (c)(2)(i)(A) through (D) of 

this section to whom (or for whose 

benefit) the material advisor makes or 

provides a tax statement with respect to 
a transaction that is a potentially 

abusive tax shelter. However, a material 
advisor is not required to list a person 
described in paragraph (c)(2)(i)(A) of 

this section if that person entered into, 
or acquired an interest in, a listed 

transaction more than 6 years before the 

transaction was listed.

(ii) Subsequent participant. A 

material advisor must list any 

subsequent participant if the material 
advisor knows that the subsequent 

participant if the material advisor is a 

related party with respect to another person if 

such person bears a relationship to such 

other person described in section 267 or 

707.

(iii) Section 6111 registrant. A 

material advisor required to register a
transaction under section 6111 also must list each person who purchases (or otherwise acquires) an interest in the transaction.

(iv) Examples. The following examples illustrate the provisions of this section:

Example 1. An investment firm provides a tax statement as to a type of transaction to three taxpayers: Corporation X, Corporation Y, and Corporation Z (all of which are C corporations). Each taxpayer agrees to pay the investment firm $300,000 in connection with the transaction, and each taxpayer engages in a separate transaction (transaction X, transaction Y, and transaction Z, respectively). At the time the transactions are entered into, the investment firm knows or reasonably expects that the transactions will result in a single taxable year loss of $9 million for Corporation X, $15 million for Corporation Y, and $12 million for Corporation Z. The transactions do not result in a single taxable year loss of $9 million for Corporation X, $15 million for Corporation Y, and $12 million for Corporation Z.

Example 2. (i) Corporation M provides a tax statement to Corporation N (a C corporation) describing the potential loss from a type of transaction. Corporation N pays Corporation M $300,000 for the information about that type of transaction. Corporation M knows that Corporation N will sell the information to Taxpayer O (a C corporation) and Taxpayer P (an individual), and that Taxpayer O and Taxpayer P will participate in transactions of the type that Corporation M described to Corporation N. Corporation N, in turn, provides a tax statement as to that type of transaction to Taxpayer O and Taxpayer P. Each taxpayer agrees to pay Corporation N $250,000 in connection with its transaction, and each taxpayer engages in a separate transaction (transaction O and transaction P, respectively). At the time the transactions are entered into, both Corporation M and Corporation N know that the transactions are or will become reportable transactions under §1.6011–4(b)(5) of this chapter (relating to loss transactions).

Accordingly, transaction X is not a potentially abusive tax shelter. The investment firm is not required to maintain a list with respect to transaction X.

(ii) Transactions Y and Z. The investment firm satisfies the requirements for being a material advisor with respect to transaction Y and transaction Z. First, both of the transactions are potentially abusive tax shelters with respect to the investment firm because the investment firm knows, or reasonably expects, at the time the transactions are entered into, that the losses for each of Corporation Y and Z will exceed the $10 million threshold and, thus, the investment firm knows or reasonably expects that the transactions are or will become reportable transactions under §1.6011–4(b)(5) of this chapter (relating to loss transactions). Second, the investment firm provides a tax statement to Corporation Y and Corporation Z as to the transactions.

Third, the investment firm receives $300,000 in connection with each transaction (viewed independently of each other and without regard to any other transaction), which exceeds the minimum fee with respect to each transaction ($250,000). Accordingly, the investment firm must maintain a list with respect to transactions Y and Z. Because transactions Y and Z are based on the same or similar tax strategy, transactions Y and Z are substantially similar transactions, and the investment firm must keep one list with respect to both transactions. The list must contain information about Corporation Y and Corporation Z (see paragraph (e)(2)(i) of this section).

Example 2. (i) Corporation M provides a tax statement to Corporation N (a C corporation) describing the potential loss from a type of transaction. Corporation N pays Corporation M $300,000 for the information about that type of transaction. Corporation M knows that Corporation N will sell the information to Taxpayer O (a C corporation) and Taxpayer P (an individual), and that Taxpayer O and Taxpayer P will participate in transactions of the type that Corporation M described to Corporation N. Corporation N, in turn, provides a tax statement as to that type of transaction to Taxpayer O and Taxpayer P. Each taxpayer agrees to pay Corporation N $250,000 in connection with its transaction, and each taxpayer engages in a separate transaction (transaction O and transaction P, respectively). At the time the transactions are entered into, both Corporation M and Corporation N know that the transactions are or will become reportable transactions under §1.6011–4(b)(5) of this chapter.

(ii) Corporation N is a material advisor with respect to transaction O and transaction P. First, at the time the transactions are entered into, Corporation N knows that the transactions are reportable transactions.

Thus, the transactions are potentially abusive tax shelters. Second, Corporation N provides a tax statement to Taxpayer O and Taxpayer P as to the transactions. Third, Corporation N receives $250,000 in connection with transaction O and transaction P (each viewed independently of any other transaction), which equals or exceeds the minimum fee for those transactions ($50,000 and $250,000, respectively). Accordingly, Corporation N must keep a list with respect to transaction O and transaction P. The list must contain information about Taxpayer P (see paragraph (e)(2)(i) of this section). Because transactions O and P are based on the same or similar tax strategy, transactions O and P are substantially similar transactions, and Corporation N must keep one list with respect to both transactions. The list must contain information about Taxpayer O and Taxpayer P (see (e)(2)(i) of this section).

(iii) Corporation M’s tax statement to Corporation N constitutes a potentially abusive tax shelter under paragraph (b)(2)(C) of this section. Corporation M transferred information to Corporation N regarding the potential tax consequences of a type of transaction that, if entered into and if the relevant thresholds are met, would be a reportable transaction described in §1.6011–4(b)(5). In addition, Corporation M knew that Corporation N would transfer that information to another person. Corporation M is a material advisor with respect to that potentially abusive tax shelter. Corporation M made a tax statement to Corporation N and Corporation M received $300,000 in connection with the potentially abusive tax shelter, which exceeds the minimum fee for that transaction ($250,000). Accordingly, Corporation M must keep a list with respect to that potentially abusive tax shelter. The list must contain information with respect to Corporation N (see paragraph (e)(2)(i) of this section). The list must also contain information about Taxpayer O and Taxpayer P because Corporation M knows the identity of Taxpayer O and Taxpayer P, and Corporation M knows that Taxpayer O and Taxpayer P entered into transaction O and transaction P, respectively (see paragraph (e)(2)(ii) of this section).

(3) Contents—(i) In general. Each list must contain the following information—

(A) The name of each transaction that is a potentially abusive tax shelter and the registration number, if any, obtained under section 6111;

(B) The TIN (as defined in section 7701(a)(41)), if any, of each transaction;

(C) The name, address, and TIN of each person required to be on the list;

(D) If applicable, the number of units (i.e., percentage of profits, number of shares, etc.) acquired by each person required to be included on the list, if known by the material advisor;

(E) The date on which each person required to be included on the list entered into each transaction, if known by the material advisor;

(F) The amount invested in each transaction by each person required to be included on the list, if known by the material advisor;

(G) A detailed description of each transaction that describes both the tax structure and its expected tax treatment;

(H) A summary or schedule of the tax treatment that each person is intended or expected to derive from participation in each transaction, if known by the material advisor;

(I) Copies of any additional written materials, including tax analyses or opinions, relating to each transaction that are material to an understanding of the purported tax treatment or tax structure of the transaction that have been shown or provided to any person who acquired or may acquire an interest in the transactions, or to their
representatives, tax advisors, or agents, by the material advisor or any related party or agent of the material advisor. However, a material advisor is not required to retain earlier drafts of a document provided the material advisor retains a copy of the final document (or, if there is no final document, the most recent draft of the document) and the final document (or most recent draft) contains all the information in the earlier drafts of such document that is material to an understanding of the purported tax treatment or the tax structure of the transaction; and

(i) For each person required to be on the list, if the interest in the transaction was not acquired from the material advisor maintaining the list, the name of the person from whom the interest was acquired.

(ii) [Reserved]

(f) Retention of lists. Each material advisor must maintain the list described in paragraph (e) of this section for seven years after the earlier of the date on which the material advisor last made a tax statement relating to the transaction, or the date the transaction was entered into, if known. If the material advisor required to prepare, maintain, and furnish the list is a corporation, partnership, or other entity (entity) that has dissolved or liquidated before completion of the seven-year period, the person responsible under state law for winding up the affairs of the entity must prepare, maintain and furnish the list on behalf of the entity, unless the entity submits the list to the Office of Tax Shelter Analysis (OTSA) within 60 days after the dissolution or liquidation. If state law does not specify any person as responsible for winding up the affairs, then each of the directors of the corporation, the general partners of the partnership, or the trustees, owners, or members of the entity are responsible for preparing, maintaining and furnishing the list on behalf of the entity, unless the entity submits the list to the Office of Tax Shelter Analysis (OTSA) within 60 days after the dissolution or liquidation. The responsible person must also provide notice to OTSA of such dissolution or liquidation within 60 days after the dissolution or liquidation. The list and the notice provided to OTSA may be sent to: IRS LM:PTFG:OTSA, Large & Mid-Size Business Division, 1111 Constitution Ave., NW., Washington, DC 20224, or to such other address as provided by the Commissioner.

(g) Furnishing of lists—(1) In general. Each material advisor and person responsible for maintaining a list of persons must, upon written request by the IRS, furnish the list to the IRS within 20 days from the day on which the request is provided. The request is not required to be in the form of an administrative summons. The list may be furnished to the IRS on paper, card file, magnetic media, or in any other form, provided the method of furnishing the list enables the IRS to determine without undue delay or difficulty the information required in paragraph (e)(3) of this section.

(2) Claims of privilege—(i) In any case in which an attorney or federally authorized tax practitioner within the meaning of section 7525 is required to maintain a list with respect to a transaction that is a potentially abusive tax shelter, and that person has a reasonable belief that information specified in paragraph (e)(3)(i)(I) required to be furnished under this paragraph (g) is protected by the attorney-client privilege or by the confidentiality privilege of section 7525(a), the attorney or federally authorized tax practitioner must still maintain the list of persons pursuant to the requirements of this section. When the list is requested by the IRS, as provided in paragraph (g)(1) of this section, the material advisor may assert a privilege claim as to the information specified in paragraph (e)(3)(i)(I) subject to the requirements of this paragraph (g)(2).

(ii) The claimed privilege must be supported by a statement that is signed by the attorney or federally authorized tax practitioner under penalties of perjury, must identify and describe (as set forth in this paragraph (g)(2)) the nature of each document that is not produced which will allow the IRS to determine the applicability of the privilege or protection claimed, without revealing the privileged information itself, and must include the following representations with respect to each document for which the privilege is claimed—

(A) Specifically represent that the information was a confidential practitioner-client communication and, in the case of information which a federally authorized tax practitioner claims is privileged under section 7525, that the omitted information was not part of tax advice that constituted the promotion of the direct or indirect participation of a corporation in any tax shelter (as defined in section 6662(d)(2)(C)(iii)); and

(B) Specifically represent that to the best of such person’s knowledge and belief, that the person and all others in possession of the omitted information did not disclose the omitted information to any person whose receipt of such information would result in a waiver of the privilege.

(iii) Identification and description of a document includes, but is not limited to—

(A) The date appearing on such document or, if it has no date, the date or approximate date that such document was created;

(B) The general nature, description and purpose of such document and the identity of the person who signed such document, and, if it was not signed, the identity of each person who prepared it; and

(C) The identity of each person to whom such document was addressed and the identity of each person, other than such addressee, to whom such document, or a copy thereof, was given or sent.

(h) Designation agreements. If more than one material advisor is required to maintain a list of persons, in accordance with paragraph (e) of this section, for a potentially abusive tax shelter, the material advisors may designate by written agreement a single material advisor to maintain the list or a portion of the list. The designation of one material advisor to maintain the list does not relieve the other material advisors from their obligation to furnish the list to the IRS in accordance with paragraph (g)(1) of this section, if the designated material advisor fails to furnish the list to the IRS in a timely manner. A material advisor is not relieved from the requirement of this section because a material advisor is unable to obtain the list from any designated material advisor, any designated material advisor did not maintain a list, or the list maintained by any designated material advisor is not complete.

(i) Procedure for obtaining rulings. A person may submit a request to the IRS for a ruling as to whether a specific transaction will be considered a potentially abusive tax shelter for purposes of this section and whether that person is a material advisor with respect to that transaction. If the request fully discloses all relevant facts relating to the transaction (including all facts relevant to the person’s relationship to such transaction), then the requirement to maintain a list shall be suspended for that person during the period that the ruling request is pending and for 60 days thereafter; however, if it is ultimately determined that the transaction is a potentially abusive tax shelter and that the person is a material advisor with respect to that transaction, the pendency of such a ruling request shall not affect the requirement to maintain the list, nor shall it affect the...
persons required to be included on the list (including persons who acquired interests in the potentially abusive tax shelter prior to and during the pendency of the ruling request), or the other information required to be included as part of the list.

(j) Effective date. This section applies to any transaction that is a potentially abusive tax shelter on or after February 28, 2003, if the transaction becomes a potentially abusive tax shelter on or after February 28, 2003 because it is a listed transaction as defined in §1.6011–4 of this chapter, and is subject to disclosure under § 1.6011–4 of this chapter. This section also shall apply to any transaction that was entered into, or in which an interest was acquired, after February 28, 2000, if the transaction is a listed transaction as defined in §1.6011–4 of this chapter and is subject to disclosure under § 1.6011–4 of this chapter. This section shall apply to any transaction that is a potentially abusive tax shelter entered into, or an interest acquired therein, on or after February 28, 2003. However, this section shall apply to any transaction that was entered into, or an interest acquired therein, on or after February 28, 2003 because it is a listed transaction as defined in §1.6011–4 of this chapter, and is subject to disclosure under § 1.6011–4 of this chapter. This section shall apply to any transaction entered into, or an interest acquired therein, on or after January 1, 2003, if the transaction is a listed transaction as defined in §1.6011–4 of this chapter and is subject to disclosure under §§ 20.6011–4, 25.6011–4, 31.6011–4, 53.6011–4, 54.6011–4 or 56.6011–4 of this chapter. The rules in § 301.6112–1T as contained in 2002–45 I.R.B. 826 (see §601.601(d)(2) of this chapter) apply only to a transaction entered into, or an interest acquired therein, on or after January 1, 2003, and before February 28, 2003, if the transaction is a listed transaction as defined in §1.6011–4 of this chapter or a section 6111 tax shelter. Otherwise, the rules that apply with respect to any transaction that is a potentially abusive tax shelter entered into, or an interest acquired therein, before January 1, 2003, are contained in §301.6112–1T in effect prior to January 1, 2003 (see 26 CFR part 301 revised as of April 1, 2002). Additionally, the IRS will not ask to inspect any list for a potentially abusive tax shelter that is entered into, or any interest acquired therein, on or after January 1, 2003, until June 1, 2003, unless the potentially abusive tax shelter is a listed transaction as defined in §1.6011–4 of this chapter or a transaction that is a section 6111 tax shelter.

PART 602—OMB CONTROL NUMBERS UNDER THE PAPERWORK REDUCTION ACT

Par. 26. Section 301.6112–1T is removed.

PART 602—OMB CONTROL NUMBERS UNDER THE PAPERWORK REDUCTION ACT

Par. 27. The authority citation for part 602 continues to read as follows:


Par. 28. In §602.101, paragraph (b) is amended as follows:

1. The following entries to the table are removed:

§ 602.101 OMB Control numbers.

<table>
<thead>
<tr>
<th>CFR part or section where identified and described</th>
<th>Current OMB control No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.6011–4T ........................................ 1545–1685</td>
<td></td>
</tr>
<tr>
<td>301.6111–2 ....................................... 1545–1556</td>
<td></td>
</tr>
<tr>
<td>301.6112–1 ....................................... 1545–1556</td>
<td></td>
</tr>
</tbody>
</table>

2. The following entries are added in numerical order to the table:

§ 602.101 OMB Control numbers.

<table>
<thead>
<tr>
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<td></td>
</tr>
<tr>
<td>301.6112–1 ....................................... 1545–1556</td>
<td></td>
</tr>
</tbody>
</table>


David A. Mader,
Assistant Deputy Commissioner of Internal Revenue.

Pamela F. Olsen,
Assistant Secretary of the Treasury.

[FR Doc. 03–4958 Filed 2–28–03; 10:47 am]

DEPARTMENT OF THE INTERIOR

Office of Surface Mining Reclamation and Enforcement

30 CFR Part 948

[WV–088–FOR]

West Virginia Regulatory Program

AGENCY: Office of Surface Mining Reclamation and Enforcement (OSM), Interior.

ACTION: Final rule.

SUMMARY: We are correcting our decision on an amendment submitted by the State of West Virginia as a modification to its permanent regulatory program under the Surface Mining Control and Reclamation Act of 1977 (SMCRA or the Act). On May 1, 2002, we published our decision on the provisions submitted by West Virginia. We are correcting our decisions on four of the State’s responses that were intended to satisfy required program amendments. The decisions being corrected concern the use of an unjust hardship criterion in support of granting temporary relief of an order, economic feasibility related to appeals to the Environmental Quality Board concerning the West Virginia Surface Coal Mining and Reclamation Act (WVSCMRA) and, water supply replacement waivers, and coal removal incidental to development. This correction is intended to comply with the decision of the United States District Court for the Southern District of West Virginia.


FOR FURTHER INFORMATION CONTACT: Mr. Roger W. Calhoun, Director, Charleston Field Office, 1027 Virginia Street East, Charleston, West Virginia 25301. Telephone: (304) 347–7158, Internet address: chfo@osmre.gov.

SUPPLEMENTARY INFORMATION:

Background

By letter dated November 30, 2000 (Administrative Record Number WV–1189), the West Virginia Department of Environmental Protection (WVDEP) sent us an amendment to its program, under SMCRA (30 U.S.C. 1201 et seq.). The amendment included numerous attachments and was submitted in response to several required program amendments codified in the Federal regulations at 30 CFR 948.16.

We announced receipt of the proposed amendment in the January 3, 2001, Federal Register (66 FR 335–340), and provided for public comment until February 28, 2001.