

remove the tail rotor blade and replace it with an airworthy tail rotor blade before further flight.

(e) Within 24 hours after completing the requirements of this Emergency AD, report the information requested in Appendix A for all tail rotor blades listed in the Applicability section, including the tail rotor blades that were removed as a result of this AD. Report the information to: Manager, Los Angeles Aircraft Certification Office, ATTN: Fred Guerin, 3960 Paramount Blvd., Lakewood, California 90712, telephone (562) 627-5232. Reports may also be faxed to (562) 627-5210 or emailed to fred.guerin@faa.gov.

(f) Information collection requirements contained in this AD have been approved by the Office of Management and Budget (OMB) under the provisions of the Paperwork Reduction Act of 1980 (44 U.S.C. 3501 *et seq.*) and have been assigned OMB Control Number 2120-0056.

(g) To request a different method of compliance or a different compliance time for this AD, follow the procedures in 14 CFR 39.19. Contact the Los Angeles Aircraft Certification Office, Transport Airplane Directorate, FAA, for information about previously approved alternative methods of compliance.

(h) This amendment becomes effective on July 17, 2003, to all persons except those persons to whom it was made immediately effective by Emergency AD 2003-08-51, issued April 15, 2003, which contained the requirements of this amendment.

Appendix A—Tail Rotor Blade Inspection (Sample Format)

Send within 24 hours to:

Manager, Los Angeles Aircraft Certification Office, ATTN: Fred Guerin, 3960 Paramount Blvd., Lakewood, California 90712.

Fax: (562) 627-5210.

Email: fred.guerin@faa.gov.

Date:

Operator or Company Name:

Name of Contact Person:

Address:

Telephone:

Fax:

Aircraft Serial Number:

Aircraft Registration Number:

Estimated average flight hours per year:

T/R Blade Part Number: Serial Number:

Total Time:

Crack found? (Yes/No): Corrosion Found? (Yes/No)

T/R Blade Part Number: Serial Number:

Total Time:

Crack found? (Yes/No): Corrosion Found? (Yes/No)

T/R Blade Part Number: Serial Number:

Total Time:

Crack found? (Yes/No): Corrosion Found? (Yes/No)

T/R Blade Part Number: Serial Number:

Total Time:

Crack found? (Yes/No): Corrosion Found? (Yes/No)

Comments/Additional Information:

Issued in Fort Worth, Texas, on June 3, 2003.

Mark R. Schilling,

*Acting Manager, Rotorcraft Directorate,
Aircraft Certification Service.*

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BILLING CODE 4910-13-P

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 9066]

RIN 1545-BA79

Outbound Liquidations Into Foreign Corporations

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations that provide guidance regarding the application of section 367(e)(2) to certain outbound liquidations. The regulations amend the anti-abuse rule by narrowing the scope of the rule to apply only to outbound transfers to a foreign corporation in a complete liquidation of a domestic corporation in which a principal purpose of the liquidation is the avoidance of U.S. tax. The regulations also clarify the application of the anti-abuse rule.

DATES: Effective Date: July 2, 2003.

Applicability Date: These regulations apply to distributions occurring on or after September 7, 1999, or, if the taxpayer has elected to apply the final regulations issued pursuant to TD 8834 to such distributions, to distributions in taxable years ending after August 8, 1999.

FOR FURTHER INFORMATION CONTACT: Milton M. Cahn, (202) 622-3860 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

On August 9, 1999, the IRS and Treasury published final regulations (TD 8834 in the **Federal Register** at 64 FR 43072) under section 367(e)(2) regarding distributions of property in a complete liquidation under section 332 by a domestic corporation to a foreign parent corporation (outbound liquidation) and by a foreign corporation to a foreign parent corporation (foreign-to-foreign liquidations). On November 20, 2002, the IRS and Treasury published a notice of proposed rulemaking (REG-127380-

02 in the **Federal Register** at 67 FR 70031) that would amend an anti-abuse rule in the final regulations to limit its application only to outbound liquidations of domestic corporations, and to clarify what constitutes a principal purpose of tax avoidance for purposes of the anti-abuse rule.

Explanation of Provisions

The final regulations published in 1999 included an anti-abuse rule providing that the Commissioner may require a foreign or domestic liquidating corporation to recognize gain (or treat the liquidating corporation as if it had recognized a loss) on a liquidating distribution if a principal purpose of the liquidation is the avoidance of U.S. tax. § 1.367(e)-2(d). The notice of proposed rulemaking proposed amending the anti-abuse rule under § 1.367(e)-2(d) to limit the application of this rule to outbound liquidations of domestic corporations. The notice of proposed rulemaking also proposed clarifying what constitutes a principal purpose for purposes of the anti-abuse rules in § 1.367(e)-2(d) and § 1.367(e)-2(b)(2)(iii)(C)(1). One written comment responding to the notice of proposed rulemaking was received, but this comment did not request any changes. The public hearing was canceled because no requests were received to speak at the hearing. Accordingly, the proposed regulations are adopted by this Treasury decision without change.

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 has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to this regulation, and because the regulation does not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply.

Drafting Information

The principal author of these final regulations is Aaron A. Farmer of the Office of the Associate Chief Counsel (International), IRS. However, other personnel from the Treasury and the IRS participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Adoption of Amendments to the Regulations

■ Accordingly, 26 CFR part 1 is 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 1.367(e)-2, is amended as follows:

■ 1. Paragraph (b)(2)(iii)(C)(1) is amended by removing the parenthetical “(taken together or separately)” and adding “when taken together” in its place.

■ 2. Paragraph (d) is revised.

The revision reads as follows:

§ 1.367(e)-2 Distributions described in section 367(e)(2).

* * * * *

(d) *Anti-abuse rule.* The Commissioner may require a domestic liquidating corporation to recognize gain on a distribution in liquidation described in paragraph (b) of this section (or treat the liquidating corporation as if it had recognized loss on a distribution in liquidation), if a principal purpose of the liquidation is the avoidance of U.S. tax (including, but not limited to, the distribution of a liquidating corporation's earnings and profits with a principal purpose of avoiding U.S. tax). A liquidation may have a principal purpose of tax avoidance even though the tax avoidance purpose is outweighed by other purposes when taken together.

* * * * *

David A. Mader,

Assistant Deputy Commissioner of Internal Revenue.

Approved: June 23, 2003

Pamela F. Olsen,

Assistant Secretary of the Treasury.

[FR Doc. 03-16785 Filed 7-1-03; 8:45 am]

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 9067]

RIN 1545-BC21

Transfers of Compensatory Options

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final and temporary regulations.

SUMMARY: This document contains regulations that provide rules governing transfers of certain compensatory stock options (nonstatutory stock options). The regulations affect persons who have been granted nonstatutory stock options, as well as service recipients who may be entitled to deductions related to the options. The text of the temporary regulations also serves as the text of the proposed regulations on this subject in the Proposed Rules section in this issue of the **Federal Register**.

DATES: *Effective Date:* These regulations are effective July 2, 2003.

Applicability Dates: For dates of applicability, see §§ 1.83-7(d) and 1.83-7T(d).

FOR FURTHER INFORMATION CONTACT: Stephen Tackney (202) 622-6030 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

These regulations amend 26 CFR part 1. Section 83 of the Internal Revenue Code (Code) provides that if, in connection with the performance of services, property is transferred to any person other than the person for whom such services are performed, the excess of (1) the fair market value of the property (determined without regard to lapse restrictions) at the first time the rights of the person having the beneficial interest in such property are transferable or are not subject to a substantial risk of forfeiture, whichever occurs earlier, over (2) the amount (if any) paid for such property, is included in the gross income of the service provider in the first taxable year in which the rights of the person having the beneficial interest in such property are transferable or are not subject to a substantial risk of forfeiture.

Section 83(e)(4) provides that section 83 does not apply to the transfer of property pursuant to the exercise of an option with a readily ascertainable fair market value at the date of grant.

Section 83(e)(3) provides that section 83 does not apply to the transfer of an option without a readily ascertainable fair market value. Under § 1.83-7(a), section 83 generally applies to the transfer of the property subject to the option at the time of exercise.

Section 1.83-7(a) further provides that section 83 applies to the transfer of money or other property received upon the sale or disposition in an arm's length transaction of an option without a readily ascertainable fair market value at the time of grant.

Recent transactions promoted by certain parties have raised issues concerning when a transfer of an option to a related person, typically a family member or an entity a substantial interest in which is owned by the option holder or family members, is an arm's length transaction. See Notice 2003-47. The determination of whether a transfer to a related person is an arm's length transaction requires scrutiny of the facts and circumstances surrounding the transfer. Furthermore, if conducted under the terms promoted, Treasury and the IRS believe these transfers will rarely constitute an arm's length transaction.

Explanation of Provisions

The regulations provide that a sale or other disposition of a nonstatutory stock option to a related person will not be treated as a transaction that closes the application of section 83 with respect to the option. For these purposes, a person is related to the service provider if (I) the person and the service provider bear a relationship to each other that is specified in section 267(b) or 707(b)(1), subject to the modifications (i) that “20 percent” is used in place of “50 percent” each place it appears in section 267(b) and section 707(b)(1) and (ii) that section 267(c)(4) is applied as if the family of an individual includes the spouse of any member of the family, or (II) the service provider and such person are engaged in trades or businesses under common control (within the meaning of section 52(a) and (b)); provided that a person is not related to the service provider if the person is the service recipient with respect to the option or the grantor of the option. The regulations do not alter the treatment of the sale or disposition of an option in an arm's length transaction with an unrelated person. In those circumstances, section 83 applies to the transfer of money or other property received in the exchange.

Special Analyses

It has been determined that these regulations are not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations, and because these regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Code, these regulations are being submitted to the Chief Counsel for Advocacy of the Small