

(vii) Disclosure would impair an ongoing Inspector General or Department of Justice investigation.

Dated: June 25, 2003.

**Tyler S. Posey,**  
*General Counsel.*

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## DEPARTMENT OF THE TREASURY

### Internal Revenue Service

#### 26 CFR Part 1

[REG-116914-03]

RIN 1545-BC06

#### Transfers of Compensatory Options

**AGENCY:** Internal Revenue Service (IRS), Treasury.

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

**SUMMARY:** In the Rules and Regulations section of this issue of the **Federal Register**, the IRS is issuing temporary regulations relating to the sale or other disposition of compensatory nonstatutory stock options to related persons. The text of those regulations also serves as the text of these proposed regulations.

**DATES:** Written or electronic comments and requests for a public hearing must be received by September 30, 2003.

**ADDRESSES:** Send submissions to: CC:PA:RU (REG-116914-03), room 5226, Internal Revenue Service, POB 7604, Ben Franklin Station, Washington, DC, 20044. Submissions may be hand delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to: CC:PA:RU (REG-116914-03), Courier's Desk, Internal Revenue Service, 1111 Constitution Ave., NW., Washington, DC. Alternatively, taxpayers may submit electronic comments directly to the IRS Internet site at [www.irs.gov/regs](http://www.irs.gov/regs).

**FOR FURTHER INFORMATION CONTACT:** Concerning the temporary regulations, Stephen Tackney (202) 622-6030; concerning submissions of comments and/or requests for a hearing, Guy Traynor, (202) 622-7180 (not toll-free numbers).

#### SUPPLEMENTARY INFORMATION:

#### Background and Explanation of Provisions

Temporary regulations in the Rules and Regulations section of this issue of the **Federal Register** amend 26 CFR part 1. 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. The text of the temporary regulations also serves as the text of these proposed regulations. The preamble to the temporary regulations explains the temporary regulations and these proposed regulations.

#### Special Analyses

It has been determined that these temporary 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 533(b) of the Administrative Procedures 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 Internal Revenue Code, these regulations are being submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business.

#### Comments and Requests for a Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments (a signed original and eight (8) copies) or electronic comments that are submitted timely to the IRS. The IRS and Treasury Department request comments on the clarity of the proposed rules and how they can be made easier to understand. The IRS and Treasury Department specifically request comments on the clarity and efficacy of the proposed definition of a related person. All comments will be available for public inspection and copying. A public hearing may be scheduled if requested by any person that timely submits written comments. If a public hearing is scheduled, notice of the date, time, and place for the public hearing will be published in the **Federal Register**.

#### Drafting Information

The principal author of these proposed regulations is Stephen Tackney of the Office of Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). However, other personnel from the IRS and Treasury Department 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 proposed to be amended as follows:

#### PART 1—INCOME TAXES

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

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

#### § 1.83-7 [Amended]

2. Section 1.83-7 is amended as follows:

1. Paragraph (a) is amended by adding a sentence at the end.

2. Paragraphs (a)(1) and (a)(2) are added.

3. Paragraph (d) is added.

The additions read as follows:

(a) [The text of proposed § 1.83-7(a) is the same as the text of § 1.83-7T(a) published elsewhere in this issue of the **Federal Register**.  
\* \* \* \* \*

(d) *Effective dates.* This section is applicable to sales or other dispositions of options on or after the publication of final regulations in the **Federal Register**. For dates on or after July 2, 2003, see § 1.83-7T(d).

**Robert E. Wenzel,**

*Deputy Commissioner of Internal Revenue.*  
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## DEPARTMENT OF THE TREASURY

### Internal Revenue Service

#### 26 CFR Part 301

[REG-139796-02]

RIN 1545-BB10

#### Section 704(b) and Capital Account Revaluations

**AGENCY:** Internal Revenue Service (IRS), Treasury.

**ACTION:** Notice of proposed rulemaking.

**SUMMARY:** This document contains proposed regulations relating to the capital account maintenance rules under section 704 of the Internal Revenue Code. These regulations expand the rules regarding a partnership's right to adjust capital accounts to reflect unrealized appreciation and depreciation in the value of partnership assets.

**DATES:** Written or electronic comments and requests for a public hearing must be received by September 30, 2003.