

**List of Subjects in 18 CFR Part 381**

Electric power plants, Electric utilities, Natural gas, Reporting and recordkeeping requirements.

**Thomas R. Herlihy,**  
*Executive Director.*

■ In consideration of the foregoing, the Commission amends part 381, Chapter I, Title 18, Code of Federal Regulations, as set forth below.

**PART 381—FEES**

■ 1. The authority citation for part 381 continues to read as follows:

**Authority:** 15 U.S.C. 717–717w; 16 U.S.C. 791–828c, 2601–2645; 31 U.S.C. 9701; 42 U.S.C. 7101–7352; 49 U.S.C. 60502; 49 App. U.S.C. 1–85.

**§ 381.302 [Amended]**

■ 2. In 381.302, paragraph (a) is amended by removing “\$19,090” and inserting “\$19,410” in its place.

**§ 381.303 [Amended]**

■ 3. In 381.303, paragraph (a) is amended by removing “\$27,860” and inserting “\$28,330” in its place.

**§ 381.304 [Amended]**

■ 4. In 381.304, paragraph (a) is amended by removing “\$14,610” and inserting “\$14,850” in its place.

**§ 381.305 [Amended]**

■ 5. In 381.305, paragraph (a) is amended by removing “\$5,470” and inserting “\$5,560” in its place.

**§ 381.403 [Amended]**

■ 6. Section 381.403 is amended by removing “\$9,500” and inserting “\$9,660” in its place.

**§ 381.505 [Amended]**

■ 7. In 381.505, paragraph (a) is amended by removing “\$16,410” and inserting “\$16,690” in its place and by removing “\$18,580” and inserting “\$18,890” in its place.

**§ 381.801 [Amended]**

■ 8. Section 381.801 is amended by removing “\$840” and inserting “\$890” in its place.

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**BILLING CODE 6717–01–P**

**DEPARTMENT OF THE TREASURY****Internal Revenue Service****26 CFR Part 1**

[TD 9193]

**RIN 1545–BB65**

**Section 704(c), Installment Obligations and Contributed Contracts**

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

**ACTION:** Final regulations.

**SUMMARY:** This document contains final regulations under sections 704(c) and 737 relating to the tax treatment of installment obligations and property acquired pursuant to a contract. The regulations affect partners and partnerships and provide guidance necessary to comply with the law.

**DATES:** *Effective Date:* These regulations are effective November 23, 2003.

*Applicability Date:* For dates of applicability, see §§ 1.704–3(f), 1.704–4(g) and 1.737–5.

**FOR FURTHER INFORMATION CONTACT:** Christopher L. Trump, (202) 622–3070 (not a toll-free number).

**SUPPLEMENTARY INFORMATION:****Background**

This document contains amendments to 26 CFR part 1 under sections 704 and 737. On November 24, 2003, a notice of proposed rulemaking (REG–160330–02) relating to the tax treatment of installment obligations and property acquired pursuant to a contract under sections 704(c) and 737 was published in the **Federal Register** (68 FR 65864). A notice of correction was published in the **Federal Register** (69 FR 5797) on February 6, 2004. No comments were received from the public in response to the notice of proposed rulemaking. No public hearing was requested, and accordingly, no hearing was held. This Treasury decision adopts the language of the proposed regulations 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 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 the 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, the proposed regulations preceding these regulations were submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

**Drafting Information**

The principal author of these regulations is Christopher L. Trump of the Office of the Associate Chief Counsel (Passthroughs & Special Industries). 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 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 1.704–3 is amended as follows:

■ 1. The paragraph heading for (a)(8) is revised.

■ 2. The text of paragraph (a)(8) is redesignated as paragraph (a)(8)(i).

■ 3. A paragraph heading for newly designated paragraph (a)(8)(i) is added.

■ 4. The first sentence of newly designated paragraph (a)(8)(i) is amended by removing the language “in which no gain or loss is recognized”.

■ 5. Paragraphs (a)(8)(ii) and (a)(8)(iii) are added.

■ 6. Paragraph (f) is amended by:

■ a. Revising the paragraph heading.

■ b. Amending the first sentence of paragraph (f) by removing the language “of paragraph (a)(11)” and adding “of paragraphs (a)(8)(ii), (a)(8)(iii) and (a)(11)” in its place.

■ c. Adding two sentences at the end of paragraph (f).

■ The revisions and additions read as follows:

**§ 1.704–3 Contributed property.**

(a) \* \* \*

(8) *Special rules*—(i) *Disposition in a nonrecognition transaction.* \* \* \*

(ii) *Disposition in an installment sale.* If a partnership disposes of section 704(c) property in an installment sale as defined in section 453(b), the installment obligation received by the partnership is treated as the section 704(c) property with the same amount

of built-in gain as the section 704(c) property disposed of by the partnership (with appropriate adjustments for any gain recognized on the installment sale). The allocation method for the installment obligation must be consistent with the allocation method chosen for the original property.

(iii) *Contributed contracts.* If a partner contributes to a partnership a contract that is section 704(c) property, and the partnership subsequently acquires property pursuant to that contract in a transaction in which less than all of the gain or loss is recognized, then the acquired property is treated as the section 704(c) property with the same amount of built-in gain or loss as the contract (with appropriate adjustments for any gain or loss recognized on the acquisition). For this purpose, the term contract includes, but is not limited to, options, forward contracts, and futures contracts. The allocation method for the acquired property must be consistent with the allocation method chosen for the contributed contract.

\* \* \* \* \*

(f) *Effective dates.* \* \* \* Paragraph (a)(8)(ii) applies to installment obligations received by a partnership in exchange for section 704(c) property on or after November 24, 2003. Paragraph (a)(8)(iii) applies to property acquired on or after November 24, 2003, by a partnership pursuant to a contract that is section 704(c) property.

■ **Par. 3.** Section 1.704-4 is amended as follows:

- 1. The paragraph heading for (d)(1) is revised.
- 2. The text of paragraph (d)(1) is redesignated as paragraph (d)(1)(i).
- 3. A paragraph heading for newly designated paragraph (d)(1)(i) is added.
- 4. Paragraphs (d)(1)(ii) and (d)(1)(iii) are added.
- 5. Revising paragraph (g).

The revisions and additions read as follows:

**§ 1.704-4 Distribution of contributed property.**

\* \* \* \* \*

(d) *Special rules—(1) Nonrecognition transactions, installment obligations and contributed contracts—(i) Nonrecognition transactions.* \* \* \*

(ii) *Installment obligations.* An installment obligation received by the partnership in an installment sale (as defined in section 453(b)) of section 704(c) property is treated as the section 704(c) property for purposes of section 704(c)(1)(B) and this section to the extent that the installment obligation received is treated as section 704(c) property under § 1.704-3(a)(8). See

§ 1.737-2(d)(3) for a similar rule in the context of section 737.

(iii) *Contributed contracts.* Property acquired by the partnership pursuant to a contract that is section 704(c) property is treated as the section 704(c) property for purposes of section 704(c)(1)(B) and this section, to the extent that the acquired property is treated as section 704(c) property under § 1.704-3(a)(8). See § 1.737-2(d)(3) for a similar rule in the context of section 737.

\* \* \* \* \*

(g) *Effective dates.* This section applies to distributions by a partnership to a partner on or after January 9, 1995, except that paragraphs (d)(1)(ii) and (iii) apply to distributions by a partnership to a partner on or after November 24, 2003.

■ **Par. 4.** Section 1.737-2 is amended as follows:

- 1. The paragraph heading for (d)(3) is revised.
- 2. The text of paragraph (d)(3) is redesignated (d)(3)(i).
- 3. A paragraph heading for newly designated (d)(3)(i) is added.
- 4. Paragraphs (d)(3)(ii) and (d)(3)(iii) are added.

**§ 1.737-2 Exceptions and special rules.**

\* \* \* \* \*

(d) \* \* \*

(3) *Nonrecognition transactions, installment sales and contributed contracts—(i) Nonrecognition transactions.* \* \* \*

(ii) *Installment sales.* An installment obligation received by the partnership in an installment sale (as defined in section 453(b)) of section 704(c) property is treated as the contributed property with regard to the contributing partner for purposes of section 737 to the extent that the installment obligation received is treated as section 704(c) property under § 1.704-3(a)(8). See § 1.704-4(d)(1) for a similar rule in the context of section 704(c)(1)(B).

(iii) *Contributed contracts.* Property acquired by a partnership pursuant to a contract that is section 704(c) property is treated as the contributed property with regard to the contributing partner for purposes of section 737 to the extent that the acquired property is treated as section 704(c) property under § 1.704-3(a)(8). See § 1.704-4(d)(1) for a similar rule in the context of section 704(c)(1)(B).

\* \* \* \* \*

■ **Par. 5.** Section 1.737-5 is revised to read as follows:

**§ 1.737-5 Effective dates.**

Sections 1.737-1, 1.737-2, 1.737-3, and 1.737-4 apply to distributions by a

partnership to a partner on or after January 9, 1995, except that § 1.737-2(d)(3)(ii) and (iii) apply to distributions by a partnership to a partner on or after November 24, 2003.

**Mark E. Matthews,**

*Deputy Commissioner for Services and Enforcement.*

Approved: March 15, 2005.

**Eric Solomon,**

*Acting Deputy Assistant Secretary of the Treasury (Tax Policy).*

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**DEPARTMENT OF THE TREASURY**

**Internal Revenue Service**

**26 CFR Part 1**

[TD 9192]

**RIN 1545-BC38; RIN 1545-BC74; RIN 1545-BC95**

**Guidance Under Section 1502; Application of Section 108 to Members of a Consolidated Group**

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

**ACTION:** Final regulations, temporary regulations, and removal of temporary regulations.

**SUMMARY:** This document contains final regulations under section 1502 of the Internal Revenue Code that govern the application of section 108 when a member of a consolidated group realizes discharge of indebtedness income. These final regulations affect corporations filing consolidated returns.

**DATES:** *Effective Date:* These regulations are effective March 21, 2005.

*Applicability Dates:* For dates of applicability, see § 1.1502-11(c)(7), § 1.1502-13(g)(3)(i)(A) and (ii)(C), § 1.1502-19(h)(2)(ii), § 1.1502-21(h)(6), § 1.1502-28(d), and § 1.1502-32(h)(7).

**FOR FURTHER INFORMATION CONTACT:** Concerning § 1.1502-11 of the final regulations, Candace B. Ewell at (202) 622-7530 (not a toll-free number), concerning all other sections of the final regulations, Amber R. Cook at (202) 622-7530 (not a toll-free number).

**SUPPLEMENTARY INFORMATION:**

**Background and Explanation of Provisions**

This document contains amendments to 26 CFR part 1 under section 1502 of the Internal Revenue Code (Code). On September 4, 2003, temporary regulations (TD 9089) (the first temporary regulations) relating to the