

the servicer submits the monthly accounting to HUD.

(d) At such times as may be prescribed by HUD, the servicer, in addition to making its monthly accounting, shall pay to HUD a premium equal to one-half of one percent of the average outstanding balance during the previous calendar year of all the emergency mortgage relief loans it serviced during that period. That payment shall be accompanied by a breakdown of the premium in the form prescribed by HUD.

§ 2700.425 Default.

(a) If the homeowner fails to make any payment or to perform any other obligation under the mortgage securing the emergency mortgage relief loan, the homeowner shall be deemed to be delinquent on such loan.

(b) For purposes of this subpart, the date of default shall be the earliest of:

(1) 30 days after the first day the homeowner is delinquent on the emergency mortgage relief loan, if the delinquency remains uncorrected;

(2) The date the mortgaged property is sold before full repayment of the emergency mortgage relief loan; and

(3) The date a lien superior to that securing the emergency mortgage relief loan is foreclosed.

(c) If, after default and prior to the foreclosure of the mortgage securing the emergency mortgage relief loan, the homeowner cures the default, the emergency mortgage relief loan shall be treated as if the default had not occurred, provided the homeowner pays the servicer for any expenses the servicer incurred in connection with the servicer's attempt to collect on the loan.

§ 2700.430 Collection.

(a) If a homeowner defaults on an emergency mortgage loan, the servicer shall elect:

(1) To wait while the Department of Justice proceeds against the mortgage securing the emergency mortgage relief loan or attempts to collect on the note, and then to make an accounting and payment to HUD, as provided in § 2700.435, or

(2) To make an accounting and payment, as provided in § 2700.435, without waiting while the Department of Justice proceeds against the mortgage or note.

(b) If pursuant to paragraph (a) of this section, the servicer elects to make an accounting without waiting while the Department of Justice proceeds against the mortgage or note, the servicer at the time of that accounting will have the option of purchasing the emergency loan and underlying mortgage for a

price equal to 0.5 times the unpaid principal balance.

§ 2700.435 Payment to HUD.

(a) Before the expiration of the period of 90 days after the date of default, or such other time period as HUD approves, the servicer shall transmit to HUD on the last working day of the month the complete credit and collection file pertaining to the emergency mortgage relief loan.

(b) At the same time the servicer makes the transmittal as provided in paragraph (a) of this section, it shall share the loss on the emergency mortgage relief loan by making a payment to HUD in an amount equal to 10 percent of the sum of:

(1) The unpaid principal amount of the emergency mortgage relief loan, less the amount recovered; and

(2) The uncollected interest earned up to the date of the final accounting. Accompanying that payment shall be a final accounting of the emergency mortgage relief loan, in the form specified by HUD, and the note and mortgage executed in connection with the emergency mortgage relief loan.

(c) Notwithstanding the provisions of paragraph (b) of this section, in the event that the aggregate loss borne by HUD reaches such percent, as specified in the **Federal Register** document activating the Emergency Homeowners' Loan Program, of the aggregate amount advanced by the servicer on behalf of HUD under this subpart, the servicer shall bear the burden of any loss in excess of that such percent by making an appropriate payment to HUD within the time period specified in paragraph (a) of this section.

(d) If at the time of default or at any time subsequent to default, a person primarily or secondarily liable for the repayment of an emergency loan is a person in "military service", as such term is defined in the Servicemembers Civil Relief Act of 2003 (Pub. L. 108-189, approved December 19, 2003) (formerly known as Soldier's and Sailor's Civil Relief Act of 1940) (50 U.S.C. app. 501-594), the period the servicemember is in military service and 3 months thereafter and that period shall be excluded in computing the time within which an accounting and payment are to be made pursuant to paragraph (a) of this section.

§ 2700.440 Administrative report and examinations.

HUD may at any time call for a report from any servicer on the delinquency status of the emergency mortgage relief loans serviced by the servicer on behalf of HUD or call for such reports as may

be deemed to be necessary in connection with the provisions of this part, or HUD may inspect the books or accounts of the servicer as they pertain to those emergency mortgage relief loans.

Dated: February 28, 2011.

David H. Stevens,

Assistant Secretary for Housing—Federal Housing Commissioner.

[FR Doc. 2011-4816 Filed 3-3-11; 8:45 am]

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 9515]

RIN 1545-BH20

Guidance Under Section 1502; Amendment of Matching Rule for Certain Gains on Member Stock

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final and temporary regulations.

SUMMARY: This document contains final regulations concerning the treatment of certain intercompany gain with respect to stock owned by members of a consolidated group. These regulations provide for the redetermination of intercompany gain as excluded from gross income in certain transactions involving stock transfers between members of a consolidated group. The temporary regulations contained in this document are solely for the purpose of retaining the portion of the existing temporary regulations that were in the same temporary regulation section but that are not being promulgated as final regulations at this time. These regulations affect corporations filing consolidated returns.

DATES: *Effective Date:* These regulations are effective on March 4, 2011.

Applicability Date: Section 1.1502-13(c)(6)(ii)(C), (c)(6)(ii)(D), and (c)(7)(ii), *Examples 16 and 17* apply with respect to items taken into account on or after March 4, 2011.

FOR FURTHER INFORMATION CONTACT: John F. Tarrant (202) 622-7790 or Lawrence M. Axelrod, (202) 622-7713 (not toll-free numbers).

SUPPLEMENTARY INFORMATION:

Background

On March 7, 2008, the IRS and the Treasury Department published temporary regulations § 1.1502-13T. *See*

TD 9383 (73 FR 12265–01), 2008–15 IRB 738. Also on March 7, 2008, the IRS and the Treasury Department published a notice of proposed rulemaking cross-referencing those temporary regulations. See REG–137573–07 (73 FR 12312–01), 2008–15 IRB 750.

The IRS and the Treasury Department did not receive written comments from the public during the prescribed comment period and no public hearing was requested or held. This Treasury decision adopts the proposed regulation (REG–137573–07) with the changes discussed in this preamble. In addition, this Treasury decision revises the temporary regulation, § 1.1502–13T.

Summary of Comments and Explanation of Revisions

Finalization of 2008 Temporary Regulations

The 2008 temporary regulations concern the treatment of certain intercompany gain with respect to consolidated group member stock. Section 1.1502–13 provides rules governing the timing and characterization of items resulting from transactions between consolidated group members. Section 1.1502–13(c) provides general rules under which the timing and character of those items can be deferred or recharacterized to clearly reflect the taxable income (and tax liability) of the group as a whole. These rules generally apply a “matching” principle under which the timing of inclusion of gain on the sale of property by the seller (S) is linked to the buyer’s (B) recovery of its basis in the property and S and B’s characterization are subject to redetermination in order to treat S and B as divisions of a single corporation.

The proposed regulations provide that intercompany gain with respect to member stock may be permanently excluded from gross income following certain stock basis elimination transactions (for example, tax-free spin-offs and liquidations). The IRS and the Treasury Department have reconsidered the requirement of the proposed regulations that, immediately before intercompany gain would otherwise be taken into account, the common parent (P) must be the member that holds the member stock with respect to which the intercompany gain was realized, and that the gain must be P’s intercompany item. Given the other requirements of the regulation, namely that (i) the group has not and will not derive any Federal income tax benefit from the intercompany transaction; and (ii) the excluded gain will not be treated as tax-exempt income for purposes of the

investment adjustment regulations—it is appropriate to provide relief where a member other than the common parent holds the subject stock. Accordingly, these final regulations allow the exclusion of gain where a member holds the target member stock with respect to which the intercompany gain was realized, and the holding member is either (i) B or S, as a successor to the other party (either B or S); or (ii) a third member that is the successor to both B and S.

The preamble to the proposed regulations requested comments as to whether the “Commissioner’s Discretionary Rule” (§ 1.1502–13(c)(6)(ii)(D)) should be retained. The preamble also stated that the IRS and Treasury Department were considering eliminating the Commissioner’s Discretionary Rule. Upon further consideration, the IRS and Treasury Department believe there may be circumstances where application of such discretion is warranted. Thus, for example, the final regulations do not provide automatic relief for transactions involving property other than member stock (such as the stock of non-members), but relief may be available after review by the IRS under the Commissioner’s Discretionary Rule. Accordingly, the final regulations retain the Commissioner’s Discretionary Rule in a form revised to describe the conditions to be satisfied for that discretion to be exercised, and to indicate that relief is available only through a request for a letter ruling.

Finally, the final regulations also expressly provide that the excluded gain is not treated as tax exempt income for purposes of § 1.1502–32 and does not increase earnings and profits.

Reordering of Regulation

On September 4, 2009, amendments to § 1.1502–13T were published in the **Federal Register** to modify the election under which a consolidated group can avoid immediately taking into account an intercompany item after the liquidation of a target corporation (the 2009 temporary regulations). A minor correction to the 2009 temporary regulations concerning the expiration date of the 2009 temporary regulations was published in the **Federal Register** on January 13, 2010. The changes made by the 2009 temporary regulations inadvertently appear in the wrong location in the official **Federal Register** version of § 1.1502–13T. Some tax services have these provisions in their intended places. In order to take into account the finalization of the 2008 temporary regulations, as described in this preamble, and to avoid confusion

concerning the location of the amendments made by the 2009 temporary regulations, this document revises § 1.1502–13T and places the 2009 temporary regulations in the proper location. No substantive change is intended by this revision.

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. Pursuant to the Regulatory Flexibility Act (5 U.S.C. chapter 6), it is hereby certified that this rule will not have a significant economic impact on a substantial number of small entities. This certification is based on the fact that this regulation primarily affects members of consolidated groups which tend to be large corporations. Accordingly, a regulatory flexibility analysis is not required. Pursuant to section 7805(f) of the Internal Revenue Code, the notice of proposed rulemaking preceding this regulation 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 author of this regulation is John F. Tarrant, Office of Associate Chief Counsel (Corporate). However, other personnel from the IRS and the Treasury Department participated in its 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. * * *
Section 1.1502–13 is also issued under 26 U.S.C. 1502.

■ **Par. 2.** Section 1.1502–13 is amended as follows:

■ **1.** Entries for *Examples 16* and *17* are added to the table of examples for § 1.1502–13(c)(7)(ii) in paragraph (a)(6)(ii).

- 2. Paragraphs (c)(6)(ii)(C), (c)(6)(ii)(D) are revised and *Examples 16 and 17* are added to paragraph (c)(7)(ii).
- 3. Paragraph (c)(7)(iii) is added.
- 4. Paragraph (f)(7)(i) *Examples 8 and 9* and paragraph (f)(7)(ii) are removed.
- 5. Paragraph (f)(7)(i) is redesignated as (f)(7).

The revisions and additions read as follows:

§ 1.1502-13 Intercompany transactions.

- (a) * * *
- (6) * * *
- (ii) * * *

Matching rule (§ 1.1502-13(c)(7)(ii))

* * * * *

Example 16. Intercompany stock distribution followed by section 332 liquidation.

Example 17. Intercompany stock sale followed by section 355 distribution.

* * * * *

- (c) * * *
- (6) * * *
- (ii) * * *

(C) *Certain intercompany gains on stock—(1) In general.* Notwithstanding paragraph (c)(6)(ii)(A)(1) of this section, intercompany gain with respect to a member's stock that was created by reason of an intercompany transfer of the stock, and that would not otherwise be taken into account upon a subsequent elimination of the stock's basis but for the transfer, is redetermined to be excluded from gross income if—

- (i) B or S becomes a successor (as defined in paragraph (j)(2) of this section) to the other party (either B or S), or a third member becomes a successor to both B and S;
- (ii) Immediately before the intercompany gain would be taken into account, the successor member holds the member's stock with respect to which the intercompany gain was realized;
- (iii) The successor member's basis in the member's stock that reflects the intercompany gain that is taken into account is eliminated without the recognition of gain or loss (and such eliminated basis is not further reflected in the basis of any successor asset);
- (iv) The effects of the intercompany transaction have not previously been reflected, directly or indirectly, on the group's consolidated return; and
- (v) The group has not derived, and no taxpayer will derive, any Federal income tax benefit from the intercompany transaction that gave rise to the intercompany gain or the redetermination of the intercompany gain (including any adjustment to basis in member stock under § 1.1502-32).

For this purpose, the redetermination of the intercompany gain is not itself considered a Federal income tax benefit.

(2) *Effect on earnings and profits and investment adjustments.* Any amount excluded from gross income under paragraph (c)(6)(ii)(C)(1) of this section shall not be taken account as earnings and profits of any member and shall not be treated as tax-exempt income under § 1.1502-32(b)(2)(ii).

(D) *Other amounts.* (1) The Commissioner may determine that treating S's intercompany item as excluded from gross income is consistent with the purposes of this section and other applicable provisions of the Internal Revenue Code, regulations, and published guidance, if the following conditions are met, depending on whether the intercompany item is an item of income or an item of gain,

- (i) In the case of an intercompany item of income, the corresponding item is permanently disallowed; or
- (ii) If the intercompany item constitutes gain, the conditions described in paragraphs (c)(6)(ii)(C)(1)(iv) and (c)(6)(ii)(C)(1)(v) of this section are satisfied.

(2) A determination by the Commissioner may be obtained only through a letter ruling request.

- (7) * * *
- (ii) * * *

* * * * *

Example 16. Intercompany stock distribution followed by section 332 liquidation. (a) *Facts.* P owns all of the stock of S, S owns all the stock of T, a member of the P group, and T owns all of the stock of T1, also a member of the P group. On January 1 of Year 1, S distributes all of the T stock to P in a distribution to which section 301 applies. At the time of this distribution, the value of the T stock is \$100 and S has a \$40 basis in the T stock. Under section 311(b), the distribution creates \$60 of intercompany gain to S. Under section 301(d), P's basis in the T stock is \$100. S will take its \$60 intercompany gain into account under the matching rule. On January 1 of Year 4, in an independent transaction, S distributes all of its assets to P in a complete liquidation to which section 332 applies, and, under paragraph (j)(2) of this section, P succeeds to S's \$60 gain. On January 1 of Year 7, T distributes all of its T1 stock to P in a transaction to which section 355 applies. At the time of this distribution, P has a basis in the T stock of \$100, the value of the T stock (without regard to T1) is \$75, and the value of the T1 stock is \$25. Under section 358, P allocates \$25 of its \$100 basis in the T stock to the T1 stock, and, under paragraph (j)(1) of this section, the T1 stock becomes a successor asset to the T stock. On January 1 of Year 9, in an independent transaction, T distributes all of its assets to P in a complete liquidation to which section 332 applies.

(b) *Analysis.* Under paragraphs (b)(1) and (f)(2) of this section, S's distribution in Year

1 of the T stock to P is an intercompany transaction, S is the selling member, and P is the buying member. In Year 9 when T liquidates, P has no gain or loss under section 332. Under paragraph (b)(3)(ii) of this section, P's \$0 gain or loss with respect to the T stock under section 332 is a corresponding item. P takes \$45 ($75/100 \times \60) of its intercompany gain into account under the matching rule in Year 9 to reflect the difference between P's \$0 of unrecognized gain and P's \$45 of recomputed unrecognized gain. (If P and S were divisions of a single corporation, P would have had a \$40 basis in the T stock, and, after the Year 7 distribution of the T1 stock, would have held the T stock with a \$30 basis.) However, paragraph (c)(6) of this section does not prevent the redetermination of P's intercompany gain as excluded from gross income provided P succeeds to S's intercompany item; P and S are a single entity; P's basis in the T stock that reflects the \$45 intercompany gain taken into account is eliminated without the recognition of gain or loss (and this eliminated basis is not further reflected in the basis of any successor asset); the group has not derived and no taxpayer will derive any Federal income tax benefit from the basis in the T stock and will not derive any Federal income tax benefit from a redetermination of this portion of the gain; and the effects of the intercompany transaction have not previously been reflected, directly or indirectly, on the P group's consolidated return. (See paragraph (c)(6)(ii)(C) of this section.) Accordingly, under paragraph (c)(6)(ii)(C) of this section, the \$45 intercompany gain that P takes into account is redetermined to be excluded from gross income. P's basis in its T1 stock continues to reflect \$15 of intercompany gain.

Example 17. Intercompany stock sale followed by section 355 distribution. (a) *Facts.* The facts are the same as *Example 16*, except that T does not distribute the stock of T1, instead, in Year 7, T makes a distribution of \$50 to P in a transaction to which section 301 applies. Under § 1.1502-32, P's basis in its T stock is reduced by \$50 and, under paragraph (f)(2)(ii) of this section, the intercompany distribution is excluded from P's gross income. Further, in Year 9, instead of liquidating T, P distributes the T stock to its shareholders in a transaction to which section 355 applies.

(b) *Analysis.* On the distribution of the T stock in Year 9, P has \$0 of unrecognized gain under section 355(c). Under paragraph (b)(3)(ii) of this section, P's \$0 of unrecognized gain or loss with respect to the T stock under section 355(c) is a corresponding item. P takes its \$60 intercompany gain into account under the matching rule in Year 9 to reflect the difference between P's \$0 of unrecognized gain and P's \$60 of recomputed gain (\$50 unrecognized gain and \$10 recognized gain). (If P and S were divisions of a single corporation, P would have had a \$40 basis in the T stock, and, after the Year 7 distribution, would have held the T stock with a \$10 excess loss account.) See paragraph (f)(7), *Example 2* of this section. Paragraph (c)(6) of this section does not prevent the redetermination of P's intercompany gain as

excluded from gross income provided P succeeds to S's intercompany item; P and S are a single entity; P's basis in the T stock that reflects the \$60 intercompany gain taken into account is eliminated without the recognition of gain or loss (and this eliminated basis is not further reflected in any successor asset); the group has not derived any Federal income tax benefit from the basis in the T stock and will not derive any Federal income tax benefit from a redetermination of this portion of the gain; and the effects of the intercompany transaction have not previously been reflected, directly or indirectly, on the P group's consolidated return. (See paragraph (c)(6)(ii)(C) of this section.) The intercompany transaction with respect to the T stock resulted in an increase in the basis of the T stock, and this increase in the basis of the T stock prevented P from holding the T stock with a \$10 excess loss account (as a result of the Year 7 distribution) at the time of the section 355 distribution. Accordingly, the group derived a Federal income tax benefit from the intercompany transaction to the extent of \$10 and, under paragraph (c)(6)(ii)(C) of this section, only \$50 of the \$60 intercompany gain that P takes into account is redetermined to be excluded from gross income.

(c) *Application of section 355(e)*. If it were determined that section 355(e) applied to P's distribution of the T stock, P would recognize \$0 of gain and derive a Federal income tax benefit to the extent of the full \$60 increase in the basis of the T stock. Therefore, no portion of P's intercompany gain would be redetermined to be excluded from gross income under paragraph (c)(6)(ii)(C) of this section.

(iii) *Effective/applicability date*—(A) *In general*. Paragraphs (c)(6)(ii)(C), (c)(6)(ii)(D), and (c)(7)(ii), *Examples 16* and *17* of this section apply with respect to items taken into account on or after March 4, 2011.

(B) *Prior periods*. For items taken into account on or after March 7, 2008, and before March 4, 2011, see § 1.1502–13T(c)(6)(ii)(C) and (f)(7), *Examples 7* and *8* as contained in 26 CFR part 1 in effect on April 1, 2009. For items taken into account before March 7, 2008, see § 1.1502–13 as contained in 26 CFR part 1 in effect on April 1, 2007.

* * * * *

■ **Par. 3.** Section 1.1502–13T is revised to read as follows:

§ 1.1502–13T Intercompany transactions (temporary).

(a) through (f)(5)(ii)(A) [Reserved]. For further guidance see § 1.1502–13(a) through (f)(5)(ii)(A).

(B) *Section 332—(1) In general*. If section 332 would otherwise apply to T's (old T's) liquidation into B, and B transfers substantially all of old T's assets to a new member (new T), and if a direct transfer of substantially all of old T's assets to new T would qualify

as a reorganization described in section 368(a), then, for all Federal income tax purposes, T's liquidation into B and B's transfer of substantially all of old T's assets to new T will be disregarded and instead, the transaction will be treated as if old T transferred substantially all of its assets to new T in exchange for new T stock and the assumption of T's liabilities in a reorganization described in section 368(a). (Under § 1.1502–13(j)(1), B's stock in new T would be a successor asset to B's stock in old T, and S's gain would be taken into account based on the new T stock.)

(2) *Time limitation and adjustments*. The transfer of old T's assets to new T qualifies under paragraph (f)(5)(ii)(B)(1) of this section only if B has entered into a written plan, on or before the due date of the group's consolidated income tax return (including extensions), to transfer the T assets to new T, and the statement described in paragraph (f)(5)(ii)(E) of this section is included on or with a timely filed consolidated tax return for the tax year that includes the date of the liquidation (including extensions). However, see paragraph (f)(5)(ii)(F) of this section for certain situations in which the plan may be entered into after the due date of the return and the statement described in paragraph (f)(5)(ii)(E) of this section may be included on either an original tax return or an amended tax return filed after the due date of the return. In either case, the transfer of substantially all of T's assets to new T must be completed within 12 months of the filing of the return.

Appropriate adjustments are made to reflect any events occurring before the formation of new T and to reflect any assets not transferred to new T, or liabilities not assumed by new T. For example, if B retains an asset of old T, the asset is treated under § 1.1502–13(f)(3) as acquired by new T but distributed to B immediately after the reorganization.

(f)(5)(ii)(B)(3) through (f)(5)(ii)(E) [Reserved]. For further guidance, see § 1.1502–13(f)(5)(ii)(B)(3) through (f)(5)(ii)(E).

(F) *Effective/Applicability dates—(1) General rule*. Paragraphs (f)(5)(ii)(B)(1) and (f)(5)(ii)(B)(2) of this section apply to transactions in which old T's liquidation into B occurs on or after October 25, 2007.

(2) *Prior periods*. For transactions in which old T's liquidation into B occurs before October 25, 2007, see § 1.1502–13(f)(5)(ii)(B)(1) and (f)(5)(ii)(B)(2) in effect prior to October 25, 2007 as contained in 26 CFR part 1, revised April 1, 2009.

(3) *Special rule for tax returns filed before November 3, 2009*. In the case of

a liquidation on or after October 25, 2007, by a taxpayer whose original tax return for the year of liquidation was filed on or before November 3, 2009, then, notwithstanding paragraph (f)(5)(ii)(B)(2) of this section and § 1.1502–13(f)(5)(ii)(E), the election to apply paragraph (f)(5)(ii)(B) of this section may be made by entering into the written plan described in paragraph (f)(5)(ii)(B) of this section on or before November 3, 2009, including the statement described in § 1.1502–13(f)(5)(ii)(E) on or with an original tax return or an amended tax return for the tax year that includes the liquidation filed on or before November 3, 2009, and transferring substantially all of T's assets to new T within 12 months of the filing of such original or amended return.

(G) *Expiration date*. These temporary regulations will expire on September 3, 2012.

Steven T. Miller,

Deputy Commissioner for Services and Enforcement.

Approved: February 24, 2011.

Michael Mundaca,

Assistant Secretary of the Treasury (Tax Policy).

[FR Doc. 2011–4846 Filed 3–3–11; 8:45 am]

BILLING CODE 4830–01–P

DEPARTMENT OF HOMELAND SECURITY

Coast Guard

33 CFR Part 117

[Docket No. USCG–2011–0066]

Drawbridge Operation Regulations; Hackensack River, Jersey City, NJ, Maintenance

AGENCY: Coast Guard, DHS.

ACTION: Notice of temporary deviation from regulations.

SUMMARY: The Commander, First Coast Guard District, has issued a temporary deviation from the regulation governing the operation of the Witt Penn Bridge at mile 3.1, across the Hackensack River, at Jersey City, New Jersey. The deviation is necessary to perform bridge maintenance. This deviation allows the bridge owner to require a two-hour advance notice for bridge openings.

DATES: This deviation is effective from April 4, 2011 through May 8, 2011.

ADDRESSES: Documents mentioned in this preamble as being available in the docket are part of docket USCG–2011–0066 and are available online at