

this section. Existing loan assistance, ongoing participation, or insured loans under the programs shall continue to be governed by regulations in effect as described in this section.

(b) Any existing loan assistance, ongoing participation, or insured loans under the programs listed in this paragraph will continue to be governed by the regulations in effect as they existed immediately before October 11, 1995 (24 CFR parts 205, 209, 224–228, 240, 277, 278, 1994 edition):

(1) Part 205, Mortgage Insurance for Land Development (Title X of the National Housing Act, repealed by section 133(a) of the Department of Housing and Urban Development Reform Act of 1989 (Public Law 101–235, approved December 15, 1989).

(2) Part 209, Individual Homes; War Housing Mortgage Insurance (12 U.S.C. 1736–1743).

(3) Part 224, Armed Services Housing-Military Personnel (12 U.S.C. 1736–1746a).

(4) Part 225, Military Housing Insurance (12 U.S.C. 1748b).

(5) Part 226, Armed Services Housing-Civilian Employees (12 U.S.C. 1748h–1).

(6) Part 227, Armed Services Housing-Impacted Areas (12 U.S.C. 1478h–2).

(7) Part 228, Individual Residences; National Defense Housing Mortgage Insurance (12 U.S.C. 1750 as amended by 42 U.S.C. 1591c).

(8) Part 240, Mortgage Insurance on Loans for Fee Title Purchase (12 U.S.C. 1715z–5).

(9) Part 277, Loans for Housing for the Elderly or Handicapped (12 U.S.C. 1701q).

(10) Part 278, Mandatory Meals Program in Multifamily Rental or Cooperative Projects for the Elderly or Handicapped (12 U.S.C. 1701q).

(c) Any existing loan assistance, ongoing participation, or insured loans under the programs listed in this paragraph will continue to be governed by the regulations in effect as they existed immediately before May 11, 1996 (24 CFR parts 215, 222, and 237, 1995 edition):

(1) Part 215, Rent Supplement Payments Program (12 U.S.C. 1715f).

(2) Part 222, Service Person's Mortgage Insurance Program (12 U.S.C. 1715m).

(3) Part 237, Special Mortgage Insurance for Low and Moderate Income Families (12 U.S.C. 1715z–2).

(d) Any existing loan assistance, ongoing participation, or insured loans under the program listed in this paragraph will continue to be governed by the regulations in effect as they existed immediately before December 26, 1996 (24 CFR part 233, 1995 edition):

(1) Part 233, Experimental Housing Mortgage Insurance Program (12 U.S.C. 1715x).

(2) [Reserved]

(e) Any existing loan assistance, ongoing participation, or insured loans under the program listed in this paragraph will continue to be governed by the regulations in effect as they existed immediately before August 15, 2014 (24 CFR part 257):

(1) Part 257, HOPE for Homeowners Program (12 U.S.C. 1701z–22).

(2) [Reserved]

§ 200.1302 [Removed]

■ 3. Remove § 200.1302.

PART 257 [Removed]

■ 4. Remove part 257.

PART 4000 [Removed]

■ 5. Remove part 4000.

PART 4001 [Removed]

■ 6. Remove part 4001.

Dated: July 8, 2014.

Shaun Donovan,
Secretary.

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 9676]

RIN 1545–BJ59

Allocation and Apportionment of Interest Expense

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations and removal of temporary regulations.

SUMMARY: This document contains final regulations that provide guidance concerning the allocation and apportionment of interest expense by corporations owning a 10 percent or greater interest in a partnership, as well as the allocation and apportionment of interest expense using the fair market value method. These regulations also update the interest allocation regulations to conform to the statutory changes made by section 216 of the legislation commonly referred to as the Education Jobs and Medicaid Assistance Act (EJMAA), enacted on August 10, 2010, affecting the affiliation of certain foreign corporations for purposes of

section 864(e). These regulations affect taxpayers that allocate and apportion interest expense.

DATES: *Effective Date:* These regulations are effective on July 16, 2014.

Applicability Dates: For dates of applicability, see §§ 1.861–9(k) and 1.861–11(d)(6)(ii).

FOR FURTHER INFORMATION CONTACT:

Jeffrey L. Parry, (202) 317–6936 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background and Explanation of Provisions

On September 14, 1988, a notice of proposed rulemaking by cross-reference to temporary regulations and temporary regulations (TD 8228) under section 861 of the Internal Revenue Code (Code) (the 1988 temporary regulations) were published in the **Federal Register** at [53 FR 35525] and [53 FR 35467], respectively. On January 17, 2012, a notice of proposed rulemaking by cross-reference to temporary regulations (REG–113903–10) and temporary regulations (the 2012 temporary regulations) (TD 9571) which revised, in part, the 1988 temporary regulations, were published in the **Federal Register** at [77 FR 2240] and [77 FR 2225], respectively. Corrections to the 2012 temporary regulations were published on February 21, 2012, in the **Federal Register** at [77 FR 9844]. No written comments were received on the 2012 temporary regulations or on the portion of the 1988 temporary regulations included in this regulation. A public hearing was not requested and none was held. This Treasury decision adopts the proposed regulations published in connection with the 2012 temporary regulations, as well as the portions of § 1.861–9T(e)(2) and (3) of the 1988 temporary regulations that were not amended by the 2012 temporary regulations, with no substantive change.

Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866, as supplemented by Executive Order 13653. 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 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), the notice of proposed rulemaking preceding this regulation

was 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 Jeffrey L. Parry of the Office of Chief Counsel (International). However, other personnel from the IRS and the 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 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 1.861–9 is amended by
 ■ 1. Revising paragraphs (a), (b), (c), (d), (e), (f)(1), (f)(2), (f)(3)(i), (f)(5), (g), (h)(1), (h)(2), (h)(3), and (h)(4); and
 ■ 2. Adding five new sentences to the end of paragraph (k).

The revisions and addition read as follows:

§ 1.861–9 Allocation and apportionment of interest expense.

(a) through (e)(1) [Reserved]. For further guidance, see § 1.861–9T(a) through (e)(1).

(2) *Corporate partners whose interest in the partnership is 10 percent or more.* A corporate partner shall apportion its interest expense, including the partner's distributive share of partnership interest expense, by reference to the partner's assets, including the partner's pro rata share of partnership assets, under the rules of paragraph (f) of this section if the corporate partner's direct and indirect interest in the partnership (as determined under the attribution rules of section 318) is 10 percent or more. A corporation using the tax book value method or alternative tax book value method of apportionment shall use the partnership's inside basis in its assets, including adjustments under sections 734(b) and 743(b), if any, and adjusted to the extent required under § 1.861–10T(d)(2). A corporation using the fair market value method of apportionment shall use the fair market value of the partnership's assets, adjusted to the extent required under § 1.861–10T(d)(2).

(3) *Individual partners who are general partners or who are limited*

partners with an interest in the partnership of 10 percent or more. An individual partner is subject to the rules of this paragraph (e)(3) if either the individual is a general partner or the individual's direct and indirect interest (as determined under the attribution rules of section 318) in the partnership is 10 percent or more. The individual shall first classify his or her distributive share of partnership interest expense as interest incurred in the active conduct of a trade or business, as passive activity interest, or as investment interest under regulations issued under sections 163 and 469. The individual must then apportion his or her interest expense, including the partner's distributive share of partnership interest expense, under the rules of paragraph (d) of this section. Each such individual partner shall take into account his or her distributive share of the partnership gross income or pro rata share of the partnership assets in applying such rules. An individual using the tax book value or alternative tax book value method of apportionment shall use the partnership's inside basis in its assets, including adjustments under sections 734(b) and 743(b), if any, and adjusted to the extent required under § 1.861–10T(d)(2). An individual using the fair market value method of apportionment shall use the fair market value of the partnership's assets, adjusted to the extent required under § 1.861–10(d)(2).

(e)(4) through (f)(3)(i) [Reserved]. For further guidance, see § 1.861–9T(e)(4) through (f)(3)(i).

* * * * *

(f)(5) through (h)(3) [Reserved]. For further guidance, see § 1.861–9T(f)(5) through (h)(3).

(h)(4) *Valuing related party debt and stock in related persons—(i) Related party debt.* For purposes of this section, the value of a debt obligation of a related person held by the taxpayer or another person related to the taxpayer equals the amount of the liability of the obligor related person.

(ii) *Stock in related persons.* The value of stock in a related person held by the taxpayer or by another person related to the taxpayer equals the sum of the following amounts reduced by the taxpayer's pro rata share of liabilities of such related person:

(A) The portion of the value of intangible assets of the taxpayer and related persons that is apportioned to such related person under § 1.861–9T(h)(2);

(B) The taxpayer's pro rata share of tangible assets held by the related person (as determined under § 1.861–9T(h)(1)(ii));

(C) The taxpayer's pro rata share of debt obligations of any related person held by the related person (as valued under paragraph (h)(4)(i) of this section); and

(D) The total value of stock in all related persons held by the related person as determined under this paragraph (h)(4).

(iii)

Example. (A) *Facts.* USP, a domestic corporation, wholly owns CFC1 and owns 80% of CFC2, both foreign corporations. The aggregate trading value of USP's stock traded on established securities markets at the end of Year 1 is \$700 and the amount of USP's liabilities to unrelated persons at the end of Year 1 is \$400. Neither CFC1 nor CFC2 has liabilities to unrelated persons at the end of Year 1. USP owns plant and equipment valued at \$500, CFC1 owns plant and equipment valued at \$400, and CFC2 owns plant and equipment valued at \$250. The value of these assets has been determined using generally accepted valuation techniques, as required by § 1.861–9(h)(1)(ii). There is an outstanding loan from CFC2 to CFC1 in an amount of \$100. There is also an outstanding loan from USP to CFC1 in an amount of \$200.

(B) *Valuation of group assets.* Pursuant to § 1.861–9T(h)(1)(i), the aggregate value of USP's assets is \$1100 (the \$700 trading value of USP's stock increased by \$400 of USP's liabilities to unrelated persons).

(C) *Valuation of tangible assets.* Pursuant to § 1.861–9T(h)(1)(ii), the value of USP's tangible assets and pro rata share of assets held by CFC1 and CFC2 is \$1100 (the plant and equipment held directly by USP, valued at \$500, plus USP's 100% pro rata share of the plant and equipment held by CFC1 valued at \$400 and USP's 80% pro rata share of the plant and equipment held by CFC2 valued at \$200 (80% of \$250)).

(D) *Computation of intangible asset value.* Pursuant to § 1.861–9T(h)(1)(iii), the value of the intangible assets of USP, CFC1, and CFC2 is \$0 (total aggregate group asset value (\$1100) determined in paragraph (B) less total tangible asset value (\$1100) determined in paragraph (C)). Because the intangible asset value is zero, the provisions of § 1.861–9T(h)(2) and (3) relating to the apportionment and characterization of intangible assets do not apply.

(E) *Valuing related party debt obligations.* Pursuant to § 1.861–9(h)(4)(i), the value of the debt obligation of CFC1 held by CFC2 is equal to the amount of the liability, \$100. The value of the debt obligation of CFC1 held by USP is equal to the amount of the liability, \$200.

(F) *Valuing the stock of CFC1 and CFC2.* Pursuant to § 1.861–9(h)(4)(ii), the value of the stock of CFC2 held by USP is \$280 (USP's 80% pro rata share of tangible assets of CFC2 included in paragraph (C) (\$200) plus USP's 80% pro rata share of the debt obligation of CFC1 held by CFC2 valued in paragraph (E) (\$80). The value of the stock of CFC1 held by USP is \$100 (USP's 100% pro rata share of tangible assets of CFC1 included in paragraph (C) (\$400) less USP's 100% pro

rata share of the liabilities of CFC1 to USP and CFC2 (\$300)).

* * * * *

(k) * * * Paragraphs (e)(2), (e)(3) and (h)(4) apply to taxable years beginning on or after *July 16, 2014*. See 26 CFR 1.861–9T(e)(2) and (3) (revised as of April 1, 2014) for rules applicable to taxable years beginning after January 17, 2012, and before *July 16, 2014*. See 26 CFR 1.861–9T(e)(2) and (3) (revised as of April 1, 2011) for rules applicable to taxable years beginning on or before January 17, 2012. See 26 CFR 1.861–9T(h)(4) (revised as of April 1, 2014) for rules applicable to taxable years ending on or after January 17, 2012, and beginning before *July 16, 2014*. See 26 CFR 1.861–9T(h)(4) (revised as of April 1, 2011) for rules applicable to taxable years ending before January 17, 2012.

■ **Par. 3.** Section 1.861–9T is amended by:

- 1. Revising paragraphs (e)(2), (e)(3), and (h)(4);
- 2. Removing the four sentences before the last sentence of paragraph (k); and
- 3. Removing paragraph (l).

The revisions read as follows:

§ 1.861–9T Allocation and apportionment of interest expense (temporary).

* * * * *

(e)(2) through (e)(3) [Reserved]. For further guidance see § 1.861–9(e)(2) through (e)(3).

* * * * *

(h) * * *

(4) [Reserved]. For further guidance see § 1.861–9(h)(4).

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■ **Par. 4.** In § 1.861–11, paragraphs (d)(3), (d)(4), (d)(5), and (d)(6) are revised to read as follows:

§ 1.861–11 Special rules for allocating and apportioning interest expense of an affiliated group of corporations.

* * * * *

(d)(3) through (6)(i) [Reserved]. For further guidance see § 1.861–11T(d)(3) through (6)(i).

(ii) Any foreign corporation if more than 50 percent of the gross income of such foreign corporation for the taxable year is effectively connected with the conduct of a trade or business within the United States and at least 80 percent of either the vote or value of all outstanding stock of such foreign corporation is owned directly or indirectly by members of the affiliated group (determined with regard to this sentence). This paragraph (d)(6)(ii) applies to taxable years beginning on or after *July 16, 2014*. See 26 CFR 1.861–11T(d)(6)(ii) (revised as of April 1, 2014) for rules applicable to taxable years beginning after August 10, 2010, and

before *July 16, 2014*. See 26 CFR 1.861–11T(d)(6)(ii) (revised as of April 1, 2010) for rules applicable to taxable years beginning on or before August 10, 2010.

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■ **Par. 5.** Sec 1.861–11T is amended by:

- 1. Revising paragraph (d)(6)(ii);
- 2. Removing the last two sentences of paragraph (h); and
- 3. Removing paragraph (i).

The revision reads as follows:

1.861–11T. Special rules for allocating and apportioning interest expense of an affiliated group of corporations (temporary).

* * * * *

(d) * * *

(6) * * *

(ii) [Reserved]. For further guidance see § 1.861–11(d)(6)(ii).

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John Dalrymple,

Deputy Commissioner for Services and Enforcement.

Approved: June 17, 2014.

Mark J. Mazur,

Assistant Secretary of the Treasury (Tax Policy).

[FR Doc. 2014–16461 Filed 7–15–14; 8:45 am]

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DEPARTMENT OF HOMELAND SECURITY

Coast Guard

33 CFR Part 117

[Docket No. USCG–2014–0575]

Drawbridge Operation Regulation; Old River, Between Victoria Island and Byron Tract, CA

AGENCY: Coast Guard, DHS.

ACTION: Notice of deviation from drawbridge regulation.

SUMMARY: The Coast Guard has issued a temporary deviation from the operating schedule that governs the Route 4 Highway Drawbridge across Old River, mile 14.8, between Victoria Island and Byron Tract, CA. The deviation is necessary to allow the bridge owner to paint mechanical components of the bridge. This deviation allows the bridge to remain in the closed-to-navigation position during the deviation period.

DATES: This deviation is effective without actual notice from July 16, 2014 until 6 a.m. on July 20, 2014. For the purposes of enforcement, actual notice will be used from 10 p.m. on July 13, 2014, until July 16, 2014.

ADDRESSES: The docket for this deviation, [USCG–2014–0575], is

available at <http://www.regulations.gov>. Type the docket number in the “SEARCH” box and click “SEARCH.” Click on Open Docket Folder on the line associated with this deviation. You may also visit the Docket Management Facility in Room W12–140 on the ground floor of the Department of Transportation West Building, 1200 New Jersey Avenue SE., Washington, DC 20590, between 9 a.m. and 5 p.m., Monday through Friday, except Federal holidays.

FOR FURTHER INFORMATION CONTACT: If you have questions on this temporary deviation, call or email David H. Sulouff, Chief, Bridge Section, Eleventh Coast Guard District; telephone 510–437–3516, email David.H.Sulouff@uscg.mil. If you have questions on viewing the docket, call Cheryl Collins, Program Manager, Docket Operations, telephone 202–366–9826.

SUPPLEMENTARY INFORMATION: The California Department of Transportation has requested a temporary change to the operation of the Route 4 Highway Drawbridge, mile 14.8, over Old River, between Victoria Island and Byron Tract, CA. The drawbridge navigation span provides 12 feet vertical clearance above Mean High Water in the closed-to-navigation position. Pursuant 33 CFR 117.183, the draw opens on signal from May 1 through October 31 from 6 a.m. to 10 p.m. and from November 1 through April 30 from 9 a.m. to 5 p.m. and at other times, opening the draw on signal if at least four hours advance notice is given to the drawtender at the Rio Vista drawbridge across the Sacramento River, mile 12.8. Navigation on the waterway is commercial and recreational.

The drawspan will be secured in the closed-to-navigation position from 10 p.m. to 6 a.m. from July 13, 2014 to July 20, 2014 to allow Caltrans to paint several mechanical components of the bridge. This temporary deviation has been coordinated with the waterway users. No objections to the proposed temporary deviation were raised.

Vessels able to pass through the bridge in the closed position may do so at any time. The bridge will not be able to open for emergencies between 10 p.m. and 6 a.m. during the deviation period. An alternative route around Victoria Island may be used for vessels unable to pass through the bridge in the closed position. The Coast Guard will also inform the users of the waterways through our Local and Broadcast Notices to Mariners of the change in operating schedule for the bridge so that vessels can arrange their transits to