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[4830-01-p]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[REG-126452-15]

RIN 1545-BN06

Certain Transfers of Property to Regulated Investment Companies [RICs] and Real Estate Investment Trusts [REITs]

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking and 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 effecting the repeal of the General Utilities doctrine by the Tax Reform Act of 1986. The text of those regulations also serves as part of the text of these proposed regulations. These proposed regulations would impose corporate level tax on certain transactions in which property of a C corporation becomes the property of a REIT. The proposed regulations also make an amendment not addressed in the temporary regulations. The proposed regulations affect RICs, REITs, C corporations the property of which becomes the property of a RIC or a REIT, and their shareholders.

DATES: Comments and requests for a public hearing must be received by **INSERT DATE 60 DAYS AFTER PUBLICATION IN THE FEDERAL REGISTER**.

ADDRESSES: Send submissions to: CC:PA:LPD:PR (REG-126452-15), room 5203, Internal Revenue Service, PO Box 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:LPD:PR (REG-126452-15), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, N.W., Washington, DC, 20224 or sent electronically via the Federal eRulemaking Portal at <http://www.regulations.gov/> (IRS REG-126452-15).

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, Austin M. Diamond-Jones, (202) 317-5085; concerning the submission of comments or to request a public hearing, Regina Johnson, (202) 317-6901 (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 the Income Tax Regulations (26 CFR part 1) relating to section 337(d). The temporary regulations impose corporate level tax on certain transactions in which property of a C corporation becomes the property of a REIT. The text of those regulations also serves as the text of these proposed regulations. The preamble to the temporary regulations explains the amendments.

The proposed regulations also include a modification to the definition of converted property that is not addressed in the temporary regulations. This modification treats as converted property any property the basis of which is determined, directly or indirectly, in whole or in part, by reference to the basis of property owned by a C corporation that becomes the property of a RIC or a REIT. The Treasury Department and the IRS believe that such property presents similar concerns with regard to the

purposes of General Utilities repeal as other property of a C corporation that becomes the property of a RIC or REIT.

Special Analyses

Certain IRS regulations, including this one, are exempt from the requirements of Executive Order 12866, as supplemented and reaffirmed by Executive Order 13653. Therefore, a regulatory impact assessment is not required. Pursuant to the Regulatory Flexibility Act (5 U.S.C. chapter 6), it is hereby certified that these proposed regulations would not have a significant economic impact on a substantial number of small entities. This certification is based on the fact that these proposed regulations would primarily affect large corporations with a substantial number of shareholders. Therefore, a regulatory flexibility analysis is not required. Pursuant to section 7805(f) of the Code, this regulation has been submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

Comments and Requests for Public Hearing

Before these proposed regulations are adopted as final regulations, consideration will be given to any comments that are submitted timely to the IRS as prescribed in this preamble under the “Addresses” heading. The Treasury Department and the IRS request comments on all aspects of the proposed regulations. In particular, comments are requested regarding the scope of the terms predecessors and successors. In addition, although related section 355 distributions occurring before or after conversion transactions involving RICs do not present the same degree of concern regarding the purposes of General Utilities repeal, comments are requested as to whether the proposed regulations regarding related section 355 distributions should, like

the rules of §1.337(d)-7 generally, apply to both conversion transactions involving RICs and conversion transactions involving REITs. All comments will be available at www.regulations.gov or upon request. A public hearing will be scheduled if requested in writing by any person that timely submits written comments. If a public hearing is scheduled, notice of the date, time, and place of the public hearing will be published in the **Federal Register**.

Drafting Information

The principal author of these regulations is Austin M. Diamond-Jones of the Office of Associate Chief Counsel (Corporate). Other personnel from the Treasury Department and the IRS participated in their development.

List of Subjects in 26 CFR Part 1

Income taxes, Reporting and recordkeeping requirements.

Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

PART 1—INCOME TAXES

Paragraph 1. The authority citation for part 1 is amended by revising the entry for §1.337(d)-7 to read in part as follows:

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

Section 1.337(d)-7 also issued under 26 U.S.C. 337(d) and 355(h).

Par. 2. Section 1.337(d)-7 is amended by:

1. Revising paragraph (a)(1) and adding paragraphs (a)(2)(vi) and (vii).

2. Revising paragraph (b)(2)(iii).
3. Adding paragraph (b)(4).
4. Revising paragraph (c)(1).
5. Adding paragraph (c)(6).
6. Adding paragraph (f).
7. Revising paragraphs (g)(2)(ii) and (iii).
8. Adding paragraph (g)(2)(iv).

The additions and revisions read as follows:

§1.337(d)-7 Tax on property owned by a C corporation that becomes property of a RIC or REIT.

(a) General rule. (1) [The text of the proposed amendment to §1.337(d)-7(a)(1) is the same as the text of §1.337(d)-7T(a)(1) published elsewhere in this issue of the **Federal Register**].

(2) * * *

(vi) [The text of the proposed amendment to §1.337(d)-7(a)(2)(vi) is the same as the text of §1.337(d)-7T(a)(2)(vi) published elsewhere in this issue of the **Federal Register**].

(vii) Converted property. The term converted property means property owned by a C corporation that becomes the property of a RIC or a REIT and any other property the basis of which is determined, directly or indirectly, in whole or in part, by reference to the basis of the property owned by a C corporation that becomes the property of a RIC or a REIT.

(b) * * *

(2) * * *

(iii) [The text of the proposed amendment to §1.337(d)-7(b)(2)(iii) is the same as the text of §1.337(d)-7T(b)(2)(iii) published elsewhere in this issue of the **Federal Register**].

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(4) [The text of the proposed amendment to §1.337(d)-7(b)(4) is the same as the text of §1.337(d)-7T(b)(4) published elsewhere in this issue of the **Federal Register**].

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(c) Election of deemed sale treatment. (1) [The text of the proposed amendment to §1.337(d)-7(c)(1) is the same as the text of §1.337(d)-7T(c)(1) published elsewhere in this issue of the **Federal Register**].

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(6) [The text of the proposed amendment to §1.337(d)-7(c)(6) is the same as the text of §1.337(d)-7T(c)(6) published elsewhere in this issue of the **Federal Register**].

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(f) [The text of the proposed amendment to §1.337(d)-7(f) is the same as the text of §1.337(d)-7T(f) published elsewhere in this issue of the **Federal Register**].

(g) * * *

(2) * * *

(ii) Conversion transactions occurring on or after **June 7, 2016**. Paragraphs (a)(1), (a)(2)(vi), (b)(4), (c)(1), (c)(6), and (f) of this section will apply to conversion transactions occurring on or after **June 7, 2016** and to conversion transactions and related section 355 distributions for which the conversion transaction occurs before, and the related section 355 distribution occurs on or after, **June 7, 2016**. For conversion

transactions that occurred on or after January 2, 2002 and before **June 7, 2016**, see §1.337(d)-7 as contained in 26 CFR part 1 in effect on April 1, 2016.

(iii) [The text of the proposed amendment to §1.337(d)-7(g)(2)(iii) is the same as the text of §1.337(d)-7T(g)(2)(iii) published elsewhere in this issue of the **Federal Register**].

(iv) Converted property. Paragraph (a)(2)(vii) of this section applies to conversion transactions that occur on or after the date these regulations are published in the **Federal Register** as final regulations.

John Dalrymple,

Deputy Commissioner for Services and Enforcement.

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