INTERNAL REVENUE
BULLETIN

Bulletin No. 2015–25
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HIGHLIGHTS OF THIS ISSUE

These synopses are intended only as aids to the reader in identifying the subject matter covered. They may not be relied upon as authoritative interpretations.

INCOME TAX

T.D. 9720, page 1070.

This regulation provides guidance regarding whether a foreign corporation has substantial business activities in the foreign country in which, or under the law of which, the foreign corporation is created or organized for purposes of section 7874.

T.D. 9721, page 1077.

This final regulation under Section 382 modifies the effective date of earlier regulations under section 382 (TD 9638, published October 22, 2013)) to prevent an adverse effect on certain corporations whose stock was or is owned by the Department of the Treasury and then is sold by Treasury to a public group.

Finding Lists begin on page ii.

The IRS Mission

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Introduction

The Internal Revenue Bulletin is the authoritative instrument of the Commissioner of Internal Revenue for announcing official rulings and procedures of the Internal Revenue Service and for publishing Treasury Decisions, Executive Orders, Tax Conventions, legislation, court decisions, and other items of general interest. It is published weekly.

It is the policy of the Service to publish in the Bulletin all substantive rulings necessary to promote a uniform application of the tax laws, including all rulings that supersede, revoke, modify, or amend any of those previously published in the Bulletin. All published rulings apply retroactively unless otherwise indicated. Procedures relating solely to matters of internal management are not published; however, statements of internal practices and procedures that affect the rights and duties of taxpayers are published.

Revenue rulings represent the conclusions of the Service on the application of the law to the pivotal facts stated in the revenue ruling. In those based on positions taken in rulings to taxpayers or technical advice to Service field offices, identifying details and information of a confidential nature are deleted to prevent unwarranted invasions of privacy and to comply with statutory requirements.

Rulings and procedures reported in the Bulletin do not have the force and effect of Treasury Department Regulations, but they may be used as precedents. Unpublished rulings will not be relied on, used, or cited as precedents by Service personnel in the disposition of other cases. In applying published rulings and procedures, the effect of subsequent legislation, regulations, court decisions, rulings, and procedures must be considered, and Service personnel and others concerned are cautioned against reaching the same conclusions in other cases unless the facts and circumstances are substantially the same.

The Bulletin is divided into four parts as follows:

Part I.—1986 Code.
This part includes rulings and decisions based on provisions of the Internal Revenue Code of 1986.

Part II.—Treaties and Tax Legislation.
This part is divided into two subparts as follows: Subpart A, Tax Conventions and Other Related Items, and Subpart B, Legislation and Related Committee Reports.

Part III.—Administrative, Procedural, and Miscellaneous.
To the extent practicable, pertinent cross references to these subjects are contained in the other Parts and Subparts. Also included in this part are Bank Secrecy Act Administrative Rulings. Bank Secrecy Act Administrative Rulings are issued by the Department of the Treasury's Office of the Assistant Secretary (Enforcement).

Part IV.—Items of General Interest.
This part includes notices of proposed rulemakings, disbarment and suspension lists, and announcements.

The last Bulletin for each month includes a cumulative index for the matters published during the preceding months. These monthly indexes are cumulated on a semiannual basis, and are published in the last Bulletin of each semiannual period.

Part I. Rulings and Decisions Under the Internal Revenue Code of 1986

26 CFR 1.7874–3, added; 26 CFR 1.7874–3T, removed; Substantial Business Activities

T.D. 9720

DEPARTMENT OF THE TREASURY
Internal Revenue Service
26 CFR Part 1

Substantial Business Activities

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations regarding when an expanded affiliated group will be considered to have substantial business activities in a foreign country. These regulations affect certain domestic corporations and partnerships (and certain parties related to them), and foreign corporations that acquire substantially all of the properties of such domestic corporations or partnerships.

DATES: *Effective date*: These regulations are effective on June 4, 2015.

Applicability date: For date of applicability, see § 1.7874–3(f).

FOR FURTHER INFORMATION CONTACT: David A. Levine, (202) 317-6937 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

On June 6, 2006, temporary regulations under section 7874 (TD 9265) were published in the **Federal Register** (71 FR 32437) concerning the treatment of a foreign corporation as a surrogate foreign corporation (2006 temporary regulations). A notice of proposed rulemaking (REG–112994–06) cross-referencing the 2006 temporary regulations was published in the same issue of the **Federal Register** (71 FR 32495). On July 28, 2006, Notice 2006–70 (2006–2 CB 252) was published, announcing a modification to the effective date contained in the 2006 temporary regulations. See § 601.601(d)(2)(ii)(*b*). On June 12, 2009, the 2006 temporary regulations and the related notice of proposed rulemaking were withdrawn and replaced with new temporary regulations (2009 temporary regulations), which generally apply to acquisitions completed on or after June 9, 2009. TD 9453 (74 FR 27920). A notice of proposed rulemaking (REG–112994–06) cross-referencing the 2009 temporary regulations was published in the same issue of the **Federal Register** (74 FR 27947). On June 12, 2012, the 2009 temporary regulations and the related notice of proposed rulemaking were withdrawn and replaced with new temporary regulations (2012 temporary regulations), which generally apply to acquisitions completed on or after June 7, 2012. TD 9592 (77 FR 34785). A notice of proposed rulemaking (REG–107889–12) cross-referencing the 2012 temporary regulations was published in the same issue of the **Federal Register** (77 FR 34887). No public hearing was requested or held; however, comments were received. All comments are available at *www.regulations.gov* or upon request. After consideration of the comments, the 2012 temporary regulations are adopted as final regulations with the modifications described in this preamble. The 2012 temporary regulations are removed.

Explanation of Revisions and Summary of Comments

A. *General Approach*

A foreign corporation generally is treated as a surrogate foreign corporation under section 7874(a)(2)(B) if pursuant to a plan (or a series of related transactions): (i) the foreign corporation completes after March 4, 2003, the direct or indirect acquisition of substantially all of the properties held directly or indirectly by a domestic corporation (acquisition); (ii) after the acquisition, at least 60 percent of the stock (by vote or value) of the foreign corporation is held by former shareholders of the domestic corporation by reason of holding stock in the domestic corporation; and (iii) after the acquisition, the expanded affiliated group that includes the foreign corporation (EAG) does not have substantial business activities in the foreign country in which, or under the law of which, the foreign corporation is created or organized (relevant foreign country), when compared to the total business activities of the EAG. Similar provisions apply if a foreign corporation acquires substantially all of the properties constituting a trade or business of a domestic partnership.

The 2009 temporary regulations provided that whether an EAG will be considered to have substantial business activities in the relevant foreign country is based on all the facts and circumstances and, unlike the 2006 temporary regulations, did not provide a safe harbor. The 2012 temporary regulations replaced this facts-and-circumstances test with a bright-line rule describing the threshold of activities required for an EAG to be considered to have substantial business activities in the relevant foreign country. Under this bright-line rule, an EAG will be considered to have substantial business activities in the relevant foreign country only if at least 25 percent of the group employees, group assets, and group income are located or derived in the relevant foreign country.

Some comments criticized this approach and asserted that there is insufficient support for this bright-line rule in the legislative history. In addition, some comments recommended reverting to a general facts and circumstances test, along with a safe harbor, given the difficulty of formulating a bright-line rule that produces appropriate results in all circumstances. As an alternative, comments suggested that the failure to satisfy the bright-line rule could establish a rebuttable presumption that an EAG does not have substantial business activities in the relevant foreign country.

After consideration of the comments, the Department of the Treasury (Treasury Department) and the IRS have concluded that the bright-line rule in the 2012 temporary regulations is consistent with section 7874 and its underlying policies. In addition, the bright-line rule has proven more administrable than a facts-and-

circumstances test and has the benefit of providing certainty in applying section 7874 to particular transactions. As a result, these final regulations retain the bright-line rule subject to certain modifications, which are described in this preamble.

B. *Threshold of Business Activities*

As described in section A of this preamble, the 2012 temporary regulations provide that an EAG will be considered to have substantial business activities in the relevant foreign country only if at least 25 percent of its group employees, group assets, and group income are located or derived in the relevant foreign country. Comments addressed both the magnitude of the 25-percent threshold and the requirement that each of the group employees, group assets, and group income tests must be satisfied. Although one comment stated that a 25-percent threshold is a reasonable measure of substantiality, other comments stated that it is overly stringent, asserting that it is unlikely that an EAG would have 25 percent of its business activities in any one country given the global nature of commerce. Another comment suggested that an EAG should only be required to satisfy the 25-percent threshold with respect to two out of the three tests provided that the average of all three tests is at least 25 percent.

After consideration of these comments, the Treasury Department and the IRS have concluded that requiring an EAG to satisfy a 25-percent threshold for all three tests in order to be considered to have substantial business activities in the relevant foreign country is consistent with the policies underlying section 7874. Accordingly, the final regulations retain the 25-percent threshold for all three tests in the 2012 temporary regulations.

C. *Standards for Determining Group Employees, Group Assets, and Group Income*

The 2012 temporary regulations provide standards for determining which employees, assets, and income are group employees, group assets, and group income, respectively, for purposes of determining if the EAG has substantial business activities in the relevant foreign country. All employees of members of the EAG constitute group employees. Group income generally is limited to the gross income of members of the EAG from transactions occurring in the ordinary course of business with customers that are not related persons. In order to constitute group assets, assets must be tangible personal property or real property used or held for use in the active conduct of a trade or business by members of the EAG.

A comment questioned the need for these different standards and suggested applying the same standard for determining the employees, assets, and income that are taken into account, with the one standard being based on whether the employees, assets, or income relate to the active conduct of a trade of business. The comment acknowledged, however, that, under this alternative approach, special rules would be necessary to exclude gain from the sale of capital assets and section 1231 property from group income and to address situations in which an EAG has primarily passive income and only a small active business.

The Treasury Department and the IRS have concluded that it is not necessary for the definitions of group employees, group assets, and group income to be based on the same standard, as they measure different facets of an EAG's business activities. In addition, the standards used in the 2012 temporary regulations are commonly used in other areas of the tax law and therefore are more administrable than the recommended alternative. Consequently, the final regulations do not adopt this recommendation.

D. *Applicable Date*

Section 7874(a)(2)(B)(iii) provides that the determination of whether an EAG has substantial business activities is made after an acquisition described in section 7874(a)(2)(B)(i). Under the 2012 temporary regulations, group assets and the number of group employees are measured as of the "applicable date," and group income and employee compensation are calculated for a one-year "testing period" ending on the applicable date. The applicable date, which must be applied consistently, is either the date on which the acquisition is completed (acquisition date) or the last day of the month immediately preceding the month in which the acquisition is completed. The 2012 temporary regulations permit taxpayers to use the latter date because certain information required for the tests may not be readily determinable as of the acquisition date if the acquisition is not completed on the last day of the month.

A comment suggested that the definition of applicable date be modified to be either the acquisition date or, for transactions involving unrelated parties, the first date on which the written agreement to effect the acquisition becomes binding. The comment stated that this change would allow taxpayers sufficient opportunity to unwind their contractual commitments if it appears that the EAG would not be treated as having substantial business activities in the relevant foreign country. Because a written agreement may become binding long before the date on which the acquisition is completed, the Treasury Department and the IRS have determined that this change would be inconsistent with section 7874(a)(2)(B)(iii), which looks to whether the EAG has substantial business activities in the relevant foreign country after the acquisition. In addition, as the comment noted, taxpayers may condition the closing of the acquisition on the EAG's having substantial business activities in the relevant foreign country after the acquisition. Accordingly, the final regulations do not adopt this suggestion.

E. *Determining the Members of the EAG*

1. *In general*

The 2012 temporary regulations provide that the EAG that includes the foreign acquiring corporation is determined as of the close of the acquisition date. One comment requested that this standard be clarified to provide that the EAG includes both the foreign acquiring corporation and the domestic entity that it acquires, but that it excludes entities that are disposed of (or substantially all the assets of which are disposed of) before the acquisition.

The Treasury Department and the IRS believe that it is clear under the 2012 temporary regulations that the EAG gen-

erally does not include an entity that is disposed of before the acquisition. Nonetheless, in response to this comment and for the avoidance of doubt, the final regulations are modified to further clarify that an entity that is not a member of the EAG on the acquisition date is not a member of the EAG, even though the entity would have qualified as a member if the EAG were determined at some earlier point during the testing period. The disposition of substantially all the assets of an entity may or may not cause it to cease to be a member of the EAG, depending on whether the entity remains in existence on the acquisition date.

The final regulations also clarify that, consistent with the requirement under section 7874(a)(2)(B) to take into account all events that occur "pursuant to a plan (or series of related transactions)" in determining whether an entity is a surrogate foreign corporation, members of the EAG are determined taking into account all transactions related to the acquisition, even if they occur after the acquisition date. This clarification is consistent with the rule provided in section 2.03(b)(i) of Notice 2014–52 (2014–42 IRB 712), which provides that all transactions related to an acquisition must be taken into account for purposes of determining the members of an EAG, a U.S-parented group, and a foreign-parented group.

2. *Treatment of partnerships*

The 2012 temporary regulations provide that, for purposes of the substantial business activities test, a partnership is treated as a corporation that is a member of an EAG if, in the aggregate, more than 50 percent (by value) of its interests are owned by one or more members of the EAG (deemed corporation rule). A comment stated that the deemed corporation rule would not treat a partnership owning more than 50 percent of the stock of the foreign acquiring corporation or its corporate partners as members of the EAG because the partnership is not otherwise owned by a member of the EAG. For example, assume that P, a corporation, owns (by value) 75 percent of the interests of PS, a domestic partnership. PS forms FA, a foreign corporation, and transfers substantially all of its assets constituting a trade or business to FA in exchange for all the stock of FA. According to the comment, neither PS nor P is treated as a member of the EAG that includes FA under the 2012 temporary regulations.

The Treasury Department and the IRS have determined that this result is inappropriate. Accordingly, the final regulations provide that, in determining the corporations that are members of the EAG, each partner in a partnership is treated as holding its proportionate share of the stock held by the partnership (look-through rule). This rule is consistent with the rules provided in § 1.7874–1(e) (disregarding certain affiliate-owned stock) and section 2.03(b)(i) of Notice 2014–52 (addressing subsequent transfers of stock of the foreign acquiring corporation). The final regulations coordinate the application of the deemed corporation rule with the look-through rule by providing that the look-through rule applies first and without regard to the deemed corporation rule. The result is that the look-through rule applies only for purposes of determining whether an entity that is actually a corporation for U.S. income tax purposes is a member of the EAG. Then, once those corporate entities are identified, the deemed corporation rule applies to treat certain partnerships in which those corporate entities are partners as corporations that are members of the EAG.

F. *Anti-Abuse Rule*

The 2012 temporary regulations contain an anti-abuse rule pursuant to which the following items are not taken into account in the numerator, but are taken into account in the denominator, for purposes of the group employees, group assets, and group income tests: (i) any group assets, group employees, or group income attributable to business activities that are associated with property or liabilities the transfer of which is disregarded under section 7874(c)(4) (generally, if the transfer is part of a plan with a principal purpose of avoiding the purposes of section 7874); (ii) any group assets or group employees located in, or group income derived in, the relevant foreign country as part of a plan with a principal purpose of avoiding the purposes of section 7874; and (iii) any group assets or group employees located in, or group income derived in, the relevant foreign country if such group assets or group employees, or the business activities to which such group income is attributable, are subsequently transferred to another country in connection with a plan that existed at the time of the acquisition.

A comment suggested modifying the anti-abuse rule by revising the first prong and eliminating the second prong. The comment stated that the first prong of the rule should exclude items from both the numerator and the denominator for consistency. Although such a rule may, for example, produce appropriate results in the case of certain transfers through which the EAG acquires assets from shareholders, it would not produce appropriate results for certain other transfers, such as distributions of assets by EAG members to shareholders. Accordingly, the final regulations adopt this suggestion for items associated with a transfer of property to the EAG that is disregarded under section 7874(c)(4), but retain the rule in the 2012 temporary regulations in all other cases.

The comment also suggested eliminating the second prong of the anti-abuse rule because it relies on an inherently subjective determination and has the potential to detract from the certainty provided by the bright-line rule. Although the same argument could be made for eliminating the third prong, the comment recommended retaining the third prong because the statute looks to whether the EAG has substantial business activities in the relevant foreign country after the acquisition.

The Treasury Department and the IRS believe, in this context, that it is appropriate to bolster bright-line rules with anti-abuse rules. Furthermore, the Treasury Department and the IRS have determined that the second prong of the rule is necessary because otherwise a member of the EAG may be able to relocate assets or employees or shift income to the relevant foreign country without engaging in a "transfer" that would implicate the first prong. Accordingly, the final regulations do not adopt this suggestion.

G. *Comments on Specific Tests*

This section discusses comments that are specific to each of the group employees, group assets, and group income tests.

1. *Group employees*

The 2012 temporary regulations set forth two prongs of the group employees test, both of which must be satisfied based on individuals who are employees of members of the EAG (group employees). The first prong is satisfied if, on the applicable date, the number of group employees based in the relevant foreign country is at least 25 percent of the total number of group employees. The second prong is satisfied if, during the one-year testing period, the employee compensation incurred with respect to group employees based in the relevant foreign country is at least 25 percent of the total employee compensation incurred with respect to all group employees. The final regulations adopt the definition of the terms "group employees" and "employee compensation" in the 2012 temporary regulations, subject to certain modifications.

Under the 2012 temporary regulations and the final regulations, a group employee is considered to be based in the relevant foreign country only if the employee spent more time providing services in that country than in any other country during the testing period. One comment noted that other potential approaches might be more reflective of where the employee's activities take place, but nevertheless suggested that the standard in the 2012 temporary regulations be retained for its simplicity. The Treasury Department and the IRS agree with this comment, and the final regulations retain this standard.

The 2012 temporary regulations do not specify the standard for determining if an individual is an employee for purposes of the group employees test. One comment suggested that individuals who are treated as employees under either U.S. federal tax principles or under applicable local country law should be treated as employees for this purpose. In response to this comment, and to simplify the application of the group employees test, the final regulations provide that whether individuals are employees must be determined for all members of the EAG under U.S. federal tax principles or for all members of the EAG based on the relevant tax laws (in general, for each member of the EAG, the tax law to which that member is subject). For example, if the EAG has two members, FA, the foreign acquiring corporation that is subject to the tax law of Country A, and USP, the domestic entity, the EAG may determine its employees either (i) under U.S. federal tax principles, or (ii) based on the tax law of Country A for those individuals who perform services for FA and U.S. federal tax law for those individuals who perform services for USP.

A comment suggested taking into account independent contractors for purposes of the group employees test in certain circumstances, as they may constitute the majority of the workforce in certain industries. The comment further suggested as a possible approach that the rule include only those independent contractors who perform core functions of the business. The Treasury Department and the IRS have determined that it is not appropriate to include independent contractors for this purpose given, at least in some cases, the transient nature of their relationships with the member of the EAG for which they perform services. In addition, the Treasury Department and the IRS have concluded that taking into account independent contractors based on whether they perform core functions of the business would add undue complexity. Accordingly, this comment is not adopted.

Comments requested clarification of when employee compensation is deemed to be incurred, as well as the standard for determining the amount of compensation. One comment recommended that the compensation be treated as incurred in the period for which it would be deductible for U.S. federal income tax purposes. In response to these comments, and to simplify the determination of employee compensation, the final regulations provide that employee compensation is treated as incurred when it would be deductible by the employer as compensation, and the amount of employee compensation equals the amount that would be deductible by the employer as compensation. Both the timing and the amount of the deduction for all employee compensation must be determined for all group employees under U.S. federal income tax principles or for all group employees based on the relevant tax laws.

2. *Group assets*

Under the 2012 temporary regulations, the group assets test is satisfied if, on the applicable date, the value of the group assets located in the relevant foreign country is at least 25 percent of the total value of all group assets. The term group assets means tangible personal property or real property used or held for use in the active conduct of a trade or business by members of the EAG, provided such property is owned (or leased from a nonmember) by members of the EAG at the close of the acquisition date. Group assets must be valued consistently using either their adjusted tax basis or fair market value. A group asset that is leased, however, is valued at eight times the annual rent. The final regulations adopt the definition of the term "group assets" in the 2012 temporary regulations, subject to the modifications discussed below.

The 2012 temporary regulations provide that a group asset is considered to be located in the relevant foreign country only if the asset was physically present in such country (i) at the close of the acquisition date, and (ii) for more time than in any other country during the testing period. One comment stated that the requirement that an asset be present in the relevant country on the acquisition date is problematic for highly mobile assets (such as aircraft and vessels) and therefore should be eliminated. The comment also suggested, as an alternative, special rules for determining the location of assets, including, depending on the type of asset: (i) applying a proportionate approach based on the source of income produced from the asset during the testing period, (ii) ignoring the asset for purposes of the group asset test (for example, an asset used in space), or (iii) treating the asset as located outside of the relevant foreign country (for example, an offshore drilling rig located exclusively in international waters). The Treasury Department and the IRS have determined that providing special rules to address all types of assets in all fact patterns would be unduly complex.

The Treasury Department and the IRS agree, however, that relief should be provided for assets that are mobile in nature and are used in transportation activities, like vessels, aircraft, and motor vehicles. Accordingly, the final regulations provide that such assets do not have to be physically present in the relevant foreign country at the close of the acquisition date, and need only be physically present in such country for more time than in any other country during the testing period, to be considered present in the relevant foreign country.

The 2012 temporary regulations provide that group assets include certain property rented by members of the EAG and treat the value of such rented property as equal to eight times the net annual rent paid or accrued with respect to such property. One comment stated that valuing all rented assets at eight times the net annual rent is potentially distortive and suggested that the multiple instead be based on the type of asset (for example, based on the applicable recovery period of the asset under section 168). After consideration of these comments, the Treasury Department and the IRS have concluded that the benefits of using different multiples for different classes of rented assets would be outweighed by the complexity and difficulty of determining appropriate multiples and classes. Consequently, the final regulations retain the rule in the 2012 temporary regulations.

A comment suggested excluding from the test certain assets that are owned and maintained by third parties, such as computer servers. The comment noted that start-up companies may be especially reliant on such assets, and their ability to satisfy the bright-line rule may depend on the location of such assets and whether they are viewed as leased by the company or as being used by the third party to provide a service to the company. The Treasury Department and the IRS have concluded that these types of assets do not merit special treatment, and the final regulations do not adopt this comment.

3. *Group income*

Under the 2012 temporary regulations, the group income test is satisfied if, during the one-year testing period, group income derived in the relevant foreign country is at least 25 percent of the total group income. The term group income means the gross income of members of the EAG from transactions occurring in the ordinary course of business with customers that are not related persons. The final regulations adopt the definition of the term "group income" in the 2012 temporary regulations, subject to the modifications discussed below.

The 2012 temporary regulations state that group income is considered to be derived in the relevant foreign country only if it is derived from a transaction with a customer located in that country. One comment stated that this standard is difficult to apply in practice because it is difficult to determine where a customer is located in certain contexts. The comment suggested instead that income be treated as derived in a relevant foreign country if the services, goods, or other property are sold for use, consumption, or disposition within that country. The comment also suggested that special rules for certain financial income could be developed based on the current rules for determining whether such income is effectively connected with a trade or business conducted in the United States. The Treasury Department and the IRS have concluded that the location of the customer provides a more accurate and less manipulable measure of the business activities of the EAG than the suggested alternative. Accordingly, the final regulations retain the standard in the 2012 temporary regulations.

A comment also suggested that the group income test be based on gross receipts rather than gross income. The comment stated that gross receipts may be a more appropriate standard because (i) the amount of gross income will depend on the choice of inventory accounting method, (ii) the gross receipts standard would take into account sales that generate losses or no income, and (iii) an EAG's gross income will be reduced if there are intermediate transactions among members of the EAG. The Treasury Department and the IRS have determined that gross income should be the standard for determining group income, as this standard better reflects the location of an EAG's profitable business activities. In addition, gross income is a standard used in analogous contexts. See, for example, § 1.884–5(e)(3)(i)(B) (regarding the substantial presence test for purposes of determining whether a foreign corporation is a qualified resident of a foreign country for treaty purposes). Thus, the final regulations do not adopt this comment. However, to simplify the application of the group income test, the final regulations provide that group income must be determined consistently for all members of the EAG using either U.S. federal income tax principles or relevant financial statements, in general, defined as financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) or International Financial Reporting Standards (IFRS).

H. *Effective/Applicability Date*

The final regulations apply to acquisitions completed on or after June 3, 2015.

Special Analyses

It has been determined that this Treasury decision is not a significant regulatory action as defined in Executive Order 12866, as supplemented by Executive Order 13563. 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 requirements of the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply. 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 its impact on small business.

Drafting Information

The principal author of these regulations is David A. Levine of the Office of Associate Chief Counsel (International). However, other personnel from the Treasury Department and the IRS participated in their development.

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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 is revised by adding an entry for § 1.7874–3 to read as follows:

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

Section 1.7874–3 is also issued under 26 U.S.C. 7874(c)(6) and (g).* * *

Par. 2. Section 1.7874–3T is removed.

Par. 3. Section 1.7874–3 is added to read as follows:

§ 1.7874–3 Substantial business activities.

(a) *Scope*. This section provides rules regarding when an expanded affiliated group will be considered to have substantial business activities in the relevant foreign country when compared to the total business activities of the expanded affiliated group for purposes of section 7874(a)(2)(B)(iii). Paragraph (b) of this section provides the threshold of business activities that constitute substantial business activities. Paragraph (c) of this section describes certain items that are not taken into account as located or derived in the relevant foreign country. Paragraph (d) of this section provides definitions and certain rules of application. Paragraph (e) of this section provides rules regarding the treatment of partnerships for purposes of this section. Paragraph (f) of this section provides the effective/applicability dates.

(b) *Threshold of business activities*. The expanded affiliated group will be considered to have substantial business activities in the relevant foreign country after an acquisition described in section 7874(a)(2)(B)(i) when compared to the total business activities of the expanded affiliated group only if, subject to paragraph (c) of this section, each of the tests described in paragraphs (b)(1) through (3) of this section is satisfied.

(1) *Group employees*—(i) *Number of employees*. The number of group employees based in the relevant foreign country is at least 25 percent of the total number of group employees on the applicable date.

(ii) *Employee compensation*. The employee compensation incurred with respect to group employees based in the relevant foreign country is at least 25 percent of the total employee compensation incurred with respect to all group employees during the testing period.

(2) *Group assets*. The value of the group assets located in the relevant foreign country is at least 25 percent of the total value of all group assets on the applicable date.

(3) *Group income*. The group income derived in the relevant foreign country is at least 25 percent of the total group income during the testing period.

(c) *Items not to be considered*—(1) *General rule*. Except to the extent provided in paragraph (c)(2) of this section, the following items are not taken into account in the numerator, but are taken into account in the denominator, for each of the tests described in paragraphs (b)(1) through (3) of this section:

(i) Any group assets, group employees, or group income attributable to business activities that are associated with properties or liabilities the transfer of which is disregarded under section 7874(c)(4).

(ii) Any group assets or group employees located in, or group income derived in, the relevant foreign country as part of a plan with a principal purpose of avoiding the purposes of section 7874.

(iii) Any group assets or group employees located in, or group income derived in, the relevant foreign country if such group assets or group employees, or the business activities to which such group income is attributable, are subsequently transferred to another country in connection with a plan that existed at the time of the acquisition described in section 7874(a)(2)(B)(i).

(2) *Transfers of properties to the expanded affiliated group*. Any group assets, group employees, or group income attributable to business activities that are associated with property that is transferred to the expanded affiliated group in a transfer that is disregarded under section 7874(c)(4) are not taken into account in the numerator or the denominator for each of the tests described in paragraphs (b)(1) through (3) of this section.

(d) *Definitions and application of rules*. The following definitions and rules apply for purposes of this section:

(1) The term *acquisition date* means the date on which the acquisition described in section 7874(a)(2)(B)(i) is completed.

(2) The term *applicable date* means either of the following dates, applied consistently for all purposes of this section:

(i) The acquisition date; or

(ii) The last day of the month immediately preceding the month that includes the acquisition date.

(3) The term *employee compensation* means all amounts incurred by members of the expanded affiliated group that directly relate to services performed by group employees (including, for example, wages, salaries, deferred compensation, employee benefits, and employer payroll taxes). Employee compensation with respect to a particular group employee is treated as incurred when it would be deductible by the employer as compensation, and the amount of employee compensation equals the amount that would be deductible by the employer as compensation. Both the timing and the amount of the deduction for employee compensation must be determined for all group employees under U.S. federal income tax principles or for all group employees based on the relevant tax laws. Employee compensation is determined in U.S. dollars, translated, if necessary, using the weighted average exchange rate (as defined in § 1.989(b)–1) for the testing period.

(4) The term *expanded affiliated group* means, with respect to an acquisition described in section 7874(a)(2)(B)(i), the affiliated group defined in section 7874(c)(1) determined as of the close of the acquisition date, but taking into account all transactions related to the acquisition. Thus, for example, the expanded affiliated group does not include a corporation wholly owned by a member of the expanded affiliated group during a portion of the testing period if, before the end of the testing period, the member sells all of its stock in the corporation to a person that is not a member of the expanded affiliated group. The term *member of the expanded affiliated group* means an entity included in the expanded affiliated group. A reference to a member of the expanded affili-

ated group includes a predecessor with respect to such member.

(5) The term *group assets* means tangible personal property or real property used or held for use in the active conduct of a trade or business by members of the expanded affiliated group, provided such property is either owned or, in the circumstances described below, rented by members of the expanded affiliated group at the close of the acquisition date. A group asset is considered to be located in the relevant foreign country only if the asset was physically present in such country at the close of the acquisition date and the asset was physically present in such country for more time than in any other country during the testing period. Notwithstanding the foregoing, a group asset that is mobile in nature and is used in a transportation activity, such as a vessel, an aircraft, or a motor vehicle, is considered to be located in the relevant foreign country if the asset was physically present in such country for more time than in any other country during the testing period, regardless of whether the asset was physically present in such country at the close of the acquisition date. Group assets must be valued on a gross basis (that is, not reduced by liabilities) by consistently using for all group assets of the expanded affiliated group either the adjusted tax basis or fair market value determined in U.S. dollars, translated, if necessary, at the spot rate determined under the principles of § 1.988–1(d)(1), (2), and (4). Tangible personal property or real property that is rented by members of the expanded affiliated group from a person other than a member of the expanded affiliated group is also treated as a group asset, provided such property is used in the active conduct of a trade or business and is being rented by members of the expanded affiliated group at the close of the acquisition date. For purposes of this section, a group asset that is rented is valued at eight times the net annual rent paid or accrued with respect to the property by members of the expanded affiliated group.

(6) The term *group employees* means all individuals who are employees of members of the expanded affiliated group. Whether individuals are employees must be determined for all members of the expanded affiliated group under U.S. federal tax principles or for all members of the expanded affiliated group based on the relevant tax laws. A group employee is considered to be based in the relevant foreign country only if the employee spent more time providing services in such country than in any other single country during the testing period.

(7) The term *group income* means gross income of members of the expanded affiliated group from transactions occurring in the ordinary course of business with customers that are not related persons. Group income must be determined consistently for all members of the expanded affiliated group either under U.S. federal income tax principles or as reflected in the relevant financial statements. Group income is translated into U.S. dollars, if necessary, using the weighted average exchange rate (as defined in § 1.989(b)–1) for the testing period. Group income is considered derived in the relevant foreign country only if it is derived from a transaction with a customer located in such country.

(8) The term *net annual rent* means the annual rent paid or accrued with respect to property, less any payments received or accrued from subleasing such property (or other similar arrangement).

(9) The term *related person* has the meaning specified in section 954(d)(3), except that section 954(d)(3) is applied by substituting "one or more members of the expanded affiliated group" for "a controlled foreign corporation" and "the controlled foreign corporation" each place they appear.

(10) The term *relevant financial statements* means financial statements prepared consistently for all members of the expanded affiliated group in accordance with either U.S. Generally Accepted Accounting Principles (U.S. GAAP) or International Financial Reporting Standards (IFRS) used for consolidated financial statement purposes, but, if, after the acquisition described in section 7874(a)(2)(B)(i), financial statements will not be prepared consistently for all members of the expanded affiliated group in accordance with either U.S. GAAP or IFRS, then, for each member, financial statements prepared in accordance with either U.S. GAAP or IFRS.

(11) The term *relevant foreign country* means the foreign country in which, or under the law of which, the foreign corporation described in section 7874(a)(2)(B) was created or organized.

(12) The term *relevant tax law* means, for purposes of determining whether a particular individual who performs services for a member of the expanded affiliated group is an employee for purposes of paragraph (d)(6) of this section and the timing and amount of employee compensation for a particular employee of a member of the expanded affiliated group for purposes of paragraph (d)(3) of this section, the tax law to which the member is subject. Notwithstanding the foregoing, if the tax law to which a member is subject does not distinguish between whether an individual is an employee, or, for example, an independent contractor, then for this purpose the relevant tax law is considered to be U.S. federal tax law.

(13) The term *testing period* means the one-year period ending on the applicable date.

(e) *Treatment of partnerships*—(1) *Stock held by a partnership*. In determining the members of the expanded affiliated group for purposes of this section, each partner in a partnership, as determined without regard to the application of paragraph (e)(2) of this section, shall be treated as holding its proportionate share of the stock held by the partnership, as determined under the rules and principles of sections 701 through 777.

(2) *Business activities of a partnership*. For purposes of this section, if one or more members of the expanded affiliated group, as determined after the application of paragraph (e)(1) of this section, own, in the aggregate, more than 50 percent (by value) of the interests in a partnership, the partnership will be treated as a corporation that is a member of the expanded affiliated group. Thus, all items of such a partnership are taken into account for purposes of this section. No items of a partnership are taken into account for purposes of this section unless the partnership is treated as a member of the expanded affiliated group pursuant to this paragraph (e)(2).

(f) *Effective/applicability dates*. This section applies to acquisitions that are completed on or after June 3, 2015. For

acquisitions completed before June 3, 2015, see § 1.7874–3T as contained in 26 CFR part 1 revised as of April 1, 2015.

John Dalrymple,
Deputy Commissioner for Services and Enforcement.

Approved: May 20, 2015.

Mark J. Mazur
Assistant Secretary of the Treasury (Tax Policy).

(Filed by the Office of the Federal Register on June 3, 2015, 8:45 a.m., and published in the issue of the Federal Register for June 4, 2015, 80 F.R. 31837)

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26 CFR 1.382–3

T.D. 9721

DEPARTMENT OF THE TREASURY
Internal Revenue Service
26 CFR Part 1

Segregation Rule Effective Date

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations and removal of temporary regulations.

SUMMARY: This document contains final regulations under section 382 of the Internal Revenue Code (Code) that modify the effective date provision of recently published regulations. These regulations affect corporations whose stock is or was acquired by the Department of the Treasury (Treasury) pursuant to certain programs under the Emergency Economic Stabilization Act of 2008 (EESA).

DATES: *Effective Date*: These regulations are effective on June 5, 2015.

Applicability Date: For dates of applicability, see § 1.382–3(j)(17).

FOR FURTHER INFORMATION CONTACT: Stephen R. Cleary, (202) 317-5353 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background and Explanation of Provisions

Section 382

Section 382 of the Code provides that the taxable income of a loss corporation for a year following an ownership change may be offset by pre-change losses only to the extent of the section 382 limitation for such year. An ownership change occurs with respect to a corporation if it is a loss corporation on a testing date and, immediately after the close of the testing date, the percentage of stock of the corporation owned by one or more 5-percent shareholders has increased by more than 50 percentage points over the lowest percentage of stock of such corporation owned by such shareholders at any time during the testing period. A testing date is any date on which occurs any change in the ownership of loss corporation stock that affects the percentage of stock owned by any 5-percent shareholder (owner shift).

Pursuant to section 382(g)(4)(A), shareholders who own less than five percent of a loss corporation are aggregated and treated as a single 5-percent shareholder (a public group). In addition, new public groups may be created as a result of certain transactions under the segregation rules in the section 382 regulations. Any new public group is tracked separately from, and in addition to, the public group or groups that existed previously and is treated as a new 5-percent shareholder that increases its ownership interest in the loss corporation.

One particular segregation rule, which was imposed by § 1.382–2T(j)(3)(i) of the Temporary Income Tax Regulations until it was superseded, required segregation when an individual or entity that owned five percent or more of the loss corporation transferred an interest in the loss corporation to public shareholders. After the sale, stock owned by a public group that existed immediately before the sale was treated separately from the stock owned by the public group that acquired stock from the seller. This separate public group was treated as a new 5-percent shareholder. However, this rule was rendered inoperative by § 1.382–3(j)(13), part of a set of regulations published in TD 9638 [78 FR 62418] on October 22, 2013. Under the new regulation, no new public group is created on the transfer of stock to the public shareholders; instead, the transferred stock is treated as acquired proportionately by the public groups existing at the time of the transfer.

Notice 2010–2 (2010–2 IRB 251 (December 16, 2009)) (see § 601.601(d)(2)(ii)(*b*) of this chapter) provides guidance regarding the application of section 382 and other provisions of law to corporations whose instruments are acquired and disposed of by the Treasury pursuant to EESA. Notice 2010–2 relates to instruments acquired by Treasury pursuant to the following EESA programs: (i) the Capital Purchase Program for publicly-traded issuers; (ii) the Capital Purchase Program for private issuers; (iii) the Capital Purchase Program for S corporations; (iv) the Targeted Investment Program; (v) the Asset Guarantee Program; (vi) the Systemically Significant Failing Institutions Program; (vii) the Automotive Industry Financing Program; and (viii) the Capital Assistance Program for publicly-traded issuers. (These programs are collectively referred to as "Programs" in that Notice and in this preamble.)

Under Section III(G) of Notice 2010–2, a "Covered Instrument" is an instrument that is acquired by Treasury in exchange for an instrument that was issued to Treasury under the Programs, or is acquired by Treasury in exchange for another Covered Instrument. For most purposes of that Notice, a Covered Instrument is treated as though it had been issued directly to Treasury under the Programs.

Section III(E) of Notice 2010–2 provides the following rule to govern the sale by Treasury of stock of a corporation to public shareholders:

> *Section 382 treatment of stock sold by Treasury to public shareholders.* If Treasury sells stock that was issued to it pursuant to the Programs (either directly or upon the exercise of a warrant) and the sale creates a public group ("New Public Group"), the New Public Group's ownership in the issuing corporation shall not be considered to have increased solely as a result of such a sale. A New Public

Group's ownership shall be treated as having increased to the extent the New Public Group increases its ownership pursuant to any transaction other than a sale of stock by Treasury, including pursuant to a stock issuance described in § 1.382–3(j)(2) or a redemption (see § 1.382–2T(j)(2)(iii)(C)). Such stock is considered outstanding for purposes of determining the percentage of stock owned by other 5-percent shareholders on any testing date, and section 382 (and the regulations thereunder) shall otherwise apply to the New Public Group in the same manner as with respect to other public groups.

This rule was created to prevent a loss corporation from experiencing an owner shift when Treasury sells stock to public shareholders. By its terms, the rule relies on the assumption that the stock sale "creates a public group." As explained earlier in this preamble, § 1.382–2T(j)(3)(i), before it was superseded, required creation of a new public group when a 5-percent shareholder sold stock in a loss corporation to public shareholders. However, under § 1.382–3(j)(13) as now in effect, such a transfer does not create a new public group.

The Treasury Department and the IRS became concerned that the elimination of the segregation rule described earlier in this preamble may have unintentionally rendered inoperative the rule in Notice 2010–2 that protects a loss corporation from an owner shift when Treasury sells stock that it held pursuant to the Programs to public shareholders.

The Temporary Regulations

On July 31, 2014, the Treasury Department and the IRS published final and temporary regulations (TD 9685) in the **Federal Register** (79 FR 44280). The temporary regulations modified the effective/applicability date rule of TD 9638 to except from the changes to the segregation rules in those regulations the sale by the Treasury Department to public shareholders of any "Program Instrument" (an instrument issued pursuant to a Program or a Covered Instrument). As a result, under the temporary regulations, a sale of stock by Treasury to the public creates a public group, and the rule of Section III(E) of Notice 2010–2 continues to apply as intended. This provision only affects the sale of a Program Instrument by the Treasury Department and does not affect the application of the segregation rule changes in TD 9638 to any other transactions involving stock of the corporations that participated in the Programs.

A notice of proposed rulemaking (REG–105067–14) cross-referencing the temporary regulations and incorporating the text of the temporary regulations was also published in the **Federal Register** (79 FR 44324) on July 31, 2014. No written comments were received in response to the notice of proposed rulemaking. No requests for a public hearing were received, and accordingly no hearing was held.

The Final Regulations

This Treasury Decision adopts the text of the temporary and proposed regulations without substantive change. As a result, the effective date modification provided in the temporary regulations is now a part of the permanent section 382 regulations, and the temporary regulations are removed.

Special Analyses

It has been determined that this final regulation is not a significant regulatory action as defined in Executive Order 12866, as supplemented by Executive Order 13563. Therefore, a regulatory assessment is not required. It is hereby certified that these regulations will not have a significant economic impact on a substantial number of small entities. This certification is based on the fact that, if the regulations apply to any small entities, the effect will not be to increase their tax liability, but to prevent a potential increase in tax liability that might otherwise occur. Therefore, a Regulatory Flexibility Analysis under the Regulatory Flexibility Act (5 U.S.C. chapter 6) is not required. Pursuant to section 7805(f) of the Code, the notice of proposed rulemaking preceding these regulations was submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on their impact on small business, and no such comments were received.

Drafting Information

The principal author of these regulations is Stephen R. Cleary of the Office of Associate Chief Counsel (Corporate). However, other personnel from the Treasury Department and the IRS participated in their development.

* * * * *

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 is amended by revising the entry for § 1.382–3 to read in part as follows:

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

Section 1.382–3 also issued under 26 U.S.C. 382(g)(4)(C) and 26 U.S.C. 382(m).

* * * * *

Par. 2. Section 1.382–3 is amended by revising paragraph (j)(17) to read as follows:

§ 1.382–3 Definitions and rules relating to a 5-percent shareholder.

* * * * *

(j) * * *

(17) *Effective/applicability date*. This paragraph (j) generally applies to issuances or deemed issuances of stock in taxable years beginning on or after November 4, 1992. However, paragraphs (j)(11)(ii) and (j)(13) through (15) of this section and *Examples 5* through *13* of paragraph (j)(16) of this section apply to testing dates occurring on or after October 22, 2013, other than with respect to the sale of a Program Instrument by the Treasury Department. For purposes of this paragraph (j)(17), a Program Instrument is an instrument issued pursuant to a Program, as defined in Internal Revenue Service Notice 2010–2 (2010–2 IRB 251 (December 16, 2009)) (see § 601.601(a)(2)(ii)(*b*) of this chapter), or a Covered Instrument, as defined in that Notice. Taxpayers may apply paragraphs (j)(11)(ii) and (j)(13) through (15) of this section and *Examples 5* through *13* of paragraph (j)(16) of this section in their entirety (other than with respect to a sale

of a Program Instrument by the Treasury Department) to all testing dates that are included in a testing period beginning before and ending on or after October 22, 2013. However, the provisions described in the preceding sentence may not be applied to any date on or before the date of any ownership change that occurred before October 22, 2013, under the regulations in effect before October 22, 2013, and they may not be applied as described in the preceding sentence if such application would result in an ownership change occurring on a date before October 22, 2013, that did not occur under the regulations in effect before October 22, 2013.

See § 1.382–3(j)(14)(ii) and (iii), as contained in 26 CFR part 1 revised as of April 1, 1994 for the application of paragraph (j)(10) of this section to stock issued on the exercise of certain options exercised on or after November 4, 1992, and for an election to apply paragraphs (j)(1) through (12) of this section retroactively to certain issuances and deemed issuances of stock occurring in taxable years prior to November 4, 1992.

* * * * *

§ 1.382–3T (Removed)

Par. 3. Section 1.382–3T is removed.

John M. Dalrymple,
Deputy Commissioner for Services and Enforcement.

Approved: May 13, 2015.

Mark J. Mazur,
Assistant Secretary of the Treasury (Tax Policy).

(Filed by the Office of the Federal Register on June 4, 2015, 8:45 a.m., and published in the issue of the Federal Register for June 5, 2015, 80 F.R. 31996)

Definition of Terms

Revenue rulings and revenue procedures (hereinafter referred to as "rulings") that have an effect on previous rulings use the following defined terms to describe the effect:

Amplified describes a situation where no change is being made in a prior published position, but the prior position is being extended to apply to a variation of the fact situation set forth therein. Thus, if an earlier ruling held that a principle applied to A, and the new ruling holds that the same principle also applies to B, the earlier ruling is amplified. (Compare with modified, below).

Clarified is used in those instances where the language in a prior ruling is being made clear because the language has caused, or may cause, some confusion. It is not used where a position in a prior ruling is being changed.

Distinguished describes a situation where a ruling mentions a previously published ruling and points out an essential difference between them.

Modified is used where the substance of a previously published position is being changed. Thus, if a prior ruling held that a principle applied to A but not to B, and the new ruling holds that it applies to both A and B, the prior ruling is modified because it corrects a published position. (Compare with amplified and *clarified*, above).

Obsoleted describes a previously published ruling that is not considered determinative with respect to future transactions. This term is most commonly used in a ruling that lists previously published rulings that are obsoleted because of changes in laws or regulations. A ruling may also be obsoleted because the substance has been included in regulations subsequently adopted.

Revoked describes situations where the position in the previously published ruling is not correct and the correct position is being stated in a new ruling.

Superseded describes a situation where the new ruling does nothing more than restate the substance and situation of a previously published ruling (or rulings). Thus, the term is used to republish under the 1986 Code and regulations the same position published under the 1939 Code and regulations. The term is also used when it is desired to republish in a single ruling a series of situations, names, etc., that were previously published over a period of time in separate rulings. If the new ruling does more than restate the substance of a prior ruling, a combination of terms is used. For example, modified and *superseded* describes a situation where the substance of a previously published ruling is being changed in part and is continued without change in part and it is desired to restate the valid portion of the previously published ruling in a new ruling that is self contained. In this case, the previously published ruling is first modified and then, as modified, is superseded.

Supplemented is used in situations in which a list, such as a list of the names of countries, is published in a ruling and that list is expanded by adding further names in subsequent rulings. After the original ruling has been supplemented several times, a new ruling may be published that includes the list in the original ruling and the additions, and supersedes all prior rulings in the series.

Suspended is used in rare situations to show that the previous published rulings will not be applied pending some future action such as the issuance of new or amended regulations, the outcome of cases in litigation, or the outcome of a Service study.

Abbreviations

The following abbreviations in current use and formerly used will appear in material published in the Bulletin.

A—Individual.
Acq.—Acquiescence.
B—Individual.
BE—Beneficiary.
BK—Bank.
B.T.A.—Board of Tax Appeals.
C—Individual.
C.B.—Cumulative Bulletin.
CFR—Code of Federal Regulations.
CI—City.
COOP—Cooperative.
Ct.D.—Court Decision.
CY—County.
D—Decedent.
DC—Dummy Corporation.
DE—Donee.
Del. Order—Delegation Order.
DISC—Domestic International Sales Corporation.
DR—Donor.
E—Estate.
EE—Employee.
E.O.—Executive Order.
ER—Employer.
ERISA—Employee Retirement Income Security Act.
EX—Executor.
F—Fiduciary.
FC—Foreign Country.
FICA—Federal Insurance Contributions Act.
FISC—Foreign International Sales Company.
FPH—Foreign Personal Holding Company.
F.R.—Federal Register.
FUTA—Federal Unemployment Tax Act.
FX—Foreign corporation.
G.C.M.—Chief Counsel's Memorandum.
GE—Grantee.
GP—General Partner.
GR—Grantor.
IC—Insurance Company.
I.R.B.—Internal Revenue Bulletin.
LE—Lessee.
LP—Limited Partner.
LR—Lessor.
M—Minor.
Nonacq.—Nonacquiescence.
O—Organization.
P—Parent Corporation.
PHC—Personal Holding Company.
PO—Possession of the U.S.
PR—Partner.
PRS—Partnership.
PTE—Prohibited Transaction Exemption.
Pub. L.—Public Law.
REIT—Real Estate Investment Trust.
Rev. Proc.—Revenue Procedure.
Rev. Rul.—Revenue Ruling.
S—Subsidiary.
S.P.R.—Statement of Procedural Rules.
Stat.—Statutes at Large.
T—Target Corporation.
T.C.—Tax Court.
T.D.—Treasury Decision.
TFE—Transferee.
TFR—Transferor.
T.I.R.—Technical Information Release.
TP—Taxpayer.
TR—Trust.
TT—Trustee.
U.S.C.—United States Code.
X—Corporation.
Y—Corporation.
Z—Corporation.

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[1]A cumulative list of current actions on previously published items in Internal Revenue Bulletins 2014–27 through 2014–52 is in Internal Revenue Bulletin 2014–52, dated December 28, 2014.

Internal Revenue Service
Washington, DC 20224

INTERNAL REVENUE BULLETIN

The Introduction at the beginning of this issue describes the purpose and content of this publication. The weekly Internal Revenue Bulletins are available at *www.irs.gov/irb/*.

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