

property interest. Such distributive share of the gain must be determined pursuant to the principles of section 704 and the regulations thereunder. For the rules applicable to partnerships, interests in which are regularly traded on an established securities market, see § 1.1445-8.

(iii) *Disposition by trust or estate*—(A) *In general.* \* \* \* The fiduciary must withhold 35 percent (or the highest rate specified in section 1445(e)(1)) of any distribution to a foreign beneficiary that

is attributable to the balance in the U.S. real property interest account on the day of the distribution. \* \* \* For rules applicable to trusts, interests in which are regularly traded on an established securities market and real estate investment trusts, see § 1.1445-8.

(B) *Example.* The following example illustrates the rules of paragraph (c)(1)(iii)(A) of this section.

On January 1, 1994, A establishes a domestic trust (which has as its taxable year,

the calendar year) for the benefit of B, a nonresident alien, and C, a U.S. citizen. The trust is not a trust subject to sections 671 through 679. Under the terms of the trust, the trustee, T, is given discretion to distribute income and corpus of the trust to provide for the reasonable needs of B and C. During the trust's 1994 tax year, T disposes of three parcels of vacant land located in the United States. The following chart illustrates the computation of the amount subject to withholding under section 1445 with respect to distributions made by T to B and C during 1994.

Date	Parcel sold	Gains or (loss) realized	Distributions to C	Distributions to B (before withholding)	Section 1445 withholding 35% rate	U.S. real property interest account
1/01/94 .....	.....	.....	.....	.....	.....	.....
3/01/94 .....	Parcel 1 .....	140,000	.....	.....	.....	140,000
3/05/94 .....	.....	.....	5,000	10,000	3,500	125,000
3/15/94 .....	.....	.....	10,000	5,000	1,750	110,000
5/01/94 .....	Parcel 2 .....	300,000	.....	.....	.....	410,000
5/15/94 .....	Parcel 3 .....	(50,000)	.....	.....	.....	360,000
12/01/94 .....	.....	.....	170,000	170,000	59,500	20,000
1/01/95 .....	.....	.....	.....	.....	.....	.....

(iv) *Disposition by grantor trust.* The trustee or equivalent fiduciary of a trust that is subject to the provisions of subpart E of part 1 of subchapter J (sections 671 through 679) must withhold a tax equal to 35 percent (or the highest rate specified in section 1445(e)(1)) of the gain realized from each disposition of a U.S. real property interest to the extent such gain is allocable to a portion of the trust treated as owned by a foreign person under subpart E of part 1 of subchapter J.

\* \* \* \* \*

(3) \* \* \*

(ii) *Amount to be withheld.* A partnership or trust electing to withhold under this § 1.1445-5(c)(3) shall withhold from each distribution to a foreign person an amount equal to 35 percent (or the highest rate specified in section 1445(e)(1)) of the amount attributable to section 1445(e)(1) transfers.

\* \* \* \* \*

(d) *Distributions of U.S. real property interests by foreign corporations*—(1) *In general.* A foreign corporation that distributes a U.S. real property interest must deduct and withhold a tax equal to 35 percent (or the rate specified in section 1445(e)(2)) of the amount of gain recognized by the corporation on the distribution. \* \* \*

\* \* \* \* \*

Par. 4. Section 1.1445-8(c)(2)(i) is revised to read as follows:

**§ 1.1445-8 Special rules regarding publicly traded partnerships, publicly traded trusts and real estate investment trusts (REITS).**

\* \* \* \* \*

(c) \* \* \*

(2) *REITS*—(i) *In general.* The amount to be withheld with respect to a distribution by a REIT, under this section shall be equal to 35 percent (or the highest rate specified in section 1445(e)(1)) of the amount described in paragraph (c)(2)(ii) of this section.

\* \* \* \* \*

Margaret Milner Richardson,  
*Commissioner of Internal Revenue.*

Approved: November 28, 1995.

Leslie Samuels,

*Assistant Secretary of the Treasury.*

[FR Doc. 95-30871 Filed 12-20-95; 8:45 am]

BILLING CODE 4830-01-U

## DEPARTMENT OF THE TREASURY

### Internal Revenue Service

#### 26 CFR Part 1

[TD 8648]

RIN 1545-AB21

#### Controlling corporation's basis adjustment in its controlled corporation's stock following a triangular reorganization

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

**ACTION:** Final regulations.

**SUMMARY:** This document contains final regulations under sections 358, 1032, and 1502 of the Internal Revenue Code of 1986. The final regulations provide rules for adjusting the basis of a controlling corporation in the stock of a

controlled corporation as the result of certain triangular reorganizations involving the stock of the controlling corporation. They also generally provide that the use of the controlling corporation's stock provided by the controlling corporation pursuant to the plan of reorganization is treated as a disposition of those shares by the controlling corporation.

**DATES:** These regulations are effective December 21, 1995.

For dates of applicability, see the "Effective Dates" section under the **SUPPLEMENTARY INFORMATION** portion of the preamble and the effective date provisions of the new or revised regulations.

**FOR FURTHER INFORMATION CONTACT:** Curt Cutting, (202) 622-7550 (not a toll-free number).

#### SUPPLEMENTARY INFORMATION:

##### Background

This document contains final regulations under sections 358, 1032, and 1502. The proposed regulations were published in the Federal Register on December 23, 1994 (59 FR 66280 [CO-993-71], 1995-4 I.R.B. 59 (January 23, 1995)). The IRS received many comments on the proposed regulations and held a public hearing on March 31, 1995.

After consideration of the comments and the statements made at the hearing, the proposed regulations are adopted as revised by this Treasury decision.