

(\$10,200 gain less \$5,000 loss). Only the \$5,200 net gain is recharacterized as ordinary income under section 1258(a) even though the applicable imputed income amount is \$7,000. For federal tax purposes other than section 1258(a), A has recognized a \$10,200 gain on the disposition of the forward contract (\$5,200 of which is treated as ordinary income) and realized a separate \$5,000 loss on the sale of the XYZ stock.

Example 2. Identified netting transaction with built-in loss. (i) The facts are the same as in *Example 1*, except that A had purchased the XYZ stock for \$104,000 on May 15, 1995. The XYZ stock had a fair market value of \$100,000 on December 1, 1995, the date it became part of a conversion transaction.

(ii) The results are the same as in *Example 1*, except that A has built-in loss (in addition to the \$5,000 loss that arose economically during the period of the conversion transaction), as defined in section 1258(d)(3)(B), of \$4,000 on the XYZ stock. That \$4,000 built-in loss is not netted against the \$10,200 gain on the forward contract for purposes of section 1258(a). Thus, the net gain from the conversion transaction for purposes of section 1258(a) is \$5,200, the same as in *Example 1*. The \$4,000 built-in loss is recognized and has a character determined without regard to section 1258.

(e) *Effective date and transition rule—*
(1) *In general.* These regulations are effective for conversion transactions that are outstanding on or after December 21, 1995.

(2) *Transition rule for identification requirements.* In the case of a conversion transaction entered into before February 20, 1996, paragraph (b)(2) of this section is treated as satisfied if the identification is made before the close of business on February 20, 1996.

PART 602—OMB CONTROL NUMBERS UNDER THE PAPERWORK REDUCTION ACT

Par. 3. The authority citation for part 602 continues to read as follows:

Authority: 26 U.S.C. 7805.

§ 602.101 [Amended]

Par. 4. In § 602.101, paragraph (c) is amended by adding the entry "1.1258-1 * * *.1545-1452" in numerical order to the table.

Margaret Milner Richardson,
Commissioner of Internal Revenue.

Approved: November 28, 1995.

Leslie Samuels,

Assistant Secretary of the Treasury.

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26 CFR Parts 1, 25, 301, and 602

[TD 8633]

RIN 1545-AS37

Grantor Trust Reporting Requirements

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations relating to the method of reporting for trusts that are treated as owned by grantors or other persons under the provisions of subpart E (section 671 and following), part I, subchapter J, chapter 1 of the Internal Revenue Code. These regulations are intended to reduce the current filing burden on trustees, to provide necessary information to grantors or other persons treated as the owners of trusts, to reduce any cases of duplicate filing, and to provide more meaningful information to the IRS. These regulations affect grantors and trustees of trusts that are treated as owned by grantors or other persons, as well as persons who are required to file information returns with respect to payments to these trusts.

DATES: These regulations are effective January 1, 1996. For dates of applicability of these regulations, see § 1.671-4(h).

FOR FURTHER INFORMATION CONTACT: Steven Schneider, (202) 622-3060 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Paperwork Reduction Act

The collection of information contained in these final regulations has been reviewed and approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act (44 U.S.C. 3507) under control number 1545-1442. This information is required by the IRS to insure the proper reporting of income and proceeds paid to a trust any portion of which is treated as owned by the grantor or another person.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection of information displays a valid control number.

The estimated annual burden per respondent is 30 minutes.

Comments concerning the accuracy of this burden estimate and suggestions for reducing this burden should be sent to the Internal Revenue Service, Attn: IRS Reports Clearance Officer, T:FP, Washington, DC 20224, and to the Office of Management and Budget, Attn: Desk Officer for the Department of the

Treasury, Office of Information and Regulatory Affairs, Washington, DC 20503.

Books or records relating to this collection of information must be retained as long as their contents may become material in the administration of any internal revenue law. Generally, tax returns and tax return information are confidential, as required by 26 U.S.C. 6103.

Background

On July 22, 1994, the IRS published in the Federal Register a notice of proposed rulemaking and notice of public hearing (59 FR 37450) proposing amendments to the Income Tax Regulations (26 CFR part 1) under section 671 of the Internal Revenue Code (Code) and to the Procedure and Administration Regulations (26 CFR part 301) under sections 6012 and 6109 of the Code.

Written comments responding to the notice were received. A public hearing was held on September 21, 1994, pursuant to the notice published in the Federal Register on July 22, 1994. After consideration of all written and oral comments regarding the proposed amendments, those amendments are adopted as revised by this Treasury decision.

Explanation of Provisions and Significant Changes in the Final Regulations

Subject to certain new limitations under § 1.671-4(b)(6) and (7), discussed below, § 1.671-4(b) of the final regulations retains the optional alternative methods of reporting contained in the proposed regulations published on July 22, 1994.

Several comments were submitted requesting confirmation that the alternative methods of reporting described in the proposed regulations are optional and not mandatory. Section 1.671-4(b) of the final regulations clarifies that the trustee of a trust all of which is treated as owned by one or more grantors or other persons may, but is not required to, report pursuant to one of the alternative methods.

Certain commentators were unsure of which persons are considered payors for purposes of the alternative filing methods. The final regulations define the term payor as including any person who is required by any provision of the Code and the regulations thereunder to make any type of information return with respect to the trust for the taxable year.

With respect to the alternative methods of reporting, several commentators were unsure of the items