

Aviation Information Management, Research and Special Programs Administration (RSPA)" and add "Office of Airline Information, Bureau of Transportation Statistics (BTS)" in its place.

57. In § 385.27(d), remove the term "RSPA" and add "BTS" in its place.

58. In § 385.27(i), remove the term "RSPA" and add "BTS" in its place, and remove the term Administrator, RSPA" and add "Director, BTS" in its place.

59. In § 385.27(m), remove the term "and with the policy set forth in § 399.100 of this chapter".

PART 399—STATEMENTS OF GENERAL POLICY

60. The authority citation for part 399 continues to read as follows:

Authority: 49 U.S.C. chapters 401, 411, 413, 415, 417, 419, 461.

§ 399.50 [Amended]

61. In § 399.50, remove the term "Board" and add "Bureau of Transportation Statistics" in its place, and remove the term "section 901(a) of the Act" and add "49 U.S.C. 46301" in its place.

§ 399.51 [Amended]

62. In § 399.51, remove the term "Board" and add "Bureau of Transportation Statistics" in its place.

§ 399.52 [Amended]

63. In § 399.52, remove the term "Board" and add "DOT" in its place.

§ 399.100 [Removed]

64. Section 399.100 is removed.

Issued in Washington, DC, on December 19, 1995.
T.R. Lakshmanan,
Director, Bureau of Transportation Statistics.
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DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[T.D. 8642]

RIN 1545-AR48; 1545-AR93

Recognition of Gain or Loss by Contributing Partner on Distribution of Contributed Property or Other Property

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Final regulations.

SUMMARY: This document contains final regulations relating to the recognition of

gain or loss on certain distributions of contributed property by a partnership under section 704(c)(1)(B) of the Internal Revenue Code of 1986 (Code). This document also contains final regulations relating to the recognition of gain on certain distributions to a contributing partner under section 737. The final regulations affect partnerships and their partners and are necessary to provide guidance for complying with the applicable tax law.

EFFECTIVE DATE: These regulations are effective for January 9, 1995.

FOR FURTHER INFORMATION CONTACT: Stephen J. Coleman, (202) 622- 3060 (not a toll-free number).

SUPPLEMENTARY INFORMATION:

Background

The Revenue Reconciliation Act of 1989 added section 704(c)(1)(B) and section 704(c)(2) to the Internal Revenue Code. Section 704(c)(1)(B) provides that, in the case of a distribution of contributed property to another partner within five years of its contribution, the contributing partner must recognize gain or loss in an amount equal to the gain or loss the partner would have been allocated under section 704(c)(1)(A) on a sale of the property by the partnership at its fair market value at the time of the distribution. Section 704(c)(2) provides an exception for distributions of certain like-kind property.

The Energy Policy Act of 1992 added section 737 to the Code. Section 737 requires a partner who contributes appreciated property to recognize gain on a subsequent distribution of other property to the contributing partner to the extent of the lesser of (i) the net precontribution gain on property contributed by the partner, or (ii) the excess of the value of the distributed property over the adjusted basis of the partner's interest in the partnership.

On January 9, 1995, a notice of proposed rulemaking (PS-76-92; PS-51-93) under section 704(c)(1)(B) and section 737 was published in the Federal Register (60 FR 2352). Written comments responding to this notice were received. No public hearing was held because no hearing was requested. After consideration of all comments received, the proposed regulations under section 704(c)(1)(B) and section 737 are adopted as revised by this Treasury decision.

Summary of Significant Comments and Revisions

The significant comments on the proposed regulations and the revisions made in the final regulations are discussed below.

A. Section 704(c)(1)(B)

Determination of Gain and Loss

The proposed regulations provide that section 704(c)(1)(B) applies only to a distribution that is properly characterized as a distribution to a partner acting in the capacity of a partner within the meaning of section 731 and section 737, and not to a transaction or distribution that is subject to provisions other than section 731(a) or section 737. Comments requested that the provision be clarified. The final regulations clarify that section 704(c)(1)(B) applies only to the extent that a transaction is a distribution under section 731. References to transactions and distributions not subject to section 704(c)(1)(B) have been deleted.

One commentator suggested certain clarifying revisions to the proposed regulations' definition of fair market value. The definition in the proposed regulations, however, is identical to the definition of fair market value in the 704(b) regulations, and distributed property should have the same fair market value for purposes of determining gain and loss under section 704(c)(1)(B) and determining capital account adjustments under section 704(b). The final regulations therefore adopt the definition in the proposed regulations without change.

The proposed regulations provide that the amount of gain or loss resulting from a distribution of partnership property is determined as if the distributed property had been sold by the partnership to the distributee partner. As a result, if built-in loss property is distributed to a partner that holds more than a 50 percent interest in partnership capital or profits, the built-in loss that otherwise would be recognized is disallowed under section 707(b)(1)(A). One commentator suggested that section 704(c)(1)(B) was intended to address disguised sales between partners and that, therefore, a loss should be disallowed on a distribution only if it would be disallowed on a direct sale between the partners. Section 704(c)(1)(B), however, respects the form of the transaction as between the partnership and a partner and does not recast the transaction as a disguised sale. See H.R. Rep. No. 247, 101st Cong., 1st Sess. 406 (1989). The final regulations therefore adopt the proposed regulations without change.

Several of the provisions in the proposed regulations refer to distributions that are part of "the same plan or arrangement." Commentators requested clarification of this term. The reference to distributions that are part of the same plan or arrangement was